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Internal Affairs of Korea 1955-1959

Records of the U.S. Department of State
Relating to
Internal Affairs of Korea 1955-1959

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ACKNOWLEDGMENT

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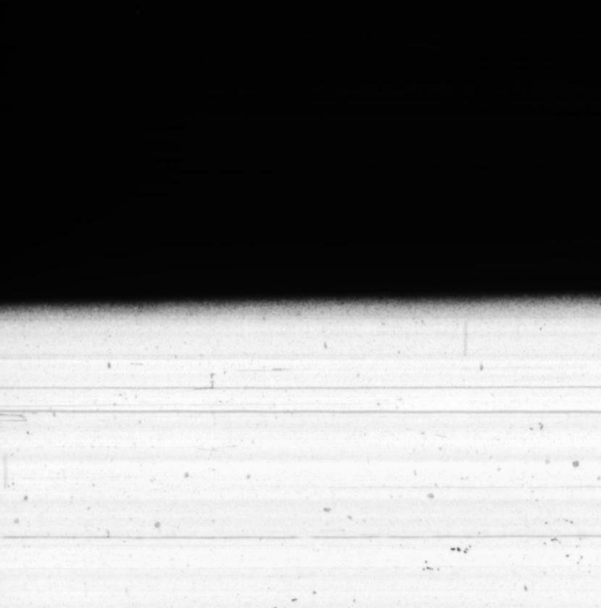



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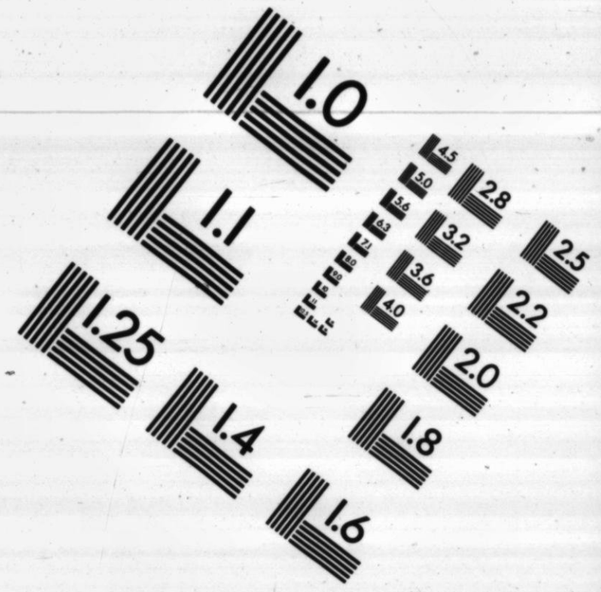

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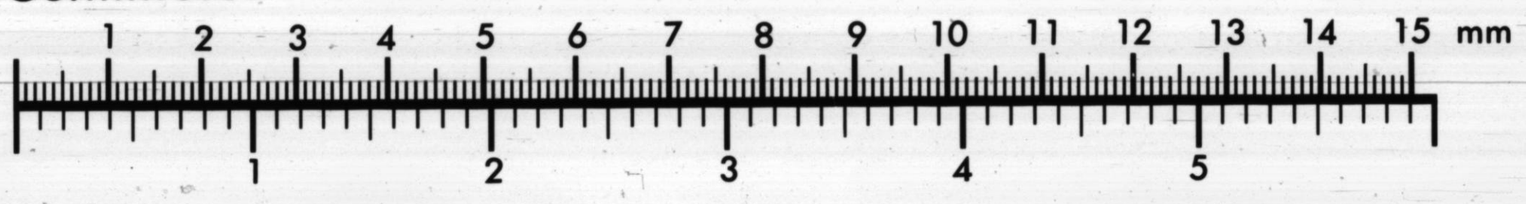

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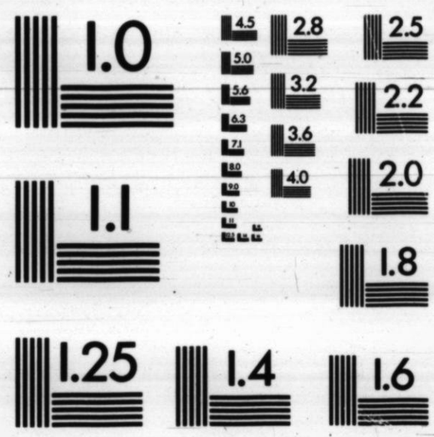



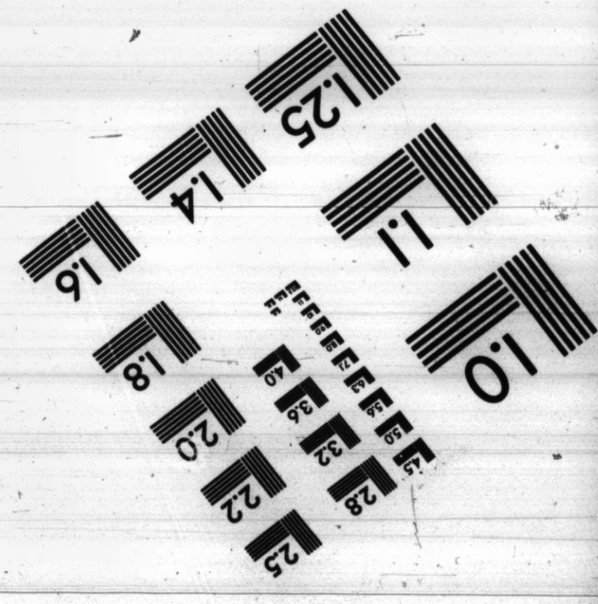

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TO : THE DEPARTMENT OF STATE, WASHINGTON.

March 20, 1959
DATE

REF : CERP - Korea, Section C, Item 1

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Date of Action

Action Office Symbol AG-8

Name of Officer

Location to DCR

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SUBJECT: Weekly Economic Review No. 11

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1. Money Supply Attains New Record High.
2. Dollar "Transfer" Rates Rising.
3. Tourism Promotion Proposed.
4. Disposal of Smuggled Goods.
5. Export Promotion Committee Recommended.
6. Fertilizer Scandal.
7. Korean Firm Claims Sale of First Beef to U.S. Forces.
8. Organization of Teachers Unions Prohibited.

1. (UNCLASSIFIED) Money Supply Attains New Record High.

The Ministry of Finance announced on March 19th that the ROK money supply rose to a new record high of 223.2 billion hwan at the close of February, 1959, constituting a 30.7 billion hwan increase since the beginning of this year and a 15.2 billion increase in February alone. Finance Minister KIM Hyon-ch'ol asserted that the Government is determined to hold the line against inflation by cutting the money supply level back to 180 billion hwan by the end of June, but he declined to answer press inquiries as to how this might be accomplished. He stated that in order to "accommodate safely" the anticipated seasonal rise in cash requirements in the last months of the year, it is necessary to hold down the total of money in circulation as much as possible during the first half of the year.

The largest single factor in money supply expansion in January and February has been deficit financing of the ROK Government's General Account. Money borrowed from the Bank of Korea for this purpose totalled 22 billion hwan during the first two months of 1959.

(UNCLASSIFIED) Comment: Among major measures agreed in the CEB's 1959 financial stabilization program established on February 24th (Weekly Economic Review No. 8) were that the ROK Government would make every effort to keep its General and Special Accounts in balance; that the money supply would be maintained at levels not exceeding 200 billion hwan through June 30, 1959; and that foreign exchange earnings beyond a "moderate rise in reserves" would be

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used for development of the Korean economy. Prompt and decisive action along these lines appears necessary to curb a money supply which has increased nearly 35 per cent since the beginning of 1958. However, the seeming paradox of low wholesale prices continues. As of March 17th the Seoul wholesale price index stood at 204.7 (1947 equals 1), one of two low points reached in March unequalled since August 29, 1958, (Weekly Economic Review No. 9). Slumping grain prices again were the principal explanation of price stability. (HWT)

2. (UNCLASSIFIED) Dollar "Transfer" Rates Rising.

From the middle of February there has been a pronounced increase in open market quotations in Seoul of dollar "transfer" rates (i.e., transfers of such dollars permitted by the ROK Government). On February 17 quotations of "Japan dollars," export dollars for other areas, "service dollars" (from sales of services or goods to the UN Forces), and "missionary dollars" (special floating rates granted foreign missionaries by the ROK Government), were 1,310 hwan, 1,000 hwan, 980 hwan and 810 hwan, respectively. On March 11 these had risen to 1,350 hwan, 1,130 hwan, 1,110 hwan and 960 hwan, respectively.

The rise in Japan dollar quotations is attributed to the decline of Korean exports to Japan mainly caused by the lack of cargo ships (principally Japanese - see Weekly Economic Review No. 8 and previous). Service dollar increased rates are believed to have resulted from the seasonal decline in purchases of services and goods by the UN Forces. Missionary dollar quotations, which have risen proportionately higher than the others cited, have responded to the ROK Government's decision to permit, for the first time, importation of fertilizer with such exchange in order to combat rising domestic fertilizer prices.

(UNCLASSIFIED) Comment: Repeated statements by the Ministry of Finance that it has no immediate plans to auction off government-owned dollars is a general factor in the dollar bid increases. It is also reported that with $120 million of ICA saleables in the FY 1959 program already allocated there are almost no high-profit items left in the import lists for nonproject assistance. (HWT)

3. (UNCLASSIFIED) Tourism Promotion Proposed.

According to the local press, a specific proposal for promoting tourism to Korea has been prepared by the Ministry of Transportation and approved by the Ministries of Foreign Affairs, Home Affairs, Finance, and Reconstruction. The proposal will be submitted to the State Council for consideration in the near future.

Among the measures included in the proposal are (1) the anticipated use of Woonam Hall (now under construction) for international conferences, (2) the designation of model sightseeing areas, (3) the construction and modernization of certain roads and hotel facilities, (4) an extensive advertising

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campaign by Korean diplomatic missions abroad, (5) the improvement of sanitary conditions in certain areas to be used by tourists, (6) the availability of private financing under favorable terms to private hotel owners for modernizing existing facilities, and (7) the inauguration of sightseeing services through small coastal vessels and package bus tours.

Subsequent to the announcement of this proposal, a public meeting was held which was sponsored by interested agencies of the ROK Government. Views and advice on tourism promotion were elicited from representatives of tourist agencies, shipping and air lines, hotel executives, the Embassy, and Eighth U.S. Army. Considerable attention was given to ways of exploiting the tourism possibilities from the presence in Korea of thousands of UN servicemen and other foreigners. This was emphasized by the foreigners present as a more practical approach than trying to entice traveling pleasure-seekers on a large scale basis. The lack of acceptable hotels and of recreational and guide facilities was acknowledged, and plans for improving these were outlined by the ROK representatives. The strong deterring factor of the wide margin between the official and black market exchange rates was candidly discussed. The Korean tourism interests expressed the hope that a special rate could be established for visitors and resident foreigners. Recent simplifications in visa and customs regulations affecting tourists were described. The recent visit of 21 American tourists - one of the few organized groups which have visited Korea - was reported on, with the consensus that the group had been well handled.

A CEB working committee will soon submit for CEB approval a program calling for a loan of $400,000 to be used for improvement of hotels and other tourist facilities.

(OFFICIAL USE ONLY) Comment: The Chief of the Tourist Section in the Ministry of Transportation, Mr. KIM Se-jun, has confirmed that the news accounts of the Ministry's proposal are fairly accurate. The proposal, however, did not include any provision for a special tourist rate of foreign exchange because of the sensitive nature of this subject among the various ministries. Although Mr. Kim recognizes that a tourist rate of exchange is undoubtedly a must in promoting tourism, to have included it in the proposal might have resulted in a discard of the entire program. Mr. Kim expressed the hope that the U.S. Embassy would continue to exert efforts in having the ROK Government establish a special tourist rate.

The dream of making Korea a tourist's paradise seems a long way off. Very few of the beaches meet U.S. Army sanitation standards; golf, tennis, skiing, swimming and other recreational facilities for visitors are almost non-existent; access to nearly all of the resort areas is arduous; and the unrealistic exchange rate doubles the cost of such facilities as are available.

(JAC & EG)

4. (UNCLASSIFIED) Disposal of Smuggled Goods.

Since March 11 the National Assembly has been embroiled in a bitter

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controversy arising from charges made by two Democratic Party representatives of irregularities in the purchase and resale of confiscated smuggled goods by members of the pro-administration Liberal Party. The dispute remained unresolved when the present session was recessed on March 19; the Assembly will reconvene on April 1, and presumably the battle will be resumed.

According to the charges of DP members YI Man-u and YU Ok-u, manipulations of KIM Ui-jun, Chairman of the Assembly's Legislation and Judiciary Committee, and other LP members, resulted in a "fixed" auction on February 6 of smuggled goods confiscated by the Pusan customs office for a price of 210-220 million hwan, said to be less than one-fourth the customs appraisal value. The goods (consisting mostly of nylon fabrics from Japan) were then resold to favored merchants for 450 million hwan. The profit was allegedly distributed to certain members of the Legislation and Judiciary Committee as a reward for having pushed the National Security Law draft through the committee on December 19. It is also charged that some portion went into the LP general funds. The DP allegations name other high-ranking officials as having brought their influence to bear in arranging the deal (these include Speaker YI Ki-bung, Minister of Justice HONG Chin-gi, and unnamed officials of the Ministry of Commerce and Industry).

Although the charges were not refuted in concrete terms (and Mr. KIM Ui-jun admitted his participation in the matter in his private capacity as a lawyer) LP spokesmen denied any official connection of the Party, and demanded that the two accusers be remanded for disciplinary action by the Assembly. The DP called for formation of an investigatory committee with both parties represented equally. The LP opposed institution of an investigation unless concrete evidence was first placed before the Assembly. They later agreed to deferment of the disciplinary proceedings, giving priority instead to establishment of an investigating committee, but maintained that the committee's composition should be in ratio to the party membership of the legislative body (which could assure a vote favorable to the LP).

(OFFICIAL USE ONLY) Comment: The debate has been widely publicized except in the administration-controlled English language daily, The Korean Republic, which has studiously ignored the topic. Editorial comment has been largely critical of the LP reaction to these charges.

The Customs Law provides that confiscated smuggled goods be offered at public auction, with the proceeds going into the central government revenues. For some time prior to the open accusation of the DP Assemblymen there have been rumors of diversion of confiscated goods, or the proceeds of their sale, into unauthorized channels. (EG)

5. (UNCLASSIFIED) Export Promotion Committee Recommended.

The ad hoc committee established to consider the advisability of a permanent committee to pursue export promotion measures (Weekly Economic Review No. 10), met again on March 19. At this meeting there was unanimous agreement

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to recommend to the CEB the establishment of a permanent subcommittee within the CEB structure to concern itself with export promotion and other trade matters. Suggested representation on the committee would include the Ministries of Commerce and Industry, Finance, Foreign Affairs, Agriculture and Forestry, Reconstruction, and the Bank of Korea with appropriate representation from the UN Command. The MCI would chair the Committee for the ROKG while an OEC official would chair the Committee for the UNC.

(OFFICIAL USE ONLY) Comment: This recommendation is expected to be considered by the CEB at its March 25 meeting. It is anticipated that the CEB will adopt the recommendation, although there may be some objections on the part of Korean officials to the establishment of a separate committee for this purpose. The Embassy and OEC feel that a separate committee with MCI chairmanship is important if any serious consideration is to be given to the problem of developing export products and markets. The MCI seems to have been the only agency actively promoting the development of exports, but its previous proposals have usually fallen by the wayside as a result of non-support from other ROK Government agencies. (JAC)

6. (UNCLASSIFIED) Fertilizer Scandal.

A battle is reported to be raging between the Ministry of Agriculture, the Korean Agricultural Bank and the Office of Supply of the Ministry of Reconstruction over which office is to handle the distribution of government fertilizer. As this controversy progresses, accusations are again being made of malfeasance in the administration of the fertilizer program. It is pointed out that despite an $18 per metric ton decrease in procurement costs, there has been no decrease in the official price (1876 hwan per 45 kg. bag) to the farmer and only a 26 hwan per bag reduction in official price has been proposed. Defenders of the fertilizer program claim that all savings in procurement costs have been nullified by increased handling costs.

(CONFIDENTIAL) Comment: This same problem arose last year. It is charged that the administering office unjustifiably raises handling costs by the amount of savings in procurement costs thus leaving the official price at the same level. The amount of the unjustified charges is then siphoned off by the administering agency and used for undisclosed purposes. This is the prize over which the present battle is being fought. (LR)

7. (UNCLASSIFIED) Korean Firm Claims Sale of First Beef to U.S. Forces.

According to the Korean Republic of March 14th, the Orient Livestock Company of Anyang recently delivered 200 pounds of Korean beef to the U.S. Army Procurement Agency (USAPAK) as a test case for proposed general procurement of beef in Korea. The Ministry of Agriculture and Forestry in making this announcement referred to the firm's modern slaughterhouse and packing plant which have been approved by the Eighth U.S. Army veterinary authorities and expressed its hope that large scale sales would follow.

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(OFFICIAL USE ONLY) Comment: USAPAK confirms that the approval of the firm's slaughterhouse facilities by EUSA veterinary officers is correct. However, the 2oo-pound sale was actually considered by the USAPAK Officers' Club (not USAPAK itself) and rejected when the beef was not found to be up to specifications. USAPAK indicates that it has no present intentions of buying any beef from the Orient Livestock Company for consumption by U.S. Forces. (RWT)

8. (UNCLASSIFIED) Organization of Teachers Unions Prohibited.

The Ministry of Justice has announced its ruling that school teachers unions may not be organized (Weekly Economic Review No. 6). The Ministry had taken this subject under study at the request of the Ministries of Education and Health and Social Affairs after the Federation of Korean Trade Unions (FKTU) had proposed the possible formation of such unions.

The Federation claims that according to the labor law all public servants except military servicement, civilians employed by the armed forces, policemen, firemen and prison officers can join labor movements. The Federation further insists that the Ministry's decision should be based on the labor law, and not, as it was, on Article 37 of the Public Service Law which states that public servants shall not engage in any group activity unless it is for official purposes. (LR)

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

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AIR-30
CIA-1
TAR-2
FRB-3
LAB-5

SUBJECT: Weekly Economic Review No. 12.

COM-12
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6. Fishery Products Export Program for 1959.
7. Sugar Refiners Ask Subsidies.
8. More Beef "Sales" to U.S. Forces Claimed in Press.
9. Unions Threaten to Sue Government.

1. (UNCLASSIFIED) Sweeping Cabinet Changes

A shuffle of five cabinet ministers -- the most sweeping change since President Rhee assumed his third term in 1956 -- affected all of the economic ministries except Commerce and Industry, plus Home Affairs and Transportation. The new appointments:

SONG In-sang, Minister of Finance (formerly Minister of Reconstruction).
SIN Hyon-hwak, Minister of Reconstruction (promoted from Vice Minister).
YI Kun-jik, Minister of Agriculture and Forestry.
CHOE In-gyu, Minister of Home Affairs (formerly Minister of Transportation).
KIM Il-hwan, Minister of Transportation (formerly Minister of Home Affairs).

In addition YU Tae-ha, chief of the Korean Mission to Japan, was promoted to the rank of Ambassador, and Counselor of the Mission, CHOE Kyu-ha, to Minister.

Outgoing Finance Minister KIM Hyon-chol and ex-Agriculture Minister CHONG Chae-sol reportedly resigned and have not been reassigned.

(OFFICIAL USE ONLY) Comment: Song's transfer to MOF is generally regarded as a deserved promotion; it is fortunate for the aid program that, at least temporarily, he will continue in his capacity as ROK Economic Coordinator. Although SIN handled his vice-ministerial post at MOR very competently, it is doubtful that he will match Song's record as chief of this important ministry. The Embassy regards as unfortunate the loss of the services of ex-Finance Minister "Henry" Kim. It is possible that he will receive a suitable reassignment at some

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future time, since there are indications that he has not fallen entirely out of favor with the administration. MAF Chong's resignation had been predicted for some time, owing to public dissatisfaction over the continued decline of rice prices. The other cabinet changes are regarded as of political motivation (e.g., MAF's YI Kun-jik is Organization Chief of the Liberal Party). More detailed comments on the changes affecting the economic ministries will be forwarded by despatch.

Rumor has it that the cabinet reorganization is not yet complete. Possible changes in Foreign Affairs and Commerce and Industry have again been mentioned (see Weekly Economic Review No. 2). (EG)

2. (UNCLASSIFIED) Budget Deficits May Exceed 20 Billion Hwan in 1959.

The Finance Ministry has disclosed, in the Korean Republic of March 25th, that deficits expected under the 1959 ROK Government budget, exclusive of the counterpart fund account, may rise to an amount substantially in excess of 20 billion hwan. MOF officials are currently examining the 308.9 billion hwan budget in an effort to maintain it in strict balance through December 31, the close of the fiscal (and calendar) year.

Deficits are anticipated from a number of factors:

1. Some 5 billion hwan in expenditures programmed for the 1958 budget have been carried out this year and paid with 1959 revenue.

2. Programmed sale of the Dae Han Shipbuilding Corporation and the Korea Shipping Corporation for 4.2 billion hwan is likely to be unsuccessful because both firms are having financial and operational troubles.

3. Some 3.6 billion hwan in various budgeted revenues may not be realized.

4. The ROK Government budgeted 53 million hwan as U.S. contribution from counterpart funds for Ministry of Defense support. However, last year U.S. aid officials trimmed the proposed same amount to 48.3 billion hwan. Further, with the U.S. FY 1959 PL 480 program expected to be reduced by some $10 to $20 million from last year's $50 million, hwan from this source will be sharply reduced.

(OFFICIAL USE ONLY) Comment: It is encouraging that the MOF is now publicly willing to admit the facts and its desire to "face the music." The sale of the Dae Han Shipbuilding Corporation has in fact already been tried some months ago, but there were no bidders. (RWT)

3. (UNCLASSIFIED) Continued Expansion of Money Supply.

The agreed limit for the money supply during the first half of 1959 (200 billion hwan) under the financial stabilization program has been exceeded by

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some 24 billion hwan, largely as a result of deficit operations of the government's budget. Among remedial measures under consideration by the CEB is the freezing of counterpart funds to the extent necessary to attain the 200 billion level by the end of June; auctions of government held foreign exchange, and deferment of certain governmental expenditures until the volume of currency has been adjusted.

(OFFICIAL USE ONLY) Comment: Although press reports would indicate that ROK Government leaders are not greatly concerned by the rapid increase in money supply since the closing months of 1958, private contacts with a number of officials have revealed quite the opposite. ROK officials, however, seem reluctant to take strong measures to halt the trend because of their political unpalatability. (EG & RWT)

4. (OFFICIAL USE ONLY) No Deportation but No Re-entry for Winter.

Mr. Robert L. Winter of Barclay and Company and AMKOR Corporation has applied for an exit and re-entry permit but has been informed that a re-entry permit will not be granted by the Foreign Ministry in his case. Mr. Winter, together with Mr. Dwight Hill and Mark Song, had been indicted for violation of Korea's foreign exchange controls and the indictments against them were withdrawn in January 1959. (See Weekly Economic Reviews Nos. 33, 34 and 40, 1958 and Nos. 3 and 5, 1959).

At the request of Mr. Winter, an Embassy official called at the Ministry of Foreign Affairs to discuss the case. The Ministry informed the Embassy that Mr. Winter will not be deported; he can stay in Korea as long as he wishes; but if he leaves, he will not be permitted to re-enter. This decision will undoubtedly apply to Mr. Hill as well. (JAC)

5. (UNCLASSIFIED) Export Promotion -- When?

The CEB considered on March 25th the recommendation for the establishment of a permanent export promotion committee within the CEB structure (Weekly Economic Reviews Nos. 10 and 11). It was decided at that meeting, however, that the proposal should be submitted to CEBORC and CEBFIN for further study. This was done as a result of Korean resistance, particularly by the Ministry of Finance, to the formation of a new committee for the purpose.

(UNCLASSIFIED) Comment: How long the proposal will be under study by these two committees is difficult to say, but it appears that the subject of export promotion has been put in the "deep freeze". It has been the contention of the Ministry of Finance that the subject of export promotion could be handled by existing committees. Moreover, since export promotion schemes would undoubtedly include proposals for the expenditure of funds which are not available, it seemed to the Ministry of Finance that formation of a new committee would in effect be a waste of time. (JAC)

6. (UNCLASSIFIED) Fishery Products Export Program for 1959.

The Fishery Bureau of the Office of Marine Affairs has announced its target for the export of fishery products in 1959 at 14,500 tons under 26 different categories valued at $7.5 million, more than double the 1958 record. Dried cuttlefish (4,200 tons - $1.5 million), agar-agar (500 tons - $1.5 million), fresh

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and live fish (4,000 tons - $960,000), laver (200 tons - $800,000) and canned fish (823 tons - $722,000) account for 72 percent of the exports programmed. Increasing exports of sea food in recent years have constituted a bright spot in the generally unsuccessful efforts of the ROK to better its balance of trade:

Year	Quantity (Metric Tons)	Amount
1955	5,065	$2,678,200
1956	6,298	2,899,229
1957	9,837	3,435,690
1958	11,048	3,670,374

(UNCLASSIFIED) Comment: Financing has been one of the key difficulties in expanding the potential of Korean fishery production and exports. A leading frozen shrimp processing firm, with modern facilities, is ready to tackle the U.S. market if requisite loans to finance initial exports can be obtained. (RWT)

7. (UNCLASSIFIED) Sugar Refiners Ask Subsidies.

According to a press release of the Customs Bureau of the Ministry of Finance, the Korea Confectionery Association has asked that the customs duties be waived on raw sugar imported for the manufacture of refined sugar for export. The Association is promoting exports since domestic demand is estimated at only 30,000 tons per annum, while the refining capacity of Association members is put at 240,000 tons (830 tons daily). The Association is requesting that subsidy measures "similar to those adopted for the manufacture and exportation of cotton cloth" be applied also to the manufacture and export of refined sugar.

(UNCLASSIFIED) Comment: Both private industry and the Ministry of Commerce and Industry in its Trade Programs have frequently urged subsidies for exports in various forms. To date, however, and mainly owing to opposition of the Ministry of Finance, none of these export-subsidization schemes have been approved by the ROK State Council. (RWT)

8. (UNCLASSIFIED) More Beef "Sales" to U.S. Forces Claimed in Press.

On March 23rd the Ministry of Agriculture and Forestry informed the Seoul commercial press that the Tongyang Livestock Company on the preceding day had signed a contract to supply 100,000 pounds of beef (about 400 head of oxen) monthly to the U.S. Army Procurement Agency, Korea (USAPAK) for the period from April through September of 1959. The total amount of the contract would approximate $300,000.

(OFFICIAL USE ONLY) Comment: The Commanding Officer of USAPAK, Colonel R. R. Guehring, advises that not only has no such contract been signed but not even a proposal for the sale of this beef has been made to his agency. The MAF and the meat processers appear to be conducting a campaign to sell meat to the U.S. Forces by means of press releases. (See Economic Weekly Review No. 11). Colonel Guehring points out that he has frequently advised Korean meat packers (and others) that they must sell their products to the end-user units (i.e., to quartermasters of units and managers of clubs and messes). If the meat offered is up to specifications and meat processing meets sanitary standards, USAPAK will make the purchase

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locally - provided, of course, U.S. military units ask for it. (RWT)

9. (UNCLASSIFIED) Unions Threaten to Sue Government.

The Federation of Korean Trade Unions has warned that it may sue the administration for "violations" of the Constitution and the Labor Law. The Federation's threat was in response to a statement made by the Minister of Health and Social Affairs to the Cabinet that no public servant, except those who engage in physical labor, could organize or participate in labor union activities. The Minister's statement was made after the Ministry of Justice had ruled that, the labor laws notwithstanding, public servants were forbidden by the Public Service Law to engage in any group activities except for official purposes (Weekly Economic Review No. 11).

(UNCLASSIFIED) Comment: This interpretation could be a severe blow to organized labor, seriously affecting such unions as the railroad, communications, and Monopoly Office workers. The Federation has pointed out that, if this interpretation is applied, the Railroad Unions will lose 21,000 of the present 27,000 membership.

Government officials have not explained why the Public Service Law does not apply to public servants who engage in physical labor.

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

MDC

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NND 63120
NARA, Date 12/22/11

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Action Assigned to
Action Taken

FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL

568
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

April 3, 1959
DATE

REF : CERP - Korea, Section C, Item 1

35 For Dept. Use Only	ACTION	DEPT.
	FE-6	RMR-2 REP-1 IRC-15 ICA-10 E-7
	REC'D 4-7	INFO OTHER Com-12 USIA-10 OSD-2 ARMY-35 AIR-30 AG-8 NAVY-20 CIA-16 IN-7 TR-3 OCB-2 FRB-3 XMB-4

SUBJECT: Weekly Economic Review No. 13

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1. Additional Changes in Government Personnel.
2. Cotton Textile Exports.
3. ISE Still Charges Improper Award.
4. Foreign Trade in February.
5. Program for Coal Mine Development.
6. Korean Attendance at Tokyo Fair?
7. Delegates to International Conferences.

1. (UNCLASSIFIED) Additional Changes in Government Personnel.

Following the recent cabinet reshuffle (Weekly Economic Review No. 12) several additional changes have been announced below the ministerial level:

PAK Chong-sik -- Vice Minister of Finance, replacing O Im-gun. Mr. Pak has held positions in the Ministry of Commerce and Industry and with OSROK, and more recently has been managing director of the Korean Traders Association. Mr. O has been named vice president of the Government Printing Agency (banknote printers).

CHONG Yong-gi -- Vice Minister of Reconstruction, filling the vacancy left by SIN Hyon-hwak who moved up to Minister. Mr. Chong was formerly Chief of the Bureau of Mining, MCI.

Two bureau directors in the Ministry of Finance swapped posts as Yi Yon-chol became Chief of the Customs Bureau and Kim Sin-so took over as Chief of the Property Custody Bureau. (EG)

2. (OFFICIAL USE ONLY) Cotton Textile Exports

Scheuer & Company of New York city has reportedly placed an order through its agents in Korea, Eisenberg and Company, for 10 million square yards of cotton sheeting and duck from the Kyungsong Spinning Co., Ltd. in Seoul. According to Eisenberg and Company, the spinning company has not as yet made any reply to the inquiry. The reason for this delay in negotiating a contract

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By [illegible] NARA, Date 11/21/96

is believed by Eisenberg to be the unsettled question of aid-cotton replacement.

In the meantime, however, the Embassy has received information that a contract has been concluded between the Samho Textile Co., Ltd. of Seoul and Marubeni-Iida Co., Ltd. of Tokyo for the export from Korea of $84,000 worth of cotton sheeting and duck sometime in April of this year. The press noted on April 2, 1959 that MCI approved the export of 500,000 yards on condition that the exporter will comply with the final decision of the U.S. Government and the ROKG on the replacement formula.

(OFFICIAL USE ONLY) Comment: On the basis of this recent approval by the MCI, it is not unlikely that some contract may now be possible between Scheuer and Kyungsong Spinning Co. (JAC)

3. (OFFICIAL USE ONLY) ISE Still Charges Improper Award

International Standard Electric Company has been protesting the award for telecommunications equipment made by OSROK to Siemens-Halske of Germany. These protests have been, and continue to be, made on the basis that Siemens-Halske has failed to meet the specifications stipulated in the OSROK Invitation to Bid No. 336-M (See Embassy Despatch 561 of April 1, 1959 for summary of problem).

Representations have been made by the company to OSROK, OEC, the Embassy, ICA, and possibly the Departments of State and Commerce. The company has indicated, through its agent in Korea, that it will fight this award even if only to preclude the establishment of an untenable precedent in procurement practices.

The Embassy has reason to believe that ISE and IT&T will bring this problem to the attention of Washington with greater force than heretofore. (JAC)

4. (UNCLASSIFIED) Foreign Trade in February

According to an announcement by the Ministry of Finance, total imports into the Republic of Korea (including aid arrivals) totaled $18.3 million for February 1959. Of this total, ICA financed arrivals were valued at $11.3 million and private trade amounted to $5.5 million. The balance was for imports which did not require foreign exchange such as relief imports by the voluntary welfare agencies. Exports during the same month totaled $1.1 million.

The value of exports in February was reported to be $131,000 greater than in January while the total import value dropped in February by $2.8 million as compared with January. (JAC)

5. (UNCLASSIFIED) Program for Coal Mine Development

US-ROK mining experts have developed a program for improvement of coal mining operations utilizing $1.03 million of FY 1959 ICA funds, of which $295,000 is earmarked for technical aid and the remainder for equipment and

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commodities.

Demand for coal has increased greatly as a result of the ROKG's vigorous campaign to outlaw wood for city household and ROK military heating, to prohibit the railroads from using imported bituminous, and to curtail imported fuel for industrial uses. Production (all anthracite) reached 2.7 million tons in 1958, the postwar peak, and the target for 1959 is 3.5 to 4 million tons. (EG)

6. (OFFICIAL USE ONLY) Korean Attendance at Tokyo Fair?

The Embassy and OEC have been exploring with the Korean Government the possibility of having Korean businessmen attend the Tokyo Trade Fair. The purpose is to permit Korean traders to meet other foreign traders so that they may familiarize themselves with foreign trade practices of other countries, make contact with potential buyers of Korean products, and learn some of the basic elements of foreign trade in general in the interest of promoting Korea's expert business. The reaction of the Government officials contacted thus far has been non-committal in some cases and negative in others.

(OFFICIAL USE ONLY) Comment: It appears at the moment that the ROKG will not permit Korean businessmen to attend the Japanese fair, particularly because of the current political problem over the announced repatriation of Koreans in Japan to North Korea. The OEC has indicated the possibility of financing the trip out of aid funds, but even this has not as yet moved the officials to say yes. The subject, however, is still under consideration by the Government. Some of the members of the Chamber of Commerce of Korea have indicated to OEC officials that they would be willing to attend if the Korean Government would grant them exit permits. (JAC)

7. (UNCLASSIFIED) Delegates to International Conferences

CHO Won-sok, First Secretary of the Korean Embassy in Rome, will represent the ROK at the Food and Agriculture Organization council meeting in Rome, commencing June 15, and will also attend meetings in Rome June 1 - 15 of the FAO Committee on Commodity Problems.

YI Sang-ku, a director the Korea Tungsten Mining Corporation, and KIM Han-tae, president of the Korea Geological Society, will participate in a nine-week geological and mining study tour in the United States and Canada, beginning in late June and jointly sponsored by ECAFE and the UN Technical Assistance Board. (EG)

For the Ambassador:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

MDR

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FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL — 583 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : CERP - Korea, Section C, Item 1

Action Assigned to AAFC April 10, 1959 DATE
Action Taken AAR - DATE 4/22/59 PAA

For Dept. Use Only	ACTION	DEPT.
27	FE-6	REP-1 RM/R-2 E-7 IRC-15 TCA-10 W ARSC-3 VAE
	REC'D 4-17	INFO OTHER USIA-10 AF-8 COM-12 TAR-2 TR-3 FRB-3 AMB-4 P.M.

Date of Action

Action Office By

SUBJECT: Weekly Economic Review No. 14

Army 35 NAVY 20 AIR-3 Coast Guard
Name of Drafter
CIA-16 ISD-3
Direction to DC/R CB-2

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1. UNKRA-Built Plate Glass and Cement Plants to be Sold.
2. Financial Notes.
3. CAT Alleges NWA Uses Unfair Tactics.
4. Trade Mark Violations.
5. Revision of Foreign Trade Regulations.
6. Private Foreign Trade Up Sharply in March.
7. Farm Production Up, Acreage Down.
8. Farm Products Price Support Bill Prepared.
9. Resumption of Payments in Kind to Public Officials Being Considered.
10. Flour Producers Forming Cartel.

1. (UNCLASSIFIED) UNKRA-Built Plate Glass and Cement Plants to be Sold.

Minister of Commerce and Industry KOO announced on April 8th that the Ministry of Reconstruction will be one of the contracting parties for the sale of the large Inchon plate glass plant and the Mungyong cement factory which were built with UNKRA funds. Considerable delay has been encountered in reaching agreement on the contracts for sale to private industrial firms mainly on the issues of the buyers' financial capabilities and the amount of the commodity taxes to be assessed by the ROK Government.

It has now been determined that commodity taxes of 260 million hwan will be assessed on the sale of the Mungyong cement factory and 60 million hwan on the Inchon plate glass plant. Construction costs established to form a basis for the sales prices are 5.8 billion hwan for the former and 2.3 billion hwan for the latter.

(UNCLASSIFIED) Comment: Although the potential buyers are reported to have inadequate funds -- without large loans from either the Counterpart Fund or the Korean Reconstruction Bank -- to make the purchases at the assessed sale prices, Minister Koo has confidently asserted that the contracts will be signed before the close of the current month. (RWT)

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NND 60760
By NARA, Date 12/27/01

2. (UNCLASSIFIED) Financial Notes.

The Ministry of Finance announced that January-March customs collections of 9.6 billion hwan and other internal taxes totaling 21.4 billion hwan exceeded the planned goals, but that revenues from the foreign exchange tax fell slightly below the first-quarter target.

The ROKG expects to auction $7.5 million of Government-held foreign exchange before the end of June (probably most of it before the end of April) as a means of withdrawing hwan from circulation. The total money supply stood at 215.6 billion hwan in mid-March, while the stabilization program target for the end of June was set at 200 billion. Money supply is believed to have expanded further at the close of March, reflecting payment of government salaries made late in the month.

Another measure under consideration is to market commodities held by the Government's grain management account. In addition, the CEB has taken action to transfer $5 million of ICA investment (project) funds to the purchase of consumable items. The dollars will be largely confined to import of industrial machinery and supplies, and will be diverted from investment facilities which are not considered to be of immediate necessity. (EG)

3. (OFFICIAL USE ONLY) CAT Alleges NWA Uses Unfair Tactics.

The Seoul Manager of Civil Air Transport (of Taiwan) called at the Embassy to complain of a notice in the April 8th edition of the Korean Republic entitled "NWA Lives Up to Safety Rule for Passengers." This notice stated that Northwest Airlines cancelled its Saturday April 4 flight because, as an American carrier, it must operate under the rigid safety rules imposed by the "Federal Aviation Agency." Ceiling and visibility on that date were reported to be less than the minimum prescribed by the rules. The notice mentioned that CAT did fly on that day. Then it concluded that it was a source of satisfaction to the traveling public to know that safety stands first in the aim of the United States Agency and that NWA could be relied upon to follow its rules.

The CAT manager claimed that the notice was a paid advertisement placed by NWA and that this represents unfair tactics. Moreover, it reflected unfavorably upon the American business community in general. The Embassy noted that this appeared to be a problem between CAT and NWA and could probably be solved between them. In any event, the Embassy would mention to NWA that CAT had come to the Embassy with a formal complaint.

The NWA manager, who was contacted by the Embassy, indicated that he too felt the notice was an unfortunate one but that he had not submitted it to the newspapers and had not paid for it. Although he regretted its appearance in the press, he could not assume any responsibility for it. The CAT manager has implied that the information would be sent to his Washington Office and that there may be a libel suit against NWA as a result.

(OFFICIAL USE ONLY) Comment: The Embassy has not delved too deeply into this complaint since it is felt that it is an issue that should be resolved by the two companies. It is not likely that the dispute will find its way to court, however, since most, if not all, of the information in the notice is reported to be true. (JAC)

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4. (OFFICIAL USE ONLY) Trade Mark Violations.

The Seoul representative for Cluett Peabody and Company called at the Embassy to complain of the illegal use of the "Sanforized" trademark on shirts manufactured by the Haisung Shirt Company. An investigation by the Embassy disclosed that two shirt manufacturers were using the trademark without license from Cluett Peabody. Representations were made to the Bureau of Patents with whom the trademark is registered. Officials of both companies were called into the Bureau by the Director and "warned" not to use the trademark. The Haisung Shirt Company indicated it had used the label on 10,000 shirts, of which 6,000 had already been sold. The labels on the remaining 4,000 have been changed and an attempt will be made to recall from retail outlets as many of the 6,000 shirts for the purpose of changing the labels. The Queen Shirt Company shirts would also be recalled and changed.

(OFFICIAL USE ONLY) Comment: The Bureau's cooperation in stopping infringement of industrial property rights has been commendable to date. The Embassy, suspects, however, that there may be innumerable cases of infringement on this and other trademarks and patent rights that do not come to the attention of the Embassy or the owners of the rights. (JAC)

5. (UNCLASSIFIED) Revision of Foreign Trade Regulations.

The Korean press reports that the state Council has approved the Ministry of Commerce and Industry's proposed amendments to the Presidential Decree implementing the Trade Law.

Among the modifications are those concerning qualifications for registration as a foreign trader. Exporters must have $5,000 in foreign exchange (in place of the current $3,000) to qualify for registration, except that the requirement for handicraft exporters has been reduced to $1,500. Importers are required to possess $20,000 to qualify. Traders who wish to keep their registrations valid must export a minimum of $20,000 or import a minimum of $100,000 annually. These higher standards have reportedly been established to prevent a large growth in small-scale traders.

Other changes include a screening of registered firms on the basis of trade performance annually from the date of registration and the establishment of periodic check prices for major export and import items, thus freeing a number of commodities from the check price system.

(UNCLASSIFIED) Comment: An MCI official commented to the Embassy that the press report was essentially correct and that the amendments would become effective upon approval by the President. (JAC)

6. (UNCLASSIFIED) Private Foreign Trade Up Sharply in March.

According to Bank of Korea data released April 8th private commercial imports during March totalled $6.2 million, approximately four times as much as the export total of about $1.5 million.

The March totals represented increases of $950,000 in imports and $724,000 in exports over the preceding February. (RWT)

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7. (UNCLASSIFIED) Farm Production Up, Acreage Down.

In a report released April 8th, the Ministry of Agriculture and Forestry announced that although the total acreage of arable land in the ROK is now 6 percent smaller than before the 1945 Liberation, gross farm output is currently 4.7 percent larger. In 1954 through 1958 rice and other food grain crops have shown sizeable increases, although it is claimed that they still fall 15 to 20 million bushels (420,000 - 570,000 metric tons) short of meeting domestic demand. Before the Liberation average annual output of rice and wheat from about 7 million acres was 115 million bushels. In the past five years average production has risen to 121 million bushels from 6.5 million acres. Per-acre output has thus increased from 16.54 bushels to 17.72 bushels recently.

Annual cotton production pre-Liberation of 235 million pounds has shrunk to about 90 million pounds currently. Better, and cheaper, U. S. cotton imports are blamed for the decline.

Yearly fruit crops have more than doubled from 133 million pounds pre-Liberation to 274 million pounds currently. Improved seeds and pesticides are credited for effecting this remarkable growth. (RWT & EG)

8. (UNCLASSIFIED) Farm Products Price Support BillPrepared.

The Ministry of Agriculture and Forestry and the Policy Committee of the Liberal Party have prepared a farm products price support bill designed to stabilize production and strengthen the agricultural economy. Under the bill a special fund is to be established for the purchase of farm products and loans using them as security. These funds will be made available to the Korean Agricultural Bank or, possibly, the agricultural cooperatives for purchases and loans at price levels which will be set by a special committee. The bill which now covers only rice and barley will be expanded to include other products. Farm products obtained under the program will be made available for sale to domestic exporters. (LH)

9. (UNCLASSIFIED) Resumption of Payments in Kind to Public Officials Being Considered.

The ROK Ministry of Agriculture and Forestry has drafted a plan to resume the long-suspended payments in kind to public officials. The purposes of the plan are to dispose of some of the government's large grain reserves and reduce the amount of money in circulation. Each employee would be given one bag (22 kg.) of flour per month at a price of 1,994 hwan per bag. At the present level of government employment, 233 thousand, over 5 thousand metric tons of flour and 465 million hwan would be involved monthly.

(UNCLASSIFIED) Comment: Domestic prices of flour are now 2,400, 2,100, and 1,900 hwan for 1st, 2nd and 3rd grade flour respectively. The bulk of the flour to be distributed to officials will probably be 2nd or 3rd grade.

Although the flour millers report that flour supplies are greatly in excess of demand and the mills stand idle, they have not complained about the government's plan.. They did express the hope, however, that government employees would consume the flour, not sell it to the market because of their preference for rice. In any

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case, it appears that the prices of both flour and grains will be affected by the flour distribution. (LR)

10. (UNCLASSIFIED) Flour Producers Forming Cartel.

Domestic flour producers are organizing to control production, maintain prices, and prevent losses caused by competition. Production allocations and joint sales through the Korean Flour Millers Association are planned. The Association is now seeking a 1.2 billion hwan loan purportedly for the purchase of flour from the mills for sale by the Association.

(UNCLASSIFIED) Comment: Officials of KOFMIA (Korean Flour Millers Association) say that they have informally discussed the above plan with the ministers of Reconstruction, Agriculture and Finance, who reportedly sympathized with the millers, although the Minister of Finance was somewhat reserved about the loan. The loan funds would be passed on by the Association to the millers who are financially strained. The average price (Seoul wholesale) of flour during March 1959 was 2,130 hwan per bag of 22 kilograms - 19 percent below the March 1958 average and 26 percent below that of March 1957. Reportedly only a few of the more efficient mills (not necessarily the largest ones) are able to break even at current prices for flour.

Significantly, KOFMIA officials apparently did not consult Minister of Commerce and Industry KOO about their cartel plans. It was he who last September (Weekly Economic Review No. 38) announced, with particular reference to flour millers and sugar refiners, that the MCI would oppose "any types of cartels that would hinder sound development of the national economy" and would take strong administrative measures to combat any monopolies formed to effect artificial price manipulations. (LR, EG & RWT)

For the Ambassador:

RWTucker
Robert W. Tucker
First Secretary of Embassy

RW.

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BY NARA, Date 7/24/01

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FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL

595
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

DATE April 17, 1959

REF : CERP - Korea, Section C, Item 1.

NAR 4/29/59 NA/E

9 For Dept. Use Only	ACTION	DEPT.
	FE-6	RM/R-2 REP-1 IRC-15 W/MSC-3 E-7 ICA-10
	REC'D 4-21-59	INFO OTHER COM-12 USIA-10 OSD-2 ARMY-35 NAVY-28 TR-3 AIR-30 FRB-3 CIA-16 XMB-4 OCB-2 Ag-8

SUBJECT: Weekly Economic Review No. 15

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1. President Comments on Economic Matters.
2. Payments in Kind to Government Officials Approved.
3. Charges of Embezzlement of ROKG Fertilizer Funds Implicate Union Leaders.
4. Release of Korean Foreign Exchange.
5. Dollar Transfer Rates Reach New Highs.
6. New Plants Not Operating.
7. National Planning Association Report.
8. Soybeans Exported to Japan.
9. Traders Thank United States Government for Refund.
10. Government Appointments.
11. Commercial Banks Prosperous.

1. (UNCLASSIFIED) President Comments on Economic Matters.

In a press interview on April 15 President Rhee commented on the prospects for foreign investment and the stabilization program.

In his opinion the foreign investment bill now in the Assembly is satisfactory, at least for a beginning, although "no one pretends that the proposed law is perfect." He indicated that experience will show whether changes are needed, but stressed the importance of prompt enactment of the law.

Questioned concerning the impact of monetary expansion on the stabilization program, the President did not appear to be greatly worried although he noted that the situation must be continually reevaluated. He said, in part: "... we have and must have an expanding economy...(monetary) control there must be; yet it must not be so stringent as to squeeze the expansionist tendencies out of the economy..." Noting the possibility of a deficit in the defense budget, which he attributed to reduced aid, especially in the PL 480 program, he said that the Government intends to achieve a balanced budget by improvements in the tax collection system and by reducing expenditures "if that becomes necessary." (EG)

2. (UNCLASSIFIED) Payments in Kind to Government Officials Approved

The Ministry of Agriculture and Forestry reports that its plan to resume payments in kind to government employees has been approved by the State Council

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NARA, Date 11/4/97

(Ref. Weekly Economic Review No. 14). Payments (in flour) reportedly will begin this month and continue through July.

(UNCLASSIFIED) Comment: This move will not be of any material benefit to Government employees since their cash salaries will be reduced by the value of the flour distributed. The basic purpose behind this move is to help relieve the Government's bulging warehouses and to reduce the Government's cash outlays. If the dumping of this additional supply of flour on the market further depresses flour and grain prices, pressure from the millers and merchants may force the Government to abandon the plan. (LR)

3. (OFFICIAL USE ONLY) Charges of Embezzlement of ROKG Fertilizer Funds Implicate Union Leaders.

(BEGIN UNCLASSIFIED)

According to press reports, the subcommittee on agricultural administration of the National Assembly's Committee on Agriculture and Forestry is unofficially investigating charges of embezzlement directed at the Korean Forwarding Company and labor union leaders in the port city of Inchon. The charges were contained in a petition prepared by a former officer of the Free Workers Union in Inchon.

The petition asserted that the Korea Forwarding Company, which has monopolized the handling of government fertilizer imports, has increased annually the unloading charges included in the company's contract with the ROKG. Although an established percentage of the unloading fee is supposed to be paid to the workers, the company did not increase wage payments when unloading fees were increased. The petition claims that the difference between the wage rates charged the ROKG by the company and those paid the workers by the company was shared by management and union leaders. The Korean Forwarding Company has denied all the charges raised. (END UNCL.)

(OFFICIAL USE ONLY) Comment: This petition was originally prepared in November 1958 but received little, if any, attention in the National Assembly due to the turmoil into which the Assembly was thrown by political events during December.

It has been reported that the petition was instigated by CHONG Tae-ch'on, National Assemblyman and former Supreme Committeeman of the Federation of Korean Trade Unions (FKTU), in order to harass KIM Ki-ok, Chairman of the FKTU and Chairman of the Alliance of Free Workers Union, who defeated Chong in the Federation's annual convention in October 1958. Although there is no accusation that Kim participated in the alleged embezzlement, Kim will be in an awkward position if the charges are substantiated as he and the Free Workers Alliance publicly denied the charges when they first appeared.

In view of the alleged scandal in the ROKG's handling of the fertilizer program (Weekly Economic Review No. 11), the factional struggle in the labor movement and the possible implication of persons influential in the Liberal Party, this case could have many ramifications. Local opinion varies on whether the charges raised will, or can, be quietly dropped. Although press comment to date has been limited, it is reported that numerous newspaper representatives were present at the Assembly group's discussion of the petition. (LR)

4. (UNCLASSIFIED) Release of Korean Foreign Exchange.

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The Ministry of Finance announced that a total of $16.5 million of government-held foreign exchange (KFX) will be made available for release at public auction during 1959, to be scheduled whenever such action is deemed necessary in the interests of financial stabilization. Early release of some KFX had previously been indicated (Weekly Economic Review No. 14), but it appears that this will be postponed in view of the recent contraction in the total money supply.

Expansion of the money supply was halted during the latter part of March, and at the end of the month the figure stood at 211 billion hwan, about 12 billion hwan less than at the end of February. The money contraction reflected intensified efforts to collect taxes, substantial bidding for ICA dollars, and seasonal factors, such as school tuition payments.

The MOF is proposing, for CEB consideration, adjustment of the money supply ceiling to 220 billion hwan as of the end of June 1959 (originally 200 billion). Since prices have remained relatively stable and monetary expansion has been controlled in recent weeks, the MOF believes that the recommended ceiling is compatible with overall economic considerations. (EG)

5. (UNCLASSIFIED) Dollar Transfer Rates Reach New Highs.

According to data computed and just released by the Bank of Korea, hwan prices at which dollars are sold at the Bank reached a new high during March. The "missionary dollar" transfer rate averaged 934 hwan per $1 for the month, net of the 150 hwan per $1 foreign exchange tax. This exceeded by 1 hwan the best monthly average (March '58) before the exchange tax was imposed. Korean importers who buy these dollars from the missions and who are responsible for the payment of the exchange tax, paid an average of 1084 hwan for each "missionary dollar" in March of this year (934 to the missions and 150 hwan to the Government) against an average of 933 in March a year ago. The so-called "service dollar" rate (dollars derived from the providing of certain services to UN Forces) also reached an all-time high. The March rate averaged 1077 hwan per dollar compared with 833 a year earlier. Japan export dollars averaged 1424 hwan per one dollar (L/C basis) -- another new high -- and "other" (i.e., non-Japan) export dollars (L/C basis) were quoted at 1161.

(UNCLASSIFIED) Comment: A temporary decline in UNC dollar contracts, the withholding of Korean foreign exchange by the ROKG, a decline of exports to Japan (reducing the supply of Japanese export dollars), the authorization to use missionary and service dollars for the importation of fertilizer, and the short supply of certain high value commodities on the market are the principal reasons for this sharp rise in dollar transfer rates. Many of these factors are transitory, and it is expected that the rates will decline within a month or two; however, they will probably remain somewhat above the rates which were obtained during 1958. (EMC)

6. (UNCLASSIFIED) New Plants Not Operating.

A survey conducted by the Ministry of Reconstruction reveals that eight ICA-built industrial plants have been closed down or have not been placed in operation. The difficulty reportedly stems from various causes: the project sponsors' lack of operating capital, lack of skilled personnel, inexperienced management, low quality of the product, insufficient market and price disadvantage compared

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with imported goods. The distressed plants were intended to produce: agar-agar, glass bottles, leather and shoes, asbestos, crushed limestone, starch, 3-wheel motor bikes, metal products. (The last named plant has not yet been constructed, although the sponsor has procured the machinery and equipment.) ROKG and US aid authorities are studying measures to rectify these poor performances, which are in contrast to the many successful aid-financed industrial operations. (EG)

7. (UNCLASSIFIED) National Planning Association Report.

The Government-controlled Korean Republic editorially criticized a recent report of the National Planning Agency on Japan. (Although not identified, the NPA report is believed to be a study on Japan written by Michael Sapir/ The report is not available at the Embassy, but press references to it have been noted).

According to the lengthy editorial, the NPA report supports revival of "the plan whereby U.S. financing would be provided for Japanese economic development and exploitation of Southeast Asia. First proposed a couple of years ago, the scheme was rejected by the United States after strong objections from the countries that would have become economic vassals of Japan." Discussing Japan's attitude and relations vis-a-vis the Communist bloc, the editorial states: "Building up Japan to stop Communism is, for the present, very much like arming a robber to prevent burglars from entering the premises. The risk is very great that the two will get together. A country that seeks friendship with Red China is not to be trusted to stand in the way of continued aggressions in our part of the world. Japan's friends in the United States should urge Japan to change its ways before suggesting the Japanese as a bulwark of the Free World." (EG)

8. (UNCLASSIFIED) Soybeans Exported to Japan.

The first export of soy beans to Japan has been confirmed by the Ministry of Commerce and Industry. It is reported that the exporting firm, Taesong Industrial Company, has received an L/C for 1,300 tons of this item of which 120 tons have been shipped for $150 per ton C&F.

Under Article 39 of the Decree Implementing the Trade Law which provides that in the case of new export areas, export privileges may be restricted to the original exporter, the Ministry has granted a 60 day monopoly on shipments of soybeans to Japan to the Taesong firm. Reportedly, this is the first time that Article 39 has been utilized since the implementation of the Trade Law. (LR)

9. (UNCLASSIFIED) Traders Thank United States Government for Refund.

In a statement occupying half a page in the Korean Republic, the Committee for Correction of Exchange Rate in the 23rd U.S. Army Dollar Auction expressed gratitude to the United States Government in refunding the total amount involved in the issue ($457,974.40). Reviewing the circumstances of the case and the long struggle to reach a successful conclusion, the Committee declared that the final result is a model of democracy in action. (EG)

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10. (UNCLASSIFIED) Government Appointments.

Vice Minister, Agriculture and Forestry -- KIM Chang-sop. Transferred from the post of Vice Minister of Home Affairs (from which, however, he had resigned on the recent appointment of a new Minister). Vice Minister Kim is a lawyer by profession.

Director, Bureau of Mining, MCI -- CHON Hyo-sop. Chon is a textile expert and has held various MCI posts at the section chief level.

Director, Bureau of Finance, MOF -- KIM Chong-ryom. Kim held various positions in the Bank of Korea; most recently he was deputy chief of the Bank's Research Department. (EG)

11. (UNCLASSIFIED) Commercial Banks Prosperous.

The four commercial banks reported net profits totaling 1.3 billion hwan during the six months ending March 31 -- more than five times the figure of the preceding six months. Contributing factors included: reduced interest payments to the Bank of Korea reflecting the commercial banks' improved financial status, savings in operating costs due to slower turnover of deposits, increased receipts of interest payments, and profitable sales of real estate. (EG)

For the Chargé d'Affaires ad interim:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

RW.

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FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL

613
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

April 24, 1959
DATE

REF : CERP - Korea, Section C, Item 1.

Date of Action

25 For Dept. Use Only	ACTION	DEPT.
	FE-6	RMIR-2 IRC-15 ICA-11 EE-7 EVOH
	REC'D 4-28	INFO OTHER Com-12 USIA-10 OSD-2 ARMY-9 FAA-5 OCB-2 CIA-16 DC/R-2 GAB-6 IN-7 XMB-4 TR-3 AG-8 FRB-3 HAB-5

Name of Officer Drafting Action Office Symbol

Direction to

SUBJECT: Weekly Economic Review No. 16

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2. Missionary Dollar Exchange Rate at All-Time High.
3. KFX to be Auctioned in Four Installments in 1959.
4. Private Foreign Investment in Korea.
5. New Commercial Radio Station in Pusan Begins Operation.
6. WHO Assembly Representatives Named.
7. Commodity Notes.
8. CAT Develops Evidence Against NWA.
9. KNA Gets New DC-3 Airliner.
10. Sugar Exports Planned.
11. Spoilage of Government Grains Being Investigated.
12. Labor Representatives on Study Tours.

1. (UNCLASSIFIED) Special Exchange Rate for Tourists and Foreign Residents

For some time the Embassy, OEC and the UN Command have recommended, and the ROK Government has been considering, a more liberal exchange rate for tourist and resident foreigners, including the UN Forces (see Weekly Economic Review No. 11 and others). Recent press stories carry conflicting reports of governmental views, particularly as to the reaction of Finance Minister SONG In-sang. While some papers indicate that Minister Song is favorably disposed to a special "tourist rate", the government-supported Korean Republic quotes Song as saying "the Government is expected to reject the (tourist rate) proposal" and calling for a "review of the whole exchange rate structure with a view to attaining the best possible level for gearing the internal economy to external conditions."

(OFFICIAL USE ONLY) Comment: Needless to say, the Embassy would welcome a review of the exchange rate structure, as recommended by Minister Song, if it should lead to a rationalization of the existing multiple exchange rates and correction of the unrealistic 500 hwan to the U.S. $1.00 basic legal rate. Meanwhile, however, the Embassy will continue to press for a special tourist exchange rate, the potential advantages of which are obvious. (EG)

2. (UNCLASSIFIED) Missionary Dollar Exchange Rate at All-Time High.

The "missionary" dollar exchange rate (transfer into hwan of dollars owned

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foreign religious and welfare groups) reached the highest level to date -- 1,150 hwan per dollar, exclusive of the 150 hwan foreign exchange tax which is payable by the purchasers. Thus is brought about the unusual situation in which a Bank of Korea transfer rate is actually higher than the black market rate for dollar notes (on April 23, 1,170 hwan for greenbacks, 1,120 hwan for military payment certificates).

(UNCLASSIFIED) Comment: After a long period of depression, the rate for missionary dollars has been rising in recent weeks, probably owing chiefly to progressive liberalizations in the list of import commodities for which this foreign exchange may be used. The recent and unprecedented spurt may reflect the ROKG decision to permit use of these dollars for importing fertilizer, currently a popular import because of rising prices on the domestic market. Another immediate factor may be that foreign exchange available for imports is at the moment in short supply. (EG)

3. (UNCLASSIFIED) KFX to be Auctioned in Four Installments in 1959.

Finance Minister SONG In-sang announced that the initial auction of Korean foreign exchange (KFX), totalling $16.5 million dollars during the remainder of 1959, will be held in late May, the first in four installments of such auctions. If this program is actually realized, $20.5 million in KFX will be sold for hwan in 1959 as compared to $13 million in 1958. ($4 million were previously sold in February 1959). Reportedly new items will be added to the list of 28 already eligible for import with the auctioned dollars.

(UNCLASSIFIED) Comment: Minister YI of Agriculture and Forestry has announced that he was "confident" that fertilizer will be included in the list of eligible import items. This should help to assure spirited bidding at the May dollar auction. A Seoul Shinmun report of April 21, 1959 indicates that this auction will be for $4 million. (RWT)

4. (UNCLASSIFIED) Private Foreign Investment in Korea.

A UPI despatch appearing in the local press today reports the Korean delegation to the International Chamber of Commerce meeting in Washington as predicting "a sharp increase in private foreign investment in the Republic of Korea after passage of an investment law now pending in the National Assembly of the ROK."

(UNCLASSIFIED) Comment: The Embassy agrees with this prediction in that any increase in private foreign investment in Korea would constitute a sharp increase over present investment. This is so because the present volume of private foreign investment is virtually nil. To what extent private foreign capital will be attracted to Korea after enactment of a law is not, of course, known, but what is known is that there are a number of potential investors who are awaiting the results of the National Assembly's action on the bill now before that body. Depending on the provisions of the law that is passed, the most likely form of the first private investments in post-war Korea will be technical assistance and licensing arrangements. (JAC)

5. (UNCLASSIFIED) New Commercial Radio Station at Pusan Begins Operation.

HLKU, Korea's first commercially operated radio station located in

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Choongwang-dong, Pusan, started operation on a limited scale on April 16th (See Weekly Economic Review No. 3). Broadcasting on a wave length of 1035 kilocycles with a power of 1 kilowatt, HLKU will operate entirely from advertising fees and without ROK Government subsidization. Mr. KIM Sang-yong, President of the Pusan Cultural Broadcasting Station (a joint stock company capitalized at 200 million hwan with 100 million in paid-up shares), informed Embassy officers that he has received a large number of bids to advertise various products, including certain requests to purchase exclusive advertising rights for individual products. He has refused the latter, however, insisting on the right to sell time to all comers within the station's possibilities.

(UNCLASSIFIED) Comment: The new station, using American transmitting equipment purchased from Collins Radio Co., is reported to be technically very efficient, its relatively low-powered signal being heard regularly in Seoul. Since the competing ROK Government radio station in Pusan cannot be heard in Seoul, it is rumored that the Government will now take steps to improve its equipment. Mr. Kim Sang-yong has indicated that he will follow up his initial success in Pusan with the establishment in the near future of the first commercial station in Seoul. (RWT)

6. (UNCLASSIFIED) WHO Assembly Representatives Named.

Korea will be represented at the World Health Assembly convening May 12 in Geneva by: SON Won-il, Ambassador to Germany (chief of delegation); and by two members of the Ministry of Public Health and Welfare -- YUN Yu-son, Director of Bureau of Medical Administration, and HAN Ung-su, Chief of Preventive Medicine Section.

(EG)

7. (UNCLASSIFIED) Commodity Notes.

Minister of Commerce and Industry KU Yong-so is reported as commenting on several industrial issues at a recent press interview:

Cotton -- Expressing keen disappointment over the recent decision of the United States Government to require 100% replacement on a commercial basis of the aid-funded raw cotton used in textiles manufactured for export, he said he would request reconsideration of earlier ROKG replacement proposals.

Tungsten -- The Korea Tungsten Mining Corporation will not renew its sales contract with an American company under the terms currently offered, i.e., reduction of the price from $12 to the current international price of $10.40 per short ton unit. Minister Ku expressed the view that it would be better to leave the ore unmined than to export it at a price barely covering ;roduction costs.

Gold -- He believes gold mining will be a field of primary interest to foreign investors, when the Foreign Investment Encouragement Law is passed; in addition, $230,000 in ICA aid has been allocated for development. He would not permit export of gold, as is being proposed by business groups, but would rather see sales to the central bank encouraged by an increase in the official price.

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(OFFICIAL USE ONLY) Comment: Minister Ku's comments about tungsten production are probably for bargaining purposes mainly. As long as export prices meet mining costs the ROK Government must continue to push tungsten sales as one of its leading foreign exchange earners. With regard to his suggestion for an increase in the Bank of Korea's purchase price for gold, Minister Ku appears to be acknowledging the validity of general complaints that this price is currently too low. As a consequence, it is rumored that considerable quantities of gold mined in Korea are not finding their way to the BOK as required by existing law and regulations. (EG & RWT)

8. (OFFICIAL USE ONLY) CAT Develops Evidence Against NWA.

The dispute between Civil Air Transport and Northwest Airlines appears to continue, at least as far as CAT is concerned. (See Weekly Economic Review No. 14). The CAT manager, who claimed to have evidence that the notice appearing in the Korean Republic (KR) was submitted to that newspaper by NWA and paid for by that airline, has now obtained a signed statement to that effect from the advertising manager of the KR. A copy of that statement was sent to the Embassy by CAT.

(OFFICIAL USE ONLY) Comment: The Embassy continues to adhere to the position that this is a private problem to be settled by the two companies. Consequently no official attempt is being made to determine the validity of the evidence being developed by CAT. (JAC)

9. (UNCLASSIFIED) KNA Gets New DC-3 Airliner.

Captain SHIN, President of the Korean National Airlines (KNA), announced on April 20th that KNA has newly purchased a DC-3 passenger aircraft which arrived at Seoul airport the same day. The DC-3, which accommodates 28 passengers and 4 crew members, was purchased for $80,000 from the Alaska Airlines, Anchorage, Alaska, of which $30,000 was paid in cash. The balance is due in one year in installments. KNA was particularly grateful to Alaska Airlines for agreeing to the installment plan payment without any bank guarantee.

(UNCLASSIFIED) Comment: This aircraft will replace the DC-3 which was hijacked by North Korean Communist agents on February 26, 1958. Captain Shin commented, however, that he would "never give up my fight against the Communist thieves and their puppet regime to return my hijacked plane."

10. (UNCLASSIFIED) Sugar Exports Planned.

The Cheil Sugar Refinery Company of Pusan plans to export at least $500,000 worth of refined sugar to Southeast Asia annually and has requested the Ministry of Commerce and Industry to waive commodity and customs taxes on sugar to be exported. The company has been importing raw sugar mostly from Central America and the Philippines. Cheil hopes to break the quasi-monopoly on refined sugar exports to Southeast Asia now allegedly held by Taiwan. (LR)

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11. (UNCLASSIFIED) Spoilage of Government Grains Being Investigated.

The Ministry of Agriculture and Forestry has begun an investigation to determine the exact extent of the damage suffered by government stored grains. Press articles had reported up to 50,000 metric tons of rotten grains in government warehouses. The Ministry states that these reports are grossly exaggerated. According to the Ministry, a small amount of grain has suffered damage in storage but not beyond the point of utilization. The MAF will auction off next month some 670,000 bushels of spoiled grain, and plans to release 7.5 million bushels of grains from storehouses on credit to needy farmers and as payment in kind to government employees. Reportedly, 2 million bushels of such grain, largely U.S. surplus commodities, have already been so disposed of.

This year there have been no reports of starvation or under-nourishment in the countryside which are traditional in the late winter and early spring in Korea prior to the first June barley harvest. (LR & RWT)

12. (UNCLASSIFIED) Labor Representatives on Study Tours.

Five representatives of the Federation of Korean Trade Unions (FKTU) departed on April 22 for an 8 week "Workers Study Tour" sponsored by UNESCO. The tour will cover the Philippines, Malaya and Pakistan. The delegates will also make short visits in Japan and Formosa at the invitation of Japanese and Chinese labor groups. (IR)

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

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Name of Officer IRC-8
Action to DC/R NAVY-3

FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL — 617 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — April 27, 1959 DATE

REF : Korea CERP Section D - IV A-1 and VII A-2

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	REC'D 5-2	INFO OTHER	REP-1 RMR-2 E-7 W/MSC-3 IRC-8 COM-10 TR-3 CIA-10 NAVY-3

SUBJECT: Extent of Concentration of Economic Power in the Republic of Korea.

Enclosed is a list of 15 leading Korean businessmen compiled by the Bank of Korea and given to the Embassy on a "confidential" basis. (The designation "Plutocrats" is the Bank's own terminology.)

The Embassy has noted a tendency toward concentration of industrial and commercial interests among a relatively few Korean families or individual businessmen, and plans to undertake a more detailed study of this trend.

The diversification of interests of the persons listed in the enclosure may in most cases represent nothing more than a reflection of the enterprise and talent of the individuals. For instance, Mr. YI Pyong-chol, listed as having interests in eleven concerns, is locally regarded as a genius in financial and business management. He is, by a wide margin, the wealthiest of those listed.

There is the danger that unbridled concentration of economic power may redound upon the general economy in an unwholesome and inequitable manner. The specific concern of the Embassy and the OEC in this matter is, of course, the implications that such a contingency might have for the United States aid program in Korea. Indeed the criticism has appeared in the local press from time to time that the aid program is producing a handful of millionnaires while not adequately serving the interests of the masses of the population.

For the Ambassador:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

Enclosure:
List of 15 leading Korean businessmen.

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LIST OF KOREAN "PLUTOCRATS"
As of January 20, 1959

NAME	ENTERPRISE OR COMPANY	REPRESENTATIVE (President)	LOCATION	REMARKS
"Samsong":-	Samsong Mulsan	Yi Pyong-chol	Seoul	Affiliates:
Yi Pyong-chol	Cheil Woolen Textile	"	Taegu	Hyosong Mulsan
Uiryong Gun	Cheil Sugar Refinery	"	Pusan	(Cho Hong-je)
Kyongsan Namdo	Chosun Wine Manufacturing	"	Taegu	Konyong Mulsan
	Pungkuk Alcohol Industry	Ho Sun-ku	"	(Ku Yong-hoe)
	Chonil Securities (stocks & bonds)	Cho Hong-je	Seoul	
	Ankuk Fire & Marine Insurance	Yi Kyu-jae	"	Kuryongpo Can
	Dongyang Textile	So Chong-ik	Inchon	Manufacturing Co.
	Dongyang Sugar Refinery	Pae Dong-hwan	Seoul	Hankuk Mechanical
	Hankuk Tire Manufacturing	"	Yongdungpo	Supply Co.
	Hankuk Hung-op Bank	Yi Dok-yong	Seoul	
"Samyang":-	Samyang Sa 1/	Kim Sang-hong	Seoul	Mr. Kim's 3rd son
Kim Nyon-su	Kyongsong Textile	Kim Yong-wan	Yongdungpo	Mr. Kim's sister's
Kochang Gun	Chonju Textile	Kim Yong-ju	Chonju	husband
Cholla Pukdo	Taepyong Securities (stock & bonds)	O Ke-son	Seoul	
	Dong-A Ilbo	Kuk Tae-il	"	
"Hwashin":-	Hwashin Industry	Pak Hung-sik	Seoul	
Pak Hung-sik	Hunghan Textile	Kim Sop	Inchon	
Yong-gang Gun	Hwashin Department Store	Kim Chung-gil	Seoul	
Pyongan Namdo	Shinshin Department Store	"	"	

N.B. Mr. Kim is a younger brother of the late, 2nd V.P. Kim Song-su, H.S.M.

1/ Samyang Sa owns:-
Sugar Refinery
Ulsan, Kyongsan Namdo
Agar-agar Plant
Ulsan, Kyonsan Namdo
Dongho Saltern
Kochang, Cholla Pukdo

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LIST OF KOREAN "PLUTOCRATS"
(As of January 20, 1959)

NAME	ENTERPRISE OR COMPANY	REPRESENTATIVE (President)	LOCATION	REMARKS
Chong Jae-ho	Samho Trading	Chong Jae-ho	Seoul	
Yechon	Samho Textile	"	Taegu	
Kyongsang Pukdo	Taejon Textile	"	Taejon	
	Cheil Fire & Marine Insurance	Chong Sang-hui	Seoul	
	Samyang Hungop Sa	Chong Sa-hum	"	
	Donghwa News Service (AP)	Chong Jae-ho	"	
	Cheil Bank	Chong Kyu-hwang	"	
Sol Kyong-dong	Daehan Sanop	Sol Kyong-dong	Seoul	
Chongjin	Daehan Textile	"	Suwon & Taegu	
Hamkyong Pukdo	Daehan Electric Wire	"	Sihung	
	Daehan Sugar Refinery	"	"	
	Daedong Securities (stocks & bonds)	"	Seoul	
Kim Song-Kwon	Kumsong Sanop	Sin Dae-gyun	Seoul	
Dalsong Gun,	Kumsong Textile	Hong Jae-son	Anyang	
Kyongsang Pukdo	Taepyong Textile	Sin Dae-gyun	"	
	A-ju	Hong Jae-son	Pusan	
	Korea Fire & Marine Insurance	"	Seoul	
	Daewon Securities (stocks & bonds)	Chang Su-kyong	"	
	Yonhap Simmun	Kim Song-kwon	"	
	Dongyang News Service (UPI)	"	"	
Yi Chong-lim	Kaepung Sang Sa	Yi Chong-lim	Seoul	
Kaesong	Daehan Cement Manufacturing	"	Munkyong	
Kyonggi Do	Daehan Coal Mining	"	Yongwal	
	Hoyang Sanop	Chang Jin-hwan	Seoul	
	Dongbang Fire & Marine Insurance	"	"	
Yi Yang-ku	Cheil Silop	Yi Yang-ku	Seoul	
Hamhung	Dongyang Cement	"	Samchok	
Hamkyong Pukdo	Dongyang Chekwa (Confectionery)	"	"	

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LIST OF KOREAN "PLUTOCRATS"
(As of January 20, 1959)

NAME	ENTERPRISE OR COMPANY	REPRESENTATIVE (President)	LOCATION	REMARKS
Yun Sok-jun Hwangju Hwanghae-Do	Chosun Flour Mills Sindong-A Damage Insurance Dongyang Livestock Industry	Song Taek-song So Jae-sik Kim Hwa-sun	Pusan Seoul Anyang 1/ Duksum 2/	1/ Anyang:- Slaughter house 2/ Duksum:- Ice Plant
	Chohung Bank	Chong Chong-won	Seoul	

Mr. Yun died in May, 1958.
Mrs. Yun is in control.

Yi Han-won Changyon Hwanghae-Do	Tong-A Commercial	Yi Han-won	Seoul
	Daehan Flour Mills	Han Sok-jin	Inchon
	Hankuk Sugar Refinery	Yi Han-won	Yongdungpo
	Hanyong Textile	"	"
	Chonnam Textile	Kim Yong-nam	Kwangju
	Daehan Animal Feed	Ko Re-sik	Inchon
	International Damage Insurance	Yi Han-won	Seoul
	Hapdong Securities (stocks & bonds)	Chon Dal-hyon	"
	Hankuk Commercial Bank	Sin Pan-kuk	"
Kim Yong-ku Pyongyang Pyongan Namdo	Punghan Industry	Kim Yong-ku	Seoul
	Daeyang Marine Transport	"	"
	Hankuk Alcohol	Hong In-son	Kunsan
Kim Won-kyu Yongdok Kyongsang Pukdo	Namson Trading	Kim Won-kyu	Seoul
	Pukuk Flour Mills	"	Pusan
	Dong-A Coal Mining	"	Yunchon
	Donghae Marine Products	"	Yongdok
	Samkwang Enterprise	Choe Sok-kwan	Taejon
	Kangnung Silk Thread	O Chong-il	Kangnung
	Hapdong News Service (AP)	Kim Dong-jun	Seoul
Ku In-hoe Jinyang Kyongsang Namdo		Ku In-hoe	
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LIST OF KOREAN "PLUTOCRATS"
(As of January 20, 1959)

NAME	ENTERPRISE OR COMPANY	REPRESENTATIVE (President)	LOCATION	REMARKS
Kim Ji-tae Pusan	Hankuk Silk Thread	Kim Ji-tae	Seoul	Trading
	Chosun Silk Weaving	"	Pusan	
	Daehan Silk Thread	Tak Im-cho	Taegu	
	Daehan Hapdong Yarn	"	Milyang	
	Dongbang Yarn	Kim Jin-hwang	Chunchon	
	Wonju Silk Thread	Yi Pyong-hwan	Wonju	
	Samhwa Rubber Manufacturing	Kim Re-jun	Pusan	
	Pusan Ilbo	Kim Ji-tae	"	
Hyon Su-dok Koesan Chungchong Pukdo	Unsong Sanop	Hyon Su-dok	Seoul	
	Dongsin Chemical 1/	"	"	1/ Plant at Yongdungpo
	Dongyang Rubber Products	"	Pusan	
	Dongyang Rubber Manufacturing	Hyon Su-han	Seoul	

Source: Bank of Korea

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NND 867400
By [illegible], NARA, Date 1/16/24

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8956.00/4-2859

FOREIGN SERVICE DESPATCH

621
DESP. NO.

FROM : AmEmbassy, SEOUL

TO : THE DEPARTMENT OF STATE, WASHINGTON.

April 28, 1959
DATE

REF : 1957 CERP, Section B, Item II-B, III-B-1, 3, V-E(1), VII-B(1), D(1), III-D-1, I-A-4, 5.

For Dept. Use Only	ACTION	DEPT.
	Com-17	Rep-1 IRC-8 E-7 FE-4 EUR-5 ICA-10
	REC'D 5/6	INFO OTHER CIA-10 AG-8 IN-7 FRB-3 XMB-4 TAR-2 USIA-10 Army-4 Navy-3 Air-2

SUBJECT: Monthly Economic Indicators, ROK, February 1959

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895B.00/4-2859

	Feb 1959	Jan 1958	Percent change a/ Jan-Feb 1959	Feb 58-Feb 59	Sept 55-Feb 59
I. PRICES (A.B.C.: 1947=1)					
A. Wholesale index, Seoul	211.1	211.2	negl	+ 7.2	+19.1
1. Commodity groups					
a. Grain	185.1	181.6	+ 1.9	-11.1	-12.3
b. Meats, eggs, fish	423.2	387.9	+ 9.1	+28.6	+60.1
c. Textile raw materials	150.7	154.5	- 2.5	+ 5.4	+25.7
d. Textiles	67.1	72.3	- 7.2	+ 5.2	- 4.4
e. Building materials	266.2	269.0	- 1.1	+15.2	+15.5
f. Fertilizer	539.4	539.4	0	0	+68.6
g. Fuel	639.3	691.0	- 7.5	+44.3	+71.5
h. Miscellaneous	118.3	114.3	+ 3.4	+ 6.4	+33.6
2. All items except grain	227.7	230.0	- 1.0	+20.1	+46.2
3. Consumer goods	207.5	206.7	+ 0.4	+ 4.4	+14.8
4. Producer goods	179.2	180.7	- 0.8	+ 7.4	+20.0
B. Seoul Consumer Price Indexes (1955=100)					
1. General	148.6	146.8	+ 1.2	+ 3.6	+28.0
a. Food	142.7	140.0	+ 1.9	- 0.8	+13.5
b. Housing	173.7	173.4	+ 0.2	+ 8.8	+65.6
c. Fuel & light	170.4	179.1	- 4.9	+30.2	+48.4
d. Clothing	109.4	110.5	- 1.0	- 6.3	+ 4.5
e. Miscellaneous	165.4	158.1	+ 4.6	+ 5.8	+54.6
C. Rice, retail, Seoul Hwan/20 liters	2,493	2,442r	+ 2.1	- 7.7	-15.8
D. US $1 Greenback, Seoul	1,170	1,186	- 1.4	- 0.5	+52.9

RWTucker:YKChon/hcn
REPORTER
APR 29 1959

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MAY 25 1959

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By ____ NARA, Date 11/17/99

	Feb 1959	Jan 1959	Percent change Jan-Feb 1959	Feb 58-Feb 59	Sept 55-Feb 59
E. New national wholesale price index (1955=100)					
1. All commodities	139.2	138.9	+ 0.2	- 2.7	+16.9
a. Foods	130.5	129.1	+ 1.1	- 9.4	- 0.6
b. Fuel & power	157.1	158.7	- 1.0	+ 6.6	+42.8
c. Mineral products	117.7	117.9	- 0.2	+10.5	+14.1
d. Metals products & machinery	167.4	166.2	+ 0.7	+ 7.7	+56.2
e. Building materials (Including metals)	150.3	149.5	+ 0.5	+11.6	+30.1
e. Building materials (Excluding metals)	146.1	145.5	+ 0.4	+12.2	+25.6
f. Fiber and fiber products	120.3	124.0	- 3.0	- 5.4	+15.5
g. Chemical products	212.1	211.2	+ 0.4	- 1.3	+50.7
h. Paper	129.0	125.5	+ 2.8	- 9.9	+29.1
i. Raw rubber and rubber products	133.4	126.0	+ 5.9	+26.4	+16.6
j. Miscellaneous	155.9	155.3	+ 0.4	+ 3.4	+47.8
2. Special Groupings					
a. Grains	128.5	126.1	+ 1.9	-12.1	-12.7
b. All commodities excluding grains	142.8	143.2	- 0.3	+ 0.5	+30.1
c. Producer goods	161.5	160.5	+ 6.0	+ 3.9	+37.9
d. Consumer goods	130.2	130.2	0	- 5.7	+ 8.6

	Billions of hwan			Percent change	
	Feb 1959	Jan 1959	Feb 58-Feb 59	Jan-Feb 1959	Feb 58-Feb 59
II. MONEY SUPPLY (billhwan)					
A. Notes & deposits					
1. Bank notes, outside banks	111.4	108.0	+28.4	+ 3.1	+34.2
2. Check/demand deposits, excl. uncleared	125.5	116.6	+33.3	+ 7.6	+36.1
3. Foreign official deposits	13.7	16.6	+ 4.1	-17.5	+23.0
4. Total (1+2-3)	223.2	208.0	+65.8	+ 7.3	+41.8
B. Factors affecting money supply					
1. Government finance b/	108.7	106.1	+46.0	+ 2.5	+73.4
2. Private credit (incl.BOK, excl.KRB)	169.7	162.3	+61.9	+ 4.6	+57.4
3. Other c/	-55.2	-60.4	-42.1	+ 8.6	-321.4
4. Total	223.2	208.0	+65.8	+ 7.3	+41.8

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E.O. 12356, Sec. 3.3
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	Jan 1959	Dec 1958	Total Jan 59 (Average in case of indexes)	Percent change Dec 58-Jan 59	Percent change Jan 58-Jan 59
III. PRODUCTION					
A. Quantities of output					
1. Cotton yarn (mil.lbs)	9.0	9.9	9.0	- 8.9	+17.9
2. Cotton cloth (mil.sq.yds)	14.3	13.9	14.3	+ 3.1	+27.6
3. Cement (1,000 mt)	13.0	23.7	13.0	-45.2	+468.6
4. Rubber shoes (mil.prs)	4.1	3.8	4.1	+ 7.9	+65.6
5. Coal (1,000 mt)	281	325	281	-13.5	+59.7
6. Tungsten (mt)	248	232	248	+ 6.9	-17.1
7. Electric power (mil.KWH)	147	148	147	- 0.7	+25.6
B. Production indexes (1955=100)					
1. Industrial production (100)	147	157[r]	147	- 6.4	+ 2.1
a. Mining (10)	217	217	217	0	+ 5.3
b. Manufacturing (87)	137	148[r]	137	- 7.4	+ 1.5
c. Electricity	200	203	200	- 1.5	+ 9.9

	Jan 1959	Dec 1958	Total Jan 1959	Percent change Dec 58-Jan 59	Percent change Jan 58-Jan 59
IV. FOREIGN EXCHANGE ($ mil)					
A. Holdings (inc. gold)	147.8	146.5	(+1.3)d/	+ 0.9	+47.5
1. Dollars, US	144.6	143.2	(+1.4)d/	+ 1.0	+49.2
2. Uncommitted	89.0	90.7	(-1.7)d/	- 1.9	+112.4
B. Receipts	8.2	16.6	8.2	-50.6	+36.7
1. Exports	1.4	2.3	1.4	-39.1	-53.3
2. Hwan sales	2.8	2.8	2.8	0	+55.6
3. Other	4.0	11.5	4.0	-65.2	+233.3
C. Payments	6.8	5.8	6.8	+17.2	+61.9
1. Imports (non-aid)	3.5	4.6	3.5	-23.9	+ 9.4
2. Other	2.3	1.2	2.3	+91.7	+130.0

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NND 867400
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	Program (Adjusted)	Dec 1958	Nov 1958	During Dec 55- Dec 57	During Dec 56- Dec 58	During Nov-Dec 1958
V. ECONOMIC AID ($ mil)						
A. ICA arrivals (USFY basis)						
1. 1954	178.8	176.8	176.8	38.0	17.9	0
2. 1955	247.0	240.0	239.9	73.5	27.1	0.1
3. 1956	315.7	291.3	290.8	275.6	99.5	0.5
4. 1957	321.8	272.1	267.7	199.7	270.8	4.4
5. 1958	237.3	167.1	157.1	6.4	167.1	10.0
6. 1959	188.2	6.4	1.6	0	6.4	4.8
7. Total	1,488.8	1,153.7	1,133.9	593.2	588.8	19.8
a. Project	500.6	341.8	336.6	174.6	149.4	5.2
b. Non-project e/	966.8	803.9	789.7	415.6	431.6	14.2
(1) Surplus agricultural commodities sec.402	199.2	170.8	167.0			3.8
(2) Fertilizer	258.9	221.3	219.2			2.1
(3) Other & unassigned to specific non-project uses	508.7	411.8	403.5			8.3
c. Technical cooperation	21.4	8.0	7.6	3.0	7.8	0.4
d. Reserve	186.8	29.0	28.0	-	-	1.0
B. USFY 1959 ICA obligations	188.2	111.0	102.6	-	-	8.4
C. PL 480 arrivals	132.0	126.4	117.7	73.4	93.4	8.7
1. Food	114.4	109.0	100.3	61.5	89.0	8.7
2. Other	17.6	17.4	17.4	11.9	4.4	0

Footnotes: a/ Computed in most cases from unrounded figures. b/ Includes the Government's net position at the BOK (overdrafts less deposits, including operations of counterpart funds); Government bonds, industrial reconstruction bonds and industrial finance debentures (latter two are KRB issues) held by BOK; BOK loans to Government agencies; national bonds held by banks other than the BOK and KRB; and loans by banks, other than BOK and KRB, to local Governments. c/ Includes BOK net purchases of foreign exchange, savings and time deposits (decreasing factors), deposits of foreign organizations in the BOK (decreasing factor), and all other influences on the money supply (net). d/ Change between December of year before and January of year indicated, expressed in $ million. e/ Being the change on OED Program Status Report, the categories of Non-Project also changed, Eventually the comparisons with previous periods on Non-Project are not available.

For the Ambassador:

R W Tucker

Robert W. Tucker
First Secretary of Embassy

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date 11/7/89

VIA AIR POUCH
PRIORITY

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Action Assigned to AA/E

FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL

635
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

Action Taken
May 1, 1959
DATE

REF : CERP-Korea, Section C, Item 1

IES-5 EE-2
Date of Action

35 For Dept. Use Only	ACTION	DEPT.	RMR-2 REP-1 IRC-15 ICA-11 E-7
	REC'D 5-5	INFO OTHER	USIA-10 OSD-2 ARMY-35 NAVY-20 AIR-30

Action Office Symbol
Name of Officer

Com-12 OCB-2 to CIA-11
AG-8 TAR-2 TR-3
IN-7 FRB-2

SUBJECT: Weekly Economic Review No. 17.

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Contents

1. Foreign Exchange Quotations High.
2. Money Supply Declines in Mid-April.
3. PL 480 Negotiations.
4. UN Board Asked to Increase Aid.
5. Sale of Cement and Glass Plants.
6. First Quarter Trade.
7. Charges of Payoffs.
8. Embassy's Name Plaque Stolen.
9. Return of Students Studying Abroad.

1. (UNCLASSIFIED) Foreign Exchange Quotations High.

All types of hwan-dollar exchanges, including black-market, have been at unusually high levels for the past fortnight, although the missionary dollars declined from the 1,150:$1 rate of a week ago. Selling prices on April 29 were as follows (hwan per $1): Japan export - 1,360; non-Japan - 1,280; military supply and service - 1,180 and 1,170 respectively; missionary - 1,020; greenbacks and MPC (illegal) - 1, 180 and 1,120 respectively. Similarly bidding for ICA dollars has been keen, with bids for fertilizer imports and other popular items ranging upwards of 1,250 per dollar.

Minister of Finance SONG In-sang, warning against speculation in foreign exchange transactions, said that releases of Government-held foreign exchange (KFX) will not necessarily be held to the limitations previously announced ($3 million to be auctioned May 6, $1 million in June, and $12.5 million during July-December, but would be released at such times and in such amounts as deemed necessary. He noted, however, that the domestic price of fertilizer is at about the same level as in the same period of last year, and that supply and demand are in satisfactory balance.

The recent upward surge in the hwan-dollar rates is attributed to 1) decreasing aid availabilities; 2) declining exports, particularly in offshore and service proceeds; 3) rise in the cost of exportable goods.

Responding to the more favorable exchange rate, missionary groups transferred $1.3 million in March, more than double the amount exchanged in February.

RWTucker/EGallagher/
JACamelio/LRyan:pb
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MAY 1 - 1959

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By [illegible], NARA, Date 1/6/21

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16 months since inception of the missionary transfer system, the monthly average has been about $545,000.

(UNCLASSIFIED) Comment: Minister Song has announced that fertilizer will not be included in the list of eligible imports with KFX from the May 6 auction. Evidently Minister YI of Agriculture and Forestry has lost this argument. (See Weekly Economic Review No. 16). (EG)

2. (UNCLASSIFIED) Money supply Declines in Mid-April.

The money supply continues to decline from the high reached at the end of February (Hw 223 billion). As of March 31 the figure was Hw 210.7 billion and as of April 15 (estimated), Hw 206.4 billion.

Meanwhile prices remain steady, with grain edging up slightly as compared with a month ago but still some 20% below the same week of April 1957.

(UNCLASSIFIED) Comment: Finance Minister SONG has indicated his belief that the April 15 level is probably a recent low point and that the money supply will rise in late April and in May and June. At the April 29 meeting of the CEB it was agreed that the money supply should not be permitted to exceed 220 billion hwan through the second quarter of 1959. The sale of $4 million in ROK Government-owned foreign exchange in May and June was specified as a part of the second quarter financial stabilization agreement. (EG and RWT)

3. (UNCLASSIFIED) PL 480 Negotiations.

At working level discussions the ROKG side has 1) indicated that the proposed $5 million in tobacco is not desired; 2) proposed that the raw cotton imports be increased by about $2 million for the textile industry, and by $500,000 to $750,000 for use in making bandages and other supplies for the ROK Army; 3) indicated that there is disagreement as to a requirement for 10,000 metric tons of miscellaneous grains, the Ministry of Agriculture being opposed and other interested ministries either favorable or neutral. No formal objection has been presented to the proposed division of hwan proceeds (85% for ROK and 15% for U.S. uses), although some dissatisfaction has been reported in the press. A unified ROKG position on the commodity composition is expected to be reached within the next week. (EG)

4. (UNCLASSIFIED) UN Board Asked to Increase Aid.

During the visit of Sir Alexander MacFarquhar, Far East Representative of the UN Technical Assistance Board, Reconstruction Minister SIN Hyon-hwak asked the Board to expand its aid to Korea to a $1 million per year level in 1960. Sin expressed the belief to Sir Alexander that since the UNKRA program has been phased out Korea must now "depend very heavily" on the Board for the kinds of technical assistance needed for its economic development.

Minister Sin contended that assistance from the UN body can be directed to fields that are not being fully covered by other aid programs (including the ICA program). He cited a statistical survey on Korean geographic and economic problems, shipbuilding, and atomic energy development as some of the projects that could be aided by the UN Technical Assistance Board. Sir Alexander reportedly expressed

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By [illegible], NARA, Date 1/6/21

considerable interest in the ROK's atomic energy projects.

(OFFICIAL USE ONLY) Comment: In all the fields suggested by Minister Sin as appropriate for aid from UNTAB, the ICA program is currently providing technical assistance and/or developmental funds. The request for only $1 million per annum nevertheless appears uncharacteristically modest. (RWT)

5. (UNCLASSIFIED) Sale of Cement and Glass Plants.

On April 30 two UNKRA-constructed plants were sold to private interests -- the Munkyong Cement Plant, at a price of 7 billion hwan, and the Inchon Flat Glass Plant, for 2.4 billion hwan. (Weekly Economic Review No. 14). The cement works has an annual capacity of 20,000 metric tons and the glass factory can produce 120,000 crates of sheet glass yearly. The private purchasers of the plants were the Korea Cement Manufacturing Co. and the Hankook Plate Glass Co., respectively. (EG)

6. (UNCLASSIFIED) First Quarter Trade.

The Ministry of Finance has announced that imports clearing customs in the first quarter of 1959 totaled $76.1 million, of which $57.8 million consisted of ICA aid arrivals. Exports, on the other hand, amounted to only $3.4 million, approximately one-twenty-fifth of the import volume. (JAC)

7. (CONFIDENTIAL) Charges of Payoffs.

An American businessman has confidentially informed the Embassy that the representative for Siemens-Halske paid officials in the Ministry of Communications some $50,000 for the award on $1.4 million telecommunications equipment contract under Invitation to Bid 336-M (see Despatch 561, April 1, 1959). This is not the first time the Embassy has heard this story. The Embassy, however, is not in a position to determine whether these charges are true.

(CONFIDENTIAL) Comment: There seems to be little doubt that payoffs are common among certain circles in Korea. The charges that are made, however, generally cannot be substantiated, ostensibly because too many people would be hurt, and consequently no concrete evidence can be produced. (JAC)

8. (UNCLASSIFIED) Embassy's Name Plaque Stolen.

During the night of April 26-27 the heavy bronze name plaque of the American Embassy was stolen from the entrance of the Chancery on Ulchi-ro street. Korean police have reportedly estimated its scrap value at 50,000 hwan ($100 U.S. at the legal exchange rate). The robbers were not deterred by the location of the Chancery in the heart of downtown Seoul, within rock-throwing distance of the nearest police box.

(OFFICIAL USE ONLY) Comment: Apparently some soulless Seoulites are dissatisfied with the extent of the U.S. aid program and have resorted to the direct approach. Following soon after a burglary of the Commercial Attache's house in a

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By NARA, Date 1/27/21

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guarded compound, the Economic Section has understandably become somewhat sensitive to this special Korean art. (RWT)

9. (UNCLASSIFIED) Return of Students Studying Abroad.

The Ministry of Education has revealed that since 1951 4,703 Korean students have gone abroad to study. To date, only 685 have returned after completing their education. The Ministry refused to state exactly how many of the returnees have found jobs in Korea but said that more than half had done so.

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date 1/6/21

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FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL

651
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : CERP-Korea, Section C, Item 1

Action Assigned to ... Date May 8, 1959

Action Taken ...

Date of Action ...

Action Office Symbol ...

Name of Officer ...

Direction to DC/R ...

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For Dept. Use Only	ACTION	DEPT.
	REC'D 5-13	INFO OTHER Com-12 USIA-10 AG-8 IN-7 TR-3 TAR-2

SUBJECT: Weekly Economic Review No. 18.

Contents

1. KFX - Auction and Holdings.
2. PL 480 Negotiations.
3. Korean Rice Export Planned Again.
4. Trade Program for Last Half 1959 Under Study.
5. Mineral and Fish Products Planned for Last Half of 1959.
6. Prices Edging Upward.

1. (UNCLASSIFIED) KFX - Auction and Holdings.

The scheduled auction on May 6 of Korean foreign exchange was well received. More than double the $3 million offered was applied for by 197 bidders. The 91 successful bids averaged (weighted basis) 1,063 hwan per dollar, and a residual of $300,000 will be re-auctioned among 21 tie-bidders who offered 1,030 hwan per dollar.

Korean foreign exchange reserves at the end of April totaled $97.5 million. (EG)

2. (UNCLASSIFIED) PL 480 Negotiations.

The ROKG has presented the following as its coordinated PL 480 commodity proposal:

Commodity	Million dollars
Wheat	20.3
Raw Cotton:	
Textile industry	12.0
Sanitary uses	0.5
Feedgrains (all corn)	0.5
Ocean transport, est.	4.8
Total --	38.1

It is understood that the ROK Embassy in Washington has been apprised of this program.

EGallagher/JACamelio:pb
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By ... NARA, Date ...

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This proposal corresponds to the U.S. offer, except that $5 million in tobacco has been rejected and the request for raw cotton has been correspondingly increased. The Embassy and OEC are studying the justification presented by the ROKG for the proposed increase in raw cotton. (EG)

3. (OFFICIAL USE ONLY) Korean Rice Export Planned Again.

BEGIN UNCLASSIFIED. The State Council was reported by the press to have agreed to the export of more than 100,000 tons of rice annually to help reduce the imbalance in trade. In the same item, the Korea Times reports that a memorandum handed to Mr. Parsons, Deputy Assistant Secretary of State for Far Eastern Affairs, urged the United States to show "more positive" interest in promoting Korean rice exports, especially to Japan. END UNCLASSIFIED.

(OFFICIAL USE ONLY) Comment: Certainly a much more vigorous effort will be required on the part of the Korean Government and private traders if Korea is going to succeed in exporting any appreciable quantities of rice. In 1958, both Embassy and OEC officials brought to the attention of Korean Government officials the proposals of at least two foreign traders willing to consummate rice exports to Japan and other countries, but the Korean Government seemed to have only superficial interest at that time and nothing was done to encourage these commercial transactions. Perhaps with the recent establishment of the CEB export committee, (see item 4) more positive steps will be taken to promote markets for rice and other potential Korean exports. (JAC)

4. (UNCLASSIFIED) Trade Program for Last Half 1959 Under Study.

The Ministry of Commerce and Industry is reportedly renewing its efforts to promote exports in its preparation of the trade program for the second half of 1959. Among the measures which the Ministry hopes to include in the forthcoming trade program are the institution of some unspecified preferential treatment to export firms that achieve a fixed export volume in a designated period of time. Also contemplated is the establishment of a preferential export dollar system (similar in certain respects to the Japanese retention and link systems) which would permit the import of certain restricted items with proceeds earned from the export of relatively inactive items.

Other measures under study include the establishment of import quotas for commodities to be linked with exports and the simplification of the trade program by specifically identifying commodities subject to automatic (import) approval.

(UNCLASSIFIED) Comment: The MCI has attempted on previous occasions to promote exports but with only little success. If part, or all, of these measures now under consideration are actually adopted in the second half of 1959, the MCI will have made a small start in providing some incentive to export. The Embassy believes that the MCI may become a little more effective in its export promotion schemes when the Export Promotion Committee begins to operate. The CEB formally approved the establishment of the Export Promotion Committee on May 7, 1959. (JAC)

5. (UNCLASSIFIED) Mineral and Fish Products Planned for Last Half of 1959.

In the preparation of the Trade Program for the second half of 1959, the Mining

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By [illegible] NARA, Date 1/11/01

Bureau of the Ministry of Commerce and Industry hopes to export over 25 mineral items valued at $6.7 million, including tungsten, iron, tin, and lead ores, and graphite and anthracite coal. The Office of Marine Affairs hopes to export $4.6 million of fish products, including $570,000 of frozen shrimp. Considerable interest has developed in Korean shrimp on the part of American importers and this item may well become a substantial foreign exchange earner in the future. (JAC)

6. (UNCLASSIFIED) Prices Edging Upward.

The downward drift of grain prices has been reversed, with the result that the overall wholesale index (Seoul) for the week ended May 1 was 2.4% above the previous week's level. The upward movement of rice prices -- a welcome development for the farm economy -- follows the normal seasonal pattern, although the rise to date has not been so steep as in previous years and the market price is about 18% below May 1958. The current price of 25,600 hwan per suk (160 kilograms) is 10% higher than a month ago (in the comparable period of last year, rice prices rose 18%). (EG)

For the Ambassador:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

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E.O. 12356, Sec. 3.3
NND 867400
By LJH, NARA, Date 4/1/21

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895B.00/5-1559

FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL

664
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

May 15, 1959
DATE

REF : CERP - Korea, Section C, Item 1.

For Dept. Use Only	ACTION	DEPT.
	REC'D 5/20	INFO Rep-1 IRC-15 ICA-10 FE-4 E-7 EUR-5 OTHER CIA-16 USIA-10 OCB-2 OSD-2 Army-35

SUBJECT: Weekly Economic Review No. 19.

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2. Export Promotion Measures Under Study
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4. Trade with Ryukyus.
5. Flat Glass to be Exported.
6. Tungsten Processing Plant.
7. Samwha Iron Works to Resume Operations.
8. Korean Frozen Shrimp -- Good or Bad?
9. Probable Disqualification of Traders.
10. Construction Workers Union Formed.
11. Chemical Workers Alliance Inaugurated.
12. Tourism.

1. (UNCLASSIFIED) Prices Continue Up.

Under the pressure of the seasonal rise in grain prices and reflecting the recent spirited bidding for foreign exchange and ICA dollars, commodity prices in practically all categories have shown fairly sharp increases. As of May 14 the Seoul wholesale price index (on the basis of preliminary data) stood at 123.4 using the September 1955 average as 100. The Bank of Korea predicted that if rice prices rose by as much as 200 hwan above the current 13,200 hwan per bag of 80 kilograms (average price of all grades) the index would reach 125% of the September 1955 average.

(UNCLASSIFIED) Comment: The overall Seoul index increased approximately 7.5 percent during the month ending May 14. Rice prices are still some 10% below the level of a year ago and it is not likely that they will be permitted to get out of hand. The Government has at its disposal 1.5 million suk collected under the rice lien program, and will undoubtedly release this for market control purposes if the price continues upward. Farmers still have the option of paying off their loans and reacquiring the rice under lien, which also would have a stabilizing effect. In addition, the Government has roughly 2.9 million suk of grain in storage under its Controlled Food Program, a sizeable portion of which could be released for market control purposes if necessary. (EMC & EG)

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2. (UNCLASSIFIED) Export Promotion Measures Under Study.

With the formal approval by the CEB for the establishment of an Export Promotion Committee within the CEB structure earlier this month, a number of schemes to boost exports from Korea are under study. The Ministry of Commerce and Industry is reported in the press to have worked out a long range plan with the Korean Chamber of Commerce and the Korean Traders' Association which will be submitted to the Committee for consideration. Among the measures being proposed are the following:

1. Establishment of a fund to finance production of export commodities;
2. Expansion of the lists of items approved for import and export;
3. Institution of a retention-link system permitting the import of restricted or profitable items with proceeds of certain exports;
4. Direct Government subsidies to exporters;
5. Granting of ICA dollar allocations to exporters with good records;
6. Reduction in the local freight rates for exports;
7. Establishment of export associations;
8. Establishment of an information service on overseas markets.

(OFFICIAL USE ONLY) Comment: Many of these schemes had been proposed by the MCI on earlier occasions but none was adopted. There now is a better chance of success of some of these proposals as a result of consideration by the Export Promotion Committee and CEB. The Korea Times on May 15 quoted the Minister of Commerce and Industry as having proposed the establishment of a nine billion hwan revolving fund for the financing of exports. The expenditures of these funds for export promotion could be accomplished within the limits of the stabilization program since they had already been programmed for export promotion and other purposes. While some of the MCI proposals may be rejected by the Committee, the Embassy believes that the establishment of a special committee for export promotion is a step in the right direction. (EMC & JAC)

3. (UNCLASSIFIED) Pricing Committee to be Established.

The press reports that the Ministry of Commerce and Industry has decided to establish the pricing committee for which provision was made in Article 43 of the MCI Ordinance No. 45 of May 7, 1958. (See Embassy Despatch 523, March 12, 1959). The Committee shall be responsible for surveying prices on exports and imports and establishing check prices which will consitute a criterion for trade transaction approvals.

The report indicates that the committee will be chaired by the Director of the Trade Bureau in MCI. Other directors will be appointed from the Bureau of Customs, the Economic Affairs Bureau in the Ministry of Foreign Affairs, the Control Bureau in the Ministry of Reconstruction, the Procurement Bureau of OSROK, the BOK, the Korean Chamber of Commerce, and the Korean Traders' Association.

(UNCLASSIFIED) Comment: The Embassy has confirmed the press report with the MCI. The proposal for the establishment of the committee, however, is still under study in that Ministry but there appears to be no doubt that a formal announcement on the committee's establishment will be made shortly. (JAC)

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4. (UNCLASSIFIED) Trade with Ryukyus.

The agreement under which the Ryukyu Islands purchased 5,000 tons of Korean rice called for setting aside 5% of the export proceeds for the importation of Ryukyuan products. Accordingly arrangements are in progress for importation of Ryukyuan black sugar in the amount of $2,932, representing 5% of the export proceeds on the first shipment of 1,500 tons of rice. (EG)

5. (UNCLASSIFIED) Flat Glass to be Exported.

According to press reports, the Inchon Flat Glass Plant is planning to expand production capacity of both sheet and figured or frosted glass (present capacity 140,000 and 10,000 cases respectively) to a point that would permit export of 50,000 cases or more annually besides meeting all domestic requirements. An export order for 500 cases of flat glass to the United States has reportedly been received.

(UNCLASSIFIED) Comment: The modern UNKRA-built glass plant (costing about $3.6 million) has been fighting the battle of high production costs, largely resulting from the necessity of importing a major raw material, soda ash, and the POL for fuel. Data are not available on the quantity of stock-piled glass, but it is known to be of substantial proportions. (EG)

6. (UNCLASSIFIED) Tungsten Processing Plant.

Chemical processing facilities constructed by the Korea Tungsten Mining Company at a cost of $2.3 million and Hwan 600 million will be dedicated next week at the Sangdong mine site (Kangwon Province), one of the world's largest tungsten deposits. The improved facilities will permit recovery of a higher yield of tungsten concentrate; present production averages 65-75% WO_3. In addition, table tailings, of which up to 100,000 tons have been accumulated, can be processed for their mineral content. (EG)

7. (UNCLASSIFIED) Samwha Iron Works to Resume Operations.

The only pig-iron facility in south Korea, the Samwha Iron Works, which has been inoperative for nearly a year, is scheduled to re-open one of its eight blast furnaces on May 20. Additional furnaces will be fired according to a schedule which calls for full operation by March 1960.

(UNCLASSIFIED) Comment: Reason for reopening Samwha is to furnish pig iron for the Daehan Heavy Industry Company at Inchon, the only producer of steel ingots, which has largely been operating on scrap steel. The State Council has decreed that all Government-held scrap will be reserved for the steel mill, but stocks are rapidly diminishing and the alternative to importation of scrap is to supply pig iron from domestic sources. Facilities for bar and sheet fabrication at the Daehan works have been under construction for some time but the project has been interrupted because of lack of funds. Now, however, the Government seems determined to proceed and hopes to have the facilities in operation by the end of the year. When completed the mill, estimated to cost $5.5 million and 10 billion hwan (mostly ROKG funded), will be a fully integrated steel works and will require upwards of 50,000 tons of scrap or pig iron annually. The long-term ability of the Samwha works to supply the needed pig on an economic basis is problematical in view of Korea's complete lack of coking coal. (EG)

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8. (UNCLASSIFIED) Korean Frozen Shrimp -- Good or Bad?

The Embassy has recently received information that at least three American companies in the United States have expressed dissatisfaction with imported Korean frozen shrimp. In fact one of them has written in a letter to an American in Korea that Korean frozen shrimp is "terrible". Another wrote that very bad experiences with the Korean product has destroyed all confidence in Korean shrimp, which is soft and has a tendency to decompose.

(UNCLASSIFIED) Comment: It appears that the shrimp export business in Korea is off to a bad start. The Embassy intends to bring these complaints to the attention of the Korean Government with the hope that some measures may be adopted to remedy the situation. According to one private source, the bad shipments were made by three separate Korean companies which have not observed proper procedures with respect to cleaning, freezing, and packing. The Embassy has also heard reports that some American companies have expressed satisfaction with sample shipments from other Korean companies. (JAC)

9. (UNCLASSIFIED) Probable Disqualification of Traders.

The Ministry of Commerce and Industry is reportedly examining the performance records of registered Korean traders to determine whether they have met the minimum requirements of $10,000 in exports or $50,000 in imports for the year. Some 20 or more traders are expected to have their registration cancelled for not having reached the minimum requirements. The names of any disqualified traders will be made public shortly after a final determination is made by the MCI.

(UNCLASSIFIED) Comment: The minimum trade performance requirements were doubled to $20,000 for exports and $100,000 for imports by an amendment to the Presidential Decree in April of 1959. (See Despatch 638, May 4, 1959). This change will probably result in a larger number of disqualifications a year hence. Foreigners, including Americans, are not likely to be affected by this action since most, if not all, of them act as agents rather than traders. (JAC)

10. (UNCLASSIFIED) Construction Workers Union Formed.

The first union of construction workers in Korea has been formed under the name "The United Construction Workers Union." The size of the union, 820 members, is expected to expand rapidly as there are, at present, an estimated 80 thousand workers in the construction trades.

Officers of the new union are: Chairman: KIM Chi-ho (6855/0037/3185), common laborer; Vice Chairmen; KIM Se-jin (6855/0013/6966), carpenter; YOM T'ae-un (1670/3141/7189), stone mason; KIM Yong-ch'an (6855/1369/3605), bricklayer; KIM Ch'a-man (6855/0011/5502), plasterer. (LR)

11. (UNCLASSIFIED) Chemical Workers Alliance Inaugurated.

The Alliance of Chemical Workers Unions was inaugurated on April 25, 1959 at Pusan, Korea. The Alliance includes 41 unions of workers in paper mills, flour mills, breweries, glass factories and confectionery plants with a total membership of 18 thousand. Officers of the Alliance are: Chairman: KIM Pyong-gyun (6855/3521/0971);

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Vice Chairmen: KWAK Chin-song (6753/6966/2052); PAK Yong-song (2613/3057/2052); KIM Sun-jo (6855/8642/2600).

(OFFICIAL USE ONLY) Comment: In its Despatch 327, December 18, 1958, the Embassy described Kim Pyong-gyun, a member of no union, as perhaps the most influential figure in the Korean labor movement. At that time Kim expressed the intention of remaining in the background until the labor movement in Korea had become much more powerful and independent. Although the labor movement has enjoyed greater strength and freedom from political interference since the date of the referenced despatch, the improvement has been limited. Therefore, the question arises as to why Kim has now abandoned his waiting tactics in favor of his new position. The Embassy has been unable to ascertain the reasons for Kim's decision. (LR)

12. (UNCLASSIFIED) Tourism.

Most of a group of 81 Hawaiians of Korean descent departed after a ten-day sightseeing tour of their ancestral land (at least two remained behind to marry Korean women). The group was accompanied by O Chung-jon, Consul General in Honolulu. The elaborate arrangements for accommodating and entertaining the group were under the personal direction of KIM Il-hwan, Minister of Transportation.

In a UPI article datelined San Francisco, George Turner, executive director of the Pacific Area Travel Association, advises the Korean Government to take "positive action" to promote tourism. Mr. Turner is quoted as naming two primary handicaps: the difficulty of obtaining a Korean visa and the scarcity of good airline connections. The ROKG has not as yet made any official comment on Mr. Turner's criticisms. (EG)

For the Ambassador:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

FROM : AmEmbassy, SEOUL — 666 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — May 15, 1959 DATE

REF : 1957 CERP, Section B, Item II-B, III-B-1, 3, V-E(1), VII-B(1), D(1), III-D-1, I-A-4, 5.

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	REC'D 5-23-59	INFO Amb-12 Pol-1 IRC-8 FE-4 ICA-11 E-3 OTHER CIA-10 TR-3 FRB-3 TAR-2 Ag-8 IN-7 OSD-4 USIA-10 NAVY- LAB-5 AIR- XMB

SUBJECT: Monthly Economic Indicators, ROK, March 1959.

	Mar 1959	Feb 1959	Percent Change a/ Feb-Mar 1959	Mar 58-Mar 59	Sept 55-Mar 59
1. PRICES (A.B.C.: 1947=1)					
A. Wholesale index, Seoul	204.2	211.1	-3.3	+ 2.8	+15.2
1. Commodity groups					
a. Grain	179.1	185.1	-3.2	-13.7	-15.1
b. Meats, eggs, fish	389.2	423.2	-8.1	+26.5	+47.2
c. Textile raw materials	153.6	150.7	+1.9	+ 7.6	+28.0
d. Textiles	67.4	67.1	+0.5	+ 6.3	- 4.0
e. Building materials	259.5	266.2	-2.5	+10.1	+12.6
f. Fertilizer	539.4	539.4	0	0	+68.6
g. Fuel	596.2	639.3	-6.7	+20.9	+59.9
h. Miscellaneous	119.9	118.3	+1.4	+ 8.3	+35.4
2. All items except grain	220.3	227.7	-3.3	+14.0	+41.4
3. Consumer goods	199.2	207.5	-4.0	- 0.6	+10.3
4. Producer goods	179.7	179.2	+0.2	+ 7.8	+20.3
B. Seoul Consumer Price Indexes (1955=100)					
1. General	149.0	148.6	+0.3	+ 5.1	+28.3
a. Food	145.9	142.7	+2.2	+ 3.9	+16.1
b. Housing	173.7	173.7	0	+ 8.7	+65.6
c. Fuel & light	160.7	170.4	-5.7	+20.5	+40.0
d. Clothing	106.8	109.4	-2.4	- 8.3	+12.0
e. Miscellaneous	165.4	165.4	0	+ 6.4	+54.6
C. Rice, retail, Seoul Hwan/20 liters	2,487	2,493	-0.3	- 7.9	-16.0
D. US $1 Greenback, Seoul	1,162	1,170	-0.7	- 0.3	+51.9

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	Mar 1959	Feb 1959	Percent Change Feb-Mar 1959	Mar 58-Mar 59	Sept 55-Mar 59
E. New National Wholesale Price Index (1955=100)					
1. All commodities	138.0	139.2	-0.9	-3.0	+15.9
a. Foods	127.8	130.5	-2.1	-9.7	- 2.7
b. Fuel & power	153.6	157.1	-2.2	+4.6	+39.6
c. Mineral products	110.2	117.7	-6.4	+3.2	+ 6.8
d. Metals products & machinery	167.3	167.4	-0.1	+7.6	+56.1
e. Building materials: (Including metals)	148.4	150.3	-1.3	+6.3	+28.5
(Excluding metals)	143.7	146.1	-1.7	+5.3	+23.6
f. Fiber and fiber products	120.0	120.3	-0.3	-5.4	+15.2
g. Chemical products	219.1	212.1	+3.3	+2.0	+55.7
h. Paper	131.8	129.0	+2.2	=5.2	+31.9
i. Raw rubber and rubber products	135.9	133.4	+1.9	+29.3	+18.8
j. Miscellaneous	156.2	155.9	+0.2	+ 3.4	+48.1
2. Special groupings					
a. Grains	124.9	128.5	-2.8	-13.8	-15.1
b. All commodities excluding grains	142.4	142.8	-0.3	+ 0.8	+29.7
c. Producer goods	163.3	161.5	+1.1	+ 4.5	+39.5
d. Consumer goods	127.8	130.2	-1.9	- 6.4	+ 6.6

	Billions of hwan			Percent Change	
	Mar 1959	Feb 1959	Mar 58-Mar 59	Feb-Mar 1959	Mar 58-Mar 59
II. MONEY SUPPLY (bil.hwan)					
A. Notes & deposits					
1. Bank notes, outside banks	98.7	111.4	+24.4	-11.4	+32.8
2. Check/demand deposits, excl. uncleard	126.6	125.5	+33.9	+ 0.9	+36.6
3. Foreign official deposits	14.6	13.7	+ 5.3	+ 6.6	-26.6
4. Total (1+2-3)	210.7	223.2	+63.6	- 5.6	+43.2
B. Factors affecting money supply					
1. Government finance b/	107.6	108.7	+51.3	- 1.0	+91.1
2. Private credit (incl.BOK, excl KRB)	170.1	169.7	+60.3	+ 0.2	+55.1
3. Other c/	-67.0	-55.2	-48.1	+21.4	+254.5
4. Total	210.7	223.2	+63.6	- 5.6	+43.2

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III. PRODUCTION	Feb 1959	Jan 1959	Total Jan-Feb 1959 (Average in case of indexes)	Percent Change Jan-Feb 59	Percent Change Feb 58-Feb 59
A. Quantities of output					
1. Cotton yarn (mil.lbs)	8.6	9.0	17.6	- 4.5	+19.2
2. Cotton cloth (mil.sq. yds)	13.4	14.3	27.7	- 6.2	+10.1
3. Cement (1,000 mt)	22.6	13.0	35.6	+74.2	+40.4
4. Rubber shoes (mil.prs)	3.5	4.1	7.6	-13.5	+132.9
5. Coal (1,000 mt)	264	281	545	- 6.1	+17.3
6. Tungsten (mt)	235	248	483	- 5.3	-23.2
7. Electric power(mil.KWH)	124	147	271	-15.7	-20.5
B. Production Indexes (1955=100)					
1. Industrial production((100)	141	148r	145	- 4.7	+ 6.0
a. Mining (10)	188	219r	204	-14.2	+ 8.7
b. Manufacturing (87)	135	138r	137	- 2.2	+ 6.3
c. Electricity (3)	169	200	185	-15.5	+ 7.0

IV. FOREIGN EXCHANGE ($mil)	Feb 1959	Jan 1959	Total Jan-Feb 1959	Percent Change Jan-Feb 59	Percent Change Feb 58-Feb 59
A. Holdings (inc. gold)	147.1	147.8	(+0.6)d/	+ 0.5	+22.3
1. Dollars, US	143.9	144.6	(+0.7)d/	- 0.5	+22.6
2. Uncommitted	89.6	89.0	(-1.1)d/	+ 0.7	+31.8
B. Receipts	6.9	8.2	15.1	-15.9	+19.0
1. Exports	1.0	1.4	2.4	-28.6	-16.7
2. Hwan sales	2.6	2.8	5.4	- 7.2	-25.7
3. Other	3.3	4.0	7.3	-17.5	+200.0
C. Payments	7.8	6.8	14.6	+14.7	+56.0
1. Imports (non-aid)	6.3	3.5	9.8	+80.0	+61.5
2. Other	1.5	2.3	3.8	-34.8	+36.4

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V. ECONOMIC AID ($ mil)	Program (Adjusted)	Jan 1959	Dec 1958	During Dec 56- Jan 58	During Dec 57- Jan 59	During Dec 58- Jan 59
A. ICA Arrivals (USFY basis)						
1. 1954	178.8	177.0	176.8	16.4	2.4	0.2
2. 1955	246.9	239.7e/	240.0	19.7	7.9	-0.3
3. 1956	315.7	291.8	291.3	85.5	16.2	0.5
4. 1957	321.8	275.0	272.1	217.0	75.3	2.9
5. 1958	237.3	175.8	167.1	13.7	169.4	8.7
6. 1959	187.8	17.5	6.4	0	17.5	11.1
7. Total	1,488.3	1,176.8	1,153.7	352.3	288.7	23.1
a. Project	500.6	347.3	341.8	98.2	65.0	5.5
b. Non-project f/	966.3	820.9	803.9	251.1	218.1	17.0
(1) Surplus agricultural commodities sec. 402	199.0	173.9	170.8			3.1
(2) Fertilizer	258.0	228.3	221.3			7.0
(3) Other & unassigned to specific non-project uses	508.4	418.7	411.8			6.9
c. Technical cooperation	21.4	8.5	8.0	3.1	5.5	0.5
d. Reserve	186.8	29.0	29.0	-	-	0
B. USFY 1959 ICA obligations	187.8	125.3	111.0	-	-	14.3
C. PL 480 arrivals	132.0	126.4	126.4	47.0	47.9	0
1. Food	114.4	109.0	109.0	43.0	47.5	0
2. Other	17.6	17.4	17.4	4.0	0.4	0

Footnotes: a/ Computed in most cases from unrounded figures. b/ Includes the Government's net position at the BOK (overdrafts less deposits, including operations of counterpart funds); Government bonds, industrial reconstruction bonds and industrial finance debentures (latter two are KRB issues) held by BOK; BOK loans to Government agencies; national bonds held by banks other than the BOK and KRB; and loans by banks, other than BOK and KRB, to local Governments. c/ Includes BOK net purchases of foreign exchange, savings and time deposits (decreasing factors), deposits of foreign organizations in the BOK (decreasing factor), and all other influences on the money supply (net). d/ Change between December of year before and February of year indicated, expressed in $ million. e/ Arrival was adjusted. f/ Being the change on OEC Program Status Report, the categories of Non-Project also changed, Eventually the comparisons with previous periods on Non-Project are not available.

For the Ambassador:

R W Tucker

Robert W. Tucker
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL

677
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

May 22, 1959
DATE

REF : CERP - Korea, Section C, Item 1 G-1 P-5 S/IC-1 IES-5

15 For Dept. Use Only	ACTION FE-6	DEPT. PER-2 SCS-1 O/PR-1 I O-2 PPS-2 SY-2
	REC'D 5/26	INFO RM/R-2 REP-1 IRC-15 ICA-11 W/MSC-3 E-7 INT-2 ZR-3 OCB-2 COM-12 LAB-5 HEW-2 AG-10 USIA-10 OSD-2 ARMY-35 NAVY-20 AIR-30 CIA-6

SUBJECT: Weekly Economic Review No. 20 FRB-2 XMB-4 IN-7

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2. New Method of Guarantee for PL 480 Requirements?
3. KFX Sale Brings High Bids.
4. Trading Firms Licenses to be Cancelled.
5. Rubber Industry in Crisis.
6. KAVA Vehicles Exempted from Tax.
7. Customs Law Violation by American Businessman.
8. Berger Sentenced to Prison.
9. Labor Leaders Depart for U.S. - One Under Wraps.
10. Visit of James G. Patton.
11. Grain Developments.
12. Progress of Grain Exchange Program.
13. Tile Roofs for Farm Houses Planned.

Action Assigned to

Action Taken

Date of Action

Action Office Symbol

Name of Officer

Direction to

895.00/5-2259

CAA

1. (UNCLASSIFIED) Population Increases at High Rate.

According to figures compiled by the Ministry of Home Affairs in its annual simplified general population census, the population of the Republic of Korea at the end of 1958 was 21.9 million. (Military personnel, foreigners, and prison inmates are not included in the census figures.) This is a 1.2 million increase over the 20.7 million population at the end of 1956 and an average annual increase of 600 thousand over the two year period. Divisions of the population according to sex and age groups are as follows:

	Male	Female	Total
birth-4 years	1,653,419	1,555,043	3,208,462
5-9	1,639,538	1,508,453	3,147,991
10-14	1,355,449	1,218,850	2,574,299
15-19	1,260,044	1,129,530	2,389,574
20-24	701,364	940,722	1,642,086
25-29	615,575	826,982	1,442,557
30-34	593,575	718,037	1,311,612
35-39	653,012	673,214	1,326,226
40-44	542,025	548,315	1,090,340

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	Male	Female	Total
45-49	503,285	437,496	1,000,781
50-54	407,352	406,753	814,105
55-60	345,701	396,050	741,751
over 60	513,770	706,188	1,219,958
	10,784,109	11,125,633	21,909,742

The 21.9 million figure reflects an increase of 5.8% since the end of 1956, the most recent survey. The extremely high rate of annual increase indicated 2.9% as a simple average) may result from differing coverage or sampling techniques used in the two surveys, details of which are not available.

(OFFICIAL USE ONLY) Comment: An annual increase at this rate, if factual, has important social and economic implications especially for future planning. At this rate the country's population would be doubled in about 30 years. It is noted that the ICA Regional Data Book estimates annual population growth at 1.7%; on the basis of preliminary and still incomplete OEC studies a minimum rate of 2.0% seems indicated. (LR & EG)

2. (UNCLASSIFIED) New Method of Guarantee for PL 480 Payments?

Conflicting and somewhat incomprehensible accounts are appearing in the local press concerning an exchange of communications allegedly taking place between the U.S. Department of Agriculture and the Korean Embassy in Washington on the subject of guaranteeing hwan deposits against PL 480 imports. According to these accounts the guarantee is to be issued by one or the other of 1) American Embassy, Seoul; 2) the Korean Embassy in Washington; or 3) the Seoul city banks in lieu of the Bank of Korea as at present.

(OFFICIAL USE ONLY) Comment: The Ministry of Reconstruction expressed regret on the "leak" and furnished the Embassy with copies of the correspondence, indicating that the Korean Embassy in Washington is to be the approved applicant and presumably provide the deposit guarantee. It would appear that the recurrent problem of delinquent hwan deposits will be largely surmounted by the piece-meal issuance of Purchase Authorizations to be applicable on future PL 480 purchases; i.e., additional PA's will be withheld until deposit requirements against existing PA's have been fully satisfied. The Embassy has received no official information from Washington on the additional or alternative proposals reportedly under consideration. (EG)

3. (UNCLASSIFIED) KFX Sale Brings High Bids.

On May 6, 1959, the sale of $3 million in ROK Government-held foreign exchange by the Bank of Korea by sealed bids resulted in absorbing 3,207 million hwan from circulation, plus some 6 million hwan charged by the BOK for commissions.

Rates offered by bidders for foreign exchange tax to the $1.00 U.S., in addition to the base legal rate of 500 hwan to the $1.00, ranged from 380 to 650 hwan, bringing the effective exchange rates to between 880 and 1,150 hwan to the dollar. The gross average rate paid was 1,069 hwan to the dollar - not far from current (illegal) prices for greenbacks (1,165 hwan) and Military Payment Certificates (1,100 hwan).

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(UNCLASSIFIED) Comment: These are the highest prices paid for KFX in recent memory. The auction of $4 million on February 12, 1959, produced an average of only 842 hwan to the dollar. Bidders are obviously anxious to secure some of the 27 categories of imports authorized with the foreign exchange, including such popular items as rayon yarn, crude rubber and wool tops. (RWT)

4. (UNCLASSIFIED) Trading Firms Licenses to be Cancelled.

The Ministry of Commerce and Industry announced on May 20 that trading licenses will be withdrawn from 101 trading firms for failure to achieve sufficient export and import records during the past twelve months. The firms, which account for nearly 30 percent of the 364 traders registered with the MCI as of May 31, 1958, will be given the opportunity until the close of the current month to file objections, if any, to the licensing cancellation.

This disciplinary action by the MCI was taken against firms which failed to attain a minimum of $10,000 in exports or $50,000 in imports during the year ending April 30, 1959.

(UNCLASSIFIED) Comment: Apparently no local American firms will be involved in this action by the MCI since nearly all are sales representatives and not independent traders. MCI is concerned not only with eliminating fly-by-night traders but also pressuring export firms to step up their activities toward decreasing the Korean trade deficit. (RWT)

5. (UNCLASSIFIED) Rubber Industry in Crisis.

Owing chiefly to the recent sharp price rises of raw rubber on the international market, manufacturers of shoes, tires, and other products utilizing rubber have drastically curtailed their operations and some 70% of the factories have reportedly suspended operations. An additional factor, according to press reports, is that the larger factories have monopolized recent dollar releases for rubber procurement and are hoarding their supplies. Consideration is being given to diverting to raw rubber procurement some $500,000 of unutilized ICA funds and to adopting measures to prevent monopolizing of rubber purchases. (EG)

6. (UNCLASSIFIED) KAVA Vehicles Exempted from Tax.

The Ministry of Finance has instructed tax collection offices that vehicles owned by members of the Korean Association of Voluntary Agencies are to be exempted from the new automobile taxes which went into effect in January 1959.

(UNCLASSIFIED) Comment: The law implicitly exempts religious and welfare organizations but local tax collectors have continued to harass KAVA members. Presumably the Ministry's recent order will clarify this situation. (EG)

7. (OFFICIAL USE ONLY) Customs Law Violation by American Businessman.

An American businessman, Mr. Dale A. Weaver, who sells shares in mutual funds

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to U.S. Armed Forces personnel in Korea, has recently been charged by the Seoul customs with a violation of the Customs Law for having written personal checks in Korea for payment of certain debts to resident foreigners. The alleged offense occurred in February 1957 when Mr. Weaver returned to Korea and customs inspectors found some cancelled checks in his bag. The charge, however, was not made until recently, after more than two years. Mr. Weaver has refused to pay the assessed fine of 240,000 hwan and is willing to fight the case in court.

He asked the Embassy to determine, if possible, what law was violated. The Embassy subsequently has raised the question with the Customs Bureau as to what customs law was violated by importing cancelled checks. The Director of the Bureau is now examining the case to determine the propriety of the charges under that law.

(OFFICIAL USE ONLY) Comment: If this case goes to court as planned by the Seoul customs, Mr. Weaver may have considerable difficulty and may involve other Americans to whom the checks were paid. The prosecutor could easily shift the charge from a violation of the customs law to a violation of Ordinance No. 93 (illegal exchange transactions) under which Winter and Hill were indicted. Mr. Weaver is aware of this possibility. (JAC)

8. (UNCLASSIFIED) Berger Sentenced to Prison.

Joseph Berger, an American citizen in Seoul, has been sentenced to imprisonment for one year on May 21 by the Seoul District Court for fraud involving 17 million hwan worth of radium. Mr. Berger's activities in Korea, including the radium swindle, have been reported by the Embassy in Despatch 627 of April 29, 1959.

(UNCLASSIFIED) Comment: Berger's detention of 100 days will be deducted from the sentence. The Embassy has learned that Berger has the right of appeal if this legal action is taken within seven days of the conviction. (JAC)

9. (UNCLASSIFIED) Labor Leaders Depart for U.S. - One Under Wraps.

On May 16 three officers of the Federation of Korean Trade Unions (FKTU), Chairman KIM Ki-ok, Vice Chairman KANG T'ae-bum and Vice Chairman CHOE Yong-su, left Seoul for a sixty day tour in the U.S. under Department of State Foreign Leader Grants.

(OFFICIAL USE ONLY) Comment: Kang was reported to have experienced some difficulty in obtaining a passport and permission to leave the country because of police disapproval. The police are rumored to have reported that Kang, while not a Communist or even proven pro-Communist, talks too much -- he criticizes the Government. When the Government recently shut down the Kyunghyang Shinmoon, Kang was quoted in the Korea Times as saying: "The government action is considered too severe, and we are much concerned about the fate of the families of the nearly 400 employees. There were milder ways to warn the newspaper." More surprising than Kang making even such a moderate public statement is the fact that anyone solicited and publicized the opinion of a Korean labor leader on such an issue.

The Embassy has been informed that Kim and Choe used their influence with Administration and Liberal Party officials to assist Kang and that Kim, as Chairman of the FKTU, was required to give a written acceptance of personal

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responsibility for anything which Kang might say or do in the U.S. which might be damaging to the prestige of the ROKG. In addition, KIM Chu-hong, Chairman of the Alliance of Railroad Unions of which Kang is Vice Chairman, is reported to have accepted voluntarily personal responsibility for Kang's behaviour.

Reportedly, police attention was called to Kang by CHA Kuk-chan, a leading member of the CHONG Tae-ch'on faction whose control of the FKTU was broken by a group which included the three grantees. The Chong group is expected to take advantage of the grantees' absence to attempt further attacks on the present Federation leaders and their supporters. (L R)

10. (UNCLASSIFIED) Visit of James G. Patton.

Upon arrival in Seoul May 12, Mr. James G. Patton, President of the U.S. National Farmers Union and President of the International Federation of Agricultural Producers (IFAP), and Mrs. Patton were the recipients of an impressive welcome by the Korean Farmers Union. The "red carpet" treatment, which continued throughout the Pattons' two day visit, included salutes by the ROK Air Force band at arrival and departure, motorcades, street banners, a police escort at all times, a tour of front line installations conducted by the Commanding General of the 6th ROK Division, and an official visit by a representative of the Speaker of the National Assembly, YI Ki-bung, who was incapacitated by illness. Various National Assemblymen, either national or provincial officers of the Union, were in constant attendance on the Pattons. At their hotel the Pattons were greeted by a Korean farmer who, kneeling on the floor of the lobby, bit into his finger and then wrote out a greeting in blood to Mr. Patton. (The Koreans, who said that the farmer's action was a complete surprise to them, restrained the farmer as he began a separate greeting to Mrs. Patton and as several spectators paled.)

Mr. Patton extended an invitation through the ROK Minister of Agriculture to the Korean Farmers Union to join the IFAP. At the conclusion of Mr. Patton's visit the Koreans expressed a great interest in joining the international group.

(UNCLASSIFIED) Comment: The Embassy is still at a loss to explain the overwhelming reception prepared by the Korean Farmers Union, which, headed by President Rhee and Speaker Yi, is not known to be particularly active or effective. (LR)

11. (UNCLASSIFIED) Grain Developments.

The Ministry of Agriculture and Forestry has forecast this summer's yield of non-rice grains as 35.4 million bushels to be harvested from 2.3 million acres. The estimate is 22 percent greater than the average annual yield and 2.3 percent higher than the Ministry's production plan target. Included in the Ministry's estimate are 14.7 million bushels of barley, 13.9 million bushels of rye and 5.9 million bushels of wheat. The Ministry attributed the favorable growth of the grains to the mild weather of last winter, effective distribution of fertilizers, and the increased production and use of compost.

The Ministry also announced this year's rice production goal as 85 million bushels. This is 2.4 percent higher than the official production figures of 83 million bushels for 1958.

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It is also reported that MAF's survey of government stored grains had revealed that less than 2 percent of the grains were suffering any damage. (Weekly Economic Review No. 16).

(OFFICIAL USE ONLY) Comment: Three warehouse owners independently told the Embassy that 30 percent of the government grains in their warehouses were damaged. They said that much of the grain could be salvaged by repolishing and fumigation but that the work was being delayed by the maneuverings of politicians seeking the polishing contracts. (LR)

12. (UNCLASSIFIED) Progress of Grain Exchange Program.

According to the Ministry of Agriculture and Forestry, as of May 16 the Government had traded 726 thousand suks of miscellaneous grains for 67 thousand suks of rough rice owned by farmers. (Weekly Economic Review No. 2). Included in the traded grains were: polished barley, 418 thousand suks; wheat, 6 thousand suks; wheat flour, 297 thousand suks; and rye, 5 thousand suks. (LR)

13. (UNCLASSIFIED) Tile Roofs for Farm Houses Planned.

The Ministry of Agriculture and Forestry is considering a ten year program to replace the thatched roofs on farm houses with tile ones. According to plans 50 percent of the expense will be financed by Government subsidies for which 748 million hwan will be requested in the 1960 budget. The program is designed to "civilize" the farm communities and protect the forests by encouraging the farmer to use his rice straw for fuel rather than for roofs, thus reducing the use of firewood.

Press comment has termed the plan "ridiculous." (LR)

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

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TO : THE DEPARTMENT OF STATE, WASHINGTON.

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Action Taken
May 29, 1959
DATE

REF : CERP-Korea, Section C, Item 1

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ACTION: FE-4

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DEPT. RM/R-2 PER-2 SCS-2 IES-5 P&S/IC-1
REP-1 IRC-15 ICA-11 W/MSC-3 E-7 PPT-2
OTHER OCB-2 COM-12 TR-3 FRB-3 EXIM-3
USIA-10 OSD-2 ARMY-35 NAVY-20 AIR-30 LAB-5 PO-1 TAR-2

Date of Action
Action Officer
Direction to DC/R

SUBJECT: Weekly Economic Review No. 21.

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1. (UNCLASSIFIED) Foreign Investment Bill Under Study in National Assembly.

The Commerce and Industry Committee in the National Assembly has begun to consider the foreign investment bill which was sent to that body late last year. A number of committee chairmen informed Embassy officials at a dinner that the investment bill has been given high priority among the economic bills which are pending. These Liberal Party members did not anticipate any difficulty in an early enactment of a foreign investment law.

(OFFICIAL USE ONLY) Comment: This optimism on the part of the Liberal Party members is based upon the Administration's approval of the present bill and the assumption that the Democratic members will support the bill. Embassy officers pointed out to them that the present bill did not contain sufficient incentives to attract foreign investment to Korea in any substantial volume and that consideration should be given to more liberal provisions for the remittance of earnings, tax incentives, and customs exemptions. The Embassy hopes, but is not optimistic, that some of this advice will be heeded. (JAC)

2. (UNCLASSIFIED) President Rhee Urges Increased Use of ROK Merchant Shipping.

At the State Council session held at Kyungmu Dae on May 26, President Rhee

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stressed that Korean cargo vessels should be used as much as possible to transport imported materials procured with foreign aid funds. The President instructed cabinet members to set up special budgetary provisions to encourage Korean ships to increase their participation in such freight movements.

During 1958 officials of the Korean Shipping Corporation indicated that ROK vessels carried only 245,284 tons, or only about 11 percent, of the 2.1 million tons of aid materials imported. According to these officials a number of Korean vessels were forced to lay idle in ports or to make unprofitable voyages because of failure of the ROK Government to provide financing for hwan costs of freight charges. (RWT)

3. (UNCLASSIFIED) Rice Prices Still Rising.

Rice prices have risen progressively during May, recording an increase of 15% between the 1st and 28th. However the rate of increase has slackened since the middle of the month, as indicated in the following movements of Seoul wholesale prices (thousand hwan per suk of 160 kilograms): May 1 -- 24.4; May 15 -- 27.0; May 22 - 27.6; May 28 -- 28.0.

The overall price index is not available for later than May 22, on which date the index was 124 compared with the September 1955 average. With the price of rice up 1.4% since the 22nd, and with indications of a generally rising trend for other commodities, it seems likely that the 125 index ceiling for maintenance of the 500 hwan to the $1.00 U.S. exchange rate may now be exceeded. (EG)

4. (UNCLASSIFIED) June Release of KFX?

The Ministry of Finance has reportedly recommended for cabinet approval the release of $4.5 million of government-held foreign exchange (KFX) in June. Release of this amount for financing imports would serve the dual purpose of absorbing circulating hwan and relieving the upward pressure in domestic prices for certain commodities. The cabinet has not as yet acted on MOF's recommendation. The money supply at the end of April (Hw 209.99 billion) declined slightly from the figure at the close of the preceding month (Hw 210.71 billion). (EG)

5. (UNCLASSIFIED) Measures for Utilization of Funds from Bank Deposits.

Minister of Finance SONG In-Sang has called upon the government agencies concerned to study measures to encourage effective utilization of the sizeable funds held by the public in bank accounts. At the end of April time deposits totaled Hw 30 billion and demand deposits Hw 111 billion. While this development is an encouraging sign of public confidence in the currency, this large volume of readily available funds poses a potential threat to the stabilization program.

According to press accounts, Minister Song proposed the following as possibilities for utilizing idle private capital: sale of government-owned properties and enterprises, sale of industrial interests held by the Reconstruction Bank, reduction of counterpart loans for private enterprises, and issuance of new types (unspecified) of bonds. (EG)

6. (UNCLASSIFIED) Philippines Floating Exhibit.

An economic and cultural mission from the Philippines arrived at Inchon port

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May 27 aboard the Presidential yacht "Lapu Lapu". The mission will stay for three days, during which an exhibit of Philippine agricultural, handicraft, and manufactured products carried on the ship will be open to the public. The party includes a trade promotion group, a song and dance troupe, and a military band. An elaborate program of receptions and other entertainment for the group is under way, sponsored by the ROK Government and various other groups. (EG)

7. (UNCLASSIFIED) Exports Up in April.

April commodity exports of $2.288 million showed a substantial increase over March proceeds of $1.548 million (based on foreign exchange clearances). Most of the increase was accounted for by returns of $544,000 for rice exported to the Ryukyu Islands. (EG)

8. (UNCLASSIFIED) Some Export Promotion Developments.

The formal approval by the CEB of a permanent committee for export promotion has been followed by a number of proposals and developments relating to potential exports. The committee, when it actually is established, is expected to have representation from the Embassy as well as the OEC and the Korean Government.

Although no formal decision has as yet been made, rice is expected shortly to be placed on the automatic approval list and its export permitted through private commercial channels to facilitate sales. The Government is planning (hopes) to sell 100,000 tons annually. Foreign traders have reportedly already made offers to sell 3,000 tons to Indonesia and have hopes of concluding sales to other countries, including the Ryukyus, Japan, and the Philippines.

Consideration continues to be given to a preferential exchange-retention-link system which will permit exporters of specified products to utilize a certain percentage (from 5 to 30%) of the proceeds to import restricted items. This proposal or some of its provisions seems to have encountered opposition from the Ministry of Finance because of the effect it would have in increasing prices (presumably on import commodities from which purchases might be diverted.)

The MCI is reported to be seeking a 1.6 billion hwan fund in the new year's budget to subsidize the export of some 17 commodities, including frozen shrimp, iron ore, bristles, cotton cloth, and rice, the domestic market prices for all of which are reported to be greater than the hwan equivalent of the international market prices at current black market rates. (JAC)

9. (UNCLASSIFIED) Infringement of Japanese Trademarks.

The Patent Bureau of the MCI is reportedly reviewing the complaints of some Korean traders that the Dae Han Sewing Machine Manufacturing Company in Seoul has infringed upon the trademark of three Japanese machines -- the Brother, Janome, and Mitsubishi brands. These trademarks are reported to have been registered in Korea by the Korean manufacturer in 1956 as "Broder, Choname, and Metsubishi." The traders have complained because of the competition that these copies have had upon their sales of the Japanese machines in Korea and have asked the Patent Bureau to declare the Korean manufacturer's registrations to be null and void.

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(UNCLASSIFIED) Comment: It will be interesting to see what consideration will be given to this Korean complaint involving Japanese products. The Embassy does not know whether, but seriously doubts that, the Japanese trademarks are protected by registration in Korea. (JAC)

10. (UNCLASSIFIED) No Flexibility in Exchange Controls.

An American enlisted man who had sent two bank money orders to a friend (a Department of the Army civilian) in Korea through the international mail sought the Embassy's assistance in having the Bank of Korea release them upon his return to Korea. The letter had been opened by the postal authorities and the money orders sent to the BOK for custody. After several requests by the Embassy and the manager of the Bank of America (BOA) to the Ministry of Finance (MOF) and the BOK to have them released to the payee for cashing at the BOA facilities with no success, the enlisted man was advised to have the issuing bank in the United States cancel the money orders, issue new ones, and have them mailed through the APO facilities.

(UNCLASSIFIED) Comment: To have pursued this matter any further with the MOF and the BOK would have been time consuming and useless. The only other solution, which obviously would have made the BOK happy, would have been for the enlisted man to accept hwan for his dollar money orders at the rate of 500 to 1. Why the American serviceman used the international mails in the first place is something that even he can't explain. Foreigners in Korea who are limited to use of the international mail service often complain about having their letters opened but they have apparently learned not to enclose or receive checks in their letters, in possible violation of Korean exchange regulations. (JAC)

11. (UNCLASSIFIED) Berger Files Appeal.

Joseph Berger, sentenced to one year's imprisonment for fraud involving 17 million hwan worth of radium, filed an appeal against the Seoul District Court's decision. (Economic Weekly Review No. 20).

(OFFICIAL USE ONLY) Comment: The prosecutor in this case reported to the American Consul that the Korean Government would be willing to suspend sentence if Berger would leave Korea immediately. Otherwise, Berger would have to serve his sentence and then be asked, or forced, to leave. He has thus far not responded to the American Consul's request to call at the Embassy. What Berger hopes to accomplish with an appeal, particularly in light of his past record in Korea, is difficult to ascertain. One guess is that he does not want to leave Korea and an appeal will buy him more time here. This additional time may, perhaps, enable him to influence the right people. (JAC)

12. (OFFICIAL USE ONLY) Weaver Informed of Charges, Refuses to Pay Fine.

Mr. Dale Weaver, American businessman in difficulty with the Korean Customs (Weekly Economic Review No. 20), was informed by the Embassy of the representations made on his behalf and the Customs Bureau's contention that he is guilty of violating Articles 126, 197, and 213 of the Customs Law. Article 126 of that law appears to bring under customs jurisdiction violations in the import and export of "goods" prohibited by "other laws." The specific other law in this case is Military Government Ordinance No. 93 under which Hill and Winter were indicted. The import

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of the cancelled checks in this case did not of itself constitute any violation but, according to the Customs people, a violation took place when Weaver wrote the checks and caused them to leave Korea through "illegal" channels.

Mr. Weaver has refused to pay the fine of 240,000 hwan and consequently the case will now be sent to the prosecutor for legal action. (JAC)

13. (UNCLASSIFIED) General Labor Situation-Union Leaders Comment.

During a courtesy call at the Embassy, KIM Chi-ho, Chairman of the new United Construction Workers Union, and KIM Pyong-gyun, Chairman of the recently formed Alliance of Chemical Workers Unions, discussed the current labor situation. (Weekly Economic Review No. 19). It appears that Kim Pyong-gyun has no present intentions of striving for leadership in the Federation of Korean Trade Unions (FKTU) but decided to abandon his previous policy of remaining entirely in the background in order that his name might gradually become familiar to the rank and file of the Korean labor movement.

Commenting on attacks on the present leadership of the FKTU, Kim Pyung-gyun was of the opinion that there is unity amongst the higher officials of the Federation and little danger of successful attacks by the opposition. As for attacks on the Federation leaders who recently departed for the U.S. (Weekly Economic Review No. 20), he thought that the positions of KANG T'ae-bum and CHOE Yang-su in their respective alliances were completely safe. He admitted that KIM Ki-ok faced a possibly serious threat in his local union at Pusan but said that a defeat there, while damaging to Kim's personal prestige, would not seriously affect Kim's positions as Chairman of the Alliance of Free Workers Unions and Chairman of the FKTU.

Kim Chi-ho spoke of the low wages received by construction workers whose working day lasts from sunrise to sunset -- as long as 15 hours in some cases. He complained particularly about the failure of certain Korean construction firms working on U.S. projects to pay the wage rates which the firms had promised the workers. He said that the construction workers union would attempt to reach wage agreements with these firms and hoped for the sympathy and understanding of U.S. officials dealing with the construction firms.

Both Kims felt that at the present stage of development of the organized labor movement in Korea emphasis should be placed on organization by industrial, rather than occupational, groups. (LR)

14. (UNCLASSIFIED) Labor Specialist Grantee Departs for U.S.

On May 25, LEE Kwang-cho (2621/0342/2600) left Korea for the United States on a labor specialist grant of the Department of State. This brings to four the number of Korean labor figures who have recently begun grant programs in the U.S. (Weekly Economic Review No. 20).

(OFFICIAL USE ONLY) Comment: Lee, former Assistant Chief of the International Affairs Department of the Federation of Korean Trade Unions, (FKTU) although

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apparently not commanding any significant personal influence, has been included in the upper echelon of the CHONG Tae-ch'on group in the FKTU. He has been particularly noticeable in this group because of what appears to be a selfless and genuine interest in the labor movement.
(LR)

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

RW.

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June 1, 1959
DATE

REF : CERP-KOREA C-2

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DEPT: Sec-1 IRC-8 FE-4 E-7 IGA-11 FE-4 SCS-1 Per-2

OTHER: CIA-10 USIA-10 AG-8 IN-7 TR-3 FRB-3 NMB-4 TAR-Army-4 Navy-3 AIR-3 *LOB-5 HEW-5

SUBJECT: Quarterly Economic Summary - January-March 1959, Republic of Korea.

See attached Sup. Desp. #7

Summary a

Economic activities were generally stable during the first quarter of 1959, with few if any spectacular developments. The money supply rose to a new high in February, but declined moderately during March as the result of a net accrual of counterpart funds, increase in time deposits, and other factors. At the end of the quarter, money supply was 18.2 billion hwan (nine percent) above the December 31, 1958, level. There was a slight (less than one billion hwan) contraction during April. Prices remained generally steady during the quarter; both the Seoul and the National wholesale indexes recorded grain prices well below the levels of the comparable months of 1958. Prices of other commodities were generally higher. At the end of March the Seoul index stood at 115% of the September 1955 average, as compared with 119% at the end of the previous quarter. During the last week of April and the first three weeks of May there was a moderate, largely seasonal, price increase averaging about eight percent.

A reshuffle of the top-echelon officials of three of the four economic ministries (Finance, Reconstruction, Agriculture and Forestry) was hailed as indicative of the government's determination to carry out the 1959 Financial Stabilization Agreement, adopted by the Combined Economic Board (CEB) in February. As Minister of Finance, Song In-sang occupies the top economic post and will continue to act as the ROK Economic Coordinator in the CEB.

The most disappointing of the economic indicators was the continuance of the decreased tempo in industrial production which had developed in late 1958. While the slowdown is primarily attributable to seasonal factors, the 13% drop in manufacturing activities from the previous quarter was cause for concern. Electric power generation declined 2% (although substantially above first quarter 1958) and only mining recorded a gain from the previous quarter (5%). The slowdown in manufacturing was widespread and included such important segments as textiles, paper, chemicals, ceramics, and cement. Overall, however, industrial production (which includes power and mining as well as manufacturing) was at a slightly higher level (plus 4.0%) than during the first quarter of 1958.

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During January and February construction activities dropped off from the unusually high levels of the final months of 1958, but March saw a substantial recovery which was expected to continue into the spring and summer months. Railroad transportation activities nearly equalled the records established in the previous quarter.

The export picture continued to present a worrisome problem. Commodity exports of about $4 million were below the preceding quarter ($5.5 million) but were at about the same level as in January-March 1958. When imports of $63 million financed by ICA are added to privately financed imports of $16 million, the visible trade gap for the first quarter amounts to $75 million. Net holdings of foreign exchange at the end of the quarter totaled $148 million, slightly higher than at the end of 1958. The relatively strong foreign exchange position is a bulwark against renewed inflation; periodic auctions of government held foreign exchange (KFX) are planned when deemed warranted as a means of curbing undue monetary expansion or price increases. Soon after appointment as Minister of Finance, Song In-sang announced that during 1959 a total of $16.5 million of KFX would be auctioned at appropriate intervals; this figure includes $1.5 million held over from 1958 allocations.

New Team of Economic Ministers

A long rumored reshuffle of cabinet ministers was announced on March 20. The new line-up of economic ministers and vice ministers is as follows:

Finance - Minister Song In-sang (formerly Minister of Reconstruction)

Vice Minister Pak Chong-sik (formerly Director of the ROKG Bank Note Printing Company)

Reconstruction - Minister Sin Hyon-hwak (Promoted from Vice Minister)

Vice Minister Chong Yong-gi (Formerly Director of Bureau of Mining, MCI)

Agriculture and Forestry - Minister Yi Kun-jik (Liberal Party Committeeman; also a former Minister of Home Affairs)

Vice Minister Kim Chong-sop (Formerly Vice Minister of Home Affairs)

Commerce & Industry - Minister Ku Yong-so (Mr. Ku has been in office since September 1958; formerly Governor of the Reconstruction Bank)

Vice Minister Kim Ui-ch'ang (No change)

The outgoing Finance and Agriculture Ministers (Kim Hyon-ch'ol) and Chong Chae-sol, respectively) resigned and have not since been reassigned to government positions.

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This move placed Minister Song in the government's top economic position, and was generally regarded as a deserved promotion for him. The decision to retain his status as the ROK Economic Coordinator on the CEB was also favorably received in view of his long experience and good record in this position.

Progress in Financial Stabilization

The 1959 financial stabilization agreement, adopted by the CEB in February, sets forth a detailed statement of economic objectives and the measures by which these goals are to be attained. The agreement calls for quarterly review and submission to the CEB of quarterly plans of operation.

Major principles incorporated in the 1959 stabilization program were: 1) to maintain price stability and to take measures restoring stability should the wholesale price index rise over three consecutive months; 2) to encourage private savings; 3) to keep the government's budget in balance; 4) to set definite limits to increases in bank credit over and above the accumulation of savings and time deposits and net accruals of counterpart; 5) to utilize foreign exchange reserves in such a way as to develop the economy; 6) to maintain the level of money supply at approximately 200 billion hwan until the end of June (note: the June 30 money supply limit was later raised to 220 billion).

Under MOF Minister Song's leadership, the ROKG is expected to give strong support to the 1959 stabilization agreement, and to withstand pressures from political and commercial elements for reversion to "easy money" practices. Soon after taking office as Minister of Finance, Song announced his determination to keep governmental expenditures within the limits of revenues and embarked upon a campaign to maximize tax collections. The latter program has already shown encouraging results in that tax collections during the first quarter exceeded the budgeted figure by nearly 10%. The new Minister took positive action also in the matter of monetary expansion, by announcing the planned disbursement of $15 million of government-held foreign exchange (KFX) for financing private imports during 1959; this figure is in addition to $1.5 million that had been allocated for auction in February but which had not been released. The auction of this volume of dollars is expected to neutralize approximately the expansionary effect of hwan sales to the United Nations Command. During 1958 a total of $13 million was released, of which $8 million was postponed until December in a last-minute effort to control the usual year-end expansionary movement. It is Minister Song's intention to space KFX releases in a more orderly manner than in the past, with the view of utilizing this measure to prevent undue monetary expansion throughout the year.

The money supply, which had increased progressively since July 1958, rose by 8% in January as compared with the Hw. 192.6 billion level of December 31, and by another 7% in February to the record level of 223.2 billion hwan despite the auction during February of $4 million of the Government's foreign exchange which brought in Hw 2.5 billion. A contraction in March of Hw 12.5 billion brought the money supply level down to Hw 210.7 billion. (A further contraction in April of Hw 0.7 billion resulted in a level of Hw 210.0.)

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Most of the quarterly increase resulted from operations of the Government's budget, expecially the grain account, which necessitated overdrafts at the BOK in order to finance the purchase and warehousing of huge grain stocks, as well as to finance cash loans against rice held in lien. Because of a sharp increase in time deposits, activities of the banking sector were contractionary during the quarter. The counterpart fund was also contractionary -- accruals exceeding expenditures by approximately Hw 6 billion.

Major factors affecting the money supply during the quarter are summarized below (billions of hwan):

Government finance	25.6
Counterpart	-6.2
Banking activities	-3.1
Foreign exchange	2.8
Other factors	-0.9
	18.2
Money Supply, Beginning of Period	192.5
" " March 31, 1959	210.7

All interested observers are in agreement that keeping the supply of money within controllable bounds is the key to success of the financial stabilization program. In late March the Embassy and OEC presented a paper to the economic ministries of the Korean Government incorporating the following recommendations for the safeguarding of the 1959 stabilization program:

1. Reduction of government expenditures by 6%.

2. Increase of the foreign exchange tax from 150 to 200 hwan per US $1.

3. Sale of KFX at approximate rate of acquisition.

4. Elimination of the specified end-user system for wheat and raw cotton imports as a means of maximizing hwan proceeds through competitive bidding.

5. Importation of all fertilizer through commercial channels (at present 30% is procured by the government). This would eliminate subsidization and prepare farmer acceptance of the inevitable higher costs of domestically produced fertilizer when the Chongju plant comes into operation.

6. Upward adjustment of public utility rates.

7. Intensification of tax collections and disposing of the government-owned enterprises.

8. Utilization of the repayments under the rice lien program to be controlled by the CEB.

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It was argued that this program was necessary to ensure the containment of money supply expansion and the success of the stabilization program. The economic ministers agreed to study these proposals.

By the end of the quarter the CEB announced the following stabilization goals for the ensuing (April-June) quarter: 1) The money supply ceiling as of the end of June was set at Hw 220 billion (the original goal was Hw 200 billion); 2) government disbursements will be increased over the level of the comparable period of 1958 (in order to avoid the concentration of spending in the late months of the year, as has occurred in the past); 3) $4 million of KFX will be auctioned.

Although the stabilization program requires constant vigilance, there are a number of encouraging factors for its future implementation. Among these are continued growth of saving accounts in banks; 1/ large government-held grain stocks which could be released for market stabilization purposes in the event of undue price increases; a planned program of KFX auctions; and gratifying increases in tax collections (nearly 10% above first quarter expectations) and intensification of collections promised by MOF Minister Song.

The problem of holding the line may be expected to become increasingly difficult, however, especially with respect to dependence on the contractionary effect of the counterpart fund. With counterpart availabilities diminishing as a result of two consecutively reduced aid programs, while the demands for such funds remain constant or may even expand, there will be little future opportunity to freeze counterpart to offset monetary expansion in other sectors. In addition, while the sharp increase in bank deposits is an encouraging sign of public confidence, these inactive and highly liquid funds constitute a potential threat to price stability. If, for some unforeseeable reason, public confidence were destroyed, these idle funds would flood the market and exert highly inflationary effects on commodity prices. The following table shows the rapid growth of bank deposits, particularly demand deposits, which increased 40% in the first four months of 1959.

1/ The substantial growth of private savings in recent months may be regarded as evidence of renewed public confidence in the hwan currency, in the banks, and in the government's ability to carry forward the stabilization program. Further to capitalize on this changed psychology, the Monetary Board authorized institution of a new type of savings account similar to a 30-day time deposit, on which a more attractive 3.6% annual interest rate is applicable. These accounts and other types of time deposits reached Hw 27 billion at the end of March, up 7 billion from February; such deposits increased further to Hw 30 billion by the end of April.

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	Money Supply (Billions of Hwan)					Bank Deposits (Billions of Hwan)		
End of	Notes in Circulation	% of Total	Monetary Deposits	% of Total	Total	Time	Demand	Total
Dec. 57	86.1	(59.3)	59.1	(40.7)	145.2	15.1	59.1	74.2
June 58	72.9	(48.9)	76.2	(51.1)	149.1	17.4	76.2	93.6
Dec. 58	111.1	(57.7)	81.5	(42.3)	192.6	19.2	81.5	100.7
Jan. 59	108.0	(51.9)	100.0	(48.1)	208.0	19.0	100.0	119.0
Feb. 59	111.4	(49.9)	111.8	(50.1)	223.2	20.0	111.8	131.8
Mar. 59	98.7	(46.8)	112.0	(53.2)	210.7	27.4	112.0	139.4
Apr. 59	98.5	(46.9)	111.5	(53.1)	210.0	30.2	111.5	141.7

In late April and May, prices took a largely seasonal turn upward. The price of rice increased 16% in the month ending May 27 and certain other prices increased though less sharply. However, it is believed that any drastic price rise could be prevented by the release of government-owned grain stocks and government-controlled foreign exchange.

Industry

The winter months are usually characterized by declining industrial activity. The first quarter of 1959 followed this trend. All major segments, however, showed slight to moderate increases over the first three months of 1958. The industrial production index (which includes manufacturing, power, and mining) increased 4%; the manufacturing group, which carries a weight of 87 in the index, was weakest reflecting only a 3.7% advance over the comparable quarter of last year. The overall index was 11% below the performance of the last quarter of 1958, influenced chiefly by the 13% dip in the manufacturing sector. Electric power generation dropped slightly (2%) as sporadic dry spells affected hydro production, but the mining industry showed a 5% increase over the last quarter of 1958.

In addition to the seasonal factors, the drop-off in manufacturing activities is believed to reflect excessive inventories and lagging demand for some products induced by depressed farm prices and the low purchasing capability of the farm population. Manufacturers showed a disinclination to produce "for the stockpile", preferring to curtail operations while awaiting supply-demand adjustments. A few important industries maintained or exceeded the previous quarter's output (cotton textiles, rubber shoes, beverages, flour).

Railway transportation activities declined only slightly from the record traffic carried during the previous quarter. The stability of commercial carloadings over the past six months (ranging from 20,000 to 25,000 cars monthly) as contrasted to the up-and-down movements of earlier periods at a much lower level testifies to the complete rehabilitation of the railroads.

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Construction activities, as measured by the number of permits issued for new buildings or major renovations, dropped precipitously during January and February as winter set in. However, the 972 permits issued in March nearly tripled the February figure and exceeded the total permits issued during the first three months of 1958 combined.

The continued high level of transportation and construction activities remains a stabilizing factor, tending to offset the sharper fluctuations which currently characterize some other industrial activities, particularly manufacturing.

PL 480 Program and Food Supply

The ROKG presented the following proposed PL 480 program for 1959:

Commodity	1,000 M.T.	US $ mil.
Wheat	335.0	24.5
Raw cotton	28.7	18.65
Other (unspecified)	--	6.85
		50.00

The program has not as yet been finally established, but adjustments made in the interim indicate a total program on the order of $33-35 million, consisting of wheat, raw cotton, and feedgrains.

The certain prospect of a reduced PL 480 program presents a problem for the stabilization program and the ROK budget, since most of the hwan proceeds are used for supporting ROK defense expenditures. However, imported food requirements are drastically reduced from the levels of previous years when up to one million tons of grain were imported annually. With stocks acquired from these imports and from two consecutive bumper rice and summer grain crops, the only grain shortage is for wheat needed to supply the milling industry and a small quantity of corn for starch-making and for livestock.

Grain stocks held under the government's Controlled Food Program totaled 3.2 million polished suk (over 400,000 metric tons) at the end of March; in addition 1.45 million suk of rice (about 210,000 metric tons) has been collected under the rice lien program. Farmers still have the option of paying off their loans and reacquiring the rice under lien. If they do not take this action, the government will undoubtedly release this rice as well as grains from the Controlled Food stocks for market control purposes, if such action is warranted by rising prices over the next few months. Even if rice prices do not rise further this year, the bulk of the rice currently held under lien will likely be sold on the market unless redeemed by the farmers, in order to free the greater part of the HW 28 billion of government funds currently tied up in this program.

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There have been no reports of starvation this year, such as have occurred in previous years during the spring and early summer months before the summer grain crops are harvested. The outlook for the summer grain crops is excellent; the Ministry of Agriculture predicts that the crop will be at least 20% greater than last year's, barring adverse climatic conditions in the next few weeks.

Prices

The Seoul consumer and wholesale price indexes both showed moderate gains over the levels of the comparable months of 1958, but declined slightly from the October-December quarter. (The new national wholesale index, which is technically superior to the old index, showed average first quarter prices below all four quarters of 1958). There were no significant price changes during the first quarter. The average price of grains was about 12 per cent below the level of the first quarter 1958, while prices of other commodities registered a slight increase. To counteract the depressed price of rice, the government established a grain exchange program under which farmers can turn in their rice holdings for a favorable exchange of other grains, including wheat flour, available in government stocks. The program envisaged the exchange of 700,000 suk of rice (about 100,000 tons) by the farmers, and by the end of March was well under way. Commencing in April, the government is making monthly releases of some 40,000 suk of grain and flour as payments in kind to government employees.

Foreign Trade and Export Promotion

Commodity exports declined sharply from the returns of the previous quarter (to $3.7 from $5.5 million, on the basis of foreign exchange settlements), but were at about the same level as in the January-March 1958 period. Unless significant improvement is forthcoming, 1959 exports may not rise materially above the poor showing of 1958 when exports totaled only $16.5 million.

Private imports continued at a high level -- $16 million compared with $12 million in the previous quarter (based on foreign exchange clearances). 2/ Private and government imports financed by ICA, now available on a monthly basis (see Table VI), totaled $63 million. The continued heavy influx of commodities for civilian and industrial consumption is an important factor in maintenance of price stability, but the resultant visible trade gap ($75 million for the first quarter) remains a major problem.

Spurred by the concern expressed by the Draper Committee (which visited Korea February 6-11) over the continued huge trade gap, the ROKG came forward with a spate of plans and programs for the promotion of exports. These included renewed and apparently more positive emphasis on rice exports, a proposal by

MCI for

2/ The approximate $12 million difference between private imports and exports was financed with Government released foreign exchange, "missionary," and special (military) procurement dollars.

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MCI for the establishment of a permanent committee in CEB to study the problem (a suggestion which was adopted in May), and various subsidization schemes reportedly being considered by MCI but not generally supported by other Ministries. The long delay in formation of the CEB committee on export promotion resulted from objections of the Ministry of Finance on the ground that since export schemes would undoubtedly involve the expenditure of funds which are not available, no productive results could be expected from the new committee. As of the end of the quarter no decisive action had been taken leading to expansion of exports.

A development which became noticeable in February and has continued through May was a sharp rise in the market quotations for various categories of dollar funds sold through the Bank of Korea to finance imports. In almost all categories recent hwan offerings by traders have been more than double the official 500:$1 rate. Average rates during April were as follows: (April 1958 averages shown in parenthesis): Missionary dollars, 965 plus the 150 foreign exchange tax (920 no tax); service dollars, 1114 (920); Japan export (L/C basis), 1343 (1167); and non-Japan export dollars (L/C basis), 1205 (1025).

The unprecedentedly high rates for export dollars were regarded by the ROKG as a situation stemming from a variety of causes: the postponement of previously announced releases of KFX (the only auction during the quarter was $4 million in February), diminished availability of Japan and other export dollars, authorization to use missionary and service dollars for importation of fertilizer as a means of arresting the upward price climb of fertilizers, and shortages on the market of certain popular commodities. The principal factor is believed to be the demand for fertilizer, which can be expected to abate when the current demand is satisfied. However, the Embassy looks for continued pressures for import dollars unless export earnings increase or other means are found to offset future reductions in the ICA salables program.

Population Trends

According to the "annual simplified general population census," a sample survey conducted by the Ministry of Home Affairs, the population of south Korea was 21,909,742 as of December 31, 1958, exclusive of members of the ROK military services, the UN Command and other foreigners, and persons in penal institutions.

This population figure compares with 20,724,026 as of December 31, 1956, and appears to represent a strikingly high annual increase of nearly 600,000 (based on a simple average) or a yearly rate of growth of about 2.9% over the two-year period. 3/ It should be noted that the validity of the Home Ministry's sample surveys

3/ The apparent growth rate between the dates of the two surveys would be smaller if adjustments were made for the smaller ROK military force level existing as of the end of 1958. It is reported that the ROK military force level had been reduced by about 70,000 men between the two dates.

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sample surveys and comparability of coverage and techniques have not been tested; analysis by a competent demographer might well reveal serious deficiencies in the data. So high a rate of population growth, if factual, would have important social and economic implications. It is considerably higher than the rate of increase that has heretofore been used for planning purposes; however, preliminary studies (as yet incomplete) conducted by the Office of the Economic Coordinator give some evidence that the rate of growth might be higher than the rates of 1.6 - 2.0 in current usage. 4/

The recent survey places unemployment at 6% of the total population, which yields a figure of some 1,315,000 -- considerably above the government's frequently published estimate of "about one million." As in previous surveys, it is estimated that about 70% of the population are farmers. The population of Seoul City has grown to 1,756,406 -- a whopping increase of 16.8% over the 1,503,865 at the end of 1956. Breakdowns by province and by age distribution are shown in the statistical appendix.

A complete population census is scheduled to be taken in May 1960. A group of U.S. statistical experts, under OEC contract with Stuart A. Rice Associates, is now consulting with the ROKG on the forthcoming census.

The Department is requested to return five copies of this despatch to Embassy Seoul.

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

Enclosures: Statistical Appendix of 14 tables.

4/ The OEC's most recent aid level programming submission (January 1959) employed for planning purposes a population growth rate rising from 2.1% for 1959 to 2.3% for 1964.

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STATISTICAL APPENDIX

TABLE I. Industrial Production.

TABLE II. Korean National Railroad Total Cars Loaded with Freight.

TABLE III. Korean National Railroad Cars Loaded with Commercial Freight.

TABLE IV. Number of Building Construction Permits Issued in Principal Cities.

TABLE V. Foreign Exchange Holdings.

TABLE VI. Commodity Imports, Exports, and Trade Deficit.

TABLE VII. Value of Exports by Commodity Groups.

TABLE VIII. Private Foreign Exchange Transactions.

TABLE IX. Money Supply Trends.

TABLE X. Seoul Wholesale Price Index (1947=1).

TABLE XI. National Wholesale Price Index (1955=100).

TABLE XII. Seoul Consummer Price Index (1955=100).

TABLE XIII. Age-Sex Distribution of Population as of December 31, 1958.

TABLE XIV. Population of Republic of Korea, by Province, as of December 31, 1958.

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TABLE I. Industrial Production

	1st Qtr 1959 Av.	4th Qtr 1958 Av.	1st Qtr 1958 Av.	Percent change Col. 1 over Col. 2	Col. 1 over Col. 3
Ind. Prodn. Index (1955=100)	146	164r	141	-11.0	+ 4.0
Mining (weight 10)	202	193	188	+ 4.7	+ 7.4
Manufacturing (weight 87)	139	160r	134	-13.1	+ 3.7
Electricity (weight 3)	188	192	171	- 2.1	+ 9.9

Source: Bank of Korea.

TABLE II. Korean National Railroad Total Cars Loaded with Freight
(Monthly Average, in thousands)

	1959	1958	Increase or Decrease (-)	% Change 1959 over 1958
January	37.3	28.7	8.6	30.0
February	35.0	28.5	6.5	22.8
March	40.5	37.4	3.1	8.3
Monthly Average, Year	37.6	35.8		

Source: Ministry of Transportation, Seoul.

TABLE III. Korean National Railroad Cars Loaded with Commercial Freight 1/
(Monthly Average, in thousand)

	1959	1958	Absolute Increase	% Increase 1959 over 1958
January	21.8	14.1	7.7	54.6
February	19.6	14.7	4.9	33.3
March	23.6	18.8	4.8	25.5
Monthly Average, Year	21.7	19.5		

Source: Ministry of Transportation, Seoul.

1/ Excluded cars loaded with aid cargo and freight for the UN Forces, ROK Army, and Korean National Railroad.

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TABLE IV. Number of Building Construction Permits Issued in Principal Cities 1/

1st Qtr. 1959		4th Qtr. 1958		1st Qtr. 1958		Percent Change Col. 1 over Col. 2	Percent Change Col. 1 over Col. 3
Jan.	209	Oct.	1,643	Jan.	145	- 87.3	+44.1
Feb.	328	Nov.	1,031	Feb.	221	- 68.2	+48.4
Mar.	972	Dec.	687	Mar.	587	+ 41.5	+65.6

Source: Bank of Korea publications.

1/ Includes permits for new construction, reconstruction, and extensions.

TABLE V. Foreign Exchange Holdings 1/ (Close of Quarter) ($ million)

	1st Qtr 1959	4th Qtr 1958	1st Qtr 1958	% Change 1 over 2	% Change 1 over 3
Net holdings	147.8	144.9	120.0	+ 2.0	+23.2
Uncommitted	88.8	89.1	60.4	- 0.3	+47.0

Source: Bank of Korea publications.

1/ Excludes gold. Gold holdings as of March 31, 1959, were $1.7 million, on December 31, 1958: $1.6 million, and on March 31, 1958: $1.5 million.

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TABLE VI. Commodity Imports, Exports, and Trade Deficit

	1959					1958 1/		
	Imports							
	Total	ICA 1/	Private	Exports	Trade Deficit	Imports Private	Exports	Private Trade Deficit
January	19.3	14.8	4.5	1.4	17.9	3.4	0.9	2.5
February	31.1	24.8	6.3	0.8	30.3	3.9	1.2	2.7
March	28.5	23.5	5.0	1.5	27.0	4.1	1.8	2.3
Qt. Total	78.9	63.1	15.8	3.7	75.2	11.4	3.9	7.5

Source: Based on Bank of Korea statistics of exchange receipts and payments for visible trade.

1/ ICA breakdown not available before January 1959. Includes both private and government imports financed by ICA and settled through BOK.

TABLE VII. Value of Exports by Commodity Groups
($ million)

	Total	Food	Inedible Crude Materials, excluding Mineral Fuels	Mineral Fuels Lubricants & Related Materials	Manufactured Goods Classified by Materials	Misc. Manufactured Articles	All Others
1955	18.0	1.1	13.6	0.5	1.2	0.4	1.1
1956	24.6	1.5	19.6	0	2.4	0.2	0.9
1957	22.2	3.4	14.0	negl	3.4	0.6	0.8
1958	16.5	2.5	10.3	0.3	2.7	0.1	0.6
1959:							
Jan.	1.0	0.1	0.7	negl	negl	negl	0
Feb.	1.1	0.3	0.5	0.1	0.1	negl	negl
Mar.	1.2	0.2	0.9	negl	negl	negl	0

Source: Bureau of Customs data, published by Bank of Korea. (Rounded Totals)

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TABLE VIII. Private Foreign Exchange Transactions (Quarterly Totals)
($ million)

	1st Qtr 1959	4th Qtr 1958	1st Qtr 1958	% Change - Private Col.1 over Col.2	% Change - Private Col.1 over Col.3
Receipts	23.5	33.5r	20.9	-29.9	+12.4
Visible	3.7	5.5r	3.9	-32.7	- 5.1
Invisible	19.8	28.0	17.0	-29.3	+16.5
Payments	20.7	15.3	14.1	+35.3	+46.8
Visible	15.8	12.0	11.4	+31.7	+38.6
Invisible	4.9	3.3	2.7	+48.5	+81.5
Net Receipts (+) or Payments (-)	+ 2.8	+18.2r	+ 6.8	-84.6	-58.8

Source: Bank of Korea publications.

TABLE IX. Money Supply Trends
(Billions of Hwan)

	1959	1958	% Increase 1959 over 1958
December 31 (1958 & 1957)	192.6	145.2	32.6
January 31	208.0	149.9	38.8
February 28	223.2	157.4	41.8
March 31	210.7	147.1	43.2

Source: Bank of Korea publications.

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TABLE X. Seoul Wholesale Price Index (1947=1)

Monthly Average	1959 Over-All	1959 Grain	1958 Over-All	1958 Grain	% Change 1959 over 1958 Over-All	% Change 1959 over 1958 Grain
January	211	182	196	205	+ 7.7	-11.2
February	211	185	197	208	+ 7.1	-11.1
March	204	179	199	207	+ 2.5	-13.5

	1st Qtr 1959 Mo. Av.	4th Qtr 1958 Mo. Av.	1st Qtr 1958 Mo. Av.	Percent change Col. 1 over Col. 2	Percent change Col. 1 over Col. 3
Over-All	209	215r	197	- 2.8	+ 6.1
Grain	182	199	207	- 8.6	-12.1

Source: Bank of Korea.

TABLE XI. National Wholesale Price Index (1955=100)

	1959 Over-All	1959 Grain	1958 Over-All	1958 Grain	% Change 1959 over 1958 Over-All	% Change 1959 over 1958 Grain
January	138.9	126.1	141.9	140.7	- 2.1	-10.4
February	139.2	128.5	143.1	146.2	- 2.7	-12.1
March	138.0	124.9	142.2	144.9	- 3.0	-13.8

Source: Bank of Korea.

TABLE XII. Seoul Consummer Price Index (1955=100)

	1959 Jan.	1959 Feb.	1959 Mar.	1958 Jan.	1958 Feb.	1958 Mar.	% Change 1959 over 1958 Jan.	% Change 1959 over 1958 Feb.	% Change 1959 over 1958 Mar.
Total Index	146.8	148.6	149.0	139.6	143.5	141.8	+ 5.2	+ 3.6	+ 5.1
Foods	140.0	142.7	145.9	135.9	143.8	140.4	+ 3.0	- 0.8	+ 3.9
Housing	173.4	173.7	173.7	159.7	159.7	159.8	+ 8.6	+ 8.8	+ 8.7
Fuel & Light	179.1	170.4	160.7	128.8	130.9	133.4	+39.1	+30.2	+20.5
Clothing	110.5	109.4	106.8	118.2	116.8	116.4	- 6.5	- 6.3	- 8.3
Miscellaneous	158.1	165.4	165.4	155.8	156.3	155.4	+ 1.5	+ 5.8	+ 6.4

	A Av. Jan-Mar 59	B Av. Jan-Mar 58	Average % Change A to B
Total Index	148.1	141.6	+ 4.6
Foods	142.9	140.0	+ 2.1
Housing	173.6	159.7	+ 8.7
Fuel & Light	170.1	131.0	+29.8
Clothing	108.9	117.1	- 7.0
Miscellaneous	163.0	155.8	+ 4.6

Source: Bank of Korea publications.

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By [illegible], NARA, Date 4/17/29

TABLE XIII. Age-Sex Distribution of Population as of December 31, 1958

Age	Male	Female	Total
Birth-4 years	1,653,419	1,555,043	3,208,462
5-9	1,639,538	1,508,453	3,147,991
10-14	1,355,449	1,218,850	2,574,299
15-19	1,260,044	1,129,530	2,389,574
20-24	701,364	940,722	1,642,086
25-29	615,575	826,982	1,442,557
30-34	593,575	718,037	1,311,612
35-39	653,012	673,214	1,326,226
40-44	542,025	548,315	1,090,340
45-49	503,285	497,496	1,000,781
50-54	407,352	406,753	814,105
55-60	345,701	396,050	741,751
over 60	513,770	706,188	1,219,958
Total	10,784,109	11,125,633	21,909,742

Source: Ministry of Home Affairs. Data based on sample survey; excludes military personnel, UN forces and all foreigners, institutional personnel.

TABLE XIV. Population of Republic of Korea, by Province, as of December 31, 1958

Province	Population
Seoul (City)	1,756,406
Kyonggi-do	2,317,494
Chungchong-Pukdo	1,226,334
Chungchong-Namdo	2,274,558
Cholla-Pukdo	2,188,424
Cholla-Namdo	3,223,564
Kyongsang-Pukdo	3,493,870
Kyongsang-Namdo	3,831,250
Kangwon-do	1,333,941
Cheju-do	263,901
Total	21,909,742

Source: Ministry of Home Affairs. Data based on sample survey; excludes military personnel, UN forces and all foreigners, institutional personnel.

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FOREIGN SERVICE DESPATCH

FROM : AmEmbassy, SEOUL

7
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

July 7, 1959
DATE

REF : CERP-Korea; C-2

27 For Dept. Use Only	ACTION	DEPT.
	RM/R-0	INFO REP-1 IRC-8 FE-4 E-7 ICA-11 SCS-1 PER-2
	REC'D 7-14	OTHER COM-12 CIA-10 USIA-10 AG-8 IN-7 TR-3 FRB-3

SUBJECT: D-696, Quarterly Economic Summary January-March, 1959. XMB-4 TAR-2 ARMY-4 NAVY-3 AIR-1 LAB-5 HEW-5

It has been learned that the Embassy's D-696 of June 1, 1959, inadvertently omitted the CERP reference shown above. The Department is requested to make appropriate correction for copies distributed in Washington.

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

FW 895B.00/6-159

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JUL 8 1959

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FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL — 708 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : CERP - Korea, Section C, Item 1.

Action Assigned to ~~ARMY~~ June 5, 1959 DATE

Action Taken ~~Date of Action~~ Action completed 6/10/59

For Dept. Use Only	ACTION	DEPT.
	FE-6	
	REC'D 6-9	INFO REP-1 RMR-2 E-7 IRC-15 ICA-11 W/msc-3 PPT-2 OTHER Com-12 WSJA-10 TR-3 FRB-3 XMB-4 TAR-2 Ag-15 IN-7 LAB-5 ARMY-35 NAVY-20 AIR-30 CIA-16 OSD-2

SUBJECT: Weekly Economic Review No. 22.

Contents

1. Auction of KFX.
2. Foreign Exchange Demand Climbs.
3. PL 480 Developments.
4. National Trade Fair Scheduled.
5. New Trade Program Announced.
6. Exports Up in May.
7. Plywood Export Contracts Materialize.
8. Berger Willing to Leave Korea.
9. Another American in Foreign Exchange Trouble.
10. Smuggling.
11. Passport Officials Arrested.
12. Grain Developments.
13. Embezzlement of Fertilizer under Investigation.
14. Longshoremen's Strike Averted.

1. (UNCLASSIFIED) Auction of KFX.

The Bank of Korea will sell $7 million of government-held foreign exchange (KFX) at public auction on June 11. This larger amount than had been anticipated (see Weekly Economic Review No. 21) is aimed principally at offsetting recent price rises in certain industrial commodities, by making the commodities more freely available. In contrast, the primary objective of previous auctions has been to absorb excess hwan from circulation. (As of May 15, 1959, the money supply has provisionally been reported as declining again slightly to 206.9 billion hwan). Conditions of the auction are about the same as have governed previous auctions, the principal restriction being that the KFX cannot be used for financing imports from Japan. This time, however, the list of importable commodities has been quite drastically curtailed (to 13 items from 27 or more previously). Authorized imports include such recently high-demand items as raw rubber, wool and semi-manufactured tops, newsprint, crude sugar, tallow, hides and skins.

Minister of Finance SONG publicly expressed his concern at the June 3 Combined Economic Board meeting with rising prices, implying that the Seoul wholesale price index may have broken through the ceiling of 125 percent of September 1955 price which is tied to maintenance of the 500 hwan to the U. S. dollar legal exchange rate. (EG & RWT)

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2. Foreign Exchange Demand Climbs. (UNCLASSIFIED)

Figures recently released by the Bank of Korea reveal that during May quotations for legal purchases of foreign exchange in most categories have exceeded black market prices for greenbacks and Military Payment Certificates in Seoul. May averages for the latter were 1,191 hwan and 1,138 hwan to the U. S. dollar, respectively.

Japan export dollars (L/C basis) averaged 1,386 hwan in May, export dollars to other areas 1,273 hwan, and "service" dollars (sales and service receipts to the UN Forces) 1,183 hwan. Even the "missionary dollars" (special rates accorded to foreign missionaries) averaged 1,031 dollars in May, exclusive of the 150 hwan to the dollar foreign exchange tax. (RWT)

3. PL 480 Developments. (UNCLASSIFIED)

Although the ROK Government has not yet made formal representations to the Embassy to this effect, the press reports that the following commodity composition has been agreed upon for the 1959 PL 480 program:

Commodity	$ million
Wheat	20.3
Raw Cotton	7.5
Misc. Grains	0.5
Ocean Transport (est.)	4.8
Total	33.1

The ROK Government was informed of Washington agencies' unwillingness to increase the raw cotton component by $5 million. No inclination was evidenced to request increases in the grain components in order to absorb the $5 million, even though the whittled-down program (which started out with a proposed total of $50 million) admittedly poses problems for the ROK defense budget, which is designated to receive 85% of hwan proceeds of the 1959 program. According to the press, the ROK Government also agreed to accept the 85-15 division of the proceeds (15 percent to the United States Government for its uses) although it originally pressed for a 90-10 split. (EG)

4. National Trade Fair Scheduled. (UNCLASSIFIED

Press advertisement have announced that a National Trade Fair will be held from June 26 to September 30, 1959, at the Seoul Horse Race Track to exhibit Korean products, President Rhee's "merits," and some U.N. activities and records. The chief purpose of the fair is stated to be the celebration of President Rhee's 84th birthday.

(OFFICIAL USE ONLY) Comment: The Embassy, in an attempt to learn more about the fair, made a number of inquiries among Government and private sources. The response thus far has been surprisingly negative. Many claim to know nothing about it, some have made unfavorable comments against it, and others have indicated a fairly high degree of disinterest. Korean and foreign traders probably will not participate. The Korean Traders Association and the Korean Chamber of Commerce

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have indicated they will not take part. A number of high ROK Government officials are listed in the advertisements as endorsing the fair, but those contacted by the Embassy deny any official endorsement. In all probability, participation will be chiefly by Korean producers who are members of the Association for the Encouragement of the Use of Domestic Products.

This badly managed effort, if it should come to fruition, would seem to be more politically than commercially motivated. (JAC)

5. (UNCLASSIFIED) New Trade Program Announced.

The MCI has announced its trade program for the second half of 1959 in Public Notice 297. Particularly significant in the new plan are the preferential measures to encourage the export of certain Korean products. These consist of permission to use a percentage of the export proceeds to import certain as yet unspecified popular and profitable items. The exports to be encouraged and the percentage of proceeds which may be used to buy the popular import items are as follows: Dried oysters (10%), tuna fish (20%), raw silk (20%), agar-agar (10%), bristles (10%), and handicraft items (20%).

Other changes in the program, as reported in the press, include the addition of some 61 commodities to the list of permissible exports and the addition of some 44 items to the list of permissible imports. Shifts have been made between the ordinary and special imports lists and certain restrictions have reportedly been relaxed. No formal announcement has as yet been made in connection with procedures for the export of rice.

An English translation of the program should become available later this month or early July and copies will be forwarded to Washington. (JAC)

6. (UNCLASSIFIED) Exports Up in May.

Preliminary data of the Bank of Korea indicate a continuance of the rising trend in commodity exports, as May exports of $3.024 million topped April proceeds by $796,500. Two commodities -- laver and iron ore-- together accounted for over one third of May exports. (The May data are, however, inconclusive, being based on letters of credit opened. More accurate measurements, such as foreign exchange returns or customs clearances, covering May will not be available for ten days or so.) (EG)

7. (UNCLASSIFIED) Plywood Export Contracts Materialize.

An official of the Ministry of Commerce and Industry (MCI) has informed the Embassy that it will issue a permit to the Songchang Enterprise Company of Pusan to export 500,000 square feet of lauan plywood doorskins to the U. S. Plywood Corporation and to various other importers in the United States. This will represent the first Korean export of plywood to the United States and may be followed by other shipments by the same firm and perhaps other producers in Korea. This initial shipment is being permitted by the MCI because the plywood has been manufactured from Philippine lauan logs procured with Korean foreign exchange rather than U.S. aid funds. Consequently there is no problem in connection with the replacement of logs purchased with ICA funds. The value of the shipment is reported by a company official to be $33,000 c.i.f., of which $10,000 is for the U. S. Plywood Corporation.

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(OFFICIAL USE ONLY) Comment: The MCI is now preparing a letter to the Embassy which will propose some formula for the replacement of aid-financed lauan logs in plywood exports in possible future shipments. The Embassy indicated that the MCI proposal would receive the consideration of the United States Government and that in all likelihood the U. S. would not object to such exports as long as the aid-financed lauan logs are fully replaced with logs bought with ROK foreign exchange, so as to eliminate the subsidization of exports resulting from the difference between the official rate of exchange for counterpart purposes and the "open market" rate of exchange for most other purposes.

It is likely that the Korean entry in the U. S. market may become a matter of concern soon to both the American hardwood plywood producers and the Japanese Government and industry, which have placed a "voluntary" export limit on shipments to the United States as a measure to reduce American pressures for protection against the competitive effect of imports. (JAC)

8. (OFFICIAL USE ONLY) Berger Willing to Leave Korea.

Joseph Berger, who has been sentenced to one year's imprisonment for his radium swindle and has filed an appeal against the Seoul court's decision (Weekly Economic Review No. 21) has been informed by the Embassy that his immediate voluntary departure from Korea may be permitted by the ROK Government in lieu of his serving the prison term. Mr. Berger appeared receptive to the idea provided that he be allowed to go to Hong Kong. He indicated he will request a visa from the British Embassy in Seoul. The Embassy, on the basis of this information, will officially seek the views of the Ministry of Foreign Affairs to such an arrangement, which was originally suggested by the prosecutor in the case. (JAC)

9. (UNCLASSIFIED) Another American in Foreign Exchange Trouble.

The Seoul Police have arrested three Koreans for violation of foreign exchange regulations (Military Ordinance 93), according to the press. These Koreans are charged with having illegally purchased some $30,000 in checks from a Japanese bank which were smuggled out of Korea. Mr. Richard Stewart, president of the Service Games Company in Korea, is reported to have been involved in the violations. Mr. Stewart in now in Tokyo but the Seoul police have indicated their intention to arrest him upon his return to Korea.

(OFFICIAL USE ONLY) Comment: The investigations of these violations are believed to have started last August and were probably prompted by tax collectors' curiosity as to how Mr. Stewart acquired his local currency for the erection of a large building in Seoul for servicing pinball machines, "juke boxes", and slot machines for the various U. S. military clubs in Korea as well as for the payment of salaries for his local staff. (JAC)

10. (UNCLASSIFIED) Smuggling.

Confiscated goods smuggled into Korea during April, mostly from Japan and Hong Kong, reportedly totaled 100.5 million hwan, almost double the value of goods seized in March. Luxury goods and medicines topped the list of confiscated items. Undoubtedly some of the increase in April is attributable to better sailing weather than in preceding months. (EG)

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11. (UNCLASSIFIED) Passport Officials Arrested.

On June 2nd Seoul police arrested KIM Ok-dong, CHUN Ok-kyu and MUN Pil-soon, three minor officials of the Foreign Ministry's Passport Section, on charges of embezzlement and accepting bribes. The police informed the press that the trio are believed to have misappropriated some 400,000 hwan collected from prospective Korean travelers for purchase of Korean national bonds and to have accepted bribes for the issuance of passports.

Koreans desiring to obtain a passport are required to purchase 10,000 hwan ($20.00 U. S. at the legal exchange rate) worth of national bonds for the privilege. The police investigation is continuing and other suspects may be implicated. (RWT)

12. (UNCLASSIFIED) Grain Developments.

The Ministry of Agriculture and Forestry has announced that 4 billion hwan will be released in advance loans on the 1959 rice crop to prevent pre-harvest sale of the grain by impoverished farmers. Press comment has been unanimously critical of the program as being far too small to provide any significant relief for cash-short farmers.

The Ministry is also attempting to establish a Summer Grains Lien Program to prevent the continued fall in barley prices. At the end of May a suk (138 kgs.) of barley was reported to be selling in Seoul for 6,500 hwan compared to the 1958 price at the same period of 11,000 hwan. In view of the predicted bumper crop this year (Weekly Economic Review No. 11), it is feared that prices will continue to drop. The Ministry's program would provide 10,000 hwan per suk loans on 500 thousand suks, however, the Ministry of Finance has said that it will be extremely difficult to raise the 5 billion hwan required for the lien program.

Meanwhile, the Ministry of Agriculture has agreed to discontinue payments in kind to government employees (Weekly Economic Review No. 15) after an attack in the Assembly on the "compulsory" purchase of wheat flour by government workers. According to the Ministry, payments in kind scheduled for June and July will be dropped but those for April and May will be completed. Out of 600 thousand bags of flour marked for distribution in the first two months of the four month program, only 80 thousand have been delivered. The Ministry ascribes the delay to transportation and administrative difficulties. The press has also described the bags of flour as being priced above open market value.

The subject of grains rotting in storage (Weekly Economic Review No. 11) has again appeared in the press. The latest report, unconfirmed, stated that 6 thousand tons of PL 480 corn are rotting in a customs warehouse because the importer is financially unable to settle his PL 480 account with the Bank of Korea. An attempt to auction off the corn was unsuccessful due to the deteriorated condition of the grain.

13. (UNCLASSIFIED) Embezzlement of Fertilizer under Investigation.

The Seoul District Prosecutor's Office is reported to be investigating 43 local officials in Kyonggi Province for the suspected embezzlement of fertilizer imported by the ROKG.

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(OFFICIAL USE ONLY) Comment: Officials of OSROK (Office of Supply, Republic of Korea), which shares in the handling of the official fertilizer program, state that the suspected embezzlement is not limited to Kyonggi Province and that, at present, some 700 metric tons of fertilizer, worth approximately Hw 54 million at recent commercial prices, is involved. The suspects are believed to have diverted the fertilizer to the commercial markets where prices are roughly double the official price. The officials being investigated claim, however, that they distributed the fertilizer to farmers on credit and have yet to receive payment.

Always under attack, the ROKG fertilizer program has been the subject of numerous charges this year (Weekly Economic Reviews Nos. 11 and 15). It has been widely reported that the Democratic Party opposition will demand, in the near future, a National Assembly review of the Administration's economic policies with particular attention to be given to the fertilizer program. (LR)

(UNCLASSIFIED) Longshoremen's Strike Averted.

A strike of longshoremen in Pusan which was scheduled for June 1 has been averted through the mediation of provincial government officials. The longshoremen were demanding wage increases retroactive to May 1957 at which time, they stated, unloading charges on imported goods were increased by the local transportation companies. The workers claimed that wage rates were to have been increased in proportion to the increase in unloading charges but that the transportation companies failed to raise wages.

With the mediation of the provincial officials, the longshoremen's union and the companies agreed to increased wages retroactive to January 1959, with a lump sum payment for the period May 1957 to January 1959 to be negotiated. Before the compromise, 12,166 longshoremen, 70 percent of the workers concerned, had participated in a strike vote with 12,139 voting to strike. (LR)

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL

723
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : CERP - Korea, Section C, Item 1.

Action Assigned to: June 12, 1959 (DATE) AMB

Action Taken

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27 For Dept. Use Only	ACTION FE-6	DEPT.
	REC'D RM/R-0	INFO OTHER REP-1 RM/R-2 E-7 IRC-15 ICA-11 W/MSC-3 L-2 WSIA-10 COM-12 TAR-2 TR-3 FRB-3 XMB-4 AGR-8 LAB-5 ARMY-3 NAVY-2 AIR-30 CIA-1 DOD-2

Date of Action

Action Office Symbol

Name of Officer

SUBJECT: 6-15 Weekly Economic Review No. 23.

Contents

1. "Service Dollars" Made Transferable to Import Accounts.
2. Money Supply Down Slightly, Further Drop Expected.
3. Boycott Against Japanese Fertilizer.
4. Exports Far Short of Target.
5. 78 Trading Firms Disqualified.
6. Steel Plant Finds Scrap Imports Difficult.
7. First Korean Coins Since World War II.
8. Berger - Suit and Countersuit.
9. Demands Publicized by Korean Farmers Association.
10. Charges Continue Against Fertilizer Program.
11. Pension Payments for Soldiers and Policemen.
12. Communications Workers to Receive Holiday and Overtime Pay.
13. Reports of Embezzlement by Labor Leaders.
14. Union Officials Return from Study Tour.
15. Errata.

1. (UNCLASSIFIED) "Service Dollars" Made Transferable to Import Accounts.

The Finance Ministry announced on June 9th that effective June 19 the so-called "service dollars" which previously had been purchased by the Bank of Korea at the official exchange rate of 500 hwan to the $1.00 will be transferable by the earner to ordinary import dollar accounts with the BOK. As a consequence of this move, foreign exchange earned through supplying services to the UN and U.S. Armed Forces in Korea will be given equal treatment with dollars earned through export. Commodities which can be imported with "service dollars" will be those included in the list of products importable with permits issued by the ROK Government under the foreign trade program.

The MOF asserted that the purpose of this move was to earn an additional $10 million per year in sales of services to foreign military forces and help "stabilize" foreign exchange prices.

(OFFICIAL USE ONLY) Comment: Formerly, in theory only, sales of commodities to U.S./UN Forces entitled Koreans to receive dollar credits for imports, while earnings for labor and services had to be converted into hwan at the 500 to 1 rate, the foreign exchange being appropriated by the BOK for ROK Government purposes. In fact, by

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means of unorthodox, if not illegal, practices by the ROK Government (see Seoul's D-441, February 16, 1959) many dollars earned for labor and services by Korean firms have been deliberately misclassified as commodity sales earnings with a resulting conversion of dollars at rates currently in the vicinity of 1,160 hwan to $1.00. The MOF action, which constitutes one more step in the de facto elimination of the legal exchange rate of 500 to 1, should not only serve to eliminate graft and special treatment to favored Korean firms in the acquisition of foreign exchange, but should also assist U.S. military procurement agencies in arriving at more realistic and consistent assessment of bids by Korean contractors. (RWT)

2. (UNCLASSIFIED) Money Supply Down Slightly, Further Drop Expected.

As of May 15th the total money supply officially stood at 208.1 billion hwan, down almost 2 billion hwan from the level at the close of April and 15 billion hwan from the peak high of 223.2 billion hwan at the end of last February.

The auction of $7 million of ROK-held foreign exchange on June 11 should remove another 7 to 8 billion hwan from circulation.

(UNCLASSIFIED) Comment: Finance Minister SONG In sang and others concerned are undoubtedly breathing a little easier now (see Economic Weekly Review No. 22) with the money supply declining and Seoul wholesale price index not yet reported through the 125 "ceiling" (September 1955 equals 100). (RWT)

3. (UNCLASSIFIED) Boycott Against Japanese Fertilizer.

On June 8th the Ministry of Reconstruction was reported to have boycotted the import of Japanese ammonium sulphate with ICA financing under PA 9064. Bids submitted would have entitled suppliers from Japan to over $1 million of the $1.95 million recently allocated, but the Ministry of Reconstruction reportedly instructed the Bank of Korea to disapprove applications for subauthorizations for Japanese fertilizer.

(OFFICIAL USE ONLY) Comment: This charge of discrimination was brought to the attention of the Embassy by the representative of an American company in Korea, whose local staff claimed to have seen the written instruction to the BOK from Director KIM T'ae-dong of the Bureau of Requirement Coordination in the Ministry of Reconstruction. Mr. Kim, faced with the charge by the businessman and the OEC on separate occasions, denied having given any such instructions although the press widely reported the decision of the ROK Government to ban these imports. After discussions between the Embassy and the OEC, the OEC made representations on this subject to Minister of Finance Song. The Minister, after studying the allegations, declared that it was all a mistake and that Korea could not exclude Japanese fertilizer since that would constitute a violation of ICA Regulation I.

Involved in this case was not only a violation of ICA procurement regulations but also a potential financial loss to some American businessmen who had already made commitments in anticipation of approval. The damaging effect which such discrimination would have had upon the already difficult relations between Japan and Korea is obvious. This problem may not be completely solved as yet, since approval must be obtained from the Office of President Rhee for any imports from Japan. (JAC)

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4. (UNCLASSIFIED) Exports Far Short of Target.

The Ministry of Commerce and Industry has admitted to the press that the ROK has failed to reach the export goal established for the first half of 1959. The target of $30.5 million in exports for the first half compares with export earnings of only $6.4 million for the first five months of 1959. The poor performance is attributed chiefly to sluggish transactions in rice, raw silk, and metallic ores.

(OFFICIAL USE ONLY) Comment: It is difficult to believe that the ROK Government seriously had hope of achieving an export record of $30.5 in six months. The projected export of 100,000 tons of rice at $155 per ton, to realize $15.5 million in the first half of 1959, was certainly more than optimistic, particularly in the light of the world market situation in rice and Korea's sluggishness in making efforts to find export markets at reasonable prices. As a matter of fact, Government discussions are still continuing on what procedures and minimum prices should be adopted for the private export of 100,000 tons of rice in the second half of 1959. Plans are reportedly also being made for the dispatch of a team, consisting of Government and business officials, to negotiate the sale of rice to certain areas including the Ryukyus and Israel. (JAC)

5. (UNCLASSIFIED) 78 Trading Firms Disqualified.

The Ministry of Commerce and Industry has formally announced the disqualification of 78 trading firms for not having achieved a minimum performance of $10,000 in exports or $50,000 in imports for the year ending April 30, 1959. These firms may not engage in foreign trade unless they apply and are re-registered after six months of suspension. Effective from May 7, 1959 registered foreign traders must achieve an annual record of $20,000 for exports or $100,000 for imports or face disqualification (see Despatch 638, May 4, 1959).

(UNCLASSIFIED) Comment: The Trade List submitted by the Embassy and published by the Department of Commerce in May 1959 is now "out-of-date" as a result of these disqualifications, although some, if not all, of the companies may apply for re-registration after six months. (JAC)

6. (UNCLASSIFIED) Steel Plant Finds Scrap Imports Difficult.

According to the Chosun Ilbo of June 5, an "informed source" indicates the plan of the management of the Daehan Heavy Industry Corp. at Inchon to import ferrous scrap is encountering roadblocks. The corporation had requested that initially 20,000 tons of scrap iron be imported with ROK Government foreign exchange, ICA funds or export dollars. However, the government reportedly finds it difficult to allocate its own foreign exchange for this purpose, the allocation of ICA funds is regarded as "even more difficult", and the corporation is financially incapable of handling the purchase of export dollars. The Ministry of Commerce and Industry is stewing this one over seeking a way out of the dilemma.

(OFFICIAL USE ONLY) Comment: Daehan, the only steel mill [redacted] in the ROK, is owned by the ROK Government and was built with public finances, since ICA aid was refused on the basis of the questionable economics of building such a plant. The appraisal that ICA dollars are not likely to be made available for scrap imports consequently appears to be a good one. For some months now U.S.

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military authorities have been declining to sell scrap and other military surplus to the ROK Government or its agencies pending conclusion of an equitable U.S./ROK disposal agreement. The present woes of Daehan may have been beneficial in arousing interest in the agreement and a somewhat more reasonable attitude toward U.S. proposed terms on the part of ROK negotiators. (RWT)

7. (UNCLASSIFIED) First Korean Coins Since World War II.

The Monetary Board, which had previously decided to authorize the issuance of 10 hwan and 50 hwan coins, at its June 5th meeting decided to issue additionally 100 hwan coins composed of 75 percent copper and 25 percent nickel.

The coins, expected to be in circulation some time this year, are to be struck at the Mint of the U.S. Treasury Department and will replace 7 billion hwan of paper money. These will be the first coins issued in Korea since 1946. (RWT)

8. (UNCLASSIFIED) Berger -- Suit and Countersuit.

Joseph Berger, who has been sentenced to one year's imprisonment for his role in a radium swindle (see Economic Review No. 22), has appealed his case and filed suit against his lawyer, SO Chung-yong, for embezzling $4,000 of Berger's money. So has now filed a countersuit against Berger for false charges, libel and for failure to pay retainer fees.

(OFFICIAL USE ONLY) Comment: Berger has informed the Embassy that he has applied for a Hong Kong visa and that he will leave Korea voluntarily in lieu of serving his sentence if the Korean Government will permit it. The Embassy has explored such an arrangement with the Ministry of Foreign Affairs and that Ministry appears to be giving it favorable consideration, although no final decision has as yet been reached. In the meantime, the legal actions which Berger and the lawyer have taken against each other may well prevent Berger from leaving Korea unless these differences can be settled out of court. (JAC)

9. (UNCLASSIFIED) Demands Publicized by Korean Farmers Association.

According to the press, the following demands were contained in a statement released last week by the Korean Farmers Association:

1. That the Korean Agricultural Bank (KAB) carry out the agricultural credit business in accordance with pertinent laws. The association complained that the farmers cannot obtain loans because of the collateral demanded by the KAB and pointed out that most farmers own no valuable property other than their land which they are prohibited from mortgaging by the Farmland Reform Law. The Association demanded that loans be made on the basis of agricultural productivity rather than on collateral offered.

2. That the KAB simplify its operations. The Association wants the Bank to abolish its branch offices and deal directly with the agricultural cooperatives rather than with individual farmers.

3. That the ROK Government fertilizer policy be revised. The Association demanded that all fertilizer imports be handled by the Government so that unscrupulous profiteers cannot take advantage of the farmers. The Association also

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wants the distribution of fertilizer to be handled by the cooperatives and urea fertilizer imported rather than ammonium sulphate.

4. That in the government purchase of straw products from the farmers, the interest of the farmers be kept in mind and that the handling of straw products for the ROK Government be turned over to the cooperatives.

5. That the National Assembly speedily pass a law encouraging the production of cotton. The Association attributed the drop in domestic cotton production (from 125 thousand kwan in 1951 to 37 thousand kwan in 1958 - 1 kwan:8.25 pounds) to the excessive import of foreign cotton at the Hw 500:$1 legal exchange rate.

6. That the agricultural cooperatives properly discharge their duties by increasing their operations.

(OFFICIAL USE ONLY) Comment: A bill which would permit farmers to mortgage their land has recently been drafted.

Prospects seem remote that the cooperatives, unless aided by the ROKG, could finance the handling of fertilizer.

At present, straw products for the use of the ROKG are purchased from the farmers by two firms named by the Ministry of Agriculture and Forestry. There are indications that these firms pay the farmers prices which are barely above the minimum price established by the government and then resell to the government at the official maximum price. The making of straw products is one of few income-producing activities available to Korean farmers during the winter months.

Numerous sources state that the development of the cooperatives is being hampered by "political interference" but no one appears to be able, or willing to discuss the origin and nature of the interference. (LR)

10. (UNCLASSIFIED) Charges Continue Against Fertilizer Program.

According to press reports, an opposition Assemblyman, in a meeting of the National Assembly's Agricultural and Forestry Committee, charged that of the handling charges for 1 million tons of fertilizer imported by the ROK Government from 1956 to July 31, 1957, 3.9 billion hwan was released improperly and that this improperly released money was used as political funds. The Assemblyman is quoted as having noted that the improperly released money "seems to have had something to do with the settlement of the aftermath of the May 15 presidential and vice-presidential election and the May 2 general election.....the money was released in those periods."

These reports state that the Ministers of Agriculture and Forestry, and of Reconstruction, who attended the meeting, were questioned about the charges raised but were unable to offer clarification. When questioned on the increase in handling charges for fertilizer, the Ministers attributed the increase to higher transportation costs and the loss of 1.4 percent of fertilizer imports because of damage.

It has also been reported that the local officials accused of embezzling

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fertilizer by the Director of the Office of Supply (Weekly Economic Review No. 22) intend to file a libel suit against the Director. They claim that the charges are unfounded and that it was improper to try to shift the responsibility of the Office of Supply for its own corruption to the local administrative officials. (LR)

11. (UNCLASSIFIED) Pension Payments for Soldiers and Policemen.

The Ministry of Health and Social Affairs is planning to release a total of 5.3 billion hwan in disability or death pensions to an estaimated 192 thousand ex-servicemen and policemen or their survivors between now and September. This sum represents pension payments for the years 1952, 1953 and 1959. Payments for the years 1954-1958 will be made gradually in the future the Ministry says. (LR)

(UNCLASSIFIED) Communications Workers to Receive Holiday and Overtime Pay.

The Ministry of Communications has decided to begin paying in 1960 overtime and holiday pay to government employees in the field of communications. The Ministry explains its failure to date to make such payments, which appears to violate not only the labor laws but the government employee regulations as well, as due to the lack of funds. The Ministry's plan is subject to approval by the National Assembly. (LR)

13. (UNCLASSIFIED) Reports of Embezzlement by Labor Leaders.

The newspapers have reported that the police are investigating the possible embezzlement of union members' wages by union leaders in Changhwang. It is said that the workers were so aroused that they raided union offices.

(UNCLASSIFIED) Comment: The press accounts of this case are rather limited and not very clear. Officials of the Federation of Korean Trade Unions (FKTU) who were questioned by the Embassy also appeared to lack any real knowledge of the situation. At this time the Embassy can only hazard a guess that there is some truth in the reports of embezzlement and that revelation of the situation was a result of the struggle for power in the labor movement (Weekly Economic Review No. 15).LR

14. (UNCLASSIFIED) Union Officials Return from Study Tour.

The five Korean labor officials, headed by CHOI In-kyu, Assistant Chief of the International Affairs Department of the FKTU, who participated in the UNESCO sponsored study tour through southeast Asia have returned to Seoul (Weekly Economic Review No. 16). Choi says that, in addition to a radio interview, he has been requested to do a series of articles on the tour for the local press. The greater activities of the Federation of Korean Trade Unions and the increased attention given by the press to labor matters are encouraging signs for the development of the organized labor movement in Korea. (LR)

15. (UNCLASSIFIED) Errata.

In Weekly Economic Review No. 20 the Embassy reported that the ROKG had traded 726 thousand suks of miscellaneous grains for 67 thousand suks of rough rice owned by farmers. This was erroneous as the miscellaneous grain figure included grain lent by the ROKG as well as that traded. As of May 23, approximately 140 thousand suk of miscellaneous grains had been traded for 66 thousand suks of rough rice. In loans,

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628 thousand suks were distributed to farmers who must repay the loans by this fall.

In Weekly Economic Review No. 22, item 12, the prices of barley per market suk (200 liters) should have read: May 1958, 18,000 hwan; May 1959, 13,000 hwan. (LR)

For the Ambassador:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

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By [illegible] NARA, Date 11/21/96

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Action Taken June 19 1959
DATE

REF : 9/200 CERP - Korea, Section C, Item 1.

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SUBJECT: Weekly Economic Review No. 24.

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1. (UNCLASSIFIED) Korea Suspends Trade with Japan.

As a result of the reported agreement between the Japanese Red Cross and the NKRC on the repatriation of Korean nationals in Japan to communist North Korea, Ambassador Yiu in Japan suspended the issuance of consular invoices on shipments from Japan to Korea on June 11. This in effect suspended all Korean imports from Japan, including those financed with ICA funds. The Korean Government on June 15, after weekend deliberations, officially announced that all trade between the two countries was suspended with certain limited exceptions for ICA financed imports already under contract.

In informing Ambassador Dowling on June 15 of the decision to suspend trade, ROKG officials requested U. S. Government cooperation in the suspension of Regulation I so that Japan could be excluded as a source for ICA procurement under the Korean aid program. As a result of earlier representations, the ROKG assured the Ambassador that ICA financed contracts on which letters of credit had been opened for supplies from Japan would be honored but no ICA financed shipments would be permitted if L/C's or S/A's had not been issued, nor would new business be awarded to Japanese suppliers.

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Statistics made available from the BOK and OSROK indicate that letters of credit had been opened on some $6.8 million of ICA financed imports from Japan which remain to be shipped. Of this amount about $3.6 million is OSROK (Government) procurement and $3.2 million is ICA-financed commercial procurement. The Korean Government has instructed the Korean Mission in Japan to resume the issuance of consular invoices and certificates of origin on these shipments but [redacted] has not withdrawn the suspension on other trade.

(OFFICIAL USE ONLY) Comment: The economic ministers of the ROK Government are aware that the suspension of trade with Japan involves certain risks and losses for the Korean economy. But, they say, "we had no alternative". A number of American trading companies supplying from Japan had expressed serious concern over the potentially substantial losses they would sustain as a result of the suspension, but they have been assured that their outstanding contracts would be honored and that OSROK would not penalize them or otherwise make claims against their performance bonds for late deliveries attributable to the Korean Government's action. This assurance, however, does not settle the question of who pays the extra costs resulting from the delays, such as the costs for loading and unloading, storage, etc. The presumption, of course, is that these costs should be borne by the Korean buyer.

Inquiries made by some foreign (other than American) businessmen as well as by foreign diplomatic mission officials reveal fairly clearly that from a purely commercial point of view the trade suspension may prove to their advantage. There is a not too well concealed hope on their part that Washington may approve the suspension of Regulation I so that European countries will then enjoy that share of ICA business thereby lost to Japan. (JAC)

2. (UNCLASSIFIED) Immediate Commercial Effect of Trade Suspension.

Although a suspension of trade with Japan was announced by the Government on June 15, a number of measures have been taken to relieve the immediate difficulties resulting from such suspension. As of June 15, the Bank of Korea indicated that pending contracts for private exports to Japan amounted to $3,954,950 while private import contracts totaled $1,932,005. OSROK contracts with ICA financing totaled $3,572,745 and ICA financed commercial contracts, $3,193,529. (See item 1)

The trade suspension, however, has been modified to permit consumation of the $6.8 million of ICA-financed contracts for which letters of credit or subauthorizations had been issued on or before June 15. In addition the BOK has indicated that outstanding contracts for private imports and exports as of June 15 may also be honored. If these pending shipments are all permitted, losses to traders from the suspension on that share of trade will be minimized.

There are, however, about $2 million in imports from Japan for which S/A's have not been issued and which will represent a loss of business for Japan if the suspension continues. In addition, it is estimated that another $1.5 million in S/A applications would normally be received by mid-July for Japan in the absence of the suspension.

Although complete and accurate Korean statistics are not available, it is estimated that Korean total imports from Japan amounted to $34 million in 1957 and $47 million in 1958. In the first three months of 1959 imports from Japan totaled

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over $21 million of which aid financed procurement accounted for $18.8 million. If the suspension of trade continues for an indefinite period, therefore, Japan's loss of business with Korea would be in the approximate magnitude of $40-50 million annually. Korea, on the other hand, would suffer the loss of an estimated $10 million in exports to Japan for which it would be difficult to find other markets and would undoubtedly have to pay higher prices for many of its import requirements which it normally buys from Japan. (JAC)

3. (UNCLASSIFIED) Price Increases Follow Suspension.

The Government announcement of the suspension of trade with Japan on June 15 was followed by an immediate reaction in the wholesale prices of some commodities. Illustrative of the price increases (comparing June 18 and June 11 prices) are the following: gasoline, up 15.6%; rayon yarn, 7.1%; woodfree paper, 4.9%; raw rubber, 1.7%; carbon black, 18.4%; and nitric acid, 9.1%. Minor declines were registered for some commodities such as rice, and cotton sheeting. Others remained relatively stable. It is not anticipated that these changes will have any significant effect upon the overall price index.

Foreign exchange rates also reacted to the suspension of trade. There were no transactions on Japan dollars for a short period after the June 15 official announcement of the trade blockade, but rates were again quoted when provisions were made for the completion of the outstanding contracts. On June 18 the rate for Japan dollars increased over the June 11 rate by 20 hwan to the dollar. Other export dollars rose by 70 hwan, military supply dollars by 65 hwan, and service and missionary dollars by 70 hwan. (JAC)

4. (UNCLASSIFIED) Editorial Comments on Trade Suspension.

Korean suspension of trade with Japan has elicited wide editorial comment in the local press. The consensus is that action taken by the ROKG was necessary in view Japan's intransigence on the repatriation question. Although there were mixed reactions relative to the degree of damage to the economies of Japan and Korea, all agree that the Korean economy will suffer as a result of the cessation of trade. Some question the effectiveness of the trade stoppage in achieving the desired results.

Korea Times, editorialized that the suspension of trade will deal Japan a "severe blow" but admits the suspension will hit the Korean economy as well. It predicted increased prices of imported commodities and a consequent effect on the stabilization program. Times said indefinite continuation of the blocade is likely to result in "considerable sacrifices" for export, import, and related industries and urged Government to do utmost to help cover traders' losses. Appealed to traders not to let private interests take precedence over national interests.

Chosun Ilbo, questioned effectiveness of "economic sanction" and stated that the country imposing the sanction should suffer less than the country on which the sanction is applied. Quoting statistics reflecting Korea's greater dependence upon Japan

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than visa versa, paper expresses doubt Government had considered these factors in imposing the sanction. Chosun Ilbo editorial concluded that Korean unilateral suspension trade will not produce desired effect and might give Japanese pretext for increased trade with Communist countries, but that having already taken action Korea should attempt to maximize its effect in pressing Japan to abandon repatriation plans.

Tong A Ilbo, stated suspension was necessary and unavoidable but urges Government to take measures to minimize losses to Korea, including provisions to allow concluded and pending contracts to be fulfilled and development substitute markets for Korean exports.

Government sponsored Korean Republic editorial stated trade suspension serious matter that will hurt both countries but harm to Korea would be a small price to pay if Japan made to realize Korea means every word it says. Moreover trade suspension may have effect of alerting many influential and anti-communist Japanese businessmen who may now make anti-deportation representations to their Government. If this happens, then "trade blockade" will have been worthwhile. If Japan persists in present course then trade suspension will not matter anyway and merely consists of first in series of steps leading to complete rupture of relations. Another important probable result suspension is it may affect attitude of U.S. which has an obligation to tell Japanese they are wrong in negotiating with communism. (JAC)

5. (UNCLASSIFIED) Agreement Reached on PL 480 Program

Final agreement was reached this week on the FY59 PL 480 program. The program, totalling $33 million, includes $20.3 million for wheat (approximately 330,000 metric tons), $7.5 million for cotton (approximately 60,000 bales), $0.5 million for feedgrains (10,000 tons), and $4.7 million for ocean freight. This compares with a $50 million program in FY58. The reduction is attributable to the marked increase in domestic grain production and the consequent reduced demand for imports.

Under the projected agreement, 85 percent of local currency proceeds (the equivalent of $28 million) will be transferred to the Korean defense budget. The remaining hwan proceeds will be used by the U.S. for administrative and other purposes.

Signature of the agreement is expected within a week or ten days.

(OFFICIAL USE ONLY) Comment: There may be some difficulty in the utilization of the wheat programmed under PL 480. Grain stocks in the hands of the Government, including rice held under the "rice lien program", totaled some 4.2 million suk (approximately 700,000 tons) as of the end of May and the Government is encountering difficulty in liquidating these stocks without suffering financial loss and unduly depressing farm prices. In addition the good barley harvest, just completed, and the favorable prospects for rice production -- rice transplanting is about ten days ahead of last year -- help ensure an abundant supply of grains for the coming year. (EMC)

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6. (UNCLASSIFIED) Details of Coinage Plans Revealed.

The Bank of Korea (BOK) has informed the Embassy of the details of its plans to convert its small denomination paper currency to coins (Weekly Economic Review 23). The initial purchase as planned, will include 100 million 10 hwan coins, 25 million 50 hwan coins and 50 million hundred hwan coins. The total monetary value comes to 7.25 billion hwan (500 hwan equals $1 at the official rate of exchange). With the addition of 50 million more 100 hwan coins in 1960 and the printing of additional 500 and 1000 hwan notes, all paper currency of the 10, 50 and 100 hwan denominations will be retired.

The initial coinage of 175 million pieces will cost an estimated $920,000, 80 percent of which is the cost of the metal content. (The work is to be done by the U.S. Mint.) The addition of 50 million hundred hwan coins in 1960 will cost an estimated $500,000. BOK officials consider that this will be money well spent since the coins, which are expected to be usable for at least ten years, will "more than pay for themselves in two years". Paper money in these denominations lasts only a year, according to these officials, and replacement costs are extremely high. In addition, there will be substantial labor savings in the handling of the coins. The BOK also points to the coinage plan as a "sign of confidence in the value of the hwan currency."

The 10, 50 and 100 hwan coins roughly correspond in size and general appearance to the U. S. penny, nickel and quarter. The 10 hwan unit is to be made of copper and zinc (5%); the 50 hwan coin will be 70 percent copper, 12 percent nickel and 18 percent zinc; and the 100 hwan coin will be 75 percent copper and 25 percent nickel.

(UNCLASSIFIED) Comment: The ROKG coinage plans appear to be sound. The significant savings over ten years, both in acquisition and handling costs, would appear to outweigh the expenditure of the dollar exchange involved. (Korea's paper money can now be manufactured locally). Also, the metalic value in the coins will allow the Government to recoup, eventually, a substantial portion of the dollar outlay.
(EMC)

7. (UNCLASSIFIED) Money Supply Remains Stable During May.

Preliminary money supply figures for the end of May reveal a slight drop in the total volume during the month from 210.0 billion hwan to 209.5 billion. Following the sharp increase during January and February, which is attributable largely to the financing of Government grain inventories, money supply declined and then was stabilized in the following three months. Currency in circulation has actually declined by 13 percent since the end of December while demand deposits have risen 39 percent. A comparison of 1958 and 1959 money supply trends follows:

MONEY SUPPLY TRENDS

	1958			1959		
End of Month	Currency	Deposits	Total	Currency	Deposits	Total
Dec 57/58	86.0	59.1	145.2	111.1	81.5	192.6
Jan	81.5	68.4	149.9	108.0	100.0	208.0
Feb	83.0	74.4	157.4	111.4	111.8	223.2
Mar	74.3	72.8	147.1	98.7	112.0	210.7
Apr	78.2	76.2	154.4	98.5	111.5	210.0
May	74.4	76.0	150.4	96.6	113.0	209.5
% change since Dec	-13.5%	+28.6%	+3.6%	-13.1%	+38.6%	+8.8%

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8. (UNCLASSIFIED) Expense Information for Tax Purposes?

A number of American businessmen have sought assistance and guidance from the Embassy in connection with a form delivered to nearly all foreign businessmen in Seoul. The form called for information concerning the overhead expenses of the companies for the years 1957 and 1958, including total salaries paid, rent payments, disbursements for stationery, vehicle maintenance, telephone and telegraph charges, entertainment, petty cash, etc. There was no identification on the form as to where it originated or to where it was to be returned. An investigation by the Embassy revealed that it was issued by the Seoul Tax Office and the information was required allegedly for tax purposes.

The Embassy called upon the Director of the Bureau of Taxation to seek a clarification of the request. The director was reminded of the agreement reached in 1955 with the Korean Government that taxes on most American traders in Korea, who act as agents for companies outside of Korea, would be a flat business tax based on their gross sales to Korea. In view of this, it was not clear why information on office and other business expenses was necessary since it does not affect the rate of tax. Moreover, it was pointed out that much of the information sought was already available in the Korean Government and that some of the information was not available in the companies offices.

The Director professed to know nothing about the form or its purposes, conjectured that it may have been the local tax office's attempt to obtain information for reference purposes, but promised to investigate and then report his findings to the Embassy.

(OFFICIAL USE ONLY) Comment: It seems obvious that the local tax office's form was intended to result in information which would make it possible to compare total local currency expenditures with records of dollar conversions at the BOK at the official rate of exchange. If expenditures were in excess of officially recorded conversions, then there would be some basis for investigating the source of the excess hwan and the rate of exchange used in acquiring it. (JAC)

9. (UNCLASSIFIED) Misappropriation of Fertilizer Funds by OSROK Officials.

Press sources have reported the indictment of two branch office officials of the Office of Supply, Republic of Korea (OSROK) for the misappropriation of some 1.7 million hwan from sales proceeds for fertilizer. OSROK officials in Seoul state that they are embarrassed by the reports and know nothing about the case. (LR)

10. (UNCLASSIFIED) Bill to Prohibit Use of Foreign Tobacco Drafted.

According to the press, the ROKG Office of Monopoly has drafted a bill to prohibit the use of foreign tabacco. The bill provides that persons smoking or carrying foreign cigarettes for personal use would be fined less than Hw 5,000 (Hw 500=$1 at the legal exchange rate) and/or detained for less than seven days. Exceptions would be made for those persons on duty with or employed by foreign military groups. Those persons who carry or sell foreign produced or manufactured tobacco for the purpose of resale would be subject to fines of up to Hw 50,000 and sentences of up to three months at hard labor.

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(UNCLASSIFIED) Comment: Even if the bill is enacted into law, its implementation and enforcement would constitute difficult problems. (LR)

11. (OFFICIAL USE ONLY) Potential American Investment in Korea.

Eisenberg and Company in Korea called at the Embassy to express its displeasure over the recent OSROK ICA financed contract award for Land Rover vehicles despite the preference of the National Police for the Willy's jeep. (The award was made by OSROK on the basis of the lowest bid in accordance with Regulation I on a world bid basis. No proprietary purchase had been requested in this case.) Mr. Eisenberg indicated that the Willy's people may ask the Hardy Committee to conduct an investigation of this award although Mr. Eisenberg himself did not feel that such an investigation would prove useful for either that contract or for future business.

In the conversation, Mr. Eisenberg reported that consideration is being given by the Willy's Company and the Singer Sewing Machine Company, both of which he represents in Korea, to investment in Korea for the manufacture of their products here. Mr. Eisenberg said that this, of course, would have to await the enactment of a foreign investment law.

(OFFICIAL USE ONLY) Comment: This consideration of investment in Korea by American companies seems to be motivated, in part at least, by a desire to break into the Korean market to a larger extent than is now possible. However, on the basis of the protectionistic attitude expressed by some National Assemblymen on the present provisions of the foreign investment bill now under consideration, it appears doubtful that Korea would permit investment in these fields since they would compete with existint domestic industries. (JAC)

12. (UNCLASSIFIED) KFX Auction Bids.

The weighted average of the bids for dollars in the Korean foreign exchange auction of June 11 (completed June 15) was 1060 hwan per dollar. The bids ranged from 1040 hwan to 1130 hwan per dollar. Seven million dollars were auctioned for the import of commodities which include caustic soda, industrial chemicals, newsprint, raw rubber, raw sugar, iron and steel, and rayon yarn.

(UNCLASSIFIED) Comment: If the trade suspension continues and the Korean Government decides to auction additional dollars to meet its import requirements and to keep prices from rising, the rates bid for the dollars may very well increase above the level of this recent auction. (JAC)

13. Delay in Appointment New Coordinator Resented. (UNCLASSIFIED)

The Chosun Ilbo, in an editorial of June 9, expressed disappointment over the delay of the United States in appointing a new Economic Coordinator to replace Mr. Warne, who departed Korea on March 28. The paper labeled the delay as a failure to meet the diplomatic standard of international courtesy or an apparent expression of dissatisfaction on the part of the United States. A comparison was made with the delay in the appointment of a new Ambassador after the departure of Ambassador Lacy from Korea. in 1955. (JAC)

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14. (UNCLASSIFIED) Investigation of Stevedores Unions Begins.

A special investigating group composed of six members of the National Assembly's Health and Social Affairs Committee is conducting an on-the-spot inquiry into the charges of embezzlement of stevedores wages by union leaders in Inchon. Press reports state that the investigation is being hampered by the workers' unwillingness to testify out of fear of reprisals by foremen and other supervisory officials.

(OFFICIAL USE ONLY) Comment: As reported in Weekly Economic Review No. 15, the Inchon labor situation is also being investigated, on the charge of embezzlement of ROKG fertilizer funds, by the National Assembly's Committee on Agriculture and Forestry. As was also mentioned, the charges of embezzlement by union leaders may have been generated, at least in part, by the struggle for power in the Korean labor movement between CHONG Tae ch'on, National Assemblyman, and KIM Ki-ok, Chairman of the Federation of Korean Trade Unions (FKTU), who is now in the U.S. on a foreign leader grant. Whether or not this is true, Kim will certainly not benefit from the presence of Chong on the Assembly's special investigating group.

During the week, CH'A Kuk-ch'an, former Director of the International Affairs Department of the FKTU and a leading member of the Chong faction, told the Embassy that 70 per cent of the members of the Pusan Free Workers Union (Kim's local union) had protested against Kim's leadership. (Weekly Economic Review No. 23). Cha said that the Assembly investigating group would investigate the stevedores unions, all members of the Alliance headed by Kim, in other port cities after its Inchon inquiry and that officers of the FKTU are urging Kim to return immediately from the U.S.

The FKTU did press the Embassy for an address in the U.S. at which Kim could be reached immediately. Federation representatives say, however, that there is no intent or need to urge Kim to return, they simply want to keep him informed of current developments.

As previously reported, the Kim group had expected Chong to attack Kim at every opportunity, particularly during Kim's absence from Korea. (LR)

15. (UNCLASSIFIED) Case of Changhwang Union Leaders.

The Embassy has obtained the following information on the suspected embezzlement of union funds by labor leaders in Changhwang (Weekly Economic Review No. 23). After inspection of the financial records of the union, the newly elected treasurer refused to accept the books of his predecessor. The new treasurer reported that union officials had spent 5.4 million hwan from 1956 through 1958, of which an unspecified amount appeared to have been used illegally. (Hw500=$1 at the legal rate of exchange). The police are still investigating. (LR)

16. (UNCLASSIFIED) Unemployment Insurance System Planned.

Questioned on reports that it has requested 2.4 billion hwan to finance an unemployment insurance system, the Ministry of Health and Social Affairs confirmed

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that such a system is planned. The Ministry, however, refused to discuss details of the system or the amount of funds which would be required to finance it.

(UNCLASSIFIED) Comment: The Director of the Bureau of the Budget told an Embassy officer that many of the ROK ministries were proposing new expenditure programs in connection with the 1960 budget now being formulated. He clearly implied that the proposed unemployment insurance system and many other "socially desirable" proposals would have to be eliminated for lack of funds.

For the Ambassador:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

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DATE

REF : 1957 CERP, Section B, Item II-B, III-B-1, 3, V-E(1), VII-B(1), D(1), III-D-1, I-A-4, 5.

For Dept. Use Only	ACTION	DEPT.
	REC'D 6/29	INFO OTHER

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ACTION Dm-12
DEPT. RP-1 IRC-8 FE-4 ICA-10 E-7 TR-2
OTHER CIA-10 AG-8 IN-7 TR-3 FRB-3 TREA-4

SUBJECT: Monthly Economic Indicators, ROK, April 1959. USIA-10 ARMY-4 NAVY-3 AIR-2.

	Apr 1959	Mar 1959	Percent change a/ Mar-Apr 1959	Apr 58-Apr 59	Sept 55-Apr 59
I. PRICES (A.B.C.: 1947=1)					
A. Wholesale index, Seoul	202.4	204.2	- 0.9	+ 2.5	+14.2
1. Commodity groups					
a. Grain	181.6	179.1	+ 1.4	-16.6	-13.9
b. Meats, eggs, fish	400.8	389.2	+ 3.0	+31.3	+51.6
c. Textile raw materials	156.5	153.6	+ 1.9	+ 6.4	+30.5
d. Textiles	70.1	67,4	+ 4.0	+9.5	- 0.1
e. Building materials	259.5	259.5	0	+ 9.4	+12.6
f. Fertilizer	539.4	539.4	0	0	+68.6
g. Fuel	537.0	596.2	- 9.9	+29.4	+44.0
h. Miscellaneous	120.4	119.9	+ 0.5	+ 9.9	+36.1
2. All items except grain	215.7	220.3	- 2.1	+16.9	+38.5
3. Consumer goods	194.8	199.2	- 2.2	- 2.9	+ 7.8
4. Producer goods	181.8	179.7	+ 1.2	+ 8.8	+21.7
B. Seoul consumer price index (1955=100)					
1. General	151.3	149.0	+1.5	+ 3.6	+30.3
a. Food	150.1	145.9	+ 2.9	- 1.0	+19.4
b. Housing	178.2	173.7	+ 2.6	+10.8	+69.9
c. Fuel & light	151.2	160.7	- 5.9	+24.2	+31.7
d. Clothing	107.2	106.8	+ 0.4	- 6.4	+ 2.4
e. Miscellaneous	167.6	165.4	+ 1.3	+ 8.8	+56.6
C. Rice, retail, Seoul hwan/20liters	2,500	2,487	+ 0.5	-12.2	-15.5
D. US $1 greenback, Seoul	1,173	1,162	+ 0.9	+ 2.7	+53.3

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	Apr 1959	Mar 1959	Percent change Mar-Apr 1959	Apr 58-Apr 59	Sept 55-Apr 59
E. New national wholesale price index (1955=100)					
1. All commodities	140.5	138.0	+ 1.8	- 2.2	+18.0
a. Foods	133.6	127.8	+ 4.5	- 8.8	+ 1.8
b. Fuel & power	153.1	153.6	- 0.3	+ 9.5	+39.2
c. Mineral products	110.8	110.2	+ 0.5	+ 3.6	+ 7.4
d. Metals products & machinery	167.9	167.3	+ 0.4	+ 8.5	+56.6
e. Building materials: (Including metals)	150.7	148.4	+ 1.5	+ 3.9	+30.5
Excluding metals	146.4	143.7	+ 1.9	+ 2.1	+25.9
f. Fiber and fiber products	120.9	120.0	+ 0.8	- 3.8	+16.0
g. Chemical products	215.5	219.1	- 1.6	+ 1.4	+53.2
h. Paper	137.0	131.8	- 3.9	+ 7.5	+37.1
i. Raw rubber and rubber products	130.3	135.9	- 4.1	+23.4	+13.9
j. Miscellaneous	156.4	156.2	+ 0.1	+ 3.6	+48.2
2. Special groupings					
a. Grains	125.3	124.9	+ 0.3	-18.8	-14.8
b. All commodities excluding grains	145.5	142.4	+ 2.2	+ 3.9	+32.5
c. Producer goods	164.1	163.3	+ 0.5	+ 4.9	+40.1
d. Consumer goods	130.9	127.8	+ 2.4	- 5.4	+ 9.2

	Billions of Hwan			Percent change	
	Apr 1959	Mar 1959	Apr 58-Apr 59	Mar-Apr 1959	Apr 58-Apr 59
II. MONEY SUPPLY (bil.hwan)					
A. Notes & deposits					
1. Bank notes, outside banks	98.5	98.7	+20.3	- 0.2	+26.0
2. Check/demand deposits, excl. uncleared	128.6	126.6	+28.9	+ 1.6	+29.0
3. Foreign official deposits	17.1	14.6	+ 6.4	+17.1	-27.2
4. Total (1+2-3)	210.0	210.7	+55.6	- 0.3	+36.0
B. Factors affecting money supply					
1. Government finance b/	106.4	107.5[r]	+47.5	- 1.1	+80.6
2. Private credit (inc. BOK, exc. KRB)	171.1	170.2[r]	+58.2	+ 0.5	+51.6
3. Other c/	-67.5	-67.0	-50.1	+ 0.9	+288.5
4. Total	210.0	210.7	+55.6	- 0.3	+36.0

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	Mar 1959	Feb 1959	Total Jan-Mar 1959 (Average in case of indexes)	Percent change Feb-Mar 1959	Percent change Mar 58-Mar 59
III. PRODUCTION					
A. Quantities of output					
1. Cotton yarn (mil.lbs)	7.9	8.6	25.5	- 8.6	+31.0
2. Cotton cloth (mil.sq.yds)	10.8	13.4	38.5	-19.2	+ 8.3
3. Cement (1,000 mt)	21.3	22.6	66.0	- 5.8	-14.4
4. Rubber shoes (mil.prs)	3.8	3.5	11.4	+ 8.6	+120.5
5. Coal (1,000 mt)	299	264	844	+13.3	+39.1
6. Tungsten (mt)	248	235	731	+ 5.5	-19.7
7. Electric power (mil.KWH)	142	124	413	+14.5	+11.8
B. Production indexes (1955=100)					
1. Industrial production (100)	149	142[r]	146	+ 4.9	+ 2.8
a. Mining (10)	200	188	202	+ 6.4	+ 7.5
b. Manufacturing (87)	142	136[r]	139	+ 4.4	+ 2.2
c. Electricity (3)	194	169	188	+14.8	+12.1

	Mar 1959	Feb 1959	Total Jan-Mar 1959	Percent change Feb-Mar 1959	Percent change Mar 58-Mar 59
IV. FOREIGN EXCHANGE ($ mil)					
A. Holdings (inc. gold)	149.5	147.1	(+3.0)d/	+ 1.6	+23.0
1. Dollars, US	146.2	143.9	(+3.0)d/	+ 1.6	+23.5
2. Uncommitted	90.5	89.6	(-0.2)d/	+ 1.0	+42.7
B. Receipts	8.7	6.7[r]	23.6	+29.9	+22.5
1. Exports	1.5	0.8[r]	3.7	+87.5	-16.7
2. Hwan sales	2.3	2.6	7.7	-11.5	-39.5
3. Other	4.9	3.5[r]	12.4	+40.0	+226.7
C. Payments	6.3	7.8	20.9	-19.2	+26.0
1. Imports (non-aid)	5.2	6.3	15.0	-17.5	+26.8
2. Other	1.1	1.5	4.9	-26.7	+22.2

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	Program (Adjusted)	Feb 1959	Jan 1959	During Dec 56- Feb 58	During Dec 57- Feb 59	During Jan-Feb 1959
V. ECONOMIC AID ($ mil)						
A. ICA arrivals (US FY basis)						
1. 1954	178.8	177.1	177.0	17.4	2.5	0.1
2. 1955	246.9	239.7	239.7	20.7	7.9	0
3. 1956	315.7	292.2	291.8	87.3	16.6	0.4
4. 1957	321.8	276.5	275.0	224.9	76.8	1.5
5. 1958	237.3	180.0	175.8	27.5	173.6	4.2
6. 1959	193.7	33.6	17.5	0	33.6	16.1
7. Total	1,494.2	1,199.1	1,176.8	377.8	311.0	22.3
a. Project	500.6	350.3	347.3	103.0	68.0	3.0
b. Non-project e/	972.2	840.1	820.9	271.6	237.3	19.2
(1) Surplus agricultural commodities Sec.402	199.8	176.2	173.9			2.3
(2) Fertilizer	266.4	239.7	228.3			11.4
(3) Other & unassigned to specific non-project uses	506.0	424.2	418.7			5.5
c. Technical cooperation	21.4	8.7	8.5	3.3	5.7	0.2
d. Reserve	192.3	23.5	29.0	-	-	- 5.5
B. US FY 1959 ICA obligations	193.8	136.9	125.3	-	-	11.6
C. PL 480 arrivals	132.0	126.9	126.4	47.0	48.4	0.5
1. Food	114.4	109.5	109.0	43.0	48.0	0.5
2. Other	17.6	17.4	17.4	4.0	0.4	0

Footnotes: a/ Computed in most cases from unrounded figures. b/ Includes the Government's net position at the BOK (overdrafts less deposits, including operations of counterpart funds); Government bonds, industrial reconstruction bonds and industrial finance debentures (latter two are KRB issues) held by BOK; BOK loans to Government agencies; national bonds held by banks other than the BOK and KRB; and loans by banks, other than BOK and KRB, to local Governments. c/ Includes BOK net purchases of foreign exchange, savings and time deposits (decreasing factors), deposits of foreign organizations in the BOK (decreasing factor), and all other influences on the money supply (net). d/ Change between December of year before and March of year indicated, expressed in $ million. e/ Being the change on OEC Program Status Report, the categories on Non-Project also changed, Eventually the comparisons with previous periods on Non-Project are not available.

For the Ambassador:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

Action Assigned to LA/R

FROM : Amembassy SEOUL

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DESP. NO.

Action Taken

TO : THE DEPARTMENT OF STATE, WASHINGTON.

June 26, 1959
DATE

REF : CERP - Korea, Section 8, Item 1.

Date of Action NDEC

Action Office Symbol

Name of Officer

Direction to PDR

9 For Dept. Use Only	ACTION	DEPT.
	FE-6	INFO RM/R-2 Rep-1 IRC-15 E-7 ICA-14
	REC'D 6-29-59	OTHER OSD-2 ARMY-35 NAVY-20 AIR-30 CIA-6 OCB-2

SUBJECT: Weekly Economic Review No. 25.

FR-3 Ag-8
FRB-3 LAB-5
XMB-4 Com-12

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1. Exchange Rates Rise Following Trade Suspension. (EMC)
2. Prices Remain Stable. (EMC)
3. Status of Trade Suspension. (JAC)
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5. Taiwan's Economic Mission to Korea. (JAC)
6. Export Promotion Committee Established. (JAC)
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8. Split Threatens Labor Leaders. (LR)
9. Co-ops To Handle Straw Goods and Fertilizer Programs. (LR)
10. Foreign Investment Bill Still Under Study. (JAC)

1. (UNCLASSIFIED) Exchange Rates Rise Following Trade Suspension.

Apparently reflecting an anticipated shortage of export dollars, resulting from Korea's suspension of trade with Japan, the price of export, service and missionary dollars at the Bank of Korea rose moderately last week. Average prices for dollar transfers at the bank on June 25 were about four percent higher than a month earlier and about thirty percent above a year ago. As shown below transfer rates at the BOK now exceed the blackmarket rates for dollar instruments.

(Hwan per dollar)

	A June 25	B May 25	C June 25 '58	% Increase A/B	% Increase A/C
1. Export $s Japan (L/C)	1530	1460	1150	4.8	33.0
2. Export $s other (L/C)	1360	1320	1050	3.0	29.5
3. Service $s	1270	1230	940	3.3	27.7
4. Missionary $s	1120b/	1080b/	940a/	3.7	19.1
5. Greenbacks (illegal)	1260	1210	1200	4.1	5.0
6. MPC (illegal)	1200	1190	1070	0.8	12.1

a/ Not subject to 150 hwan exchange tax.
b/ Net of 150 hwan exchange tax.

Foreigners interested in purchasing art objects and Korean handicrafts got an unexpected windfall as a result of an increase in the Foreigner's Shopping Center

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rate from 1000/$1 to 1100/$1 effective July 1.

(EMC)

2. (UNCLASSIFIED) Prices Remain Stable.

Although prices of certain imported commodities rose following the suspension of trade with Japan (Weeka Economic Review 24), the overall Seoul wholesale price index, for the week ending June 19, declined slightly. The index (September 1955=100) registered a 0.7 percent decline for the week - from 124.4 to 123.5. Grain prices dropped 1.9 percent and the average for all other commodities was unchanged. Grain prices on June 19 were two percent lower than the September 1955 average while the average for all other commodities was 45.6 percent above September 1955. Comparing prices on June 19 this year with a year ago, grain is down 12.5 percent and all other prices (average) are up 20.3 percent.

	1947=1	Percent Change From			
	June 19	June 12	May 15	June 20 '58	Sept. '55
All prices	219.0	-0.7	neg.	+ 5.7	+23.5
Grain	206.9	-1.9	-0.7	-12.5	- 2.0
All other	226.7	neg.	+0.4	+20.3	+45.6

(UNCLASSIFIED) Comment: There was some press criticism last week of "the widening gap" between farm prices and the prices of manufactured goods which farmers have to buy.

(EMC)

3. (UNCLASSIFIED) Status of Trade Suspension.

Ministry of Finance statistics, as reported in the press, indicate that from June 15 to June 20 the Korean Government permitted clearances through customs under the relief measures adopted after the trade suspension (See Weekly Economic Review No. 24) of $163.9 thousand in exports and of $4.0 million in imports. The import figure includes $2.2 million in aid financed commodities.

With respect to new business, however, the picture has not improved, the Korean Government refusing to permit the consumation of new contracts. Some American and other foreign traders who supply Korea from Japan have already felt the pinch and continue to express increasing concern over the situation, while others who are likely to benefit from the removal of Japanese competition have not raised their voices in protest. Illustrative of the protests received by the Embassy are the following: Bids opened on May 25, before the trade suspension, for fertilizer imports would have entitled Japan to awards approximating $1.2 million but the BOK had been instructed not to issue subauthorizations for Japanese fertilizer. Korean buyers were "permitted" to withdraw their applications for S/A's and one American trading company shifted its source of supply from Japan to Canada to accommodate to the Korean Government's position. As a result, at least one other American trading company lost a substantial share of its business to Canadian suppliers because it had no alternative source. Financial losses sustained in this diversion are estimated by one trader to be in the magnitude of $30-50 thousand for bags, bagging, transportation to a Japanese port, and storage for fertilizer which is now not permitted import into Korea.

A recent cement bid by an American trading firm through a Korean company would

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have resulted in an award to Japan. In thiscase, however, the Ministry of Reconstruction is reported to have instructed the Korean firm to withdraw its bid "or else." When the Korean firm withdrew its bid and OSROK claimed there was no valid bid from Japan, the American trader protested and claimed the bid could not be withdrawn without the suppliers authorization. No awards have as yet been made in this case.

In other instances, OSROK has followed the practice of not even reading bids from Japan, returning them to the Korean or foreign bidders. On Wednesday of this week, however, when bids were opened for some $5 million of new fertilizer business, OSROK read the Japanese bids but no awards have yet been made.

On June 22, two representatives from the American Chamber of Commerce called on the Ambassador to express the Chamber's concern over the impact which the trade suspension has already had and is expected to have upon business activities of the Chamber's membership. The foregoing cases were used as examples. One of the points made was that until Washington makes reply to the request for suspension of Regulation I, that regulation remains in effect and the Korean Government should be compelled to observe it. Alternatively, it was suggested that ICA Washington "drag its feet" in approving Procurement authorizations, to the extent that this is feasible, until the air is cleared.
(JAC)

4. (UNCLASSIFIED) Is Travel to Japan Banned?

The Korean press reported on June 22 a decision by the Foreign Ministry to ban travel to Japan by Korean citizens under any circumstances. Exceptions were provided for those flying to and from the United States and stopping at Haneda airport as well as for those Koreans resident in Japan visiting Korea with Japanese reentry permits. This report of a travel ban as the second step by the Korean Government in protest against the planned repatriation of Koreans in Japan to north Korea was denied by the Vice Minister of Foreign Affairs, who claimed that no change had been made in the rules for travel to Japan.

(OFFICIAL USE ONLY) Comment: An Embassy check with the Ministry of Foreign Affairs' Protocol Officer elicited the explanation that Korean travel to Japan has never been freely permitted in principle. All applications have been considered on a case-by-case basis, permission being given only to those deemed by the Ministry of Foreign Affairs as justifiable. The same principle, he explained, still applies, except that applicants will now be screened more severely with the result that authorizations will be reduced considerably. This explanation appears to the Embassy to be an admission that there is a virtual, if not complete, ban on Korean travel to Japan.
(JAC)

5. (UNCLASSIFIED) Taiwan's Economic Mission to Korea.

A 12-member economic (goodwill) mission from Taiwan, consisting of Government and business officials, has come to Korea with the stated hope of acquiring a

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better understanding of Korea's economic situation and of effecting a closer economic cooperation between the two anti-communist countries. Led by Mr. Hsu Peh-yuan, currently chairman of the Bank of China's Board of Directors and a former Chinese Minister of Finance, the group has been meeting with various Korean Government and business groups and plans to make a tour of various industrial facilities in Korea. The Korean press reports that, according to Chinese business circles in Korea, Formosa is eager to take advantage of the current trade suspension between Korea and Japan to supply Chinese products to Korea. Mr. Hsu has declined to confirm or deny that this is true.

(UNCLASSIFIED) Comment: The Chinese goodwill or economic mission to Korea obviously includes trade interests. If the Chinese, who had planned this trip long before the suspension of Korea's trade with Japan, did not attempt to take advantage of this suspension to increase their trade volume, they would obviously not be living up to their reputation as excellent businessmen. Certainly other countries are also hopeful that Korea will become a bigger market for their products in the absence of competition from Japan.

Formosa has enjoyed a favorable trade balance with Korea. In 1958 Korea imported $5.6 million in merchandise from Formosa whereas its exports to Taiwan were valued at only $160 thousand. If the current Mission can help effect a small reduction in this gap it will have indeed been worthwhile. Hsu has indicated to Korean businessmen that Formosa is ready to buy 100,000 cases of apples and pears this year but that Korea must display prompt action if the transaction is to be concluded. Other suggestions made by the Mission included a simplification of Korean entry procedures, and a strict adherence to export contract terms and conditions to avoid losses from claims.

6. (UNCLASSIFIED) Export Promotion Committee Established.

The CEB on June 24 designated the permanent members to the CEB Export Promotion Committee. For the UNC they consist of Messrs. Henry Shavell of OEC, Joseph A. Camelio of the Embassy, and Daniel J. James and John R. Friedman of OEC. Members for the Korean Government are Messrs. Kim Song hwan and Ko Suk Yun of MCI, Song Chung Bum of MOR, Kim Ching Yum of MOF, and Moon Duk Choo of Foreign Affairs. Among the specific duties of the new committee are the development of recommendations for the removal of obstacles to Korean trade and the development of positive new measures designed to increase incentives for Korean exports.

(UNCLASSIFIED) Comment: It is obviously too early to preduct how much the Committee may be able to accomplish in promoting exports, but its establishment will undoubtedly result in a more serious consideration of measures designed to increase exports. (JAC)

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7. (UNCLASSIFIED) Embezzlement Charges Continue.

According to the press, the Governor of Kyonggi Province has announced that an investigation conducted by provincial officials has revealed that it was not local government officials who were guilty of fertilizer embezzlements but employees of OSROK (Office of Supply, Republic of Korea) (Weekly Economic Review No. 23). It is also reported that one OSROK employee has already been arrested and is being questioned about the embezzlement of one million hwan.

Reporting the embezzlement of some eight million hwan by a postmaster, press articles comment that the recent rash of embezzlements by postal employees has led the Ministry of Communications to organize a special roving inspection team to make spot checks on the status of public funds. (LR)

8. (OFFICIAL USE ONLY) Split Threatens Labor Leaders.

In a recent conversation with an Embassy representative, KIM Chu-hong, Chairman of the Alliance of Railroad Unions and Permanent Adviser to the Federation of Korean Trade Unions (FKTU), indicated that a serious split may be developing between the present leaders of the Federation. Kim said that, although present officers' terms do not expire until 1960, if the majority of the delegates are dissatisfied with the present leaders, they can force new elections in the convention scheduled for this October. He thought that there was much dissatisfaction with the Federation leaders and that it stemmed from, among other things, conditions such as those reported to exist in the Inchon and other stevedores unions. (Weekly Economic Review No. 24). Kim added that the two factions in the FKTU should work together and elect the most capable men from each group to the top positions in the Federation.

(OFFICIAL USE ONLY) Comment: Kim's remarks seem to support a recent rumor that he had approached CHONG Tae-ch'on, Permanent Adviser to the Federation and former Supreme Committeeman of the FKTU, with the suggestion that they bury their past differences and work together (presumably against KIM Ki-ok, Chairman of the FKTU). Chong, who helped Kim Ki-ok to prominence while using him to defeat Kim Chu-hong in the second 1957 convention, bitterly resents his loss to the Kim Ki-ok group in the 1958 convention while Kim Chu-hong, who supported Kim Ki-ok in 1958, is said to have grown increasingly jealous of the Chairman.

According to another recent rumor, of the five seats at the Liberal Party Convention allocated to the FKTU, three have already been placed at the disposal of Chong who is a Liberal Party member of the National Assembly. To date, the Federation itself, a unit of the Liberal Party, has been granted no reppresntation at the Convention.

Kim Ki-ok supporters report that the agitation against Kim in his local (Pusan) union has been stirred up covertly by the General Secretary of the local, a supposed friend and supporter of Kim. They admit their concern about this and the developments

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reported above but have reiterated that they are not urging Kim to break off his Foreign Leader Grant tour in the U.S. They have requested, however, that he return to Korea as quickly as possible when his official program is concluded. (LR)

9. (UNCLASSIFIED) Cooperatives To Participate in Straw Goods And Fertilizer Programs.

The Minister of Agriculture and Forestry has announced that the procurement of straw goods (bags, rope and mats) for the ROKG will be handled after September 1, 1959 by the agricultural cooperatives instead of, as at present, by private firms and that, as of August 1, 1960 the cooperatives will also handle the distribution of government-procured fertilizer (Weekly Economic Review No. 23). The Ministry had originally opposed such participation by the co-ops in the straw and fertilizer programs on the grounds that the co-ops were not ready to handle such matters and, particularly, that the co-ops were too weak financially. The Korean Agricultural Bank (KAB) and the Office of Supply, Republic of Korea (OSROK), which have been managing fertilizer distribution, must go along with the Ministry's decision but they feel that the co-ops will not be able to perform these new responsibilities efficiently because of organizational weaknesses and inexperienced personnel. Co-op officials admit that they face many difficult problems but say that they will attempt to make adequate preparations before the deadline date.

(UNCLASSIFIED) Comment: It is reported that the Ministry's about-face was due to determined pressure from National Assemblymen representing rural areas.

Supporters of the cooperative movement admit the weakness of the co-ops and stress that the movement will never amount to much if it is subject to constant political interference. (LR)

10. (UNCLASSIFIED) Foreign Investment Bill Still Under Study.

The foreign investment bill which has been pending in the National Assembly since late 1958 will shortly become the subject of a forum discussion among the National Assembly's committees and a number of economic experts, including Government, university, and business economists. The discussion is expected to hinge on the practicability of the bill and the problems such a law may create for domestic capital and industry. Among the points to be covered in the discussion, according to the press, are (1) profit remittance provisions, (2) necessary limitations on foreign investment, and (3) the effect of foreign investment on existing domestic industries.

(OFFICIAL USE ONLY) Comment: Although there has been optimism on the part of the Government for an early enactment of the foreign investment law, there has also been a feeling on the part of many National Assemblymen that such a law must contain provisions to protect Korean industries from competition and to protect against a drain on Korea's limited foreign exchange reserves. The feeling of nationalism and protectionism in Korea is reported by some Government officials and National Assemblymen to stand in the way of a liberal law. Embassy officials have recently

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done extensive entertaining of Assemblymen, Government officials, university professors and businessmen for the purpose of imparting to them the Embassy's views on what provisions are necessary in the law if it is to induce foreign capital into Korea. The Embassy hopes that at least some of these views will be reflected in any law that is passed.

(JAC)

For the Ambassador:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

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FROM : Amembassy SEOUL

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Action Taken

July 2, 1959
DATE

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : CERP - Korea, Section C, Item 1.

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	FE-6	INFO REA-1 RM/R-2 E-7 IRC-15 ICA-11 USIA-3
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SUBJECT: Weekly Economic Review No. 26

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10. Violence in Union Factional Struggle. (LR)
11. Union Representation at Liberal Party Convention. (LR)
12. Printing Workers Killed in Fire. (LR)

1. (UNCLASSIFIED) Suspension and Confusion.

The current status of what trade between Japan and Korea is permitted to be finalized is somewhat confused by an apparent lack of understanding on the subject between the two Governments. Korea had announced shortly after the suspension of trade action that all contracts which had been finalized on or before June 15, 1959 would be honored by Korea. This included all transactions for which letters of credit had been opened or for which subauthorizations had been issued but letters of credit not yet opened by that date. In addition all private trade with Japan under the Open Account Agreement for which letters of authority had been issued on or before June 15 would also be honored. The Bank of Japan, however, is reported to be permitting the consumation of private trade for which letters of credit had been authorized by June 15 but not for those on which letters of credit had been opened after June 15. Consequently, the Bank of Japan, according to the press, has not recognized or accepted letters of credit opened by the Bank of Korea after June 15 for about $440,000 of private imports and $78,000 in exports under the open account.

(UNCLASSIFIED) Comment: There has been some speculation in the press that the Bank of Japan has not recognized these letters of credit issued because (1) there is no clear understanding of what the Korean Government's position is, (2) the Japanese wish to preclude an increase in the Open Account balance due to Japan by Korea of over $45 million, and (3) this non-recognition of credits could be used by Japan as

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a lever to compel Korea to admit Japan as a source for ICA financial purchases. There may be some basis for all of these arguments but it is more likely that the current situation stems out of confusion more than anything else.

In the meantime Minister Song announced in a press conference on June 26 that if Japan continues to keep the Open Account closed for credits issued after June 15, Korea may have to authorize the holders of credit in the Open Account to use those credits for imports from areas other than Japan as a relief measure for the traders involved. This would be accomplished by ROKG foreign exchange loans to the traders. Korean export credits in the open account which Korean traders and the Government want to utilize are estimated from $1.1 to $4.5 million. (JAC)

2. (UNCLASSIFIED) PL 480 Agreement Signed.

On June 30 the 1959 U.S.-ROK PL 480 Agreement was signed by Ambassador Dowling and ROK Minister of Reconstruction SHIN Hyon-hwack. Included in the Agreement total of $33 million are: wheat, $20.3 million; cotton, $7.5 million; feedgrains, $0.5 million and ocean transportation, $4.7 million. Of the local currency generated under the Agreement 15 per cent will be used by the U. S. and 85 per cent by the ROK. The 1959 program is $17 million less than that of 1958. (LR)

3. (UNCLASSIFIED) Exports Increase in May.

The Ministry of Finance has announced that Korean exports for the month of May 1959 totaled $3,765,792 and that the total for the first five months of the year attained a level of $16,076,132. Imports, on the other hand, amounted to $23.3 million in May and $120.3 million for the first five months of 1959.

(UNCLASSIFIED) Comment: Although exports in April and May of this year have apparently been higher in value than in previous months since January 1957, exports in May did not register the increase suggested by the figure announced by the Ministry of Finance. The explanation for this high level of exports in that month is that it includes "offshore procurement" of $1.4 million. Consequently the level of exports is reduced to $2.4 million for May as compared with $2.7 for April and $8.3 million for the first five months of the year. The higher value of exports in April and May is attributed to the shipment of rice to the Ryukyus and laver to Japan. This level of export trade is not likely to be maintained in succeeding months, particularly if the trade suspension with Japan continues for an indefinite period. (JAC)

4. (UNCLASSIFIED) Okinawa Mission to Visit Korea.

A Trade Mission from the Ryukyu Islands is expected to visit Korea from July 7 to July 11. The press indicates the group will consist of about 10 members whereas the Korean Chamber of Commerce reports the group will consist of 26 representatives from industry, trade and banking circles.

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(UNCLASSIFIED) Comment: Although the trade mission had been planned some time ago to explore means of increasing the level of trade between the two areas, a UPI item appearing in the Korean press suggests that the group will now seek to make arrangements for using Okinawa as a free port through which trade between Korea and Japan can be resumed. Whether this objective is motivated by the current trade suspension or represents a long term goal is not clear in the article. If such an arrangement is actually sought and accomplished, it would appear to be of benefit to all three areas despite any increased costs that may result from the indirect trade.

A Yonhap Sinmun editorial considers the idea to be a practical approach to solving the problem created by the trade suspension. It indicates an unofficial denial by the Korean Government that the plan is under consideration but implies that the Government has been considering the idea since General Booth's visit to Korea. (JAC)

5. (UNCLASSIFIED) Request for Overhead Expense Information Dropped.

As a result of the representations made by the Embassy to the Director of the Bureau of Taxation in connection with the request of the local tax office for information concerning overhead expenses of foreign firms in Korea, allegedly for tax or reference purposes (See Economic Weekly Review No. 24, item 8), the local tax office has been instructed by the Bureau to drop its request.

(UNCLASSIFIED) Comment: This information came to the Embassy via one of its locals from Mr. BAE Sook, Assistant Section Chief of the Direct Tax Section. The Embassy has not sought a more formal notice on this decision, since the Director had been informed that the American business community would not supply the information until the Embassy could give them a clarification of the request. No reports have been received from the business community concerning further attempts to obtain the data sought and the Embassy consequently believes that the issue is dead -- at least for awhile. (JAC)

6. (UNCLASSIFIED) Foreign Firms Required to Reregister.

The Bank of Korea has announced that all offer agents in Korea are required to renew their registrations with the Bank by the end of July to be eligible to make offers of sales to Korea. The initial registration was reported to have taken place in 1954. The purpose of the registration, as stated in the press, is to enable the bank to collect information regarding the current status of foreign firms in Korea. Among the requirements is an agreement on the part of the sales agent to reimburse the ROKG for any excess or illegal commissions received by the agent for which the ROKG would have to refund ICA. Letters of confirmation from every foreign supplier evidencing an agreement between the suppliers and the agents are also among the requirements.

(OFFICIAL USE ONLY) Comment: This appears to be another of the many ideas by Government agencies which creates red tape and makes the conduct of foreign trade

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difficult. Sales agents are nowrequired to register with the Ministry of Commerce and Industry, the Ministry of Health and Social Affairs for offers of pharmaceuticals, the local tax offices, and the District courts. This additional registration appears, on the surface at least, to be completely unnecessary since the information, for the most part, is already available in other Government agencies. Moreover, the deadline for registration is unreasonable in terms of the requirements.

The Embassy expects to discuss the matter with the Bank of Korea with the hope of obviating this new requirement. (JAC)

7. (UNCLASSIFIED) Germany to Extend Technical Assistance.

West Germany is reported to be favorably considering the extension of aid to Korea in the magnitude of $720,000, according to the press.

(UNCLASSIFIED) Comment: An official from the German Embassy has informed an Embassy officer that the report is essentially correct. Consideration, according to him, is being given to a grant of some $800,000 a year for about three years in line with the "promise" made by Minister Erhard during his visit to Korea. The aid will consist chiefly of technical assistance to universities in the field of vocational training and in the supply of certain hospital and medical facilities. On the basis of this discussion alone, the Embassy judges that nothing conclusive has been worked out as yet. The German official said that $800,000 a year would, of course, be less than the $1 million a year Germany had been providing in operating the Red Cross Hospital in Pusan, which has now been closed. (JAC)

8. (UNCLASSIFIED) From OEC to USOM.

Only limited comment has been made in the press thus far concerning the Embassy's announced change in the control of the U. S. economic assistance program in Korea. A number of individuals, including foreign diplomatic officials, have sought more detailed information on the subject, apparently inferring from the announcement that some basic changes in the volume and administration of the aid program will follow.

The Korean Republic editorialized that the "administrative changes" should bring about "greater efficiency and smooth over conflicts that have not been serious but that all of us are better off without." Relations have been good, it continues, but the existence of so many cooks sometimes has led to the use of rather confusing recipes. The change is considered important by that paper at a time when Congress is determined to reduce aid appropriations. Reductions in aid would pose "big problems of where and how much." It is in this field that the counsel of Ambassador Dowling and General Magruder in Korea and General Decker in the United States will be vitally important, says the Republic, indicating that they are among the men who know that Korea differs from other aid recipients and that the Korean program should be maintained at present or somewhat increased levels. (JAC)

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9. (UNCLASSIFIED) Rice Planting Going Well.

The Ministry of Agriculture and Forestry has announced that the planting of rice will be completed within a few days. Until the past two days when steady rain began in all parts of the country, the rice planting in some southern areas had been threatened by drought. Preparations for the planting of substitute crops in the threatened areas has now been halted by the Ministry. Substantial rain through July has been predicted by the Central Meteorological Observatory. (LR)

10. (UNCLASSIFIED) Violence in Union Factional Struggle.

The press has carried reports of two cases of violence in the internal battle now taking place in the Pusan stevedores union (Weekly Economic Review No. 25). In one incident, an opponent of KIM Ki-ok, Chairman of the Federation of Korean Trade Unions (FKTU) and of the Pusan local, is reported to have been abducted, beaten and warned not to return to Pusan. In another attack, a supporter of Kim is said to have received slight stab wounds.

(UNCLASSIFIED) Comment: The Federation of Korean Trade Unions (FKTU), which has no information on these incidents other than that appearing in the newspapers, is sending a special team to investigate the situation in Pusan. (LR)

11. (UNCLASSIFIED) Union Representation at Liberal Party Convention.

Despite the rumor reported in Weekly Economic Review No. 25 concerning the disposal of the five Liberal Party Convention seats allocated to the Federation of Korean Trade Unions, the five delegates were designated by the Federation. At the convention one of the labor delegates, KIM Sa-uk, Vice Chairman of the FKTU, was also appointed to the Selection Committee which chooses members for other committees and party posts. The Selection Committee is composed of six temporary chairmen of the convention, two representatives from each province, and one representative from each of the five component units of the Liberal party -- one of which is the Federation. (LR)

12. (UNCLASSIFIED) Printing Workers Killed in Fire.

Three printers were burned to death in a fire which destroyed a Seoul printing establishment and killed six people. In addition, six women workers were injured, four of them seriously. According to the press, the three story building, in which ninety persons were employed, had no fire escape and ground floor windows were blocked by the heavy wire screening nailed over them.

(UNCLASSIFIED) Comment: After investigating the fire, the Seoul Area Printing Workers Union released to all Seoul newspapers a protest against the printing firm's violation of the fire laws and the safety provisions of the labor laws. The protest has not appeared in any paper to date. (LR)

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For the Ambassador:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL — 17 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — DATE July 10, 1959.

REF : CERP - Korea, Section C, Item 1.

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	FE-6	RM/R-2 Ref-1 IRC-15 ICA-11 E-7 w/INCOMING
	REC'D 7-13-59	INFO OTHER Com-12 USIA-10 OSD-2 AKMY-35 NAVY-35 AIR-30

SUBJECT: Weekly Economic Review No. 27.

Action Assigned to L/PR

Action Taken

Office Symbol

Section to DC/R

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10. Estimates of Summer Grain Crops Revised.
11. Movement Against Top Labor Official Reportedly Growing.

1. (UNCLASSIFIED) Heavy Rains Bring Flood Damage.

According to press reports the recent heavy rains have caused 42 deaths and have left thousands homeless. Transportation has been disrupted as flood waters cut highways and rail lines and destroyed bridges. Reportedly, 32 thousand acres of rice paddies and dry fields have been washed away or inundated; however, the Ministry of Agriculture and Forestry told the Embassy that no reliable estimate of agricultural losses is available. On July 9th the Ministry requested an immediate report of farm damage from all provincial governments.

Flood waters which had reached the danger level (only 3.7 feet short of the 29.7 foot flood point at the Han River bridge in Seoul) on July 7th subsided after a rainless two days and the authorities began to relax somewhat. Early on the morning of July 10th, however, possibly the heaviest rain of the season struck Seoul. If the present downpour continues for any length of time over a sizeable area, flood damage, which to date seems less than last year, will most certainly increase. Fortunately, the Central Meteorological Observatory has predicted clearing weather over the week end.

The city (K-16) airport of Seoul has been reported as evacuated of U.S. military aircraft and equipment because of the rising water. Commercial flights have been irregular. (LR)

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2. (UNCLASSIFIED) Ryukyus Economic Mission Arouses Speculation.

The visit of an Economic and Trade Mission from the Ryukyus during July 7 -11 has caused a flood of press and popular speculation as to trade possibilities between the ROK and the Ryukyus heavily influenced by the current trade suspension between the ROK and Japan resulting from political differences on the repatriation issue. According to the Seoul Shinmun of July 7th, Mr. Ichiro Inamine, Chairman of the Ryukyus Mission, stated that the Ryukyus would propose triangular trade (Japan - the Ryukyus - the ROK) to the Korean Government authorities "despite the Japanese policy toward Korea." Involved is a project by the Ryukyuan Government for the establishment of a free trade zone in Okinawa. On July 8 following, the Korean Republic reported Inamine as flatly denying any Okinawan attempts at seeking this triangular trade.

Minister of Commerce and Industry KU Yong-so expressed earlier the hope of selling 20,000 metric tons of Korean rice to the Ryukyus this year, representing a reported half of the islands' annual import requirements. The Minister indicated that the Ryukyus now appeared the only likely outlet for the fast-fading hope of exporting 100,000 tons of Korean rice in 1959. Another press report dashed even these modified export ambitions in quoting Mr. Inamine as saying that the Ryukyus would not be able to import more than the 5,000 tons of Korean rice already sold to the Ryukyus this year.

Mr. Inamine proposed to the Korean Chamber of Commerce the exchange of permanent trade missions between the Ryukyus and Korea and the establishment of regular shipping services between the two countries.

(UNCLASSIFIED) Comment: There appears to be some possibility of establishing a small but regular trade between the two countries. In addition to rice, the ROK could furnish to the Ryukyus such items as fish, laver, red beans, flour, fruits, textiles and glass. The Ryukyus could export to Korea dried bonito, pineapples and black sugar. Of course, if the Ryukyus could serve as an entrepot for the movement of goods between Japan and Korea this might prove an excellent face-saving device for the latter two countries, although costs would obviously be increased by additional freight, handling and commissions. (RWT)

3. (UNCLASSIFIED) June Exports Down Sharply.

According to the Bank of Korea ROK experts for June 1959 totalled $2,068,000, a decrease of $956,000 from the preceding May. The decline was largely attributed to the Korea-Japan trade suspension during June. During that month exports to Japan dropped by more than $1 million. Even so Japan was still by far the leading importer of Korean goods in June with $1,534,000 of the total. Other exports went to the U.S.- $64,000, Hong Kong - $20,000, and "other areas" - $449,000. (RWT)

4. (UNCLASSIFIED) Money Supply Declines Following KFX Sale.

The money supply as of June 15 was set by the Bank of Korea experts at 202.3 billion hwan , down 7.2 billion from the close of May preceding (Weekly Economic Review No. 24). The suction of $7 million in ROK Government-held foreign exchange was the major factor in absorbing hwan holdings.

Korea's foreign exchange reserves at the close of June amounted to $93.2 million, a slight decline of $330,000 from the close of May. (RWT)

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5. (UNCLASSIFIED) New Commercial Banks for Rural Areas.

Finance Minister SONG In-sang announced on July 6th the ROK Government's intentions to authorize the establishment of new commercial banks aimed at facilitating industrial development in the Korean countryside. The Minister contended that the four existing commercial banks, all with headquarters in Seoul, practice a "centralized" system in concentrating their capital and loans in the Seoul area to the detriment of industries in the rural areas.

Minister Song indicated that permits would be granted for the establishment of two new banks in the Seoul and Pusan regions with a limited field of operation (although the limitations were not defined) under the existing Korean Banking Law.

(UNCLASSIFIED) Comment: According to the Seoul Shinmun of July 7 the city (commercial) banks immediately demonstrated a "wild" reaction to the Finance Minister's plan. They contended that creation of new banks in Seoul and Pusan will cause unnecessary competition with the present city banks already showing good business records in those cities. They also criticized the illogic of creating new banks in Seoul where the city banks are now strictly prohibited from establishing new branch offices. This issue will undoubtedly be a bitter one in Korean banking circles. (RWT)

6. (UNCLASSIFIED) Nuclear Reactor Parts Arrive in Korea.

The first shipment of parts from California for a nuclear research and training reactor to be established near Seoul arrived at the Port of Inchon on July 5th. The reactor, to cost an estimated $730,000, will be located at a site near the College of Engineering, Seoul National University, where the Korean Office of Atomic Energy (OAE) will also erect its Atomic Energy Research Institute. Of the imported cost, $350,000 will be paid for as grant aid under the Mutual Security Program following issuance of a letter of commitment by the U. S. Atomic Energy Commission on last January 2nd to Korean Ambassador WANG in Washington. The balance will be financed by the ROK Government from its own exchange resources, plus appreciable sums for the Institute and reactor buildings from hwan resources.

(UNCLASSIFIED) Comment: The ROK Government has greeted this development with considerable fanfare, including press releases, street banners, etc. A foundation-laying ceremony for the new reactor was originally scheduled for July 10th with President Rhee, Ambassador Dowling, and OAE Director KIM Pop-lin as scheduled speakers in the presence of Cabinet Ministers and ROK and U. S. military and civil leaders. The presence of President Rhee confirms the great emphasis laid by the latter on the importance of rapid development of the ROK's atomic energy program.

The July 10 ceremony was deferred to a later date because of heavy rainfall. (RWT)

7. (UNCLASSIFIED) ROK to Request Own Flight Information Region.

On July 3rd the State Council announced a decision to formally request the International Civil Aviation Organization (ICAO) for the establishment of a Korean Flight Information Region (FIR) independent from that of Japan. The timing of the request, according to the Korea Times of July 4, will be left to the Ministries of Foreign Affairs and Transportation.

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The Air Traffic Control Center at Taegu, now being operated by the Korean Air Force, is most likely to be proposed as the new FIR center.

(UNCLASSIFIED) Comment: There is no doubt that the prime impetus for this action, first considered at the ICAO Bangkok meeting of last May, was the July 1 action by the U. S. Air Force in turning over the Aircraft Control Center at Johnson Air Base near Tokyo to the Japanese civil aviation authorities. ROK Government spokesman CHUN Sung-chum hastened to assure the State Council that the new move would not involve any "infringement" of Korean territorial air, but the Ministers expressed fear that somehow the new Japanese air control would aid them in facilitating fishing inside the "Rhee Line" in the Sea of Japan. (RWT)

8. (UNCLASSIFIED) Pusan Bonded Warehouse Burns.

According to a telegraphed report from Pusan to the Ministry of Finance on July 8th the Pyonghwa bonded warehouse in Yongdo, Pusan, burned to the ground the preceding day with losses estimated at 116 million hwan by the Pusan Customs. The neighboring Tonghung bonded warehouse was reported to be undamaged by the fire.

Minister of Finance SONG In-sang at a press conference on July 9th placed the loss at 1 billion hwan and expressed his regret that most of the destroyed goods were not insured. He urged interested traders to found a fire insurance company to insure their property. A cigarette butt carelessly thrown by a customs official is alleged to be the cause of the fire.

(UNCLASSIFIED) Comment: Press estimates of the fire loss have varied from 116 million to 300 million to 1 billion hwan. Beyond the natural uncertainty of loss estimates immediately following a fire of such dimensions, there is the explanation that damage calculations vary because of the difference between calculations made from customs declarations and those made on the basis of current market prices of the merchandise. (RWT)

9. (UNCLASSIFIED) Modern Cigarette Plant Planned.

The Office of Monopoly hopes to construct a modern cigarette plant during the next three years. A request for Hw 5.9 billion (Hw 500:$1 at the legal exchange rate) has been included in the Office's FY 1960 budget request which has been submitted to the Ministry of Finance. Monopoly officials refuse to discuss details of their plans until they know the fate of their budget request. (LR)

10. (UNCLASSIFIED) Estimates of Summer Grain Crops Revised.

The Ministry of Agriculture and Forestry has revised upward its previous estimates of summer grains to be harvested (Weekly Economic Review No. 20). The Ministry now places the expected harvest at 35.8 million bushels, the largest crop since 1945. This figure is 1.5 percent higher than the previous estimate, 23.7 percent above annual average yield and 3.9 percent greater than the goal for 1959 set in the five year production plan for summer grains. Included in the total expected yield are 14.9 million bushels of barley, 14 million bushels of rye, 5.9 million bushels of wheat and about 1 million bushels of other coarse grains. These crops were produced on 2.3 million acres.

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(UNCLASSIFIED) Comment: The Ministry's estimate was made prior to the rain and flood damage reported above. (IR)

11. (UNCLASSIFIED) Movement Against Top Labor Official Reportedly Growing.

The movement to oust KIM Ki-ok, Chairman of the Federation of Korean Trade Unions (FKTU), who is now in the U. S. on a Foreign Leader Grant, appears to be growing (Weekly Economic Review No. 25). The information which the Embassy has been able to obtain indicates that a sizeable group of the more prominent labor figures are already working against Kim or have agreed to oppose him. The anti-Kim element in Kim's local union at Pusan (Weekly Economic Review No. 26) has published a lengthy attack on Kim and, it is reported, CHONG Tae-ch'on hopes as a result of the National Assembly investigation of the stevedores' unions (Weekly Economic Review No. 24) not only to discredit Kim but to bring criminal charges against him.

(OFFICIAL USE ONLY) Comment: It appears that Kim's troubles stem from various sources: 1. The enmity and jealousy of other labor leaders; 2. dissatisfaction in the labor movement with Kim's leadership; 3. Liberal Party factional battles in which Kim, through his political friendships, has become involved; 4. and extreme anger in the Liberal Party at Kim for: a. being anti-Liberal Party, or b. trying to keep the FKTU aloof from the Liberal Party, and c. causing labor troubles for pro-Liberal Party businessmen. Which of these factors is advanced as an explanation of Kim's present situation depends on the source questioned. (IR)

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

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FROM : Amembassy SEOUL

26
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

Action Assigned to AMB/E
July 16, 1959
DATE
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REF : CERP - KOREA, Section C, Item 1.

15 For Dept. Use Only	ACTION	DEPT. STAE-7 S/SA-1 L-2 O/FW-2 AMAE
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SUBJECT: Weekly Economic Review No. 28

Name of Officer: F.M. Dawson
Direction to DC/R File

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1. (UNCLASSIFIED) Report of Flood Damage.

The recent heavy rains and resulting floods are reported to have left 57 dead, 50 injured, 4 missing and over 7 thousand homeless. Railways, highways, dikes and levees were damaged at numerous points and 183 bridges were damaged or destroyed. Telephone and power lines were flattened and 16 ships are reported damaged or lost. The Seoul area was most heavily hit.

The Ministry of Agriculture and Forestry places agricultural losses at 28 thousand chungbo (1 chungbo=2.5 acres approx.) of paddy and upland fields; 54 thousand suks of rice (1 suk=5 bushels approx.); 17 thousand suks of pulses and miscellaneous cereals; 1.9 million kwan of vegetables and assorted crops (1 kwan=8.25 pounds); and 994 head of livestock dead or missing. The Ministry added that the barley crop had suffered no appreciable loss and that the overall transplanting of rice had been greatly aided by the rains.

The peak of the rainy season now appears definitely past. (LR)

2. (UNCLASSIFIED) Nuclear Reactor Foundation Laying Heavily Publicized.

The ceremony to lay the foundation of the nuclear research and training reactor being constructed at a site about 10 miles northeast of Seoul center adjacent to the College of Engineering, Seoul National University, went off with a maximum of pomp and press publicity on July 15th after a deferment caused by heavy rainfall on July 10th (Economic Weekly Review No. 17). For the ROK, Office of Atomic Energy Director KIM Pop-lim spoke, as did a representative for the ailing Assembly Speaker YI Ki-bung. President Rhee, although not scheduled to make an address, spoke at some length

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extemporaneously and praised President Eisenhower's Atoms-for-Peace program. Ambassador Dowling in a brief congratulatory address, cited Korean-American cooperation in this enterprise and presented a set of 13 volumes of technical works on nuclear physics from the U. S. Atomic Energy Commission to the Korean Atomic Energy Research Institute, also to be located at the reactor site.

(OFFICIAL USE ONLY) Comment: Not only the presence of top ROK civil and military leaders, but heavy front-page press coverage (both pro-administration and pro-opposition) reflected the great importance placed by Koreans on this development. The surrounding countryside at the reactor location swarmed with organized groups of farmers and school children, and signs proclaimed support of President Rhee in his reelection campaign both in Korean and English. The occasion was clearly being exploited for political advantage. (RWT)

3. (UNCLASSIFIED) ROK Budget Performance Good in First Half of 1959.

Statistics recently released by the Ministry of Finance reveal that operations in the general accounts of the ROK Government in the first half of fiscal (calendar) year 1959 have been quite successful and that probably the performance on both revenue and expenditure sides of the ledger has been the best for comparable periods in recent years, if not in ROK history. Revenues of 109.1 billion hwan represented 42.6 percent of budgeted income for the general accounts totalling 255.9 billion hwan for the year. (This excludes the anticipated, but as yet unpaid, 53 billion hwan contribution for the year to the defense budget from U. S. counterpart fund sources).

Expenditures were 134.6 billion hwan, likewise 42.6 percent of budgeted expenditures for the year totalling 316.2 billion.

In 1958 the revenue budget was executed 34 percent and the expenditure budget 37 percent in the January through June period.

(UNCLASSIFIED) Comment: Revenues have been unexpectedly boosted by foreign exchange tax receipts - 22.3 billion hwan or 64 percent of the entire year's estimate, and national bond sales - 3.6 billion hwan or 72 percent of the year's estimate. It should be noted that normally both revenues and expenditures lag considerably in the first half of the ROK budget year. (RWT)

4. (UNCLASSIFIED) Gold Prices Continue Sharp Rise.

In Seoul unofficial or curb market prices for gold, greenbacks and Military Payment Certificates (MPC) have recently shown a tendency at variance with prices for other foreign exchange as evidenced in the following table (all prices in hwan per dollar):

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NND 867400
By [illegible], NARA, Date 11/21/94

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	May 31	June 30	July 15
Mission dollars	1020	1170	1150
Service dollars	1170	1320	1300
Japan export dollars			
L/C base	1350	1510	1440
D/P base	1270	1410	1340
Other export dollars			
L/C base	1260	1460	1390
D/P base	1200	1360	1330
Greenbacks	1220	1350	1440
MPC	1160	1230	1240
Gold (unit of 3.75 gr.)	5700	6200	7200

The slight decline, between June 30 and July 15, of quotations for mission, service and other export dollars probably reflects a lessening flurry of speculation following initial reaction to the ROK Government's freeze order on trade with Japan effective June 15. The sharper decline in prices for Japan export dollars was to be anticipated as the freeze begins to make itself felt. (Goods shipments from Japan covered by L/C's issued prior to June 15 are dropping off).

(UNCLASSIFIED) Comment: Unofficial gold prices are generally considered to be linked fairly closely to unofficial (illegal) prices for greenbacks in Seoul and this trend has been consistently upward of late. Appreciably higher increases in gold prices, however, suggest that some hoarding is occurring in this commodity engendered, at least in part, by uncertainties arising from the ROK-Japan trade embargo. (HWT)

5. (UNCLASSIFIED) Export Subsidies Planned.

The Ministry of Commerce and Industry has included in its budget requests for FY 1960 Hw538 million (Hw500=$1 at the legal exchange rate) for the subsidization of twenty items, including 9 fisheries products and 5 minerals. Government subsidies granted at the rate of about Hw100 per $1 are expected to boost the exportation of these items by 49 per cent. The Hw538 million export subsidization funds will be divided into quarters of the fiscal year, and subsidies for the second quarter and thereafter will not be granted unless the subsidies for the first quarter prove to have been effective in stimulating exports. It is also estimated that Government revenues in the form of customs tax, commodity tax, etc., will increase by Hw461 million as a result of the increased exportation of these items with Government subsidies. The twenty items and planned export amounts are as follows:

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By ___, NARA, Date 11/6/24

Apples	$ 80,000	Dried abalone	$ 50,000
Raw silk	600,000	Shark fin	410,000
Duppion silk	250,000	Fish liver oil	250,000
Dried shrimp	50,000	Kolinsky fur	360,000
Dried oysters	125,000	Molybdenum	300,000
Dried anchovies	120,000	Lead ore	400,000
Frozen shrimp	125,000	Prophyllite	120,000
Canned fish	100,000	Kaolin	250,000
Salted fish	90,000	Manganese ore	200,000
Agar-agar	1,000,000	Bristle	500,000

(UNCLASSIFIED) Comment: Officials of the Export Section of the Ministry do not appear optimistic about the chances of the subsidy funds being granted. At best, Commerce and Industry will probably receive only lukewarm support from the Ministry of Finance which has consistently opposed export subsidy suggestions. Further, the granting of subsidies must also be approved by the National Assembly, where reception to this proposal is also uncertain. (LR)

6. (UNCLASSIFIED) Local Government Officials Exonerated in Fertilizer Embezzlement Case.

According to press reports the myon (township) heads in Kyonggi Province alleged to have been involved in fertilizer embezzlements (Weekly Economic Review No. 23) have been exonerated by the Seoul District Prosecutor's Office. These reports add that four employees of the Office of Supply, Republic of Korea (OSROK) and a myon clerk were the embezzlers and that they have reimbursed Hw 3.2 million of the Hw 8.5 million stolen (Hw 500=$1 at the legal exchange rate).

It is also reported that the National Assembly committee studying the Ministry of Agriculture and Forestry proposal to reduce the established price of government-imported ammonium sulphate fertilizer from Hw 1,886 to Hw 1,860 per 45 kg. bag (Weekly Economic Review No. 11) will recommend that the price be reduced to Hw 1,700. [redacted](LR)

7. (UNCLASSIFIED) Probe of Stevedores Unions.

Press articles state that the National Assembly team investigating the stevedores unions (Weekly Economic Review No. 24) has found evidence of large scale corruption in the Inchon unions. According to these reports, individual labor leaders were each embezzling from Hw400 thousand to Hw600 thousand monthly (Hw500=$1 at the legal rate of exchange) under the foreman, or overseer, system until the system was abolished in 1958. The investigators were unable to determine whether or not the foreman system has been secretly maintained despite its abolishment. The team, which has not released any official report of its findings at Inchon, is now slated to inspect the stevedores union at Pusan.

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(UNCLASSIFIED) Comment: Under the foreman system the stevedoring firms dealt with and made wage payments to the union. The union passed these funds on to foremen who had one or more teams of workers under their supervision. The union and the foremen were thus in a position to retain large proportions of the wage payments. If the workers complained about the wages paid them by the foremen, they could subsequently find it extremely difficult to find employment. (LR)

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

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AM 9 47
JUL 22
DEPT OF STATE
AIRS

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date 11/15/94

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VIA AIR POUCH
PRIORITY

UNCLASSIFIED
(Security Classification)

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FOREIGN SERVICE DESPATCH

FROM : AmEmbassy, SEOUL

40
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

July 24, 1959
DATE

REF : 1957 CERP, Section B, Item II-B, III-B-1, 3, V-E(1), VII-B(1), D(1), III-D-1, I-A-4, 5.

50 For Dept. Use Only	ACTION COM-12	DEPT. REP-1 IRC-8 FE-3 ICA-11 E-3 PER-2 SC-1
	REC'D 8-4	INFO OTHER CIA-10 LAB-5 TAR-0 TR-3 FRB-3 AG-8

SUBJECT: Monthly Economic Indicators, ROK, May 1959. IN-7 ARMY-6 NAVY-3 AIR-3 XMB-1

	May 1959	Apr 1959	Percent change a/ Apr-May 1959	May 58-May 59	Sept 55-May 59
I. PRICES (A.B.C.: 1947=1)					
A. Wholesale index, Seoul	215.9	202.4	+ 6.7	+ 4.9	+21.8
1. Commodity groups					
a. Grain	202.3	181.6	+11.4	-15.2	- 4.1
b. Meats, eggs, fish	438.5	400.8	+ 9.4	+41.5	+65.9
c. Textile raw materials	154.6	156.5	- 1.2	+ 5.5	+28.9
d. Textiles	72.4	70.1	+ 3.3	+ 3.4	+ 3.2
e. Building materials	259.3	259.5	- 0.1	+ 9.1	+12.5
f. Fertilizer	539.4	539.4	0	0	+68.6
g. Fuel	565.8	537.0	+ 5.4	+37.9	+51.8
h. Miscellaneous	125.1	120.4	+ 3.9	+14.5	+41.3
2. All items except grain	224.6	215.7	+ 4.1	+21.5	+44.2
3. Consumer goods	213.9	194.8	+ 9.8	+ 0.6	+18.4
4. Producer goods	185.4	181.8	+ 2.0	+10.3	+24.1
B. Seoul Consumer Price Index (1955=100)					
1. General	153.5	151.3	+ 1.5	+ 2.8	+32.2
a. Food	153.1	150.1	+ 2.0	- 4.1	+21.8
b. Housing	178.2	178.2		+10.7	+69.9
c. Fuel & light	157.1	151.2	+ 3.9	32.4	+56.8
d. Clothing	108.5	107.2	+ 1.2	- 3.0	+3.6
e. Miscellaneous	168.1	167.6	+ 0.3	+ 9.2	+57.1
C. Rice, retail, Seoul Hwan/20 liters	2,803	2,500	+12.1	-10.9	- 5.3
D. US $1 Greenback, Seoul	1,191	1,175	+ 1.5	+ 1.7	+55.7

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JUL 27 1959

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By [illegible] NARA, Date 1/24/21

	May 1959	Apr 1959	Percent change Apr-May 1959	May 58-May 59	Sept 55-May 59
E. New national wholesale price index (1955=100)					
1. All commodities	145.9	140.5	+ 3.8	- 0.7	+22.5
a. Foods	143.6	133.6	+ 7.5	- 7.6	+ 9.4
b. Fuel & power	153.2	153.1	+ 0.1	+ 9.7	+39.3
c. Mineral products	111.1	110.8	+ 0.3	+ 3.7	+ 7.7
d. Metals products & machinery	170.7	167.9	+ 1.7	+11.3	+59.2
e. Building materials: (Including metals)	153.2	150.7	+ 1.7	+ 8.4	+32.6
Excluding metals	148.1	146.4	+ 1.2	+ 7.0	+27.3
f. Fiber and fiber products	121.5	120.9	+ 0.5	- 3.6	+16.6
g. Chemical products	216.9	215.5	+ 0.6	+ 2.4	+54.2
h. Paper	144.5	137.0	+ 5.5	+13.7	+44.6
i. Raw rubber and rubber products	144.1	130.3	+10.6	+36.3	+26.0
j. Miscellaneous	160.0	156.4	+ 2.3	+ 5.4	+51.7
2. Special groupings					
a. Grains	139.6	125.3	+11.4	-16.3	- 5.1
b. All commddities excluding grains	148.1	145.5	+ 1.8	+ 5.4	+54.9
c. Producer goods	166.8	164.1	+ 1.6	+ 7.8	+42.4
d. Consumer goods	137.5	130.9	+ 5.0	- 4.4	+14.7

	Billions of Hwan			Percent change	
	May 1959	Apr 1959	May 58-May 59	Apr-May 1959	May 58-May 59
II. MONEY SUPPLY (bil.hwan)					
A. Notes & deposits					
1. Bank notes, outside banks	96.6	98.5	+22.2	- 1.9	+29.8
2. Check/demand deposits, excl. uncleared	131.5	128.6	+26.7	+ 2.3	+25.5
3. Foreign official deposits	18.5	17.1	+10.3	+ 8.2	-55.8
4. Total (1+2-3)	209.6	210.0	+59.2	- 0.2	+39.4
B. Factors affecting money supply					
1. Government finance b/	107.4	106.4	+45.3	+ 0.9	+72.9
2. Private credit (inc. BOK, exc. KRB)	174.1	171.1	+64.2	+ 1.8	+58.4
3. Other c/	-71.9	-67.5	-50.3	+ 6.5	+232.9
4. Total	209.6	210.0	+59.2	- 0.2	+39.4

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	Apr 1959	Mar 1959	Total Jan-Apr 1959 (Average in case of indexes)	Percent change Mar-Apr 1959	Percent change Apr 58-Apr 59
III. PRODUCTION					
A. Quantities of output					
1. Cotton yarn (mil.lbs)	8.7	7.9	34.2	+10.6	+18.1
2. Cotton cloth (mil.sq.yds)	18.8	10.8	57.3	+73.9	+62.8
3. Cement (1,000 mt)	21.3	21.3	87.3	0	- 4.7
4. Rubber shoes (mil.prs)	3.3	3.8	14.7	-12.7	+93.6
5. Coal (1,000 mt)	315	299	1,159	+ 5.4	+48.6
6. Tungsten (mt)	231	248	962	- 6.9	-21.4
7. Electric power (mil.KWH)	137	142	550	- 3.5	+15.1
B. Production indexes (1955=100)					
1. Industrial production (100)	168	149	152	+12.8	+ 5.0
a. Mining (10)	223	195r	206	+14.4	+21.9
b. Manufacturing (87)	155	142	143	+ 9.2	- 1.3
c. Electricity (3)	186	194	187	- 4.1	+14.1

	Apr 1959	Mar 1959	Total Jan-Apr 1959	Percent change Mar-Apr 1959	Percent change Apr 58-Apr 59
IV. FOREIGN EXCHANGE ($ mil)					
A. Holdings (inc. gold)	150.8	149.5	(+ 4.3)d/	+ 0.9	+21.5
1. Dollars, US	146.8	146.2	(+ 3.6)d/	+ 0.4	+21.3
2. Uncommitted	94.0	90.5	(+ 3.3)d/	+ 3.9	+48.3
B. Receipts	8.4	8.7	32.0	- 3.4	+12.0
1. Exports	2.3	1.5	6.0	+53.3	+130.0
2. Hwan sales	2.3	2.3	10.0	0	-50.0
3. Other	3.8	4.9	16.2	-22.4	+100.0
C. Payments	6.9	6.3	27.8	+ 9.5	+40.8
1. Imports (non-aid)	5.5	5.2	20.5	+ 5.8	+44.7
2. Other	1.4	1.1	6.3	+27.3	+27.3

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 4/28/94

	Program (Adjusted)	Mar 1959	Feb 1959	During Dec 56- Mar 58	Dec 57- Mar 59	Feb-Mar 1959
V. ECONOMIC AID ($ mil)						
A. ICA arrivals (US FY basis)						
1. 1954	178.8	177.1	177.1	17.5	2.5	0
2. 1955	246.9	240.2	239.7	21.1	8.4	0.5
3. 1956	315.7	293.1	292.2	89.0	17.5	0.9
4. 1957	321.8	278.8	276.5	232.9	79.1	2.3
5. 1958	237.3	185.8	180.0	49.2	177.4	5.8
6. 1959	193.4	48.5	33.6	0	48.5	14.9
7. Total	1,495.9	1,221.5	1,199.1	409.7	333.4	22.4
a. Project	500.6	355.4	350.3	107.2	73.1	5.1
b. Non-project e/	971.8	856.7	840.1	298.9	253.9	16.6
(1) Surplus agricultural commodities Sec402	199.8	179.6	176.2			3.4
(2) Fertilizer	265.4	246.3	239.7			6.6
(3) Other & unassigned to specific non-project uses	506.6	430.8	424.2			6.6
c. Technical cooperation	21.4	9.4	8.7	3.6	6.4	0.7
d. Reserve	191.9	23.9	23.5	-	-	0.4
B. USFY 1959 ICA obligations	193.4	154.6	138.4r	-	-	16.2
C. PL 480 arrivals	152.0	127.1	126.9	47.0	48.6	0.2
1. Food	114.4	109.7	109.5	43.0	48.2	0.2
2. Other	17.6	17.4	17.4	4.0	0.4	0

Footnotes: a/ Computed in most cases from unrounded figures. b/ Includes the Government's net position at the BOK (overdrafts less deposits, including operations of counterpart funds); Government bonds, industrial reconstruction bonds and industrial finance debentures (latter two are KRB issues) held by BOK; BOK loans to Government agencies; national bonds held by banks other than the BOK and KRB; and loans by banks, other than BOK and KRB, to local Governments. c/ Includes BOK net purchases of foreign exchange, savings and time deposits (decreasing factors), deposits of foreign organizations in the BOK (decreasing factor), and all other influences on the money supply (net). d/ Change between December of year before and April of year indicated, expressed in $ million. e/ Being the change on OEC Program Status Report, the categories on Non-Project also changed, Eventually the comparisons with previous periods on Non-Project are not available.

For the Ambassador:

Robert W. Tucker
Robert W. Tucker
First Secretary of Embassy

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date [illegible]

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Action Taken NAR

895 b.00/7-2459

FOREIGN SERVICE DESPATCH

41
DESP. NO.

FROM : Amembassy SEOUL

TO : THE DEPARTMENT OF STATE, WASHINGTON. July 24, 1959
DATE

Date of Action 7/30/59

REF : CERP - KOREA, Section C, Item 1.

Action Office Symbol NA/E + EUR-5

For Dept. Use Only	ACTION	DEPT.
16	FE-4	INFO Rm/R-2 REF-Name of Officer P.M.Dawson FCA-11 W/MSC-3 E-6
	REC'D 7/28	OTHER USIA-10 OSD-2 ONE-Dot-2 ARMY-35 Navy-20 AIR-30

SUBJECT: Weekly Economic Review No. 29

CIA-16 OCB-2 Com-12 AG-8 LAB-5

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2. ROK Trade Center in Hong Kong Planned.
3. Korean Products Exhibition in the Ryukyus.
4. Seoul-Hong Kong Air Service Suspended.
5. Korea's Longest Highway Bridge Dedicated.
6. President Rhee Calls for Domestic Production of Raw Sugar.
7. Labor Attempts Role in ROK-Japanese Relations.
8. Chairman of FKTU Improves Position in Labor Factional Strife.
9. Construction Workers Wage Practices.
10. Communist Guerrillas Reported Operating in Labor Field.

1. (UNCLASSIFIED) President Rhee Orders Anti-Smuggling Crackdown.

At the July 21 meeting of the State Council President Rhee directed the Cabinet to enforce strong measures to curb smuggling activities. The presidential order was issued after the State Council heard a report from Finance Minister SONG In-sang on the activities of smugglers tending "to lower the domestic production and hurt the national prestige overseas". The Government has decided that the Ministries of Foreign Affairs, National Defense, Home Affairs, Finance and Justice should prepare the necessary policies for effective prevention of illegal trade practices.

Minister Song revealed that during the first half of 1959 940 smuggling cases were discovered involving goods valued at 648 million hwan. Of the total, 558 million hwan worth, or 86 percent, originated from Japan, 59 million hwan in goods from the United States, 27 million hwan in goods from Hong Kong, and the balance from other countries.

(OFFICIAL USE ONLY) Comment: With presidential backing, apparently additional impetus will be given to an anti-smuggling campaign which was launched last September (Economic Weekly Review No. 38, September 19, 1958). An interesting sidelight to the termination of Seoul-Hong Kong air services (see below) is a press allegation that this action will close a major smuggling route which brought in "2 to 3 tons (sic) of smuggled goods .... on every plane from Hong Kong." (HWT)

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JUL 24 1959

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OCT 20 1959

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NND 867400
By ____ NARA, Date 1/26/11

2. (UNCLASSIFIED) ROK Trade Center in Hong Kong Planned.

KIM Song-hwan, Director of the Bureau of Domestic and Foreign Commerce, Ministry of Commerce and Industry, who has just returned from a ten-day visit to the British Crown Colony, announced the plan of the MCI to establish a Korean Trade Center in Hong Kong similar to the one now operating in New York. Kim consulted with the officials of the Hong Kong branch of the Bank of Korea and the ROK Consulate General. He estimated that the new trade center would cost some [redacted] 12 million hwan.

Kim also announced to the press plans to send a trade mission of about 12 government officials and businessmen to Hong Kong in the near future for the purpose of developing trade between Korea and Southeast Asian countries.

(OFFICIAL USE ONLY) Comment: These moves are at least in part the result of Embassy-USOM efforts to promote more vigorous export efforts by the ROK. They also coincide with ROKG desires to find alternate markets to replace Japan in view of the current ROK-Japan trade freeze (Economic Weekly Review No. 24, et al.) (RWT)

3. (UNCLASSIFIED) Korean Products Exhibition in the Ryukyus.

The Korean Chamber of Commerce has announced its intention to hold an exhibition of Korean products in the Ryukyus some time next September. Articles to be exhibited include 19 different types of agricultural products, 15 varieties of fish and marine products including frozen shrimp, nine varieties of medicines and pharmaceuticals including red ginseng, a number of traditional handicraft items and various manufactured commodities.

If the Ministry of Commerce and Industry approves the project, participants in the exhibition will be expected to finance their own expenses and the Chamber proposes to donate the exhibits, after the exposition, to the Ryukyus Chamber of Commerce.

(UNCLASSIFIED) Comment: The Koreans want the hard currency (U. S. dollars) that exports to the Ryukyus can bring, and see this as another trade outlet in lieu of Japan. (RWT)

4. (UNCLASSIFIED) Seoul-Hong Kong Air Service Suspended.

Cathay Pacific Airways (with a reported majority share holding interest by Butterfield and Squire of Hong Kong) which has bought out Hong Kong Airways (formerly owned by BOAC) has suspended its regular scheduled flights between Seoul and Hong Kong as of July 1, 1959. The reason for the suspension is that CPA is not willing to accept fares in hwan unless the hwan can be converted to freely negotiable currencies and remitted out of Korea.

Representations have been made by the British Embassy in Seoul to ROK Government officials for the conversion and remittance rights. The Provisional Air Transport Agreement between Korea and the United Kingdom will be suspended from July 20, 1959, until Korea grants such rights to CPA. The Korean National Airlines

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NND 867400
By [illegible], NARA, Date 11/6/04

(KNA) had been permitted by the British to continue its once-a-week flights until July 20, 1959, on the basis of a 20-day temporary extension. Since this expired there have been no direct flights between Seoul and Hong Kong.

(OFFICIAL USE ONLY) Comment: A British Embassy official informed the American Embassy that Cathay Pacific apparently does not wish to operate as Hong Kong Airlines did by accepting fares in hwan which cannot be remitted out of Korea. If conversion and remittance rights are not granted Cathay will give up its Korea operations altogether and KNA will be compelled to terminate its Hong Kong operations. CPA's predecessor, Hong Kong Airways, lost money on its Hong Kong-Korea operation, according to the British Embassy, and a total cessation of its services to Korea would not constitute any serious setback for CPA although it might for KNA.

The Korean Government, in the meantime, has instructed its Embassy in London to make representations to the British Government on this subject. The British Commercial Attache in Seoul, however, does not appear to believe that such representations in London will result in any material change in the British position.

In the meantime it is reported that KNA is considering establishing a Seoul-Taipei flight, more or less in lieu of the cancelled Seoul-Hong Kong service. (JAC)

5. (UNCLASSIFIED) Korea's Longest Highway Bridge Dedicated.

On July 22 USOM and Ministry of Home Affair's officials dedicated the half-mile Susan bridge over the Naktong River in Kyongsang-namdo Province. The two-lane steel and concrete bridge is 28 feet wide, 2800 feet long and has 29 spans. It is a vital link in the Seoul-Pusan national highway.

Begun in 1954, the Susan bridge will be opened to traffic in early August. Construction costs included $194,825 for imported materials financed by USOM and more than 400 million hwan in ICA-generated counterpart funds. (KWT)

6. (UNCLASSIFIED) President Calls for Domestic Production of Raw Sugar.

President Rhee has instructed the Minister of Agriculture and Forestry to exert every effort to produce raw sugar domestically in order to save $5 million spent annually for the import of this commodity. For the past several years Korea has imported approximately 68 thousand metric tons of raw sugar annually. It is reported that the Minister hopes to develop sugar beet production in Korea. Sugar beet plants have recently been imported and testing in all provinces is being conducted.

(UNCLASSIFIED) Comment: Agricultural technicians say that the prospects for large scale production of sugar beets in Korea are not very promising. They suggest that Korea should attempt to meet its sugar requirements from sweet sorghums, honey and corn syrup. (LR)

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NND 867490
By NARA, Date

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7. (UNCLASSIFIED) Labor Attempts Role in ROK-Japanese Relations.

The Federation of Korean Trade Unions (FKTU) is attempting to send a 9 man delegation to Japan to discuss with Japanese labor leaders the problems of deportation of Korean residents of Japan and the detention of Japanese fishermen by the ROK. Such a mission was suggested by the Federation in a letter to the ROK Ministry of Foreign Affairs and is said to have received the support of the Minister. The Federation is now requesting the ICFTU (International Confederation of Free Trade Unions) in Tokyo to lend its assistance and support to the planned mission.

(OFFICIAL USE ONLY) Comment: The Federation's action is reported to result from Japanese labor union appeals for the ICFTU to urge the Federation to support the release of Japanese fishermen interned in Korea. The Federation, which is attempting to improve its relations and reputation with other national labor groups and international labor organizations, has become increasingly sensitive about these appeals. The Federation, therefore, will counter the Japanese fishermen issue by raising the Korean residents issue.

It is doubtful that even the Koreans would deny the futility of such a mission as far as the two issues are concerned. The delegates hope, however, by their visit to generate public sympathy for the ROK position and to encourage the anti-communist elements of the Korean residents in Japan. If the Japanese refuse to receive the mission, the Federation will let the ICFTU judge which side is sincere and well-intentioned.

Other than the above, which is from Federation sources, the Embassy can offer little comment on the planned mission. In view of the almost nonexistent finances of the Federation and the political situation in Korea, however, it appears obvious that the proposal is receiving official encouragement and financial support. (IR)

8. (UNCLASSIFIED) Chairman of FKTU Improves Position in Labor Factional Strife.

The drive to oust KIM Ki-ok, Chairman of the Federation of Korean Trade Unions (FKTU), (Weekly Economic Review No. 27) appears to have been slowed considerably by recent events. It is reported that KIM Chu-hong and CHONG Tae-ch'on, leaders of the move against Kim Ki-ok, have resumed their old enmity; that the Organization Committee of the Liberal Party, of which the Federation is a unit, has announced a party policy of neutrality in the labor fight; that the Central Standing Committee of the Federation will meet to consider eviction of some anti-Kim Ki-ok elements from the Federation; and, that Kim Ki-ok has strong support in several of the industrial alliances. (These developments were more fully reported in Embassy despatch 37, July 22, 1959.).

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Now labor sources state that Kim Ki-ok has healed the split in his own local and should receive the entire support of his Alliance of Free Workers Unions. This alone would give Kim almost 25 per cent of the entire vote at the Federation's annual convention.

According to sources close to Kim, there was no embezzlement in the Pusan union of the amount mentioned in public accounts. This money was discussed openly at the last Alliance convention and was used for union purposes, part of it going toward the construction costs of a labor hall. The same sources state that although simple repetition of embezzlement charges against Kim have hurt him to some degree, Kim cannot be implicated personally in any graft. (Weekly Economic Review No. 28).

(LR)

9. (UNCLASSIFIED) Construction Workers Wage Practices.

Chairman KIM Chi-ho (6855/0037/3185) of the United Construction Workers Union (Weekly Economic Review No. 19), which now claims 2,200 members, told the Embassy that to date the union has worked only for the payment of back wages. Later the union hopes to compel construction companies to actually pay the workers the level of wages listed in construction contracts and charged to contracting parties by the construction firms.

A newspaper article reports that the Ministry of Health and Social Affairs is investigating the wage practices of one construction firm. It appears that instead of paying daily wages, as is the local custom, the firm gave the workers chits cashable at some later time not specified in the press account. To date, back wages of over Hw10 million (Hw500:$1 at the legal rate of exchange) have accumulated under this chit system. If the worker demands cash, he receives only 80 per cent of the amount due, 20 per cent being deducted as interest on advance payment of wages.

(LR)

10. (UNCLASSIFIED) Communist Guerrillas Reported Operating in Labor Field.

The July 24 morning editions of the English language press have reported the arrest of three communist guerrillas, one a former officer and one a former member of the disbanded South Korean Labor Party, a communist organization. According to these accounts, the guerrillas have attempted to reorganize underground nets of the disbanded labor party. Reportedly, among the communists' accomplices were a Taegu city councilman and a lecturer at Tong-A University in Pusan.

(UNCLASSIFIED) Comment: The Embassy has not yet been able to verify these press articles or to obtain further details.

(LR)

For the Ambassador:

Robert W. Tucker

Robert W. Tucker
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

Action Assigned to: RMR 895B.00/7-3159

FROM : Amembassy SEOUL

Action Taken

50
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

July 31, 1959
DATE

REF : CERP - KOREA, Section C, Item 1.

Date of Action

For Dept. Use Only	ACTION	DEPT.	Action Office Symbol
	FE-6	REP-1 RM/R-2 E-7 ICA-10 NSC-3	IES-5
	REC'D 8-7	INFO OTHER	Name of Officer
		USIA-10 AEC-9 AG-8 TR-3	Direction to Dept. TAR-2 XMB-4

FAA-5 CIA-6 KAB-5 CIA-16 OSD-2
ARMY-35 NAVY-20 AIR-30 OCB-2

SUBJECT: Weekly Economic Review No. 30

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8. Issuance of Agricultural Bonds Requested.
9. Dissension Continues in Stevedores Union.
10. AFL-CIO to Send CARE Packages to FKTU.

1. (UNCLASSIFIED) U. S. Aid Cuts in FY 1960 Stir Speculation.

Minister of Reconstruction SHIN told the press on July 27 that a "drastic" U.S. aid cut for FY 1960, as indicated by recent U. S. congressional bill enactments, would seriously affect "all of Korea's economic rehabilitation projects". Minister Shin flatly rejected press suggestions that ICA defense support aid to Korea would be decreased by $25 million from the previous (U.S.) fiscal year's total of $210 million because of USOM officials' informal suggestions that FY 1960 investment projects be aimed at about $10 million, with $175 million agreed by the CEB as the tentative consumables imports program as in the preceding year. Mr. Shin conceded, however, that not more than $25 million in ICA aid for investment projects, the lowest level over the past five years, could be expected under the FY 1960 program.

Minister Shin is reported as having stated that Dr. Lowell Chawner, Acting Director of USOM, assured Korean officials that "because abrupt reduction of aid would be detrimental to developing projects, the U. S. Government is not likely to cut it so."

(CONFIDENTIAL) Comment: Minister Shin is putting on the standard "whistling in the dark" performance for the press, although he, Minister of Finance SONG and other ROK officials concerned have been carefully briefed by USOM of the seriousness of prospective cuts in defense support, technical cooperation and P.L. 480 programs in the future. With the near certainty of reduction in counterpart funds and in allocations for ROK defense budget support from these funds, the ROK Cabinet is undoubtedly

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encountering some grave stumbling blocks in endeavoring to fashion a presidential year budget (for CY 1960) to meet not only the nation's normal operating bills and expenses for economic development, but to provide also sufficient "pork barrel" funds of the type calculated to influence votes for the Liberal Party candidates. (RWT)

2. [redacted] (UNCLASSIFIED) Money Supply at Close of June Drops from Preceding Month

The ROK's money supply stood at 205.8 billion hwan at the close of June, according to the Bank of Korea, reflecting an appreciable decline from the 209.5 billion hwan level at the close of May preceding. This is well below the 220 billion hwan maximum set for the first half-year of 1959.

The BOK attributes the "success" of the money supply program for January-June 1959 to three main factors: 1. Collection of taxes and other types of Government levies were carried out more efficiently; 2. The ROK Government stepped up sales of its foreign exchange holdings (KFX) to "$10 million, or $6 million more than the programmed amount."; 3. the rate of increase in long-term deposits in banks ran higher than loans advanced.

(UNCLASSIFIED) Comment: The explanations offered by the BOK seem fair enough except that sales of KFX during 1959 have actually totalled $14 million ($4 million in February, $3 million in May, and $7 million in June). This compares to a total of only $13 million auctioned in all of 1958 and $20.5 million programmed for 1959 (Weekly Economic Review No. 16). This reflects not only a good performance by the ROK Government in keeping its pledge to auction KFX during 1959 at a rate approximating that of its acquisition, but also the pressures of Korean business for more foreign exchange for commercial imports in the face of gradually declining U.S. aid programs. (RWT)

3. (UNCLASSIFIED) Foreign Trade in First Half of 1959.

According to statistics released by the Ministry of Finance on July 28, Korean exports during the first half of 1959, including sales to the UN Forces, totalled $20.7 million, while privately financed imports during the same period were $34.9 million, resulting in an unfavorable private trade balance of $14.2 million.

All imports during the half-year, including ICA-financed and relief goods, totalled $143.3 million, and the general unfavorable trade balance was $122.6 million.

(UNCLASSIFIED) Comment: The MOF has begun treating statistically the sales of goods to the UN Forces as exports. The Embassy has learned that the $20.7 million total is composed of $10 million in such sales plus $10.7 million in actual exports from Korea. The latter figure compares to actual exports of only $16.7 million in all of 1958. If this rhythm should continue for the remainder of 1959, there is good prospect for appreciable improvement in actual exports this year over 1958 and a further decline in the unfavorable trade balance. The announcement today of overtures by the ROK Government to resume political negotiations with Japan, with the concomitant hope for resumption of normal trade between the two countries, enhances the chances for improvement. (RWT)

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4. (UNCLASSIFIED) KNA to Start Seoul-Seattle Flights.

According to the Korea Times of July 28, the Korean National Airlines (KNA) will shortly begin its long-anticipated flights from Seoul to Seattle with a four-motored Constellation leased by the Air Carrier Service Corporation of the United States. The aircraft is reported to have a passenger capacity of 68, a cruising speed of 290 miles per hour and a flight range of 3,100 miles. Contemplated flights to and from Seattle will include a landing for refueling in Alaska.

(OFFICIAL USE ONLY) Comment: Although the Constellation is reported already to have arrived in Seoul, flown by one of KNA's American pilots from the United States, it may be some time before actual service begins while arrangements for refueling and servicing in Alaska and Seattle are completed. A local U. S. airline representative has informed the Embassy that in his opinion this single Constellation could not be expected to provide more than one round-trip flight between Seoul and Seattle per week. Passenger traffic would probably be largely ROK nationals, probably with a discreet assist from the ROK Government for national prestige reasons. Initially, however, the new KNA service will have a hard time competing with established trans-Pacific airlines. (RWT)

5. (UNCLASSIFIED) Atomic Science Training for Teachers.

A three-day atomic science course began July 27 at the Teachers College of Seoul National University for 80 school teachers of primary and middle schools throughout the ROK. The training course dealt with the most effective methods in teaching atomic science to children of the primary and middle school grades.

In charge of the session were YUN Sae-won, Chief of the Reactor Division of the Atomic Energy Research Institute, Office of Atomic Energy, and three science professors of Seoul National University.

(UNCLASSIFIED) Comment: The presence of Mr. Yun appears to be evidence of the continuing program of the ROK Office of Atomic Energy in stirring up increased interest among Korean youth in pursuing careers in nuclear physics and related fields. (RWT)

6. (UNCLASSIFIED) Port Extension Facilities Collapse.

According to press reports, 70 meters of masonry in the USOM-financed Yosu port extension project being carried out by a Korean construction firm have collapsed with a resulting loss of Hw 267.8 million (Hw 500:$1 at the legal rate of exchange.)

(UNCLASSIFIED) Comment: Both the ROK Office of Marine Affairs and USOM have confirmed a "foundation failure" in the Yosu harbor work but the extent of the collapse and resulting monetary loss are not yet officially established. (IR)

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7. (UNCLASSIFIED) Fertilizer to be Purchased with ROKG Foreign Exchange.

According to press articles, 24 thousand tons of ammonium nitrate fertilizer will be purchased with $1.4 million of ROKG foreign exchange from areas other than Japan. Importation of the ammonium nitrate by the end of September is necessary for cultivation of the barley crop.

(OFFICIAL USE ONLY) Comment: This action is undoubtedly due to the delay in the purchase of ICA-financed fertilizer brought about by the rupture of Korean-Japanese trade relations and the ROKG's maneuvers to avoid the ICA procurement regulations, specifically Regulation I requiring acceptance of international bidding at the "lowest landed cost." In its determination not to purchase fertilizer from Japan, the ROK has switched types of fertilizer to be purchased and other terms of the bid invitations. The USOM has given notice that any deviation from the ICA regulations will have to be justified on sound economic or agronomic reasons. (LR)

8. (UNCLASSIFIED) Issuance of Agricultural Bonds Requested.

The Korean Agricultural Bank (KAB) has formally requested the Ministry of Finance to issue HW10 billion of agricultural bonds during FY (CY) 1960. Discussions of the suggested bond issue have been held by the pertinent authorities but, to date, no agreement has been formally reached.

It has also been suggested that the excess funds of commercial banks deposited with the KAB be used as a source of agricultural credit. These funds, which the banks cannot utilize for loans because of statuatory limitations on the banks' lending capacity, were deposited with the KAB in order to gain some revenue in the form of interest for the commercial banks. If these deposits are used for agricultural credit, the amount of the bond issue, if approved, would probably be reduced by the amount of the deposits. (LR)

9. (UNCLASSIFIED) Dissension Continues in Stevedores Union.

Although KIM Ki-ok, Chairman of the Federation of Korean Trade Unions (FKTU) and Chairman of the Alliance of Free Workers Unions (stevedores) has effected a reconciliation with some of the rebellious elements in his alliance (Weekly Economic Review No. 29), dissension in Kim's local union in Pusan continues. The Pusan local reportedly is split into three factions - anti-Kim, pro-Kim and neutral.

At a meeting of the local this week, the anti-Kim faction, which was trying to force through a no-confidence resolution against Kim, surrounded the meeting hall with several hundred laborers. Later, as tension mounted, city police were sent to the scene and one union official was taken to police headquarters.

(UNCLASSIFIED) Comment: Although the final results of the meeting are not yet known, it is reported that Kim has still not been able to restore unity to the local union. (LR)

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10. (UNCLASSIFIED) AFL-CIO to Send CARE Packages to FKTU.

The AFL-CIO has informed the Federation of Korean Trade Unions (FKTU) that the U. S. labor organization will send 500 CARE packages to the Federation. Each package is said to contain 23 pounds of assorted foodstuffs.

(OFFICIAL USE ONLY) Comment: Federation officials believe that other such shipments were made in the past but no CARE packages were ever distributed by the Federation. They suspect embezzlement by previous Federation officials and are searching for CARE shipment receipts to confirm their suspicions. If the suspected embezzlement is confirmed, it will undoubtedly become an issue in the present factional labor struggle.

The Seoul office of CARE expects the present shipment to arrive at Pusan sometime in September. It is reported that the Federation has been unable to obtain from the local CARE office any information on earlier donations to the FKTU through CARE by the AFL-CIO. (IR)

For the Ambassador:

Robert W. Tucker

Robert W. Tucker
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL — 57 DESP. NO. — Action Assigned to NAIE

TO : THE DEPARTMENT OF STATE, WASHINGTON. — Act August 7, 1959 DATE

REF : CERP - Korea, Section C, Item 1.

NARS, 11-15-77 NAIE

15 For Dept. Use Only	ACTION FE-6	DEPT INFO L-2 SCS-1 PER-2 Q-1 RM/R-2 REP-1 IRC-15 ICA-11 USMSC-3 E-7 O/FW OTHER OCB-2 COM-12 TR-3 FRB-3 XMB-4 IN-7 TAR OSIA-10 OSD-2 ARMY-35 NAVY-20 AIR-30 CIA-16
	REC'D 8/12	Date of Action: NAIE

Action Office Symbol:

SUBJECT: Weekly Economic Review No. 31

LAB Name of Officer EMD

Direction to DC/R File

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1. ROKG Announces Preliminary Plans on 1960 Budget.
2. Ambassador Yu Predicts Restoration Korea-Japan Trade.
3. July Exports Down $.5 Million.
4. Preferential Import Items Selected.
5. Export Subsidies Still Under Discussion.
6. Tax Revisions Proposed to Boost Trade.
7. Foreign Exchange Loan System Under Study.
8. FKTU Chairman Appears Victor in Factional Labor Struggle.
9. Suggested ROK Labor Delegation Welcomed by Japanese Unions.

1. (UNCLASSIFIED) ROKG Announces Preliminary Plans on 1960 Budget.

On August 4 Finance Minister SONG announced that the ROK Government budget for FY (CY) 1960 will be prepared on a general basis of about 413 billion hwan. He indicated agreement in principle had been reached with Liberal Party leaders on this figure and it is expected to become the Government's final proposal to the National Assembly although some modifications in details may occur.

This total of 413 billion hwan includes 79 billion for the so-called reconstruction budget and 334 billion for the general accounts of the ROKG. The reconstruction budget will be down 8.6 billion hwan from 1959, while the general accounts total would be increased 31.6 billion from the current year. To meet increased requirements for expenditures a major overhaul of the tax code and tax collecting apparatus is contemplated, and it is contended that revenues can be increased to the target set without a general increase in tax rates. In 1960 the issuance of National Bonds to a total of 10 billion hwan is planned, with 6 billion earmarked for retiring earlier bond issues and the balance allocated for increased expenditures.

An innovation in the 1960 budget is the creation of the first ROKG employee retirement pension fund. Pensions will be allowed after a minimum of 20 years service, at a rate of 30 or 39 percent of the annual salary (the rate varies in different press reports).

(OFFICIAL USE ONLY) Comment: The reduction in the reconstruction budget reflects some economic realism, but it appears that the ROKG will have serious

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difficulty in increasing revenues for general accounts expenditures about 10.5 percent over 1959. Exact details of budget proposals are not yet available. One press report revealed that the original increase in 1960 planned by the Ministry of Finance for general accounts expenditures was 26.4 billion hwan. If reported global figures are proved correct, it would appear that the ROKG has yielded considerably to LP pressures for increased election year spending. (RWT)

2. (UNCLASSIFIED) Ambassador Yu Predicts Restoration Korea-Japan Trade.

According to the Tong A Ilbo of August 1, Ambassador YU Tae-ha of the Korean Mission in Japan told a press conference (presumably in Tokyo) on July 31 that he believed trade relations between Korea and Japan would be normalized "as soon as the climate has become favorable for resumption of the formal diplomatic talks between the two countries." The Seoul newspaper speculated that the ROK Government may resume the suspended trade relations before the re-opening of ROK-Japanese negotiations "around August 20."

(UNCLASSIFIED) Comment: At least one Korean organization has had the courage to ask the ROK Government to reconsider its present ban on trade with Japan. The Korea Fresh Fish Exporters' Association has requested the Ministry of Commerce and Industry to allow the exportation of fresh fish to Japan, pointing out that the export to areas other than Japan is "impossible" and that certain fishermen are being hard hit by the trade suspension. The Association declared that contracts have already been signed with Japanese exporters for $1 million worth of Korean fresh fish this year and the Japanese Government is reported ready to allocate the foreign exchange for the imports of these fish. (RWT)

3. (UNCLASSIFIED) July Exports Down $.5 Million.

The Bank of Korea announced preliminary figures for July exports at $1,613,000, or $455,000 less than the preceding month. A breakdown by destinations indicates that $1,117,000 worth of exports went to Japan, $325,000 to the United States, $36,000 to Hong Kong and $134,000 to other countries.

The chief cause of the July decline is cited as being the "near-complete" cut-off of shipments to Japan following the June 15th trade suspension.

(UNCLASSIFIED) Comment: In recent days, and for the first time in many moons, the Japan export dollar has been quoted in Seoul at levels below export dollars for other areas. On August 4 the Japan export dollar, L/C basis, was quoted at a selling rate of 1390 hwan, while the equivalent dollar for other areas was quoted at 1,430 hwan. On August 6 there were no transactions reported in Japan export dollars, L/C basis. (RWT)

4. (UNCLASSIFIED) Preferential Import Items Selected.

The Ministry of Commerce and Industry announced in its Public Notice No. 300 of July 24, 1959 six commodities which may be imported only with the proceeds from the

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export of the so-called encouraged export items. These import commodities, all considered to be the more profitable items in the "Specific Import list" of the Trade Program for the second half of 1959 consist of (1) stretch nylon yarn (110/2D), (2) linoleum, (3) ,tissue paper, (4) melamine resin sheets,(5) electric phonographs, and (6) fur hats.

The export items to be promoted by this link system and the percentage of the proceeds that may be used to finance the purchase of the preferential import items are as follows: dried oysters (10%), agar agar (10%), tuna (20%), raw silk (20%), hog bristles (10%), and handicraft items (20%). This link system is applicable from July 1 and transactions require the approval of the Ministry of Commerce and Industry. Moreover, Japan is excluded from the benefits of these provisions, i.e. export proceeds from these encouraged items to Japan may not be used to finance the import of the preferential items.

(UNCLASSIFIED) Comment: It is obviously too early to predict how effective this system may be. Although it is very limited in scope and is likely to be strictly controlled, possibly through the establishment of unannounced import quotas on the preferential items, the system nonetheless represents a new approach for Korea and may pave the way for more extensive promotional devices in the future.
(JAC)

5. (UNCLASSIFIED) Export Subsidies Still Under Discussion.

It appears that the planned fund for the subsidization of exports of twenty selected items (Weekly Economic Review No. 28) may be reduced from Hw 538 million to Hw 200 million at the suggestion of the Liberal Party. The Ministry of Commerce and Industry (MCI) states that even the Hw 538 million request was far below the Hw 3 billion amount which the Ministry actually desired.

If the Hw 538 million becomes available, the MCI plans to subsidize every dollar earned from the export of any of the designated items at a rate of about Hw 100:$1. If the total amount available for subsidies is reduced, only the amount of exports of the designated items at the end of 1960 in excess of total exports of the same items during 1959 will be subsidized, at Hw 100:$1.

(UNCLASSIFIED) Comment: The Korean Traders Association considers the plan outlined in the second paragraph above impractical as it would be almost impossible to designate the exporters who should be subsidized. In fact, the Association believes that the plan may retard exports as it is rumored that priority will be given those 1960 exports taking place after the 1959 level has been equalled. This will tend to make exporters hold their goods, waiting for the 1959 level to be reached by others. For other unspecified reasons the Association opposes this plan but favors some sort of bonus or subsidy [redacted] system.

The Ministry of Finance (MOF) states that a definite figure on a subsidy fund and more detailed conditions and terms should result from a forthcoming meeting of the Liberal Party leaders and National Assemblymen on this subject. Both the MOF and MCI believe that the 1960 budget will provide for some form of export encouragement.
(LR)

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6. (UNCLASSIFIED) Tax Revisions Proposed to Boost Trade.

According to an article in the Korean Republic, the Ministry of Commerce and Industry has proposed to the Ministry of Finance certain tax revisions designed to promote Korea's export trade. The Ministry's proposal calls for refunding to exporters customs duties and commodity taxes imposed at the time of import on raw materials, if the manufactured goods produced with the imported raw materials are exported. The Ministry also proposed that the current customs duties and commodity tax rates for imports purchased with dollars earned from exports be cut by 5 percent.

(UNCLASSIFIED) Comment: The MCI states that it has not yet made any proposals on this subject to MOF but has prepared for the Minister's approval a draft plan very much like that reported in the press. The Ministry was somewhat distressed that the plan had been revealed in the press.

The Export Section of MCI views the above proposal as an alternate to the export subsidy plan reported above. (LR)

7. (UNCLASSIFIED) Foreign Exchange Loan System Under Study.

The Ministry of Commerce and Industry is studying a plan to advance foreign exchange in amounts up to 80 percent of export L/Cs as soon as possible after receipt of the L/Cs which normally become negotiable in about three months. Such advances would be granted to exporters with exports of over $100,000 and no advance would exceed 25 percent of the exporters total exports. There will be no discrimination as to items of export.

(UNCLASSIFIED) Comment: The press had reported this plan as "decided on" by the MCI. The Ministry termed these reports premature and attributed them to the "nuisance of unethical reporters" who snoop around the ministries hungry for anything to print, even informal discussions and explorations. (LR)

8. (UNCLASSIFIED) FKTU Chairman Appears Victor in Factional Labor Struggle.

Although details of the meeting of the Central Standing Committee of the Federation of Korean Trade Unions (FKTU) at Taegu on July 31 are not yet known to the Embassy, KIM Ki-ok, Chairman of the FKTU, apparently scored a "no contest" victory as an estimated 40 anti-Kim delegates reportedly were denied admission to the meeting (See D-48, July 31, 1959, and Weekly Economic Review No. 29). The anti-Kim delegates were told that they were no longer members of the Federation.

During the meeting the Committee accepted the resignations of YI Chu-gi, General Secretary of the FKTU, and PAK Ch'ong-san, Chief of the Publicity Department of the Federation, who had reportedly worked against Kim.

(OFFICIAL USE ONLY) Comment: As reported in the referenced despatch, Kim planned to evict some of his opponents from the FKTU on the grounds that they had attempted to have the 1958 Federation convention nullified.

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CHA Kuk-chan, one of the more prominent anti-Kim figures, indicated that his group does not plan, at present, to challenge the legality of their exclusion from the Committee meeting. Rather, they are again planning to establish a rival labor movement but admit that the plan will have to be abandoned if confronted with strong opposition from the Liberal Party, of which the FKTU is a component unit. According to Cha, the Taegu meeting hall was under the close scrutiny of uniformed police and plain clothes "strong arm" squads.

It is also reported that just before the Committee meeting opened, two members of Kim's Pusan local who led the accusations of embezzlement against Kim (Weekly Economic Review No. 30) were jailed -- on charges of embezzlement.

9. (UNCLASSIFIED) Suggested ROK Labor Delegation Welcomed by Japanese Unions.

An official of the Federation of Korean Trade Unions (FKTU) reports that in a recent letter to the Federation the Japanese labor unions welcomed the Federation's proposal that a ROK labor delegation visit Japan to discuss with Japanese labor officials the issues of Korean residents in Japan and the detention of Japanese fishermen by the ROK (Weekly Economic Review No. 29). He also quoted a "private source" as saying that the Japanese labor leaders would assist in obtaining GOJ approval of the visit. The FKTU official thought that the Federation's proposal had appeared in the Japanese press.

(UNCLASSIFIED) Comment: The FKTU delegation, as listed in the press, is entirely made up of minor union figures. (IR)

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL — 78 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — August 14, 1959 DATE

REF : CERP - Korea, Section C, Item 1.

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SUBJECT: Weekly Economic Review No. 32

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1. (UNCLASSIFIED) ROK Government Budget Plan for 1960 Raised to 417.2 Billion Hwan Total.

August 13 announcements of The Ministry of Finance indicate that the ROKG budget plan for FY (CY) 1960 expenditures has now been upped to a 417.2 billion hwan total from the previous tentative agreement between Government and Liberal Party leaders at the level of 413 billion hwan. (See Weekly Economic Review No. 31). The 1960 total would be 20.7 billion hwan (5.2 percent) over the 396.5 billion total for 1959. (The latter is anticipated to exceed the budgeted 390 billion by a 6.5 billion deficit).

The Government anticipates raising customs revenues to 50.9 billion hwan in 1960 from 39.2 billion hwan this year, relying on a shift in assessment bases from domestic market prices to those based on original prices in terms of foreign exchange. Foreign exchange taxes are expected to realize another increase of 10.8 billion hwan with increased returns from bidding taxes (i.e., those above the 150 hwan per $1.00 minimum) on estimated total imports of $292 million in 1960. Comparative totals for anticipated collections of this tax in 1960 and in 1959 are 45.6 billion hwan and 34.8 billion hwan.

The cash counterpart portion of budget revenues has been set at 114 billion hwan, with 61 billion to be allocated for economic development and 53 billion for defense budget support.

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(CONFIDENTIAL) Comment: Embassy and USOM officials are meeting with the Ministers of Finance and Reconstruction on August 17 to try to inject some economic realism into budget plans before they reach the National Assembly. In particular the 1960 ROK defense budget target of 53 billion hwan appears unattainable. (RWT)

2. (UNCLASSIFIED) Price Index Continues at "Danger Point".

The Seoul wholesale price index which stood at 125.3 on July 31 declined a fraction to 125.2 on August 7. The index for July averaged 124.0. With rising costs of foreign exchange, anticipated U. S. aid cuts and the trade suspension with Japan all tending to force up prices of imported goods, there has been considerable press speculation that the 125 percent of the September 1955 index level set for the agreed (with the United States) maintenance of the pegged official exchange rate of 500 hwan to the $1.00 U. S. will be sharply exceeded during the last half of 1959. This would force an automatic adjustment of the exchange rate, as the press points out.

With the fall rice crop months away, grain prices which have hitherto held down the general index average are slowly rising and the forthcoming Fall Festival (Chusok) will generate the usual splurge of spending.

ROK Government leaders are obviously worried about this situation. In particular Minister of Commerce KU has referred to unjustified prices rises in textiles and has issued reported threats of price controls on manufacturers and retailers of cotton and rayon fabrics and yarns. Reports of hoarding by traders of such items as wool tops, rayon, raw rubber, and newsprint are increasing.

(UNCLASSIFIED) Comment: Holding the Korean price line in the last six months of 1959 and in 1960 is clearly going to be a nip and tuck struggle. (RWT)

3. (UNCLASSIFIED) Lifting of Trade Suspension with Japan under Study.

The Korea Times reported on August 12 that the Korean Delegation to the ROK-Japan conference resuming talks on the overall problems between the two countries recommended to President Rhee the lifting of the trade ban. (See Weekly Economic Review No. 31 for earlier story). Chief Delegate HO Chung reported that the President would instruct the Foreign Ministry to consult with the economic ministries on the removal of the ban. The Government sponsored Korean Republic confirmed this report and stated that the delegation suggested resumption of trade after the conference gets under way.

(OFFICIAL USE ONLY) Comment: The reported change in the Government's position on trade with Japan, even if only in terms of studying the problem at this stage, is encouraging. There have been no indications, however, of what conditions would have to prevail before trade could be normalized. It is likely that some ROK Government leaders have come to realize that the trade suspension will not cause the Japanese to abandon their plans to repatriate Koreans in Japan to North Korea and a continuation of the ban would therefore be non-productive. Moreover, a resumption of trade might place the Koreans in a favorable light in that they might appear to be demonstrating a more cooperative attitude in their negotiations with the Japanese. Possibly such a step taken during the conference may be calculated to represent a concession which the Koreans may in some way use in bargaining with the Japanese. Another important factor may be that the Koreans may have come to appreciate even more fully than heretofore that a continuation of the trade embargo will result in

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more serious injury to Korea than to Japan.

4. (OFFICIAL USE ONLY) Tires -- Legal or Illegal?

The Korean police, in carrying out the campaign against black market activities, have been confiscating vehicle tires with military type tread on the assumption that these have been stolen from the military forces in Korea or smuggled into Korea. No consideration appears to have been given to the fact that automobile tires with military type tread are produced and sold in the United States and abroad as well as in Korea for civilian use. As a consequence, some tires may have been confiscated in Korea which were legally acquired.

At least one American businessman in Seoul has had tires confiscated from his car. Several attempts have been made to confiscate the tires of another American who has thus far succeeded in resisting the seizure. These Americans have protested to the American Embassy and one of them has sought protection under the Treaty of Friendship, Commerce, and Navigation. The Embassy is exploring with both the U.S. Armed Forces in Korea and with the Korean Government a change in the methods of the anti-blackmarket campaign so that the property rights of Americans will be protected. (JAC)

5. (UNCLASSIFIED) KNA to Contract for Purchase of Jet Convair.

Following shortly on the heels of the purchase of a four-motored Constellation to inaugurate its first Seoul-Seattle flight service (Weekly Economic Review No. 30), according to the Hankuk Ilbo of August 7, the Korean National Airlines (KNA) is now negotiating with an American firm, Air Carrier Service Co., to purchase a jet Convair 880-31. It is reported that the contract will be signed by October 1959 at the latest for construction of the aircraft at the Convair plant in San Diego, California, and delivery to KNA would be anticipated by the close of 1960.

The price of the plane, including necessary insurance premiums, is set at $5 million, to be paid by KNA in installments over an eight-year period without requirement of ROK Government or bank guarantees by the American seller. The jet Convair with four General Electric engines is rated as having a 115 passenger capacity and cruising speed of 650 miles per hour. This would presumably permit KNA direct Seoul-Seattle flights without the necessity of an Alaskan stop as in the case of KNA's Constellation, presently the only aircraft it has available for trans-Pacific flights.

KNA ground personnel will be sent to the United States in advance of the delivery of the new jet transport to be trained in maintenance of the plane. (RWT)

6. (UNCLASSIFIED) Movie Theater Admission Tax Changes Proposed.

According to the Seoul Sinmun of August 13, the Finance Ministry is preparing to submit a bill amending the motion picture theaters Admission Tax Law along with other tax law amendments to be proposed to the National Assembly in connection with FY (CY) 1960 budget proposals.

Currently a 115 per cent admission tax is theoretically imposed on foreign firms but theater managers have been reportedly using various dodges to avoid payment of the tax, which would make operation of the theaters economically unfeasible. Domestic films have been exempt from payment of the tax.

In addition to imposing fixed tax rates on billiard parlors, dance halls and

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golf clubs "which have so far habitually dodged taxes", the Finance Ministry bill would reduce the admission tax on foreign films from 115 percent of seat prices to 60 percent, while the rate on previously exempt domestic films would be set at 30 percent. (RWT)

7. (UNCLASSIFIED) Korea - Ryukyus Trade Promotion.

The Ministry of Commerce and Industry has submitted plans to the Cabinet for the promotion of exports to the Ryukyu Islands, according to the Korean Republic (See Weekly Economic Review No. 29 for earlier report). These plans of the MCA include (1) the sending of a trade mission to Okinawa to exhibit major Korean products in October and (2) the exchange of permanent commercial officers in the two areas. Also included in the plans is the supply of goods to the US Armed Forces in the Ryukyus. Among the products being considered for export are rice, livestock, fishery products, beverages, handicrafts, fruit, eggs, and straw hats.

(OFFICIAL USE ONLY) Comment: It is not known to what extent, if any, these plans may be related to the earlier reports that Okinawa may be used as an intermediary port for trade between Japan and Korea. If the mission materializes, it is not unlikely that the Korean businessmen will explore potential sales to Japan through Okinawa, at least while the suspense of ROK trade with Japan continues. (JAC)

8. (UNCLASSIFIED) Korea to Participate in Texas Fair.

The State Fair of Texas to be held in Dallas from October 10 to 25 will find among the participants Korean businessmen displaying their wares, according to an announcement in the Korean Republic. The Korea Chamber of Commerce has confirmed that all arrangements have been made by the Ministry of Foreign Affairs and that formal applications for participation are being received by the Chamber of Commerce. Commodities which are likely to be included in the display include textiles, footwear, glassware, handicraft items, minerals, fishery products, and household goods.

(UNCLASSIFIED) Comment: It appears that Kofea is making a degree of progress in this phase of its export promotion program. Korea's participation in the New York Fair last May reportedly resulted in sales of approximately $100,000. The Ministry of Commerce and Industry has announced that American firms have recently placed additional orders with Korea for some 16 items displayed at the New York Fair. Among these items are Korean wine, oysters (dried, smoked, and canned in oil), frozen shrimp, bamboo products, brassware, carpets, slippers, cotton yarn, and cotton cloth. Although this volume may be considered small as compared to the sales of other exhibitors, it nevertheless represents a forward movement for Korea. (JAC)

9. (UNCLASSIFIED) Unemployment Insurance Plan Considered.

The Ministry of Health and Social Affairs (MHSA) acknowledges that it sent the draft of an unemployment insurance bill to the Office of Legislation but refuses to discuss details of the bill.

According to press accounts, the Ministry requested 300 million hwan (Hw500:$1 at the legal exchange rate) in order to establish the insurance system. The system would cover persons in establishments employing 10 or more workers. Payments to the insurance fund would be made by employers and employees. After 12 months participation in the program, a worker losing his job would be eligible for "minimum living expenses" for six months.

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(UNCLASSIFIED) Comment: The Embassy has received reports that MHSA's budget request for the unemployment insurance plan was rejected by the Ministry of Finance on the grounds that MHSA had not ironed out basic problems present in the proposed program. (LR)

10. (UNCLASSIFIED) Funds Requested to Aid Korean Emigrants.

According to press reports, the Ministry of Foreign Affairs has requested 630 million hwan (Hw 500:$1 at the legal rate of exchange) in next year's budget to aid the emigration of about 2,500 persons from Korea to Brazil, and other South American and Southeast Asian countries. The requested budget includes expenses for training emigrants, subsidies for transportation fees, farming loans and funds for the operation of the emigration committee. Officials think that most of the emigrants will go to Brazil, with perhaps a small number going to Thailand.

(UNCLASSIFIED) Comment: Privately officials admit that the emigration plan is just talk so far. In fact, no agreement has been reached on the establishment of diplomatic relations between Brazil and Korea although this matter is reported to have been the subject of negotiations between the Korean and Brazilian ambassadors in Washington since last year. (LR)

11. (UNCLASSIFIED) Further Reports on Taegu Labor Meeting.

Neutral and pro-Kim Ki-ok sources reporting on the meeting of the Central Standing Committee of the Federation of Korean Trade Unions (FKTU) at Taegu on July 31 (Weekly Economic Review No. 31) state that only a few Chong supporters were denied entry to the meeting, principally those who played active roles in the attempt to nullify the 1958 convention at which Kim was elected Chairman of the FKTU. For the most part, the Chong adherents refused to participate in the meeting because they realized that a vast majority of the delegates endorsed Kim. These sources also report that there were only a few policemen attendant at the scene of the meeting. The other guards and inspectors present were members of Taegu unions. (LR) [redacted]

12. (UNCLASSIFIED) Kim Ki-ok Scores Easy Victory in Local Union.

According to press reports, Kim Ki-ok, Chairman of the Federation of Korean Trade Unions (FKTU) won an impressive victory in his local union (Pusan Port Workers Union) elections on August 13. In secret balloting, without nominations, Kim received 99 of a total 103 votes cast. The convention then evicted from the union the two officers who, reportedly encouraged by Chong Tae-chon, had stirred up trouble against Kim (Weekly Economic Review No. 30). (LR)

(UNCLASSIFIED) Comment: The convention vote would seem to support frequently expressed opinions that despite the attacks and charges directed at Kim, he is still extremely popular with the rank and file of the Pusan union. Barring unforeseen developments, the results of the Pusan convention and of the Central Standing Committee meeting at Taegu, reported above, should place Kim in a dominating position at the FKTU annual convention in October. (LR)

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For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

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By [illegible], NARA, Date 4/6/94

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CIA-16 USIA-10 OCB-2 OSD-2 ARMY-35
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XMB-4 TDR-2 LAB-5

SUBJECT: Weekly Economic Review No. 33

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1. (UNCLASSIFIED) Seoul Wholesale Price Index Hits Record High.

The Seoul wholesale price index rose 1.6 percent on August 14 from the preceding week-end. The general index stood at 127.3 percent of the September 1955 average and was described in press comments as the record high. For the first time in recent memory all component categories of the index, including grain, were at levels above the September 1955 average. Increases during the week were mainly in the textile raw materials category (weight 10 out of 100) - up 6.2 percent, grain (weight 39) - up 2.3 percent, and miscellaneous (weight 25) - up 1.4 percent. All categories participated in the climb except fertilizer and fuel which remained unchanged. The stability of these two categories is largely explained by low seasonal demand.

The new national wholesale price index, which has been vaunted by the Bank of Korea as being much more accurate in weighting and scope than the Seoul index, rose 1.1 percent from July 31 to 127.0 (also on the September 1955 base of 100) on August 10, thus largely substantiating the Seoul index trend.

The four economic Ministers led by Minister of Finance SONG in Sang met on August 20 to discuss emergency measures for controlling prices and the threat to the 500 hwan to the $1.00 U. S. legal exchange rate (Economic Weekly Review No. 32 and previous). Minister Song blamed recent price rises on speculative commercial activities "taking advantage of a temporary shortage in foreign exchange supplies." At the

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Combined Economic Board meeting of August 19, Song and his ROK associates pleaded for acceleration of movement of consumables to Korea by USOM officials under the FY 1960 aid program in order to drive down prices.

(OFFICIAL USE ONLY) Comment: Of the $20.5 million foreign exchange owned by the ROK Government which was programmed for auction for import purposes during 1959, $6.5 million remain unsold. Earlier reports had it that the sale of this remaining exchange would be deferred until late in 1959 or even early 1960. The Yonhap Sinmun of August 19, however, quoted Vice Minister of Finance PAK Chong-sik as stating that the $6.5 million would be released before the Fall Festival (Chusok) on September 17. A commercial press service even cited an "informed source" to the effect that the ROK Government is seriously contemplating the auctioning of still another $20 million before the close of 1959. Since the Government normally grudges the release of foreign exchange, this is clear evidence of the alarm being felt as a result of rising prices.

Unfortunately the Government continues to defer action on one of the prime causes for increased prices, namely the issue of restoring normal trade relations with Japan.
(RWT)

2. (UNCLASSIFIED) Water Pipe - a "Who Dunnit" Story.

The Hankuk Ilbo carried a story on August 18 indicating that the Seoul Water Supply project, financed with about $1.16 million of ICA funds, ran into serious difficulties as a result of the inferior quality Japanese steel pipe used in the project. The water supply system went into operation on August 5 of this year and had to be closed down shortly thereafter as a result of clogging from erosion of the asphalt inner lining. The companies involved in the supply of pipe were reported to be the Harima Shipyard and the Daikei Steel Pipe Company, both of Japan. The section of steel pipe procured from Germany is claimed to be in good condition. The Ministry of Home Affairs, according to the press, said that a decision to file a claim must be made by the Combined Economic Board, but that the Ministry itself is already preparing a claim.

(CONFIDENTIAL) Comment: Information available to the Embassy from two private American sources suggests there is much more to this inferior pipe transaction than meets the eye. According to these accounts, the poor performance of the pipes is the direct result of corruption among the ROK Government officials involved in making the award to Japan. Briefly, the series of events leading to the award consisted of: (1) a claim by an American supplier that Japan did not have the capacity to produce the pipes according to the specifications and that use of the Japanese pipes would soon result in corrosion and serious damage, (2) an award to the Japanese producers by OSROK, (3) several notices sent to the ROK Office of Supply (OSROK) by the inspection company assigned to the job -- Universal Testing and Superintendence Co. Inc. -- to the effect that pipe being produceddid not meet specifications, with

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no reply from OSROK, (4) a personal visit to OSROK from Japan by the inspector to warn the Korean Government of non-compliance with specifications, and (5) an OSROK firm and unfriendly instruction to the inspector that he should perform his duties without any fuss. The inspector is reported to have been compelled to issue a certificate of inspection but one in which he indicated that the pipe did not meet certain requirements. Harima Shipyard is reported to have received $400,000 out of the $785,000 allowed for that particular contract, the remaining $385,000, it is alleged, going into the coffers of certain Government officials and Liberal Party funds.

Neither the Embassy nor USOM is in a position to confirm (or deny) any of these allegations at this time. If the Ministry of Home Affairs does make a claim (against whom it is not yet known), there may be more light thrown on this subject by the defendants.

If these allegations as to collusion in ordering and accepting inferior pipe prove to be valid through subsequent investigation, the U. S. Government may have a good basis for making a claim against the Korean Government. (JAC)

3. (UNCLASSIFIED) Korean Movie Industry Booming.

According to the Korea Times of August 20, the young Korean motion picture industry is well on its way to a record output in 1959. Some 65 Korean feature films have been produced since the beginning of the year and almost 150 pictures are anticipated for production by the close of 1959. This will be roughly 180 percent of production in 1958 (84 films) and ten times that of 1954.

The
/Biggest impetus to the growth of the domestic movie industry was a law enacted in 1954 by the National Assembly which exempted domestic films from admission taxes in theaters. (See, however, Weekly Economic Review No. 32, which indicates that the Finance Ministry is having second thoughts on this tax exemption).

There are three motion picture studios in the ROK: the Sudo Movie Co. in Anyang, ten miles south of Seoul; the Korean Movie Culture Association in Chungneung, northern suburb of Seoul; and the Samsung Movie Co. in Wangsim-re, on the eastern outskirts of Seoul. However, there are some 74 motion picture producing companies, only 7 of which have produced two or more films this year, 45 have produced one film and 22 have produced none. Lack of capital and sharp competition among producers is forcing amalgamation of smaller firms. Recently 17 small producers merged into a syndicate and 7 other companies formed a single new firm.

Total production cost for a feature film runs from 30 million to 40 million hwan ($60,000 to $80,000 at the legal exchange rate) and a few top directors receive 2-3 million hwan per film. Leading stars draw 1.5 million to 2 million hwan for a feature picture. The streets of Seoul and the neighboring countryside often furnish inexpensive settings for film scenes.

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(UNCLASSIFIED) Comment: Imports of foreign films (mostly American) have been restricted to about 130 feature pictures the past several years, partly because of ROK Government efforts to conserve foreign exchange, and partly because of a stiff 115 percent admission tax on these films. The Finance Ministry's proposal to reduce this tax to 60 percent and impose a 30 percent admission tax on domestic films would undoubtedly reduce Korean production but might result in better quality Korean output, about which the Ministry of Education has recently made some criticisms. (RWT)

4. (OFFICIAL USE ONLY) KOSCO's Analysis of the Prospects of an Oil Refinery in the ROK.

Western oil company representatives (principally that of STANVAC) in the Korea Oil Storage Co. (KOSCO) have recently furnished the Embassy a study, which is largely economic and non-technical, on the feasibility of constructing an oil refinery in Korea to replace the present system of importing all petroleum products in a refined state under a U. S. Government procurement contract.

The study indicates that Korea's estimated 1963 civilian and ROK military requirements of main petroleum products, including motor gasoline, aviation turbine fuel, gas oil, diesel oil and fuel oil could be supplied from a local refinery of 22,500 barrels (of U.S. 42 gallons) daily capacity using light Iranian crude. To economize on investment and operating costs such a refinery would involve a distillation and catalytic reforming or cracking process which might produce fuel oil surplus to Korea's anticipated needs. An export market would have to be located for such a surplus. On the other hand, such a refinery would not produce Korea's requirements for avigas, bitumen or lube oils, since to accomplish this would require very heavy and uneconomical additional capital expenditures.

KOSCO estimates that the refinery would require an investment of U.S. $15.3 million for imported equipment and materials plus the equivalent of U.S. $4 million in hwan expenditures for local procurement. An additional $2.5 million would be required for inventory stocks of crude oil and supplies. Estimated costs are minimal and subject to a detailed site survey and review of available local supplies and materials.

The KOSCO study opines that such a refinery, subject to substantiation by a site survey and detailed examination of local costs, should be able to operate profitably and without Government subsidization. Further, the study contends that the refinery project would result in a foreign exchange saving to the ROK of about U.S. $3 million annually when compared to commercial product imports of refined products.

(OFFICIAL USE ONLY) Comment: It is important to note this last underlined qualification. The study does not contend that exchange savings (or savings in cost of refined products) would result from the refinery when compared to costs of refined products presently imported mainly by the U. S. military at prices obtainable from world-wide military contracting at a very large volume.

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The Stanvac representative of KOSCO indicated that his company's interest in the refinery was not prompted by any profit potentiality of the refinery itself, but rather as a means of protecting their petroleum market in Korea. They fear that if they don't come forward with an attractive proposition on the construction of a refinery, someone else will and they (STANVAC and the other KOSCO participants) might lose out on the marketing of crude. The KOSCO proposal, which will probably be presented formally to the ROK Government within a week or two, is well timed since a Korean group headed by Korea Shipping Corporation President Namkung Yon is promoting their own refinery project and have reportedly received the blessing and a promise of financial help from the Korean Government. (RWT)

5. (UNCIASSIFIED) Export Promotion Committee Holds First Meeting.

The Export Promotion Committee established in June 1959 under the Combined Economic Board structure met for the first time on August 18, 1959. The subject considered at this first meeting was the establishment of an Export Promotion Fund from existing counterpart funds. Although consideration of this subject has not yet been completed, there has been general agreement that the Fund would (1) consist of 3.75 billion hwan plus interest earned thereon, (2) be available for loans at low interest rates to qualified manufacturers and processors of export goods, and to exporters, and (3) be loaned through the commercial banks in Korea established under the General Banking Act. Initially, about two-thirds of the fund would be set aside for loans to manufacturers and processors and one-third for exporters. Up to 20 million hwan may be lent to applic ants with approval from the Bank of Korea. Loans in excess of 20 million hwan would require prior approval from both the Bank of Korea and the Export Promotion Committee. Other provisions will be considered at a subsequent meeting.

(UNCLASSIFIED) Comment: One of the reasons why exports have not developed is that low cost financing has not been available to either manufacturers or exporters. Short term commercial interest rates are reported to be in the magnitude of 3 percent per month. The availability of export promotion fund loans to qualified applicants at a rate of 10 or 12 percent per year will remove, it is hoped, one of the obstacles to the promotion of exports. Other obstacles will be considered in future meetings. (JAC)

6. (UNCLASSIFIED) NWA Fears Loss of Passengers to KNA.

The manager of Northwest Airlines (NWA) has infomred the Embassy that the Ministry of Finance recently took administrative steps to prevent the use of foreign commercial airlines by Korean students traveling to the United States. This action, it is believed, consists basically of a decision not to make dollar exchange available for such travel. Korean students, therefore, will be compelled to travel on Korean National Airlines (KNA), which is expected to inaugurate regular flights to Seattle later this month. The one-way fare on KNA is reported to be 205,000 hwan. NWA is obviously concnerned over this move because it would mean the loss of about 350 student passenger fares a year by NWA.

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(UNCLASSIFIED) Comment: An Embassy check with the Ministry of Finance revealed that the $300,000 allocated by the Government for student travel and other student expenses during 1959 was exhausted on August 11 of this year. In order to permit students to register at American schools this fall, KNA has offered a charter flight to accommodate bona fide students. If KNA had not offered this service, the Korean Government would probably have made dollar exchange available out of its 1960 budget. (JAC)

7. (UNCLASSIFIED) Seoul-Taipei Air Service Expected Soon.

The Ministry of Transportation informed the Korea Times on August 17 that the Korean National Airlines (KNA) will shortly begin a regular Seoul-Taipei air service in accordance with the ROK-Republic of China Air Transport Agreement. The Ministry is currently negotiating details of the new service with the Chinese Government through the Ministry of Foreign Affairs in Seoul.

Following the termination of the ROK-Hong Kong Air Transport Agreement last July 20 (Weekly Economic Review No. 29), the institution of Seoul-Taipei flights was proposed by KNA as a substitute. Current plans call for three round trips weekly between Seoul and Taipei.

(UNCLASSIFIED) Comment: Normal passenger and freight traffic by air between the ROK and Taiwan would appear to be insufficient to warrant this new service. Obviously connections at Taipei would be used to make this a "back door" route from Seoul to Hong Kong. This affords a much shorter flight than the current Seoul-Tokyo-Hong Kong detour. (RWT)

8. (UNCLASSIFIED) Fish Catch at Record High.

The output of marine products in Korea attained an unprecedented level of 172,599 tons in the first half of 1959, according to an announcement of the Office of Marine Affairs as reported in the Korean Republic of August 15. This output represents an increase of 3,943 tons over output in the first half of 1958. By broad categories fish catch in the first six months of this year was reported as follows: fish, 134,523 tons; shellfish, 6,244 tons; edible seaweeds, 22,833 tons,; all other, 8,908 tons. Total value of the half-year catch was estimated at 13.8 billion hwan. (JAC)

9. (UNCLASSIFIED) Encephalitis Epidemic Makes Annual Return - Incidence Sharply Down.

The annual onset of Japanese B-type encephalitis, or sleeping sickness, has again been reported in most sections of South Korea including a number of cases in Seoul. As of the close of August 19, 52 cases were identified by the authorities with 13 deaths resulting.

Last year this dread disease afflicted over 6,000 persons and killed about 1,500 during the epidemic season which runs from July to mid-September (Weekly Economic Review No. 38, September 19, 1958).

(UNCLASSIFIED) Comment: Undoubtedly the massive insecticide campaign in 1958 undertaken by the ROK Government and U.S. Armed Forces to destroy mosquitos (and larvae) which are carriers of the disease has been a major factor in the relatively minor number of illnesses and deaths reported this year. (RWT)

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10. (UNCLASSIFIED) Plans for Second Labor Movement.

The CHONG Tae-ch'on group, which was defeated by the supporters of KIM Ki-ok at the meeting of the Central Standing Committee of the Federation of Korean Trade Unions (Weekly Economic Review No. 31), is attempting to form a second labor movement to be known as the Council of Trade Unions. A preparatory committee meeting held recently was reportedly attended by 31 delegates representing 23 unions.

(OFFICIAL USE ONLY) Comment: Federation officials do not appear worried about the formation of another national labor group. They point out that an affiliated union cannot withdraw from the Federation unless the members of the union vote to do so. It is doubtful that some of the unions claimed to be in the opposition will so vote. In addition, the 23 unions which supposedly support Chong represent a very small percentage of the more than 500 unions in the Federation.

In the opinion of some local observers, Chong is simply trying to stir up sufficient trouble and critical reaction to force the Liberal Party to intervene. Such intervention in the past is said to be responsible for the formation of the Federation's earlier 3, and then 5, member Supreme Committee. The Liberal Party, unable to settle the internal labor struggle, gave equal status to all the leading contenders. The resulting lack of leadership, authority and responsibility rendered the Federation completely ineffectual until the establishment of a single chairman system in October 1958.

Press coverage of recent labor developments while fairly extensive has been inaccurate, careless and shallow. (LR)

11. (UNCLASSIFIED) Liberal Party Criticized in Name of Labor Leader.

According to press reports, the anti-Communist Fighting Committee (ACFC) has issued the following statement in the name of CH'A Kuk-chan, Chief of the Publicity Department of the ACFC and a leading member of the CHONG T'ae-chon faction in the Federation of Korean Trade Unions: "The Anti Communist Fighting Committee will keep a thorough watch over elections to ensure fair elections with next year's presidential and vice presidential election in accordance with its declaration of 'the democratic implementation of politics' as stressed in its guiding principle No. 1, constantly pay its attention to the speeches and moves of the public officials engaged in the conduct of elections and ensure the perfect exercise of the sovereignty of the people who are the masters of this nation. We hope that the rumors that the Liberal Party is secretly infiltrating into armed forces and investigating the nature of ordinary public officials as a measure to cope with next year's election as pointed out by journalistic and political circles are a mere bugbear."

(OFFICIAL USE ONLY) Comment: The ACFC was originally established by the Liberal Party to support passage of the National Security Act but has since thrown off Liberal control and is now considered a quasi-political party. Ch'a is said to have joined the ACFC, when it was under the aegis of the Liberal Party, because of his political ambitions and his closeness to the head of the Committee. Ch'a, who would certainly do nothing to antagonize the Liberal Party, may be surprised to hear of the ACFC statement which was released on August 14, since he left Korea for the United States on August 7.

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Leaders of the Federation of Korean Trade Unions (FKTU) find it ironically amusing that Ch'a complained about being barred from the meeting of the Federation's Central Standing Committee (Weekly Economic Review No. 31). They claim that Ch'a originated the tactic of barring labor adversaries from Federation gatherings but that Ch'a did it with chairs -- applied with vigor and enthusiasm to the skulls of his opponents. (LR)

12. ERRATA

In the Embassy's Weekly Economic Review No. 32 (D-78, August 14, 1959), it is requested that the following corrections be made:

CONFIDENTIAL - 1. In line 4 of page 2 after the words "53 billion hwan" insert the words "as a contribution from U. S. counterpart fund aid."

OFFICIAL USE ONLY - 2. In line 18 of page 4, the word "suspense" should be changed to "suspension".

For the Ambassador:

Robert W. Tucker per jac

Robert W. Tucker
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

FROM : Amembassy, SEOUL

102
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

August 28, 1959
DATE

REF : 1957 CERP, Section B, Item II-B, III-B-1, 3, V-E(1), VII-B(1), D(1), III-D-1, I-A-4, 5.

20 For Dept. Use Only	ACTION	DEPT.
	COM-12	INFO REP-1 IRC-8 E-4 ICA-11 FE-3 USIA-10 Army-4
	REC'D 9/5	OTHER AG-8 IN-7 TAR-2 LAB-5 CIA-10 TR-3 FRB-3 SMOF-4 Navy-3 Air-1

SUBJECT: Monthly Economic Indicators, ROK, June 1959.

	Jun 1959	May 1959	Percent change a/ May-Jun 1959	Jun 58-Jun 59	Sept 58-Jun 59
I. PRICES (A.B.C.: 1947=1)					
A. Wholesale index, Seoul	219.5	215.9	+ 1.7	+ 6.0	+23.8
1. Commodity groups					
a. Grain	207.9	202.3	+ 2.7	-12.6	- 1.5
b. Meats, eggs, fish	449.7	438.5	+ 2.6	+29.5	+70.1
c. Textile raw materials	151.0	154.6	- 2.3	+ 6.7	+25.9
d. Textiles	70.9	72.4	- 2.1	+ 6.0	+ 1.1
e. Building materials	262.3	259.3	+ 1.2	+ 9.9	+13.8
f. Fertilizer	539.4	539.4	0	0	+68.6
g. Fuel	566.1	565.8	+ 0.1	+37.4	+51.8
h. Miscellaneous	129.6	125.1	+ 3.6	+19.3	+46.4
2. All items except grain	226.9	224.6	+ 1.0	+21.1	+45.7
3. Consumer goods	218.2	213.9	+ 2.0	+ 1.7	+20.8
4. Producer goods	186.5	185.4	+ 0.6	+12.6	+24.8
B. Seoul Consumer Price Index (1955=100)					
1. General	150.7	153.5	- 1.8	+ 1.3	+29.8
a. Food	147.3	153.1	- 3.8	- 7.2	+17.2
b. Housing	178.2	178.2	0	+10.5	+69.9
c. Fuel & light	157.1	157.1	0	+31.6	+36.8
d. Clothing	108.7	108.5	+ 0.2	- 1.4	+ 3.8
e. Miscellaneous	168.1	168.1	0	+ 9.2	+57.1
C. Rice, Retail, Seoul Hwan/20 liters	2,943	2,803	+ 5.0	- 8.3	- 0.5
D. US $1 Greenback, Seoul	1,296	1,191	+ 8.8	+ 9.5	+69.4

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	Jun 1959	May 1959	Percent change May-Jun 1959	Jun 58- Jun 59	Sept 55- Jun 59
E. New National Wholesale Price Index (1955=100)					
1. All commodities	148.6	145.9	+ 1.9	+ 1.6	+24.8
a. Foods	147.3	143.6	+ 2.6	- 4.5	+12.2
b. Fuel & power	154.2	153.2	+ 0.7	+11.5	+40.2
c. Mineral products	111.8	111.1	+ 0.6	+ 4.5	+ 8.3
d. Metals products & machinery	173.3	170.7	+ 1.5	+11.0	+61.7
e. Building materials: (Including metals)	154.1	153.2	+ 0.6	+ 9.1	+33.4
Excluding metals	147.9	148.1	- 0.1	+ 8.5	+27.2
f. Fiber and fiber products	121.9	121.5	+ 0.3	- 3.3	+17.0
g. Chemical products	219.5	216.9	+ 1.2	+ 4.2	+56.0
h. Paper	143.9	144.5	- 0.4	+15.3	+44.0
i. Raw rubber & rubber products	154.2	144.1	+ 7.0	+46.0	+34.8
j. Miscellaneous	163.6	160.0	+ 2.3	+ 8.0	+55.1
2. Special groupings					
a. Grains	143.0	139.6	+ 2.4	-12.9	- 2.8
b. All commodities excluding grains	150.4	148.1	+ 1.6	+ 7.1	+37.0
c. Producer goods	170.0	166.8	+ 1.9	+10.6	+45.2
d. Consumer goods	139.9	137.5	+ 1.7	- 2.4	+16.7

	Billions of Hwan			Percent change	
	Jun 1959	May 1959	Jun 58- Jun 59	May-Jun 1959	Jun 58- Jun 59
II. MONEY SUPPLY (bil.hwan)					
A. Notes & deposits					
1. Bank notes, outside banks	94.0	96.6	+21.1	- 2.7	+28.9
2. Check/demand deposits, excl. uncleared	133.1	131.5	+24.8	+ 1.2	+22.9
3. Foreign official deposits	20.4	18.5	-11.7	+10.3	-36.4
4. Total (1+2-3)	206.7	209.6	+57.6	- 1.4	+38.6
B. Factors affecting money supply					
1. Government finance b/	115.8	107.4	+50.3	+ 7.8	+76.8
2. Private credit (inc.BOK,exc.KRB)	173.3	174.1	+62.9	- 0.5	+57.0
3. Other c/	-82.4	-71.9	-55.6	+14.6	+207.5
4. Total	206.7	209.6	+57.6	- 1.4	+38.6

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	May 1959	Apr 1959	Total Jan-May 1959 (Average in case of indexes)	Percent change Apr-May 1959	Percent change May 58-May 59
III. PRODUCTION					
A. Quantities of output					
1. Cotton yarn (mil.lbs)	8.8	8.7	43.0	+ 1.4	+12.4
2. Cotton cloth (mil.sq.yds)	13.6	13.0	65.1	+ 4.2	+13.1
3. Cement (1,000 mt)	31.4	22.2r	119.5	+41.5	+17.9
4. Rubber shoes (mil.prs)	2.3	3.3	17.0	-32.2	+49.4
5. Coal (1,000 mt)	324	315	1,483	+ 2.9	+56.5
6. Tungsten (mt)	167	231	1,129	-27.7	-45.8
7. Electric power (mil.KWH)	136	137	686	- 0.7	+12.4
B. Production indexes (1955=100)					
1. Industrial production (100)	177	164r	156	+ 7.9	+ 0.6
a. Mining (10)	214	222r	208	- 3.6	+15.7
b. Manufacturing (87)	172	157r	149	+ 9.6	- 1.7
c. Electricity (3)	186	186	187	0	+12.7

	May 1959	Apr 1959	Total Jan-May 1959	Percent change Apr-May 1959	Percent change May 58-May 59
IV. FOREIGN EXCHANGE ($ mil)					
A. Holdings (inc. gold)	144.8	150.8	(-1.7)d/	- 4.0	+24.3
1. Dollars, US	140.9	146.8	(-2.3)d/	- 4.0	+24.3
2. Uncommitted	90.4	94.0	(-0.3)d/	- 3.8	+36.3
B. Receipts	8.6	8.4	40.6	+ 2.4	+34.4
1. Exports	3.0	2.3	9.0	+30.4	+150.0
2. Hwan sales	1.9	2.3	11.9	-17.4	-51.3
3. Other	3.7	3.8	19.9	- 2.6	+184.6
C. Payments	13.5	6.9	41.3	+95.7	- 2.9
1. Imports (non-aid)	12.4	5.5	32.9	+125.5	- 2.4
2. Other	1.1	1.4	7.4	-21.4	- 8.3

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	Program (Adjusted)	Apr 1959	Mar 1959	During Dec 56- Apr 58	During Dec 57- Apr 59	During Mar-Apr 1959
V. ECONOMIC AID ($ mil)						
A. ICA arrivals (US FY basis)						
1. 1954	178.4	177.1	177.1	17.5	2.5	0
2. 1955	246.7	240.2	240.2	21.7	8.4	0
3. 1956	315.7	293.7	293.1	89.8	18.1	0.6
4. 1957	321.8	279.8	278.8	239.3	80.1	1.0
5. 1958	237.3	186.3	183.8	64.8	179.9	2.5
6. 1959	211.8	65.8	48.5	-	65.8	17.3
7. Total	1,511.7	1,242.9	1,221.5	433.1	354.8	21.4
a. Project	500.0	358.1	355.4	112.0	75.8	2.7
b. Non-project e/	990.3	875.0	856.7	317.2	272.2	18.3
(1) Surplus agricultural commodities Sec. 402	203.8	183.5	179.6			3.9
(2) Fertilizer	265.3	252.7	246.3			6.4
(3) Other & unassigned to specific non-project uses	521.2	438.8	430.8			8.0
c. Technical cooperation	21.4	9.8	9.4	3.9	6.8	0.4
d. Reserve	210.3	5.5	23.9	-	-	18.4
B. US FY 1959 ICA obligations	211.8	161.4	154.6	-	-	6.8
C. PL 480 arrivals	132.0	127.1	127.1	50.8	48.6	0
1. Food	114.4	109.7	109.7	46.4	48.2	0
2. Other	17.6	17.4	17.4	4.4	0.4	0

Footnotes: a/ Computed in most cases from unrounded figures. b/Includes the Government's net position at the BOK (overdrafts less deposits, including operations of counterpart funds); Government bonds, industrial reconstruction bonds and industrial finance debentures (latter two are KRB issues) held by BOK; BOK loans to Government agencies; national bonds held by banks other than the BOK and KRB; and loans by banks, other than BOK and KRB, to local Governments. c/Includes BOK net purchases of foreign exchange, savings and time deposits (decreasing factors), deposits of foreign organizations in the BOK (decreasing factor), and all other influences on the money supply (net). d/ Change between December of year before and May of year indicated, expressed in $ million. e/ Being the change on USOM Program Status Report, the categories on Non-Project also changed, Eventually the comparisons with previous periods on Non-project are not available.

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH 9/21

AP. due

FROM : Amembassy SEOUL

103
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

Action Assigned to

August 28, 1959
Action Taken

REF : CERP - Korea, Section C, Item 1.

approximate date - 9/16/59

35 For Dept. Use Only	ACTION	DEPT.
	FE-6	RMIR-2 ICA-11 IRC-15 REP-1
	REC'D 9-7	INFO OTHER USIA-10 OSD-2 ARMY-35 NAVY-20 AIR-30

Date of Action

SUBJECT: Weekly Economic Review No. 34. LAB-5 COM-12 SCB-2 CIA-16
XMB-4 JRB-3 TR-3
AC-8 IN-7 TAR-2
FAA-5 CAB-6

Contents

1. Wholesale Price Index Climbs Again.
2. Naju Fertilizer Plant Construction Reported Behind Schedule.
3. USFK Closes Oriental Souvenir Concessions at Request of ROK Customs.
4. Trade Missions to the Ryukyus.
5. NWA Seeks Additional Tokyo-Seoul Frequency.
6. KNA Announces Taipei Flights with Connections to Hong Kong.
7. FKTU to Support President Rhee.
8. Development in Establishment of Second Labor Movement.

1. (UNCLASSIFIED) Wholesale Price Index Climbs Again.

The Seoul wholesale price index (base: September 1955 equals 100) climbed 1.5 percent from the August 14 level to a new 1959 record high of 129.2 on August 21. All components of the index, including grain, continued at levels above those of 1955, but the latest increase was attributable mainly to sharp rises in the prices of meat, eggs and fish (up 7.2 percent over the preceding week) and in those for fuel (up 4.1 percent). The ROK money supply also rose slightly to 206.9 billion hwan on July 31, from 205.8 billion at the close of June preceding, according to Bank of Korea reports. During July contractionary effects from operations of the counterpart fund totalling about 6 billion hwan were counteracted by expansion resulting from 3.4 billion hwan in deficitary spending by the ROK Government and 3.6 billion hwan from other sectors.

One of the recent anti-inflationary steps taken by the Government was a decision by the Monetary Board to reduce the maximum individual loans which may be granted by commercial banks without review and approval by the Bank of Korea from 30 billion hwan to 10 billion hwan. According to the Hankuk Ilbo of August 26, this action has "shocked" the securities and private financial markets. The Korean newspaper also pointed out that during July the money supply was expanded by 3.4 billion hwan spending of government funds while repayment of commercial bank loans had a small contracting effect of 300 million hwan.

The ROK Government has announced the sale of $6.5 million from its foreign exchange holdings on August 28, and prior to the Fall Festival (Chusok) season (as predicted in Weekly Economic Review No. 33). Finance Minister SONG In-sang at a press conference on August 24 also announced that holders of some $4.5 million

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dollars in export dollars for Japan will be allowed to borrow ROK Government foreign exchange without interest, on the security of these export dollars, for importation of goods from other countries.

(UNCLASSIFIED) Comment: It should be noted that press claims of "record highs" for August 14 and 21 wholesale price levels were accurate only for 1959. The highs reached this month have been exceeded briefly during both 1958 and 1957. (RWT)

2. (UNCLASSIFIED) Naju Fertilizer Plant Construction Reported Behind Schedule.

Ministry of Commerce and Industry officials revealed to the Korean Republic (August 21 issue) that construction of the 85,000 ton-per-year urea fertilizer plant undertaken by the ROK Government with four West German firms at Naju is lagging far behind schedule due to slow collection of capital installments by the Honam Fertilizer Co., the Korean firm in charge of construction on the Government's behalf. Honam Fertilizer is a joint stock company capitalized at 2.5 billion hwan and with an estimated 34,000 shareholds in Cholla Namdo province. The second installment of payments into the firm's authorized capital was to have been paid in by shareholders several months ago, but collections have been lagging, particularly from small farmer shareholders.

Honam Fertilizer Co. has announced that it is not in a position to bring in from West Germany necessary equipment for the full-stage construction phase scheduled to begin this November following the expected arrival of some 80 West German technicians in October. The Lurgi Consortium has contracted with the ROK Government for the announced sum of $23.5 million U. S. in import and technical supervision costs.

(OFFICIAL USE ONLY) Comment: The Naju fertilizer plant project is apparently due for its share of the headaches and problems which have delayed completion of the ICA-financed Chungju urea fertilizer plant. (RWT)

3. (UNCLASSIFIED) USFK Closes Oriental Souvenir Concessions at Request of ROK Customs.

According to the Hankuk Ilbo of August 21, the United States Force Korea (USFK) has directed the closure of a number of oriental souvenir concessions operated for U. S. troops in accordance with an agreement reached between the ROK Customs Bureau and USFK authorities. The Customs Bureau contended that these concessions, established in Korea for a number of years, have long been regarded as a major source of "smuggled" luxury goods such as silk, synthetic and cotton fabrics, perfumes, cosmetics, women's wear, etc. Concessions closed were at Yoido Airport (K-16), Kimpo Airport (K-14), Yongdongpo (5th USAF Transportation Squadron) in Seoul, and Uijongbu (4th U. S. Army Ordnance Co.).

(OFFICIAL USE ONLY) Comment: The concessions in question were largely operated by consignment importers who brought in luxury goods from Hong Kong and Japan to Officers and NCO Clubs. Investigation by the Provost Marshal Section, Eighth U.S. Army, had in fact revealed the leakage of goods (exempt from customs duties and controls) to local markets in appreciable quantities obviously intended by their

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nature for Korean women. The Post Exchange system in Korea has considered these concessions to be a source of competition without adequate control on the types and quantities of goods imported. The Boards administering these Officers and NCO Clubs took action to close the concessions at the recommendation of the Provost Marshal. (RWT)

4. (UNCLASSIFIED) Trade Missions to the Ryukyus.

A group of ten Korean businessmen plan to leave for the Ryukyu Islands on August 28 on a "goodwill economic mission," according to the press. The purpose of the ten-day mission to Okinawa is to promote trade between the two areas.

(OFFICIAL USE ONLY) Comment: The Ministry of Commerce and Industry (MCI) has informed the Embassy that the newspapers were inaccurate. The only inaccuracy, however, seems to be that the timing of the mission has been changed. The reason for this postponement, although not stated, appears to be the decision to send an official ROK mission to Naha prior to the business mission.

The Ministry of Foreign Affairs has tentatively scheduled an official three member Government mission to the Ryukyus early in September for the purpose of determining the market possibilities for sales of rice and other commodities to the Ryukyu Islands as well as for sales of Korean products to the U. S. military procurement agencies in the islands. That Ministry has asked the Embassy to use its good offices in paving the way for the success of the trip. The Embassy has written to the American Consul General in Naha informing him of the Korean Government's plans and requesting advice on timing and prospects for success. The Embassy made clear to the Koreans (and in the letter to Naha) that no efforts would be made by the United States to act as middleman for the mission and that any sales made by the mission would have to be the result of its own initiative and efforts. (The ROK Government obviously wants United States authorities to arrange sales and guarantee the success of the mission in advance).

The Ministry of Commerce and Industry has indicated that the missions will be held in suspense until there is some reply from Naha to the Embassy letter. (JAC)

5. (OFFICIAL USE ONLY) NWA Seeks Additional Tokyo-Seoul Frequency.

Northwest Airlines on July 27 formally made a request of the Minister of Transportation for permission to inaugurate an additional frequency to its existing four flights per week between Tokyo and Seoul. As of August 27, there has been no decision made by the Minister of Transportation in connection with this request, although one is anticipated shortly. If the Ministry's decision is negative, NWA will seek the assistance of the Embassy. (It is understood that the Japanese Government has already granted NWA permission to fly another section to Seoul.)

(OFFICIAL USE ONLY) Comment: Although there should be no difficulty in acquiring permission for the additional section in light of the increasing passenger, mail, and freight traffic claimed by NWA, there have been some recent developments which might have a bearing on the Government's attitude to the request. One of these

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developments is Korean National Airlines' (KNA) announced inauguration of "non-scheduled" service to Seattle, a service which will presumably depend, in part at least, upon the non-availability of other services to the States. Another is a recent protest made by the Embassy to the Ministry of Foreign Affairs on behalf of NWA in connection with the Government's recent decision to send Korean students to the United States on KNA only (Weekly Economic Review No. 33). There has also been a rumor circulating in Korea that the U. S. Civil Aeronautics Board will deny KNA permission to land in the United States because KNA has failed to submit its tariff schedule. Captain Shin, the President of KNA, is reported to have said that if his flight is not permitted to land for failure to submit a tariff schedule, he would personally see to it that NWA's right to land in Korea is revoked. Despite these developments and rumors, the Embassy anticipates that NWA will be granted permission to inaugurate another frequency. (JAC)

6. (UNCLASSIFIED) KNA Announces Taipei Flights with Connections to Hong Kong.

According to the Korean Republic of August 24 (confirmed by advertisements in the same Seoul daily) the Korean National Airlines (KNA) will inaugurate once-weekly flights from Seoul to Taipei, effective next September 4, in accordance with the existing ROK-Republic of China Air Transport Agreement.

The Cathay Pacific Airways (CPA) of Hong Kong has also reportedly agreed with KNA on flight conditions relating to service charges and time schedules for the Taipei-Hong Kong connecting flight. According to the KNA-CPA agreement all Seoul passengers arriving on KNA's newly-purchased Constellation Lockheed 749-A in Taipei will be "instantly" transferred to a waiting CPA aircraft for onward flight to Hong Kong.

(UNCLASSIFIED) Comment: This weekly (every Friday AM) flight will become the KNA's only regularly scheduled international flight at present and appears to by-pass very neatly the obstacle created by termination of the ROK-Hong Kong Air Transport Agreement on July 20. (Weekly Economic Review No. 33 and previous). (RWT)

7. (UNCLASSIFIED) FKTU to Support President Rhee.

At a meeting of the industrial and geographical alliances of the Federation of Korean Trade Unions (FKTU), it was resolved that the FKTU would support President Rhee and Speaker of the House of Representatives YI Ki-bung for the offices of president and vice president respectively in the 1960 elections. The meeting also adopted resolutions to expel CHONG Tae-ch'on and his union, the Seoul Electric Power Company Workers Union, from the Federation and to take action against anyone threatening the solidarity of the labor movement.

(OFFICIAL USE ONLY) Comment: The principal guest speaker at the meeting was the Chief of the Organization Department of the Liberal Party. One reason for his presence might have been the Federation's desire to demonstrate to the proponents of a second labor movement (see below) the good relations existing between the Party and the FKTU.

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It is reported that after the meeting Federation leaders called on Yi Ki-bung and expressed labor's intentions to support him and President Rhee. Yi expressed his thanks and then urged the Federation not to take action against Chong Tae-ch'on who is, after all, a Liberal Party member of the National Assembly. KANG Ta'e-bom commented that Chong, motivated by personal ambition, was attempting to create disunity in the labor movement and that if torn by dissension, labor would be unable to deliver solid support to the Liberal Party. Speaker Yi immediately replied that the Federation was the labor leaders' organization and that they certainly knew better than he how to run the Federation. (LR)

8. (UNCLASSIFIED) Development in Establishment of Second Labor Movement.

The move, led by CHONG Tae-ch'on, to establish a second labor movement in opposition to the FKTU (Weekly Economic Review No. 33) continues with plans announced to hold an inaugural convention during the month of September. Chong has continued to accuse KIM Ki-ok, Federation Chairman, of embezzlement and disregard for the workers' interests but has himself been placed in an embarrassing position by Kim's countercharges, reportedly true, that Chong dismissed from his union five union officers who had complained about the treatment of labor by the Seoul Electric Power Company. The five were then fired by the company.

The Federation, after expelling the Seoul Electric Power Company Union from the FKTU, told the members of the union that the action was directed only at the union leaders. The workers were urged to form a new union and to rejoin the Federation.

According to press reports violence with minor injuries occurred when an FKTU representative attempted to speak to power company workers. It is also reported that police broke up a Federation-sponsored meeting of the power workers.

(OFFICIAL USE ONLY) Comment: Although the Liberal Party has expressed a policy of nonintervention in internal labor affairs and has indicated its support of present FKTU leaders, newspapers controlled by the party and some other elements of the press seem to be slanting their labor articles in favor of Chong. The FKTU states that this is a result of bribery of the press, apparently a very common practice in Korea. Meanwhile, it is reported that the Minister of Health and Social Affairs is attempting to negotiate a settlement between the Kim and Chong factions. Whether or not the Liberal Party can resist the temptation to interfere in the present struggle should greatly affect the future course of the labor movement in Korea. (LR)

For the Ambassador:

RWTucker

Robert W. Tucker
First Secretary of Embassy

RWT:cc

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FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL

111
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

Action Taken September 11, 1959
DATE

REF : CERP - Korea, Section C, Item 1.

15 For Dept. Use Only	ACTION FE-6	DEPT. PER-2 MC-1 L-2 EUR-3 FO-2 NEA	
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SUBJECT: Weekly Economic Review No. 35.

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9. Smuggling Charge Against NWA Employee.
10. Alleged English Offers for Korean Rice.
11. Encephalitis Cases Increase; One American Victim.
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1. (UNCLASSIFIED) Bids for KFX Reach Record High Average.

At the August 28 auction of $6.5 million in ROK Government-owned foreign exchange (KFX), bidders purchased only $5.4 million and the Government has announced no immediate plans for disposing of the $1.1 million remaining. Although the Korean Republic of August 29 commented that "no competition was registered" at the auction, in fact the weighted average of valid bids was 1,143 hwan to the $1.00 U.S. (vs. the official legal rate of 500 to 1), the highest recorded to date. (Sales of KFX in May and June produced bids with weighted averages of 1,069 and 1,063 hwan to the $1.00 U.S., respectively). The August 28 auction retired about 6.2 billion hwan from circulation.

According to the Bank of Korea, the ROK money supply on August 15 declined to 203.1 billion hwan, down 3.8 billion since the close of July. A further decline at the end of August seems a likely prospect following the August 28 KFX sale.

(UNCLASSIFIED) Comment: The failure of Korean businessmen to buy up the entire $6.5 million offered on August 28 obviously stems not from lack of interest in acquiring import dollars but principally from the August 21 measure of the Monetary Board reducing the maximum individual loans which may be granted by commercial banks without review by the Bank of Korea from 30 million hwan to 10 million hwan (Weekly Economic Review No. 34; in which million was erroneously reported as

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billion). Finance Minister SONG In-sang has publicly admitted as much and warned that tight credit restrictions will be continued through the Moon Festival (Chusok) on September 17. It has also been reported that the Bank of Korea was particularly vigilant prior to the August 28 KFX sale in seeing that commercial banks were prevented from granting "speculative" loans to businessmen for the purchase of these dollars. (RWT)

2. (UNCLASSIFIED) Wholesale Price Index Higher Still.

On August 28 the Seoul wholesale price index (September 1955 equals 100) climbed to still a new record high for 1959 at 130.0. Sharply increased prices for building materials (up 8.1 percent from the preceding week) and a slight rise in grain prices (up 1.2 percent) were leading factors, although rice prices are still appreciably below those of a year ago.

During August the monthly average index was computed at 127.9, an increase of 3.2 percent from the July average.

(UNCLASSIFIED) Comment: According to the press, ROK Government officials predict that such measures as credit restriction, the sale of KFX, the advance of $4.5 million in KFX to Korean holders of Japan export dollars frozen as a result of the June 15 trade rupture, and resultant imports with these dollars "immediately" will start a downward spiral of prices. While a temporary decline is a possibility, it seems highly unlikely that a long-term downturn can occur until after the heavy spending generated by the Moon Festival on September 17 has worn off its effects. (RWT)

3. (UNCLASSIFIED) Late Summer Floods Take Toll of Lives and Property.

A three-day downpour of rainfall ending late on September 1 flooded the Han and Imjin Rivers in central Korea and left some 9,500 flood refugees and an estimated total property damage of 2.3 billion hwan. At least 18 persons were counted as dead in the wake of the floods and an additional 18 ROK Army soldiers were believed drowned or killed in rain-caused accidents.

In the Seoul area alone 516 homes were destroyed or damaged and 2000 people made homeless as the Han River rose to 30.03 feet and above the normal flood level of 29 feet. Fortunately, clear weather followed immediately after the death of Typhoon Joan (up from the Ryukyus and the East China Sea) and the prospect of further destruction seems to have sharply abated. In order of severity the storm affected Kangwon-do Province, Seoul, Kyonggi-do, Kyongsang Pukto, Chungchong Namdo and Cholla Pukto Provinces. (RWT)

4. (UNCLASSIFIED) Formation of Firm to Build Oil Refinery Announced.

Press reports of September 1 have quoted Ministry of Commerce and Industry officials to the effect that a joint-stock company, capitalized at 2.5 billion hwan, will be established within two weeks for the purpose of "inviting foreign capital"

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to build an oil refinery in the ROK. Promoters of the new firm were named as NAMKUNG Yon, President of the Korea Shipping Company, and the Presidents of the Korea Electric Power Co., Korea Tungsten Mining Co., Seoul Electric Co., Korea Forwarding Co., Haedong Insurance Co., and the Korean-American Petroleum Co.

Authorized shares total 500,000 with a par value of 5,000 hwan.

(OFFICIAL USE ONLY) Comment: Most of these firms are owned by the ROK Government so that its interest and backing in this project are quite apparent. Western oil companies considering the construction of a similar refinery (Weekly Economic Review No. 33) will be bucking some formidable competition, since there is obviously no place at present for two such refineries in the ROK, whether one is economically justified or not. (RWT)

5. (UNCLASSIFIED) Establishment of Export Promotion Fund.

The Export Promotion Committee (CEBEP) met for the second time on September 1 to give further consideration to the establishment of an export promotion fund (Weekly Economic Review No. 33). The Committee tentatively agreed that the entire 3.75 billion hwan fund from counterpart sources may be loaned to manufacturers and processors of export goods, but that up to one-third of the fund may be lent to foreign traders for the purpose of financing exports, including the re-lending of the funds to small producers who may not have direct access to banking facilities. The interest rate on loans from the fund will be 10 percent -- 7 percent for the commercial banks, 2 percent for the Export Promotion Fund, and 1 percent for the Bank of Korea. Each loan will be limited to three-fourths of the costs incurred in producing or processing commodities for export, three-fourths of the amount exporters re-lend to their suppliers, or three-fourths of the costs incurred by exporters in purchasing commodities for export.

Loans may not be extended for more than one year nor may a borrower apply for a new loan until 60 days have elapsed since the repayment of a preceding loan.

(UNCLASSIFIED) Comment: The Committee will meet for the third time on September 8 to complete its consideration of the document. The paper will then be submitted to CEBFIN for its approval and finally to the CEB itself for final approval. At the September 8 meeting of CEBEP, subcommittees will be established for the purpose of making studies and recommendations in the fields of Korean export procedures, overseas trade promotion activities, rice export promotion, and export finance matters. (JAC)

6. (UNCLASSIFIED) Preferential Import Items Move Slowly.

The preferential import items established by the Ministry of Commerce and Industry (MCI) on July 24, 1959, which may be purchased only with dollar proceeds from the sale of the so-called "encouraged export items" have thus far proved to be not so preferential (Weekly Economic Review No. 31). Of the six commodities, only linoleum has been imported and no purchases have been made for stretch nylon yarn, tissue paper, melamine resin sheets, fur hats, and phonographs. Newspapers

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indicated that as a result of the poor performance, the MCI planned to change the items.

(UNCLASSIFIED) Comment: The MCI informed the Embassy that, although it was concerned over the poor performance, no plans existed for changing the items at this time. The reason for the lack of imports, except for linoleum, is that the dollars earned from the sale of the encouraged export items are selling at a rate in excess of 1,700 hwan per dollar as compared to about 1,350 for other export dollars. At this price there is no incentive to import the items since the margin of profit in selling the commodities locally is reduced to the point where importers lose all interest. Consequently, this export promotion scheme will be ineffective unless and until some measure can be developed to overcome this transfer exchange rate problem.
(JAC)

7. (UNCLASSIFIED) U. S. Military Expand Procurement Plans in the ROK.

On August 31 the U. S. Armed Forces Far East Exchange Service (FEES) announced intention to expand its procurement program in the ROK by opening a new purchasing office in downtown Seoul. The new program is in line with Eighth U. S. Army policies to encourage purchase of Korean-produced goods. The FEES is currently buying such Korean items as bicycles, costume jewelry, brass and lacquerware art objects and beer.

Almost simultaneously the U. S. Army Procurement Agency Korea (USAPAK) announced that during the year ended June 30, 1959, it paid Korean suppliers of services and goods (mostly the former) $31.4 million under some 2,000 contracts, mainly with small firms. In addition the U. S. Army Engineer District, Far East spent more than $15 million and the U. S. Air Force Base at Osan another $3.5 million, largely for construction work and services during the same twelve month period.

(OFFICIAL USE ONLY) Comment: The drive to maximize local procurement in Korea has the full backing of and originates from UNC/USFK/EUSA Commanding General Magruder.
(RWT)

8. (OFFICIAL USE ONLY) Fifth Frequency for NWA Still in Suspense.

Northwest Airlines had notified the Ministry of Transportation (MOT) on July 27 of its intention to operate a fifth frequency into Seoul each week. When nearly five weeks had elapsed without a reply, NWA asked the Embassy for assistance. The MOT informed the Embassy that the request had been denied in mid-August because an additional frequency would give NWA a greater advantage over CAT, which now has three frequencies a week, and because the MOT had not been convinced that traffic demand required additional capacity. An Embassy official informed the MOT officials that under the Agreement between the two governments the ROKG could not unilaterally decide to deny NWA permission to operate another flight and that permission should be granted automatically. The question of capacity and traffic demand could be raised subsequently and made the subject of intergovernmental consultations.

Since consideration of this question in the MOT at the Bureau Director and Section Chief level did not appear to result in a timely reversal of the Government's

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position, the Embassy has made arrangements to make representations directly to the Minister of Transportation. (JAC)

9. (UNCLASSIFIED) Smuggling Charge against NWA Employee.

The Korean traffic agent for Northwest Airlines was arrested on August 27 on charges of smuggling into Korea from Hong Kong merchandise valued at 3 million hwan. The employee had returned from an inspection of airport facilities abroad. A Seoul Customs official was also taken into custody for violation of the Customs Law (presumably for his complicity in the case). Some 10 employees of NWA office in Seoul were subpoenaed by the prosecutor for questioning.

(CONFIDENTIAL) Comment: The Embassy has been informed by the NWA manager that among the merchandise confiscated from the traffic agent were about 10 suits of clothing ordered by high ranking Korean Government officials, including the Director of the National Police. The traffic agent, however, has not made this information available to the prosecutor in his own defense presumably because of some Korean code of ethics or the expectation that the higher-ups involved will protect him. Perhaps no one would believe the story, the high Government officials would deny it, or the agent may feel that he can buy his way out of this difficulty -- a standard way of solving problems in Korea. In the meantime NWA office operations are reportedly suffering from the loss of personnel called away from duties to answer questions by the police. (JAC)

10. (UNCLASSIFIED) Alleged English Offers for Korean Rice.

Korean newspapers reported last week that the Ministry of Commerce and Industry had divulged the existence of a plan to promote the sale of 100,000 tons of rice to England. The British Embassy in Seoul, the story continued, was showing interest in the plan and had requested from Korean authorities information on regulations and procedures. The Korean Government stated that the prospect of sales to England looked promising.

(OFFICIAL USE ONLY) Comment: The British Commercial Attache has informed the Embassy that the newspaper stories on this subject were almost completely inaccurate. What actually happened was that the British Embassy had received a routine inquiry from an English firm requesting information on rice exporters, prices, etc. In order to make reply to the inquiry the British Embassy sought information from the Korean Government. The Government obviously read more into the inquiry than actually was present and the newspapers may have distorted the story even further. The British Embassy expressed amazement at the 100,000 tons figure and ventured that Britain was not likely to buy much, if any, Korean rice because of its "sticky" quality and high price. (JAC)

11. (UNCLASSIFIED) Encephalitis Cases Increase; One American Victim.

At the close of September 2 the nationwide total of Japanese B-type encephalitis cases had risen to 492 with 130 deaths reported. One American soldier was reported seriously ill with the disease, but, exactly as last year, U. S. military preventive

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measures seem to have been generally successful with only one case reported to date.

The incidence of affliction this year has been very low compared to 1958. On September 4, 1958, (Economic Weekly Review No. 125, September 5, 1958) the number of sleeping sickness victims had reached 4,567, and resulting deaths totaled 1,010. With the arrival of the first cooler weather this week it is expected that the epidemic will shortly begin its decline. (RWT)

12. (UNCLASSIFIED) Reconciliation of Labor Factions.

On September 3 KIM Ki-ok, KIM Chu-hong and CHONG Tae-ch'on met with the Minister of Health and Social Affairs and signed a rather vaguely worded statement of agreement. According to press reports, the three labor leaders agreed to unite under the Federation of Korean Trade Unions (FKTU) "putting an end to widespread internal dissension and beginning with a clean slate." The statement continued: "We have determined to do our best in showing a united front of all the workers in the forthcoming presidential elections."

(OFFICIAL USE ONLY) Comment: It is reported that Liberal Party leaders, eager to obtain all possible support in the approaching elections, have viewed the dissension in the Federation (an affiliate of the LP) with growing concern and that President Rhee finally ordered the dispute settled. However, when Minister Sohn was asked by reporters if he had arranged the settlement, he replied that he had not, that he had merely allowed the labor leaders to meet in his office.

Kim Ki-ok was reportedly told by the Minister that the signing of the statement would not cancel the Federation's expulsion from the FKTU of Chong and his supporters (Weekly Economic Reviews No. 34 and No. 31). Kim says that he signed the statement at the urging of the Minister and Kim Chu-hong and on their assurances that his action would not weaken the Federation in its struggle with Chong.

On the other hand, the Chong group allegedly has said that it will not give up its plan to form a second labor movement unless Federation leaders accept the following points:

1. The FKTU should declare the resolutions of its Central Standing Committee meeting held on July 31 at Taegu invalid because Chong's supporters were forcibly restrained from attending.

2. The dock labor unions of Pusan and Inchon (under the influence of Kim Ki-ok) must be reorganized because many of the unionists are "ghosts."

3. "Ghost members" of the Federation must be exposed.

4. The Railway Labor Union should hold an annual convention soon in order to reflect the will of the railway workers.

In contrast to the positions of Kim Ki-ok and Chong reported above, police sources state that the two leaders agreed to expel the "trouble makers" on both sides. This would include Ch'a Kuk-chan and Yi Sang-jin, two of Chong's closest aides, and Kim Pyong-gyun and Kim Chi-ho, the "brains" behind Kim Ki-ok.

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Apparently Kim Chu-hong is again trying to play Kim Ki-ok and Chong off against each other to his own advantage. Although Kim Chu-hong's support of the reconciliation statement should weaken Kim Ki-ok and strengthen Chong, the Chong demand for a railroad union convention is believed to be aimed at Kim Chu-hong.

Some Federation leaders indicate that if the statement of agreement is interpreted as a cancellation of FKTU action against Chong, they will refuse to recognize it on the grounds that Kim Ki-ok does not have the authority to abrogate the actions of the Central Standing Committee. (LR)

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

FROM : AmEmbassy, SEOUL

117
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

September 9, 1959
DATE

REF : CERP-Korea, C-2

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	REC'D 9-15	OTHER *LAB-5 *TAR-2 *TR-3 *FRB-3 XMB-4 AG-8 IN-7 CIA-2

SUBJECT: Quarterly Economic Summary - April-June 1959, Republic of Korea. OSD-4 ARMY-8 NAVY-3 AIR-1 USIA-10

FILES DOCUMENT FOR RM/R USE ONLY CENTRAL FILES RETURNED

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Summary

The relative stability in economic activities in the Republic of Korea during the first quarter of 1959 was followed by somewhat more newsworthy developments in the second quarter. The money supply declined from 210.7 billion hwan at the close of March to 206.7 billion on June 30, largely as a result of sales of $10 million in ROK Government-held foreign exchange during May and June which effectively countered expansionary pressures from Government deficit-financing and increased commercial credit. 1/ Dollar transfer rates rose sharply during the quarter, in a number of instances to highest levels in ROK history as declining availability of ICA-financed consumables and increasing demands for imported commodities intensified pressure for dollars from other sources. Prices generally rose from April through June, as indicated by both the Seoul and the national wholesale price indexes. This movement was mainly seasonal, while markets awaited late spring farm crops, but in May and June prices rose moderately on the average over those of the previous year. Decreased pipeline of ICA commodity imports and cessation of trade with Japan were factors in this development.

1/ It should be noted, however, that in the entire second quarter commercial banking activities had a net contractionary effect on the money supply of 330 million hwan.

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development. There was some speculation in such items as fertilizer, caustic soda, rayon, raw rubber, newsprint and industrial chemicals. Grains, foodstuffs and fuel led the price increases. The Seoul wholesale index for June averaged 123.8 percent of the September 1955 average to which the 500 hwan to the $1.00 legal exchange rate is tied.

Industrial production rose throughout the second quarter to an all-time index high of 194 (1955 equals 100) in June. Increased mining output, and stable (but higher than in 1958) electric power production were the principal causes. Manufacturing output was seasonally higher by 24.5 percent over the preceding quarter (but only slightly above April-June 1958) largely as the result of a spurt in activity in June. Sharply increased commercial railway carloadings - 15.7 percent above the first quarter of 1959 and 32.1 percent above April-June 1958 - indicated an increased flow of domestic trade during the quarter. Building construction showed not only a seasonal increase over the winter months but a remarkable 72 percent increase over the second quarter of 1958. The quarterly construction activity was at the highest level since the armistice in 1953.

Korean exports doubled from $3.7 million in the first quarter to $7.4 million in the second. This, coupled with sharply decreased arrivals of ICA-financed and PL 480 imports, reduced the trade deficit from $75.2 million in the first quarter to $54.3 million during April through June.

The most ominous single economic development during the quarter was the action of the ROK Government in suspending trade with Japan on June 15th as a result of political differences arising from the issue of the proposed voluntary repatriation of Korean residents in Japan to North Korea. With Japan the leading importer from and private exporter to the ROK, the effect on Korea's foreign trade and on commodity prices and availability was almost immediate. Dollar transfer rates rose as a result of the trade rupture and the ROK Government cast about for means to circumvent the requirement of ICA Regulation 1 which requires the selection of bids on the basis of lowest landed cost.

With favorable weather conditions rice planting was successfully accomplished in June and July, indicating the possibility of another record fall crop. The summer's grain yield was estimated at 35.8 million bushels, largest since 1945. The FY 1959 PL 480 program was reduced to $33 million from $50 million in the preceding year, and with grain output perhaps even greater this year the ROK Government was faced with a future dilemma caused by reduced defense budget support from this source.

An internal labor feud in the Federation of Korean Trade Unions rose to a peak in the second quarter of 1959 and a subsequent schism by the vanquished leader and his followers forecasts trouble for organized labor.

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Money Supply Declines under Impact of Heavy KFX Sales

The ROK money supply, which had reached a peak month-end figure of 223.2 billion hwan at the close of the preceding February, followed a steadily declining trend during the second quarter of 1959. Month-end totals for April, May and June were, respectively, 210.0 billion, 209,5 billion, and 206.7 billion hwan. These figures averaged about 38 percent over comparable month-end totals for the second quarter of 1958, as compared to a 41.5 percent average excess in the first quarter of this year over the first quarter of 1958.

The composition of the money supply continued to reflect general public confidence in the hwan during the second quarter of 1959 as indicated by declining currency in circulation and increasing demand deposits in banks (in billions of hwan):

Close of	Notes in Circulation	Monetary Deposits	Total
April	98.5	111.5	210.0
May	96.6	112.9	209.5
June	94.0	112.7	206.7

Time deposits also rose from 27.4 billion hwan at the close of March 1959 to 33.4 billion on June 30 following.

Unquestionably the principal factor in reducing the money supply was the auction of $10 million in ROK Government-held foreign exchange (KFX) during the second quarter of 1959. (During the first half of this year $14 million were auctioned as against a total of only $13 million in all of 1958.) The auction of $3 million on May 6 retired about 3.2 billion hwan from circulation with weighted average bids of 1,069 hwan (500 hwan legal exchange rate, plus 569 foreign exchange tax) to $1.00 U.S.. The demand for these dollars for import needs can be gauged by comparing this rate with the then current illegal quotations for greenbacks - 1,165 hwan to $1.00 and for Military Payment Certificates (MPC) - 1,100 hwan to $1.00.

A second offer of $7 million on June 11 produced a weighted average bid price of 1,063 hwan to $1.00., a surprisingly high level when it is considered that dollars for imports from Japan were excluded in this sale of KFX and the list of importable categories was cut from about 27 for the May 6 auction to 13 for that on June 6. Another 7.5 billion hwan were retired from circulation as a result. In spite of the quarter's sales of $10 million, the Bank of Korea's foreign exchange holdings on June 30, $144.9 million - of which $99.1 million were uncommitted-showed only a slight decline from the March 31 level of $147.8 million ($99.3 million uncommitted). Dollars acquired from sales of goods and services to the U.S./UN Forces were the principal factor in maintaining this near-stability.

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During the second quarter of 1959 the principal inflationary pressures on the money supply came from a 4.6 billion hwan increase in deficit spending by the ROK Government and from 5.5 billion hwan from "other factors and errors". These were effectively countered by contractionary operations of the counterpart fund (7.9 billion hwan), Bank of Korea foreign exchange transactions (3.0 billion), and by the commercial banks and the Korean Agricultural and Reconstruction Banks (3.5 billion together).

Dollar Transfer Rates Climb to New Highs

A marked decline in arrivals of ICA-financed saleables during the second quarter of 1959, and - late in the quarter - the suspension of trade with Japan resulted in a rise of legal dollar transfer rates in Seoul which were in a number of instances the highest in ROK history. The following table, listing monthly average bids of hwan per $1.00 U.S., shows this trend and emphasizes the increasing difference between the effective (multiple) rates and the legal unitary rate of 500 hwan to the $1.00.

1959	Mission[1] Dollars	Japan Export Dollars L/C Base	Japan Export Dollars D/P Base	Other Export Dollars L/C Base	Other Export Dollars D/P Base	USAPAK Dollars[2] L/C Base	USAPAK Dollars[2] D/P Base
March	934	1,424	1,340	1,161	1,107	1,161	1,107
April	965	1,343	1,263	1,205	1,144	1,205	1,144
May	1,031	1,386	1,326	1,273	1,213	1,273	1,213
June	1,071	1,434	1,354	1,327	1,255	1,327	1,255

Noteworthy in this development is the fact that transfer rates for missionary dollars, other export dollars and USAPAK dollars increased at a rapid rate during the quarter while the rate for Japan export dollars barely held its own under the influence of worsening political conditions between the ROK and Japan. While the illegal dollar rates also rose steadily, from average quotations of 1,162 hwan for greenbacks and 1,115 hwan for Military Payment Certificates in March, to 1,296 hwan and 1,199 hwan, respectively, in June, by the close of the quarter nearly all legal transfer rates had surpassed the illegal ones - another evidence of increasing pressure by Korean business for import financing as ICA aid arrivals declined, partly as a result of a diminishing pipeline.

In a surprise action on June 9th, the ROK Ministry of Finance announced that effective June 19 dollars earned from the sales of both goods and services to the U.S./UN Forces would be given equal treatment with dollars earned from exports to areas other than Japan. Formerly, at least in theory if not in practice, only dollars earned from sales of commodities had this privilege,

1/ Special rates authorized on the transfer of remittances by foreign missionaries, exclusive of the minimum 150 hwan to the $1.00 foreign exchange tax (not charged on the other rates listed).

2/ Dollars earned from sales of services and goods to the U.S./UN Forces.

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while earnings from services had to be converted into hwan at the Bank of Korea at the 500 to 1 rate. Announced purpose of this move by the Ministry of Finance was to acquire an additional $10 million per year in sales of services to foreign military forces and to help "stabilize" foreign exchange prices.

Prices Rise - More than Seasonally

The Seoul wholesale price index which averaged 204.2 (1947 equals 1) in March, dropped slightly to 202.4 in April, then rose sharply to 215.9 in May and 219.5 in June. At the same time the grain component of the index, which was 179.1 in March, rose to 181.6 in April, 202.3 in May and 207.9 in June. During the second quarter of 1959 the rise was principally seasonal, reflecting pre-harvest price increases of grain. Beginning in May and June practically all weekly indices were from 5 to 6 percent higher than in 1958, but the all-important price of rice remained about 10 percent below that of 1958. Worsening political relations with Japan which led to the trade rupture on June 15 and speculation resulting therefrom were undoubtedly factors. Price rises for grain; meat, eggs and fish; and fuel were appreciable while prices of textile raw materials were down slightly during the quarter (although still above those in comparable periods of 1958).

Comparing June prices with those of September 1955 - the month the 500 Hw:$1 exchange rate was established - reveals considerable price inflation of commodities other than grain. While the overall (Seoul) wholesale index averaged 123.8 of the September 1955 base, grain prices averaged 98.5 while all other prices had risen to the level of 145.8. This widening price gap, between commodities farmers sell and buy, has caused some criticism of the Government's price policy. It should be borne in mind, however, that bumper grain harvests over the past two years have tended to compensate the Korean farmer for his worsening "terms of trade."

The new and more comprehensive national wholesale price index (1955 equals 100) roughly paralleled the Seoul index except that its rise was unbroken. From an average index of 138.0 for March, it rose to 140.5 in April, 145.9 in May, and 148.6 in June. The June figure was 124.8 percent of the September 1955 average. The Seoul consumer price index, while having its ups and downs, was somewhat more stable, with the March average of 149.0 only slightly exceeded by the 150.7 level in June following.

Industrial Production Rate Rises Sharply in June to All-time High

The Bank of Korea's industrial production index (1955 equals 100) rose throughout the second quarter of 1959 to an all-time high of 194 in June. The quarterly average of 178 climbed (largely seasonally) by 21.9 percent over the preceding quarter. The index, however, reflected only a 3.5 percent rise over the second quarter of 1958. A principal factor in the quarter's improvement was mining output with an average index of 224, compared to 201 in the preceding

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in the preceding quarter and only 183 in the second quarter of 1958. This was a partly seasonal development (mining output normally declines in the winter months) but also reflected increased production of anthracite coal which preliminary figures indicate may have reached a record quarterly high since 1945. Electric power production remained unchanged in the second quarter at an index of 188, but was 15.3 percent-higher than the second quarter of 1958. Manufacturing output also increased seasonally by 24.5 percent in the second quarter (173 vs. 139 index in the first quarter) but achieved only a bare 1.2 percent rise over the second quarter of last year. This slight improvement appears largely attributable to sharp rises in beverage production and in output of cotton goods, rubber shoes, metal products and machinery in June. The trade rupture with Japan in mid-June may have been a factor in this spurt at the close of the quarter by providing an additional incentive and opportunity to Korean industry.

Monthly average car loadings of the Korean National Railroad continue to provide some statistical insight into the volume of domestic trade. The monthly average of cars loaded with commercial freight for the second quarter of 1959 was 25,100, as compared with 21,700 in the preceding quarter and 19,000 for the second quarter of 1958. The percentage gains were, respectively, 15.7 percent and 32.1 percent.

Building Construction at Record Rate

Issuance of permits for new construction, reconstruction and expansion of buildings in principal cities of the ROK revealed not only a normal seasonal expansion in the second quarter of 1959 but a remarkable 72 percent increase over the equivalent period of 1958. Total permits of 6,094 issued in April through June 1959 were more than half those issued in all of 1958 (or 12,065) and although available statistics go back only through 1956, it seems quite likely that the quarterly construction rate was the highest since the end of World War II.

Other Industrial Developments

A significant forward step in expanding the role of Korean private enterprise was accomplished on April 30 with the sale of two UNKRA-constructed plants to private firms. The Munkyong Cement Plant, with an annual capacity of 20,000 metric tons, was sold to the Korea Cement Manufacturing Co. for 7 billion hwan, and the Inchon Flat Glass Plant, with a potential output of 120,000 crates of sheet glass yearly, was bought by the Hankook Plate Glass Co. for 2.4 billion hwan. In both instances, relatively favorable payment terms were granted.

In late May the Commerce and Industry Committee of the National Assembly began consideration of the Foreign Investment Bill which has been awaiting action by the Assembly since September 1958. The legislative vacuum dating from the incidents of December 24, 1958, (when the Liberal Party forcibly excluded the Democratic Party opposition from voting on the amended National

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Security Law and other measures) still continues, however, and the principal ray of hope in this connection is the Administration's assurance that the Foreign Investment Bill will have priority consideration among economic bills in the fall 1959 session. In the meantime potential foreign investors in the ROK understandably continue to mark time, with the level of foreign investment remaining near zero.

Foreign Trade and the Trade Deficit

Exports of Korean goods rose 100 percent from $3.7 million in the first quarter of 1959 to $7.4 million in the second quarter. Increased shipments of foodstuffs and of raw materials, principally minerals, largely accounted for the increase. Decreased imports of ICA-financed commodities ($37.0 million in the second quarter vs. $63.1 million in the first) coupled with increased exports resulted in reducing the (visible) trade deficit for April through June to $54.3 million from $75.2 million in the preceding quarter. Private imports rose, however, from $15.8 million in the first quarter of 1959 to $24.7 million in the second quarter, and the private trade deficit rose correspondingly from $12.1 million to $17.3 million.

During May the Combined Economic Board approved the establishment of a Committee for Export Promotion, with joint ROK-U.S. participation, but the committee's formation was slow and its first effective deliberations did not take place until the following August.

Korea Suspends Trade with Japan

As a result of the reported agreement between the Japanese Red Cross and the North Korean Red Cross on the repatriation of Korean nationals in Japan to communist North Korea, Ambassador YU, head of the ROK Mission in Tokyo, suspended the issuance of consular invoices on shipments from Japan to Korea on June 11. This in effect suspended all Korean imports from Japan, including those financed with ICA funds. The ROK Government, following deliberations over the week-end of June 13-14, officially announced the suspension of all trade between the ROK and Japan on June 15, making certain limited exceptions for ICA-financed imports and other trade for which letters of credit had been opened prior to the suspension date.

This purely political move was to be the cause, at least in part, of a series of economic headaches to be felt both in the close of the second quarter of 1959 and increasingly in the quarter to follow. With Japan currently the leading buyer of Korean exports and principal source of private imports, the effect on the ROK's none-too-healthy private foreign trade was easily predictable. Rises in dollar transfer rates in terms of Korean hwan and in prices of imported products were almost immediately felt. Still unresolved is the problem of the Korean Government's efforts to circumvent - without success - the requirement of ICA Regulation 1 for the selection of bids on the basis of lowest landed cost. Japan as a near

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neighbor with an industrial economy is normally the source of much of the ICA-financed imports of both capital and consumeable goods.

Summer Grain Crops Attain Post-1945 Record; PL 480 Program Decreased

Rice planting was successfully completed in June and early July and preliminary forecasts indicate the fall crop is likely to exceed last year's 2.4 million metric ton post-World War II record.

In late May the Ministry of Agriculture and Forestry (MAF) estimated this summer's yield of non-rice grains at 35.4 million bushels to be harvested from 2.3 million acres. The Ministry credited favorable grain output to the mild winter of 1958-59, effective distribution of fertilizer and the increased production and use of compost. In early July the MAF forecast of the summer grain crop was raised to 35.8 million bushels, the largest crop since 1945. This figure is 23.7 percent above the annual average yield for the years 1954-1958 and 3.9 percent greater than the goal for 1959 set in the five year production plan for summer grains. The crop was estimated to consist of 28.9 million bushels of barley, 5.9 million bushels of wheat, and about 1 million bushels of other coarse grains.

Final agreement was reached in mid-June between Embassy and ROK Government negotiators on the FY 1959 Public Law 480 program for the sale of surplus U.S. agricultural goods to Korea. The program, which totalled $33 million, included $20.3 million for wheat (about 330,000 metric tons), $7.5 million for cotton, $0.5 million for feed-grains (10,000 tons), and $4.7 million for ocean freight. Under the agreement 85 percent of hwan counterpart fund proceeds will be transferred to the Korean defense budget and the remaining 15 percent will be used by the U.S. for administrative and other purposes. The drop from $50 million in the FY 1958 program to $33 million in FY 1959 was attributable to the marked increase in domestic grain production and the consequent reduced demand for imports.

With efforts to export 100,000 to 200,000 tons of rice from the 1958 crop largely unsuccessful to date (the one exception being a small sale of 5,000 tons delivered to the Ruykyus in the early months of 1959) and prospects further dampened by the suspension of trade with Japan on June 15, bumper summer grain crops of the second quarter and prospects for a large fall rice harvest bring another "mixed blessing", since the FY 1960 PL 480 program may have to be further reduced, thus reducing correspondingly the possibility of military budget support from this source.

Internal Labor Feud Jeopardizes FKTU

In April a petition was investigated by the National Assembly's Committee on Agriculture and Forestry alleging embezzlement of a portion of fees for handling ROK Government fertilizer imports by the Korea forwarding Co. and certain labor union leaders in Inchon. It was reported that the

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that the petition was instigated by CHONG Tae-Ch'on, National Assemblyman and former Supreme Committeeman of the Federation of Korean Trade Unions (FKTU), in order to harass KIM Ki-ok, Chairman of the FKTU and Chairman of the Alliance of Free Workers Unions, who defeated CHONG in the Federation's annual convention in October 1958.

This struggle for power between Kim and Chong rose to a peak during the second quarter of 1959 with what may have been a costly victory for Kim Ki-ok on July 31 when the FKTU's Central Standing Committee, meeting at Taegu, expelled Chong supporters and accepted the resignations of YI Chu-gi, General Secretary of the FKTU and PAK Ch'ong-san, Chief of the Federation's Publicity Department, for their reported activities against Kim. Subsequently Chong has been reported as attempting to reform his dissident elements into another labor group to be known as the Council of Trade Unions.

The role which the Liberal Party may take in this struggle (the FKTU is an affiliate of the LP) is yet to be revealed.

For the Ambassador:

RW Tucker

Robert W. Tucker
First Secretary of Embassy

Enclosure: att

Quarterly Economic Summary Apr-June 1959,
Table 1 to Table 12.

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QUARTERLY (2nd Qtr.) ECONOMIC SUMMARY APRIL - JUNE 1959, ROK.

TABLE I. Industrial Production

	2nd Qtr 1959 av.	1st Qtr 1959 av.	2nd Qtr 1958 av.	Percent change Col. I over Col. 2	Percent change Col. 1 over Col. 3
Ind. Prodn. Index (1955=100)	178	146	172	+ 21.9	+ 3.5
Mining (weight 10)	224	201r	183	+ 11.4	+22.4
Manufacturing (weight 87)	173	139	171	+ 24.5	+ 1.2
Electricity (weight 3)	188	188	163	0	+15.3

Source: Bank of Korea.

TABLE II. Korean National Railroad Total Cars Loaded with Freight
(Monthly Average, in thousands)

	1959	1958	Increase or Decrease (-)	% Change 1959 over 1958
April	40.1	38.1	2.0	+ 5.2
May	43.2	40.6	2.6	+ 6.4
June	37.8	36.0	1.8	+ 5.0
Monthly Average, Qtr.	40.4	38.2	2.2	+ 5.8

Source: Ministry of Transportation, Seoul.

TABLE III. Korean National Railroad Cars Loaded with Commercial Freight 1/
(Monthly Average, in Thousands)

	1959	1958	Increase	% Increase 1959 over 1958
April	24.3	17.8	6.5	+36.5
May	27.3	19.0	8.3	+43.7
June	23.8	20.3	3.5	+17.2
Monthly Average, Quarter	25.1	19.0	6.1	+32.1

Source: Ministry of Transportation, Seoul

1/ Excluded cars loaded with aid cargo and freight for the UN Forces, ROK Army, and Korean National Railroad.

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TABLE IV. Number of Building Construction Permits Issued in Principal Cities 1/

	2nd Qtr. 1959		1st Qtr. 1959		2nd Qtr. 1958	Percent Change Col. 1 over Col. 2	Col. 1 over Col. 3
April	1,891	Jan.	209	April	1,112	+804.8	+70.1
May	2,100	Feb.	328	May	1,232	+540.2	+70.5
June	2,103	Mar.	972	June	1,195	+116.4	+76.0

Source: Bank of Korea Publications.

1/ Includes permits for new construction, reconstruction, and extensions.

TABLE V. Foreign Exchange Holdings 1/ (Close of Quarter) ($ million)

	2nd Qtr. 1959	1st Qtr. 1959	2nd Qtr 1958	% Change 1 over 2	1 over 3
Net holdings	144.9	147.8	116.9	- 2.0	+24.0
Uncommitted	88.8	88.8	66.5	0	+33.5

Source: Bank of Korea publications.

1/ Excludes gold. Gold holdings as of June 30, 1959, were $1.7 million, on March 31, 1959: $1.7 million, and on June 30, 1958: $1.5 million.

TABLE VI. Commodity Imports, Exports, and Trade Deficit.

	1959					1958 1/		
	Imports				Trade	Imports		Private Trade
	Total	ICA 1/	Private	Exports	Deficit	Private	Exports	Deficit
April	20.0	14.5	5.5	2.3	17.7	3.8	1.0	2.8
May	23.5	11.1	12.4	3.0	20.5	12.7	1.2	11.5
June	18.2	11.4	6.8	2.1	16.1	3.0	1.3	1.7
Qt.Total	61.7	37.0	24.7	7.4	54.3	19.5	3.5	16.0

Source: Based on Bank of Korea statistics of exchange receipts and payments for visible trade.

1/ ICA breakdown not available before January 1959. Includes both private and government imports financed by ICA and settled through BOK.

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TABLE VII. Value of Exports by Commodity Groups. ($million)

	Total	Food	Inedible Crude Materials, excluding Mineral Fuels	Mineral Fuels Lubricants & Related Materials	Manufactured Goods Classified by Materials	Misc. Manufactured Articles	All Others
1955	18.0	1.1	13.6	0.5	1.2	0.4	1.2r
1956	24.6	1.5	19.5r	0	2.4	0.2	1.0r
1957	22.2	3.3r	14.0	negl	3.4	0.6	0.9r
1958	16.5	2.5	10.6r	0.3	2.4r	0.1	0.6
1959:							
Apr.	2.6	1.4	0.8	0.1	0.2	negl	0.1
May	2.3	0.6	1.4	negl	0.3	negl	0
Jun.	2.3	0.1	1.8	0.1	0.2	negl	0.1

Source: Bureau of Customs data, published by Bank of Korea. (Rounded Totals)

TABLE VIII. Private Foreign Exchange Transactions (Quarterly Totals) ($million)

	2nd Qtr. 1959	1st Qtr. 1959	2nd Qtr. 1958	% Change - Private Col. 1 over Col 2	% Change - Private Col.1 over Col.3
Receipts	25.8	23.2r	20.1	+11.2	+28.4
Visible	7.4	3.7	3.5	+100.0	+111.4
Invisible	18.4	19.5r	16.6	- 5.6	+10.8
Payments	27.8	20.4r	22.8	+36.3	+21.9
Visible	24.6	16.0r	19.5	+53.8	+26.2
Invisible	3.2	4.4r	3.3	-27.3	- 3.0
Net Receipts (+) or Payments (-)	-2.0	+2.8	-2.7		

Source: Bank of Korea publications.

TABLE IX. Money Supply Trends. (Billions of Hwan)

	1959	1958	% Increase 1959 over 1958
December 31 (1958 & 1957)	192.6	145.2	32.6
April 30	210.0	154.4	36.0
May 31	209.5	150.4	39.3
June 30	206.7	149.1	38.6

Source: Bank of Korea publications.

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TABLE X. Seoul Wholesale Price Index (1947=1)

Monthly Average	1959 Over-All	1959 Grain	1958 Over-All	1958 Grain	% Change 1959 over 1958 Over-All	% Change 1959 over 1958 Grain
April	202	182	197	218	+ 2.5	-16.5
May	216	202	206	239	+ 4.9	-15.5
June	219	208	207	238	+ 5.8	-12.6

	2nd Qtr 1959 Mon. Av.	1st Qtr 1959 Mon. Av.	2nd Qtr 1958 Mo. Av.	Percent Change Col. 1 over Col.2	Percent Change Col.1 over Col.3
Over-All	213	209	203	+ 1.9	+ 4.9
Grain	197	182	231	+ 8.2	-14.7

Source: Bank of Korea.

TABLE XI. National Wholesale Price Index (1955=100)

	1959 Over-All	1959 Grain	1958 Over-All	1958 Grain	% Change 1959 over 1958 Over-All	% Change 1959 over 1958 Grain
April	140.5	125.3	143.6	154.3	- 2.2	-18.8
May	145.9	139.6	147.0	166.7	- 0.7	-16.3
June	148.6	143.0	146.3	164.2	+ 1.6	-12.9

Source: Bank of Korea.

TABLE XII. Seoul Consumer Price Index (1955=100)

	1959 Apr.	1959 May	1959 June	1958 Apr.	1958 May	1958 June	% Change 1959 over 1958 Apr.	% Change 1959 over 1958 May	% Change 1959 over 1958 June
Total Index	151.3	153.5	150.7	146.0	149.3	148.7	+ 3.6	+ 2.8	+ 1.3
Foods	150.1	153.1	147.3	151.6	159.7	158.8	- 1.0	- 4.1	- 7.2
Housing	178.2	178.2	178.2	160.9	161.0	161.2	+10.8	+10.7	+10.5
Fuel & Light	151.2	157.1	157.1	121.7	118.7	119.4	+24.2	+32.4	+31.6
Clothing	107.2	108.5	108.7	114.5	111.9	110.8	- 6.4	- 3.0	- 1.4
Miscellaneous	167.6	168.1	168.1	154.0	154.0	154.0	+ 8.8	+ 9.2	+ 9.2

	A Av. Apr - Jun 59	B Av. Apr - Jun 58	Average & Change A to B
Total Index	151.8	148.0	+ 2.6
Foods	150.2	156.7	- 4.1
Housing	178.2	161.0	+10.7
Fuel & Light	155.1	119.9	+29.4
Clothing	108.1	112.2	- 3.7
Miscellaneous	167.9	154.0	+ 9.0

Source: Bank of Korea Publications.

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FOREIGN SERVICE DESPATCH

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TO : THE DEPARTMENT OF STATE, WASHINGTON.

Action Assigned to NPE

Action Taken ~~September 11, 1959~~ DATE 9/21/59

REF : CERP - Korea, Section C, Item 1.

15 For Dept. Use Only	ACTION	DEPT. PER-2 O/FW-2 S/AE-7 IO-2 INC-1 M-INAE
	FE-6	INFO RM/R-2 REP-1 IRC-15 ICA-11 USMSG-3 E-7 L-2
	REC'D 9/15	OTHER OCB-2 TR-3 FRB-2 XMB-4 LAB-5 AGR-2 IN-7 USIA-10 OSD-2 ARMY-35 NAVY-20 AIR-30 CIA-16 TAR-2 AEC-9 FAA-5

SUBJECT: Weekly Economic Review No. 36.

Action to DC/R

Amdespatch

File

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1. Maintenance of U. S. Aid to Korea at Minimum FY 1959 Level Urged.
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4. ROK Government Revenue Collections at 75 Percent of Target.
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9. Labor Struggle Confused as Factional Struggle Continues.

1. (UNCLASSIFIED) Maintenance of U. S. Aid to Korea at Minimum FY 1959 Level Urged.

At a meeting of the four "economic" Cabinet Ministers with Deputy Assistant Secretary of State (FE Economic Affairs) Avery F. Peterson on September 7 in Seoul, ROK Reconstruction Minister SHIN presented Mr. Peterson with a paper elaborating the justifications for Korean requests for U. S. economic aid. Minister Shin contended that for some years to come the ROK Government estimates the "minimum possible" aid requirements should be at the same level of U. S. fiscal year 1959 ($215 million in defense support aid) and ICA-financed consumeable imports should be at least $180 million per year. Other points made by Mr. Shin: 1. "Special favor" should be given to Korea in awarding DLF loans in view of the gradual shift of U. S. aid policy from grants to loans. 2. The portion of U. S. surplus agricultural goods supplied to the ROK under Section 402 of the Mutual Security Act should be reduced in FY 1960 to $25 million (from $35 million in FY 1959 and $40 million in FY 1958) and the PL 480 program correspondingly increased. 3. Korean manufacturers should be permitted to compete on a dollar basis for procurement of supplies to ROK military personnel, and the dollars should be used to finance essential imports, including raw materials for the manufacture of products for the armed forces.

(OFFICIAL USE ONLY) Comment: For the first time in more than a year the ROK Government has lowered its "minimum possible" target for U. S. defense support aid from the standard $250 million to the $215 million level of FY 1959. Although the ROK Cabinet Ministers are well aware that even this reduced goal is unlikely to be achieved in FY 1960, they now appear willing to go about half-way in facing the U.S.

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budgetary facts of life. (RWT)

2. (UNCLASSIFIED) Shuff Asked to Permit Dollar Purchases of Goods for ROK Armed Forces.

During the visit last week to Korea of Mr. Charles H. Shuff, Deputy Assistant Secretary of Defense, Mr. RHEE Sei-hyun, President of the Korea Chamber of Commerce, urged the U. S. Government to "resume" purchasing in Korea of materials supplied to the ROK Armed Forces under the U. S. military offshore procurement (OSP) program. In his message on behalf of the Chamber of Commerce, Rhee argued that: 1. Materials supplied to the Korean Armed Forces should be procured exclusively in Korea, since those produced domestically are as good in quality"as those made in foreign countries." (Particularly deplored was the fact that currently the bulk of such materials are procured in Japan). 2. An ROK-U.S. agreement for the offshore procurement program should be concluded as soon as possible. It was claimed that because of the lack of such an agreement no contracts have been awarded to Korean firms since September 1958. 3. Examination and inspection of commodities furnished to the ROK Armed Forces should be conducted in Korea, and not in Japan as at present. 4. The U. S. Government should set up annual purchasing "norms" for OSP in Korea so that Korean industrial plants can operate under a planned production basis.

(UNCLASSIFIED) Comment: This theme song, with minor variations, was also played by ROK Government officials to Deputy Assistant Secretary of State Peterson. Since the U. S. Defense Department ruled that OSP in Korea for the ROK Forces should be made on the basis of hwan bids, Korean firms have been effectively prevented from competing with other manufacturers (primarily Japanese) because of the unrealistic legal exchange rate of 500 hwan to the $1.00 U.S. Until this issue is resolved, either by permitting the Korean firms to bid for dollar procurement or by an adjustment to the exchange rate, little progress can be expected. (RWT)

3. (UNCLASSIFIED) Wholesale Price Index Rises Again.

On September 4 the Seoul weekly wholesale price index rose to a new 1959 high of 131.3 (September 1955 equals 100) with increases led by a 3.7 percent increase from the preceding week in prices of meat, eggs and fish, and a 3.7 percent rise in fuel costs. Textile raw materials and textiles also incurred a price increase of 1.4 percent and 1.6 percent respectively.

At a press conference on September 10 Minister of Commerce and Industry KU reaffirmed his previously stated opinion and that of other ROK Cabinet Ministers that recent price rises are largely the result of commodity speculation. Minister Ku said that a meeting of ROK Government officials would soon be called to discuss measures for combatting price increases. Among measures to hold down prices a "standard" price for cotton yarn will be maintained and the sale of flat glass through retailers will be by-passed in favor of direct sales to end-users at Hw 13,500 per case or by sales through the Glass Industrial Association.

(UNCLASSIFIED) Comment: Although many ideas for holding down prices have been discussed in the press and ROK Government circles, no one has yet advanced a

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proposal for outright price controls at the retail or wholesale level. Prices will undoubtedly spurt higher with the Chusok Fall Festival on September 17 but may thereafter experience the downturn which occurred in 1958 and 1957. (RWT)

4. (UNCLASSIFIED) ROK Government Revenue Collections at 75 Percent of Target.

According to figures released by the Ministry of Finance on September 8, ROK Government revenues collected through the close of August totalled 131.0 billion hwan or 75 percent of the year's target of 174.5 billion. This constituted a marked improvement over 1958 when collections as of August 31 had reached only 50 percent of the year's goal.

The revenues received through the first eight months of 1959 consisted of 67.1 billion hwan in internal revenues (66 percent of the year's anticipated total), 35.7 billion in foreign exchange taxes (103 percent), and customs duties of 28.1 billion (71 percent).

(UNCLASSIFIED) Comment: A major factor in the good tax collection results this year has been the unexpectedly high bidding rates for ROK Government foreign exchange sales (Weekly Economic Review No. 35 and previous) and for other dollars for imports which have produced large returns in the form of foreign exchange taxes. (RWT)

5. (UNCLASSIFIED) 10 Billion Hwan Issues of Industrial and Agricultural Bonds Approved.

On September 8 the State Council approved the issue of Industrial and Agricultural Bonds under a Hw 10 billion ceiling for each and promptly received the authorization of President Rhee.

The industrial bond issue is announced to be for the purpose of procuring funds for the Korean Reconstruction Bank to enable it to issue loans for various industrial and housing projects next year and the agricultural bonds are aimed at securing funds for the implementation of long-term agricultural programs, including liquidation of "usury loans" incurred by farmers and fishermen.

Vice Minister of Finance PAK asserted that the bonds will be "digested through non-inflationary methods."

(OFFICIAL USE ONLY) Comment: The Embassy has been informed by the Ministry of Finance that some 6 billion of the 10 billion hwan agricultural bonds will be "absorbed" by the ROK Government employees annuity fund and the remaining 4 billion will be earmarked for agricultural purposes. The 10 billion in industrial bonds will be sold under provisions of the Reconstruction Bank Law. Of the proceeds 3.7 billion hwan will be set aside for hwan financing required for DLF loans and the 6.3 billion balance for financing key industries. Both issues will be guaranteed by the ROK Government.

The suspicion exists and, has already been expressed in one press report, that the proceeds from some of these bonds, particularly the agricultural, may wind up

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By ____, NARA, Date 11/6/91

becoming "political loans" prior to the 1960 Presidential election - similar to what occurred before the May 1958 National Assembly elections.

6. (UNCLASSIFIED) OAE Director to Propose Atomic Energy Training Center for Asia.

At a press conference on September 8, Mr. KIM Pop-lin, Director of the ROK Office of Atomic Energy who is about to leave for Vienna as chief Korean delegate to the General Conference of the International Atomic Energy Agency (IAEA) beginning September 22nd, told reporters that he would propose at the conference an extension to the underdeveloped nations the IAEA system by which it offers contract research to some member nations. Mr. Kim continued that he would also suggest at the conference that the IAEA establish an atomic training center in the Far East to expedite atomic energy development for Asian nations.

(OFFICIAL USE ONLY) Comment: Whether correctly quoted or not, Mr. Kim has not previously mentioned these proposals in conversations with Embassy officials. Mr. Kim may have overlooked the fact that in view of Japanese advances in atomic energy research and training, any training center which the IAEA might sponsor in the Far East would necessarily make use of these capabilities (and perhaps Japan as a location). (RWT)

7. (UNCLASSIFIED) Tourism and OSP - Export Promotion.

At the third meeting of the Export Promotion Committee (CEBEP), the Korean membership proposed the inclusion of tourism and offshore procurement (OSP) as subjects for consideration of that Committee since both of these are in effect exports which would earn dollars for the Republic of Korea. The American membership indicated that OSP had already been assigned to a separate committee in the CEB and that it would not therefore be appropriate for the CEBEP to consider that subject. With respect to tourism, it was noted that it was a subject which continues to be given consideration at other levels including the CEB. The basic obstacle to the promotion of tourism is the unrealistic rate of exchange and until some solution can be found to this impediment little could be done to attract tourists to Korea. In any event, specific proposals by the Koreans would be given consideration in the CEBEP.

(OFFICIAL USE ONLY) Comment: It seems fairly clear that the Koreans will attempt to use the CEBEP as an avenue to greater or more extensive use of counterpart fund assistance. Although no proposals have as yet been made, it is not unlikely that the Koreans will suggest an allocation of counterpart funds to finance the establishment and improvement of hotels and other tourist facilities in Korea, a request which has previously been denied in the CEB. (JAC)

8. (CONFIDENTIAL) No Decision on NWA's Request for Additional Tokyo-Seoul Flight.

After several representations made by the Embassy to the Ministry of Transportation (MOT), that Ministry still maintains its position that Northwest Airlines (NWA) does not need five frequencies into Seoul per week. The official basis for denying the fifth frequency is that NWA is presently operating at a capacity in excess of

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traffic demand. The Embassy continues to argue that under the bilateral air agreement between the U.S. and ROK Governments, permission should be granted automatically and that the question of justification should be a matter of consultation between the Governments on an ex post facto basis.

The two MOT officials concerned with civil aviation have expressed their unofficial and "personal opinions" that a fifth frequency for NWA would reduce Korean National Airlines' (KNA) opportunity to develop an economic service to Seattle and would jeopardize KNA chances of inaugurating service to Tokyo when political conditions between Japan and Korea improve. On the strength of the Embassy s arguments concerning the interpretation of the air agreement, as well as the obvious arguments against these "personal opinions", the Minister of Transportation has subsequently made a formal reply to the Embassy indicating that the question of a fifth frequency is still under study. The Embassy plans to make an additional attempt to solve the problem on September 12 with the Minister of Transportation. If not solved at that time, the Embassy plans to make representations to the Ministry of Foreign Affairs. In the meantime, NWA is giving serious consideration to the inauguration of the fifth frequency on September 15 despite the position of the ROK Government. (JAC)

9. (OFFICIAL USE ONLY) Labor Picture Confused as Factional Struggle Continues.

Despite the reconciliation agreement signed last week the struggle between the CHONG Tae-ch'on and the KIM Ki-ok labor factions has continued with unabated bitterness. Leading figures in the Kim group are reported to have castigated Kim Ki-ok and KIM Chu-hong for signing the agreement but, for appearance sake and the prestige of the FKTU (Federation of Korean Trade Unions), they have hushed demands from some sources that Kim Ki-ok be censured or even removed from office. The general feeling seems to be that Kim Ki-ok was "taken" due to his limited intelligence but that Kim Chu-hong's role was not so innocent. Apparently the reconciliation scheme was well planned as it was executed without the knowledge and in the absence of some of Kim Ki-ok's ablest advisers.

Influential member of the Federation say that they will interpret the reconciliation statement merely as an expression of support for President Rhee by all organized labor, containing no commitments or concessions by the Federation in the internal labor struggle. In spite of this interpretation however, the FKTU has felt it necessary as a countermeasure, directed at the public and the Liberal Party, to brand Chong's post-agreement demands (Weekly Economic Review No. 35) as a violation of the agreement.

Prior to the reconciliation agreement YI Sang-jin, a leading member of the Chong group, admitted that the formation of a second labor movement would probably meet official opposition. As reported in Weekly Economic Review No. 33, Chong's earlier strategy was to stir up sufficient trouble and critical reaction to force Liberal Party intervention in the labor struggle. Recognizing the adamant opposition he faces in the FKTU despite the so-called agreement, Chong is still following his earlier plan with tactics such as his post-agreement demands.

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(OFFICIAL USE ONLY) Comment: The background on the intervention in the labor struggle by the Minister of Health and Social Affairs is still not clear. According to reports from several sources, President Rhee, apprised at a cabinet meeting of the dissension in the labor movement, expressed his distress over the situation. Taking this as a personal criticism, the Minister hurriedly arranged a forced reconciliation.

Elements of the Liberal Party, aware that party intervention would alienate labor and that a dictated labor solidarity would offer no advantage, have, reportedly, termed the Minister's action as "ill-advised", "officious" and "stupid."

Other reports state that pro-Chong members of the Liberal Party and members opposing the faction of the party with which Kim Ki-ok has been associated, urged the Minister to take action.

Federation officers say that because of their positions they can make no official statement but that if the Liberal Party does dictate a settlement of the internal labor conflict, they would have to admit privately that the FKTU is still only a political tool. (LR)

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL

132
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

September 18, 1959
DATE

REF : CERP - Korea, Section C, Item 1.

Action Taken PER-2 SX-5

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	REC'D 9-22	INFO OTHER USIA-10 COM-12 TAR-2 TR-3 FRB-2 XMB-4 2AB-5 FAR-5 HEW-2 CIA-16

Date of Action
Action Office Symbol
Name of Officer

SUBJECT: Weekly Economic Review No. 37. CAB-6 ARMY-35 NAVY-20 AIR-8

Direction to DC/R

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1. (UNCLASSIFIED) Partial Relaxation of Trade Suspension with Japan.

The Korean Government decided to relax the trade suspension with Japan on September 16 and made awards to Japanese suppliers of urea fertilizers for procurement financed with ICA aid funds. As reported in the Korea Times of September 17, the Minister of Reconstruction stated that the relaxation is partial and applicable only to the purchase of $4.2 million of urea fertilizer urgently needed for the sowing of barley this fall. Awards have already been made, and foreign traders who had bid on the business have received official notification of awards on the morning of September 18. These awards were made under Invitation to Bid No. 505C for which bids were opened on June 24, 1959.

(OFFICIAL USE ONLY) Comment: This partial relaxation is not at the moment expected to be extended to all aid-financed procurement from Japan. It is expected, however, that procurement will be permitted by the ROK Government for commodities considered essential and for which there is an urgent need, and fertilizer is one of these. The Koreans were well aware of the risks they ran in not making an award by the end of this month on urea -- a risk of losing the funds to the U.S. Treasury or reallocation to other country programs. On less urgently needed commodities, the Korean Government apparently is not relaxing the trade ban and no indication has yet been given of any intention to permit resumption of private trade between the ROK and Japan.

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2. (UNCLASSIFIED) Trade with Japan Since Suspension.

The Bureau of Customs announced that Korean exports to Japan from June 15 to the end of August 1959 totaled $2,284 thousand while imports from Japan in the same period amounted to $5,852 thousand. (Trade with Japan was officially suspended by the ROK Government on June 15 of this year.) Imports consisted largely of aid financed shipments ($3,568 thousand). Trade with other areas was reported at $35.9 million for imports in the 2½ month period and $1.3 million for exports.

(UNCLASSIFIED) Comment: Although comparable statistics are not available for the corresponding period of 1958, it does not appear, on the basis of available data, that the private trade volumes registered during the period of suspension are below the levels achieved during the similar period of 1958. In fact, for both private imports and exports the levels achieved during the period seem to be slightly higher than those for the corresponding period of 1958 but at a considerably lower level than private trade volumes during the months of March through May 1959. Aid imports, on the other hand, have declined substantially. The damage to Korea caused by the suspension is not fully reflected in the trade figures announced by the Bureau of Customs, partly because of goods in transit at the time of the trade suspension and the relief measures adopted by the Koreans to permit the consumation of transactions for which letters of credit or other commitments had been made prior to and including June 15.

There has been a growing realization of the seriousness of this trade suspension to Korea among many circles. The Chosun Ilbo on September 12 editorialized that the trade suspension has become senseless, inflicting a loss only on the Korean economy, which is much more heavily dependent upon Japan than Japan is upon Korea. Moreover, the measure has not damaged Kishi politically but rather bolstered his position in the Japanese view. It continues that the suspension has affected procurement with aid funds and therefore incurred the displeasure of the United States Government. It urged the ROK Government to reconsider the measure to help stabilize prices, develop trade, and promote friendly relations with the United States. (JAC)

3. (UNCLASSIFIED) Money Supply Up Slightly; Transfer Dollar Rates Slump.

At the close of July the money supply rose slightly to 206.9 billion hwan from 206.7 billion at the end of June preceding. Contractionary effects during July of operations by the banks (4.6 billion), the counterpart fund (4.3 billion) and Bank of Korea foreign exchange transactions (0.4 billion) were outweighed by deficit operation of the government budget accounts (4.1 billion) and by "other factors and/or errors" (5.4 billion). For the first time since December 1958 the currency in circulation rose from 94.0 billion hwan on June 30 to 95.5 billion on July 31.

In the past two to three weeks there has been a notable slump in the prices of transfer dollar rates and quotations of illegal offers of greenback U. S. dollars and Military Payment Certificates (MPC). For example, on August 27 (just prior to the August 28 auction of $5.4 million in ROK-held foreign exchange) greenbacks and MPC were quoted at 1,340 hwan and 1,160 hwan to the dollar while by September 15 these had fallen to 1,300 and 1,130 respectively. Much sharper declines were

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experienced, however, between the two dates in legal quotations of mission, Japan export (deferred payment base) and other export dollars (letter of credit base). On August 27 these were quoted at 1,300, 1,300 and 1,410 hwan, in order, while on September 15 quotations fell to 930, 1,240 and 1,280 hwan, respectively.

(UNCLASSIFIED) Comment: There appear to be two principal explanations for the drop in dollar rates. First, the $5.4 million auction of ROK-held foreign exchange on August 28 may have temporarily satisfied Korean businessmen's requirements for import dollars, at least under current stringent credit conditions (see item 1, Weekly Economic Review No. 35). Another reason, which may be equally valid, is that traditionally just prior to the Chusok Fall Festival (September 17 this year) large quantities of currency are directed toward feasting, paying of employees salaries and bonuses, etc., and thus pressure for the purchase of foreign exchange may have been lessened accordingly. (RWT)

4. (UNCLASSIFIED) Wholesale Price Index Up Again.

The Seoul wholesale price index on September 11 rose to 132.9 (September 1955 equals 100), up 1.2 percent from the preceding week and 10.9 percent higher than the level of the same date in 1958. Principal factors in creating this newest high for 1959 were 5.6 percent increases of the meat, eggs and fish and the building materials components, but grains, textiles, fuel and miscellaneous goods prices were also up slightly.

(UNCLASSIFIED) Comment: Pre-Moon Festival (Chusok) buying is undoubtedly to blame for most of the latest price increases. The September 18 index will very probably show a further spurt in the midst of the holiday season. (RWT)

5. (UNCLASSIFIED) Bill to Be Proposed for National Assembly Approval of DLF Loans.

A bill will shortly be proposed to the State Council for providing blanket approval by the National Assembly for the issuance of ROK Government guarantees of repayment of loans obtained from the U. S. Development Loan Fund. Under the ROK Constitution the National Assembly is required to approve or concur in any international treaty or agreement involving imposition of financial burdens on the government.

The new bill will provide that the ROK Government will be required only to notify the National Assembly of loans contracted with DLF after the fact and without prior approval.

(UNCLASSIFIED) Comment: This action has resulted from a belated discovery or decision that National Assembly action would be required on DLF loans with ROK Government guarantees of repayment. Government officials concerned appear confident of passing the new bill by the National Assembly and that there will be no legal impediments in the ROK to accepting such loans. (RWT)

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6. (UNCLASSIFIED) 1960 Budget Bill Goes to National Assembly.

According to the Yonhap Sinmun of September 11, the ROK Government submitted its budget bill for 1960 (both calendar and fiscal) to the National Assembly on September 10. The budget, reportedly one of balanced expenditures and revenues, is set at 417.2 billion hwan, including 338.4 billion hwan in the ordinary account and 78.8 billion in the counterpart fund special account.

The bill provides for an increase of 5 percent (20.7 billion hwan) over the 396.5 billion hwan budget for the current year. Counterpart revenues are estimated to drop by 8.8 billion hwan in 1960 while domestic revenues are expected to rise by 36 billion hwan.

General provisions of the bill include permission for the government to issue 10 billion hwan in National Reconstruction Bonds and to borrow up to 40 billion hwan from the Bank of Korea.

Expenditures of the Ministry of National Defense for 1960 are set at 148.7 billion hwan or 43 percent of the ordinary account total of 338.4 billion hwan and 35.7 percent of the entire budget. (RWT)

7. (UNCLASSIFIED) Smuggling Charge Against NWA Employee Dropped.

According to NWA, the Korean employee who had been apprehended on a charge of smuggling 3 million hwan worth of merchandise into Korea from Hong Kong appears to have been completely cleared. (See Weekly Economic Review No. 35 for earlier story). Although the employee himself had refused to say that he had brought back merchandise for high level government officials at their request, the fact was apparently admitted by some of the officials themselves, some of them in the ROK Customs Bureau. The Customs examiner involved in the case, however, has been indicted for his complicity. The argument for clearing the airline employee, as NWA understands it, is that the customs examiner who had confiscated part of the NWA employee's merchandise was guilty of permitting the employee to pass customs without payment of duty on that portion of effects permitted to pass. The NWA employee could not be held responsible for the malfeasance of the customs man.

(OFFICIAL USE ONLY) Comment: This may be viewed as a plausible explanation for some people in Korea, but ..... (JAC)

8. (OFFICIAL USE ONLY) NWA File Records Seized by Prosecutor.

Prosecutor Lee Young Hoon of the Seoul District Prosecutor's Office, accompanied by four detectives, called at Northwest Airlines (NWA) office in Seoul on September 14 and asked to see that company's files on transactions with Air France. The NWA manager consented to an examination of files in his office. A cursory examination of the files by the prosecutor was followed by a request to take three folders away. When the NWA manager denied the prosecutor permission to take the folders, [redacted] the prosecutor stated he could obtain a warrant for seizure, to which NWA replied that the American Embassy would be called into the picture. Very shortly after NWA telephoned the Embassy for guidance, the prosecutor produced an

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alleged warrant, seized the folders, and left the building with them.

(CONFIDENTIAL) Comment: A local NWA employee who had seen the warrant states that it was not made out to NWA but to the International Express Company, which is the agent for Air France. The interest in Air France on the part of the prosecutor is to investigate that company's "illegal foreign exchange transactions." When the employee questioned the legality of using a warrant addressed to the International Express Company to seize NWA files, the prosecutor replied that, since this is a comprehensive investigation, the warrant was valid for the seizure of anyone's files.

On the evening of the seizure the Embassy's Commercial Attache made an oral protest to the Ministry of Foreign Affairs in which he stated the prosecutor's outrageous action was in direct violation of Article VI of the Treaty of Friendship, Commerce and Navigation between the United States and Korea. On Septmmber 16, the Deputy Chief of Mission made a stronger oral protest to the new Vice Minister of Foreign Affairs CH'OE Kyu-ha pointing out the violation of the Treaty's provisions and requesting disciplinary action against the prosecutor for his shocking conduct. Vice Minister Ch'oe indicated he would take the matter up with the Minister of Justice and then requested that the protest be treated as confidential.

The Embassy would not be surprised if the ROK Government now produces a "legal" warrant for seizure of NWA files to justify the action. It will be of particular interest whether such a warrant is dated before or after September 14. (JAC)

9. (UNCLASSIFIED) Problem of Fifth Frequency for Tokyo-Seoul Flights Continues.

After several representations made by Embassy officials on September 12 to officials of the Transportation and Foreign Affairs Ministries to gain approval of a fifth frequency of daily flights from Tokyo to Seoul for Northwest Airlines, a formal negative reply was received on September 14 from the Minister of Transportation. In brief, that reply indicated the Ministry's belief that NWA's existing four weekly flights are adequate for current traffic demands and the addition of another frequency would "unduly affect the interests of airlines of the Republic of Korea." It also suggested, in view of difference in interpretations of the agreement, a prompt review by the two governments be made of the agreement under the provisions of Article 12.

As an interim measure, NWA hand-carried a note to the Minister of Transportation on September 14 containing a notification of that company's plans to fly a special section to its Monday flight every Tuesday beginning on September 15 until the matter of a fifth frequency is resolved. On that same day the MOT replied that a special section every Tuesday would in effect be a fifth frequency and permission was denied. Finally after many attempts to reach "unavailable" officials, NWA managed to obtain permission at 9:00 P.M. on September 14 for a special section on September 15 only to accommodate the 52 passengers who had already been booked for that flight.

(CONFIDENTIAL) Comment: The Embassy believes that a review of the Agreement suggested by the ROKG should be undertaken in Washington where the Agreement was concluded and where questions of interpretation may be more easily handled. The

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basic reason for denying a fifth frequency is obviously to protect the interest of Korean National Airlines which has begun non-scheduled flights to Seattle (although not via Tokyo). The Embassy will continue to press for approval of special sections until the broader question of frequencies is resolved. (JAC)

10. (UNCLASSIFIED) Export Promotion Fund Approved.

The establishment of an export promotion fund to provide low cost financing to exporters and producers of export goods as a measure to facilitate a much needed growth in Korean export trade was approved by the Combined Economic Board (CEB) on September 16. The Export Promotion Committee had recommended the establishment of this special fund with 3.75 billion hwan of counterpart funds (see Weekly Economic Review No. 35). The CEB's approval of the Fund, however, imposed the condition that the initial fund be limited to 2 billion hwan. Additional funds, if needed, may be made available later. (JAC)

11. (UNCLASSIFIED) Ryukyus Trade Mission Rescheduled.

A goodwill trade delegation headed by Mr. KANG Sung Wook, president of the Korean Traders Association, and consisting of 10 leading local businessmen, will leave Seoul on Saturday, September 19 for the RyukyusIslands. This mission is intended to be a return visit for the one made by the Ryukyun businessmen about a month ago. The Korean group plans to explore Ryukyuan markets for Korean products. (See Weekly Economic Review No. 34 for earlier story).

(OFFICIAL USE ONLY) Comment: The Korean Government had planned a Government Mission to the Ryukyus in early September to explore sales of rice and other commodities, including sales to the U. S. military forces in the Islands. The plans for this mission, however, were held in abeyance until there was a reply from the American Consul in Naha concerning the prospects for success of such a mission. That reply has now been received and indicates that courtesies and appropriate assistance will be extended to the Government group but that trade arrangements would have to be developed by the Mission members themselves. This, the Embassy is certain, is not the type of reply that the Korean Ministry of Foreign Affairs wanted. Whether there will be a Government Mission now remains to be seen. (JAC)

12. (UNCLASSIFIED) Encephalitis Epidemic Slowing Down.

As of September 13 the nationwide incidence of Japanese B-type encephalitis in the ROK had risen to 1,397 persons with 342 resulting deaths. Chances of surviving this dread sleeping sickness are thus running about three out of four. Four Americans, three servicemen and one Department of the Army civilian employee, have now been reported as infected with the disease but one has recovered and the others appear to have good chances of pulling through.

Fortunately the number of new cases reported had dropped to 13 during a 24-hour period ended September 13 and the epidemic appears to be near the end of its annual course.

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(UNCLASSIFIED) Comment: On September 17, 1958, the [redacted] number of cases in South Korea totalled 6,072 with 1,496 deaths reported during last year's encephalitis season. Apparently the mosquito-borne disease runs in three year cycles of peak virulence but the markedly reduced incidence this year seems to indicate success of preventive measures.
(RWT)

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

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TO : THE DEPARTMENT OF STATE, WASHINGTON.

Action Assigned to [illegible]

Action Taken [illegible] September 25, 1959 DATE

REF : CERP - Korea, C-3 and B, II, A-3; Amembassy Seoul's D-517, March 11, 1959

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	REC'D 9-29		OTHER CIA-10	*Com-12	*TR-3	*FRB-3	TAR-2	

SUBJECT: Economic Assessment - Korea, January - June 1959.

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7. Statistical Tables - Enclosures.

Summary

In July the Bank of Korea revised its estimate of the ROK Gross National Product for 1959 on the basis of statistics available for the first five months of the year. In current market prices GNP for 1959 is now placed at 1,759.6 billion hwan, 5.4 percent above that of 1958. In 1955 constant market prices, however, GNP is estimated at 1,150.4 billion hwan, 4.2 percent above the 1958 total. Agriculture, forestry and fishing continues by far to be the leading contributor to Korean GNP (40.6 percent), with wholesale and retail trade second (15.0 percent), and manufacturing (13.0 percent) third.

In the first two months of 1959 the ROK money supply continued its unbroken rise from August 1958 to a record 223.2 billion hwan on February 28, 1959, but declined thereafter to a month-end low of 206.7 billion in June. Sales by auction of $14 million in ROK Government-controlled foreign exchange were a significant device in holding down money supply. Continued confidence in the hwan and in the banking system was shown by a sharp rise of time and demand deposits during most of the first half of 1959.

The balance of foreign exchange transactions for January - June (exclusive of

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foreign aid) showed a small excess of receipts over payments, sharply reduced from that of the same period of 1958 and in large part the result of an increase in private imports of almost $10 million. ICA aid and religious and welfare institution contributions continued their major role in counterbalancing the visible trade deficit but sales of goods and services to the UN Forces assumed increasing importance as a source of dollar income. Visible exports in the first half of 1959 were $11.2 million, as opposed to $7.4 million in the same period of 1958.

Industrial production in January - June ran about 4 percent above that of the first half of 1958 with mining and electric power production the principal factors in the expansion and manufacturing a laggard. A record summer grain crop and prospects for still another record fall rice crop left the ROK Government with a growing problem on obtaining military budget support from Section 402 and PL 480 sales proceeds.

Cessation of trade with Japan on June 15 by order of the ROK Government as a result of political differences on the issue of repatriating Koreans in Japan to North Korea had some adverse effects on the Korean economy. With Japan by far the leading importer of Korean goods and second largest (after the United States) exporter to the ROK the effect on ROK trade would be severe were the suspension to continue. Prices have already been affected as ROK Government dollars are diverted to more costly sources of imports. Another problem created by the June 15 action has been the efforts of the ROK Government -- so far unsuccessful -- to evade the "lowest landed cost" requirement of ICA Regulation 1 which normally results in procurement of many ICA-financed commodities from Japan.

Prospects for the second half of 1959 are somewhat overshadowed by the question of when, and under what conditions, trade may be resumed between the ROK and Japan. The trend of domestic prices, which recently has followed a seasonal upturn, will depend largely on the Japan trade issue, the fall rice crop and the psychological reaction to the expected cut in aid. If these factors are unfavorable, the price level could exceed 125% of the September 1955 average and thereby call for devaluation of the hwan in January 1960. If this occurs, it would have rather far reaching economic consequences. At present writing, the foreign investment bill, which has reposed gathering dust for a year in the National Assembly, is scheduled for priority consideration in the fall session, but even the opening of the session is being delayed by political squabbles.

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GNP Calculations for 1959 Revised Upward Slightly in July.

The Bank of Korea in July revised its calculations,[1/] made earlier on a projected basis in January (see D-517, March 11, 1959), of the ROK Gross National Product for 1959 taking into account available statistical data for the first five months of the year. The revision, while producing no striking changes, generally anticipates

1/ These are as yet unpublished. Tables I and II enclosed are derived from a Korean language mimeographed study obtained by the Embassy on August 26.

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slight increases in GNP over the earlier projection (see Tables I and II enclosed). In terms of current market prices, GNP for 1959 is now placed at 1,759.6 billion hwan (5.4 percent above 1958 GNP), as compared to the January projection of 1,740.3 billion. The revised projection reflects increased estimates for wholesale and retail trade, manufacturing, electricity and other utilities, banking and insurance, construction, and mining.

Increases of GNP from trade, manufacturing and electric power output reflected an average 4 percent increase in industrial production indices for the first half of 1959 over the same period in 1958, and available domestic trade indicators such as commercial freight car loadings with a startling average increase of 35.5 percent. Building construction permits issued in principal Korean cities averaged 69 percent higher in the first half of 1959 over the comparable period in 1958 and it appears that the quarterly construction rate in April-June 1959 is the highest in the ROK since World War II. Similarly the mining output increase reflects what is the largest Korean production of anthracite coal - 1.7 million metric tons in January-June 1959 - in any half-year since 1945.

On the other hand, GNP for 1959 derived from agriculture, forestry and fishing was reduced from 660.1 billion hwan in the January projection to 639.0 billion in the July revision. This 21.1 billion hwan reduction was calculated from the effect on prices expected from new records in summer grain output and the fall rice harvest this year. Prices of rice in recent months have been averaging 10 - 20 percent below those in comparable periods of 1958.

In terms of 1955 constant market prices, which provide a more realistic basis for comparisons, the July revision of 1959 GNP calculations contrasts considerably with current market price data. In constant market prices GNP has been set at 1,150.4 billion hwan, a 4.2 percent increase over the 1958 total and 19.3 billion hwan above the January 1959 projection. However, the July revision reveals a 21.1 billion hwan increase in the value of agricultural, forestry and fishing products over the January projection (which, coincidentally, is exactly the same as the decrease at current market prices). Increases for manufacturing output banking and insurance, electric power and utilities and a decrease in product of wholesale and retail trade all reflect reductions from the current market price changes. This trend of course results from the expected increase of farm output in 1959 in real terms, and anticipated rising current market prices of non-farm commodities and services with relatively smaller real increases in output.

On the basis of the July revision of GNP at constant 1955 market prices, the agriculture, forestry and fishing sector continues its predominant role as the leading contributor to Korean GNP (40.6 percent of the total), with wholesale and retail trade (15.0 percent), manufacturing (13.0 percent), services (8.7 percent), ownership of dwellings (6.2 percent) and public administration and defense (4.6 percent) being the other principal, if somewhat out distanced, origins of GNP.

In comparing 1959 and 1958 GNP at constant prices it is noteworthy that in the current year both the public administration and defense sector and the agriculture, forestry and fishing sector will contribute less percentagewise than in 1958, while manufacturing, mining and quarrying, transportation, trade,

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banking and services will contribute more. This indicates a gradual trend away from agriculture toward non-agricultural pursuits as a source of GNP, as well as diminution in the role of the ROK Government as a producer of goods.

As in preceding reports, using GNP data as a basis for analysis of semi-annual economic development in the ROK leaves much to be desired, primarily because Bank of Korea calculations are made only on an annual basis because of statistical deficiencies which apparently make calculations for shorter periods impossible.

Small mention need be made of the forecast of GNP for 1960 since at this early date its probable accuracy can hardly be assessed. It is interesting to note, however, certain basic assumptions made by the Bank of Korea in estimating 1960 GNP:

1. Present government economic policies will be continued with emphasis on the financial stabilization plan and restriction of the money supply.

2. The general price level of 1960 will be about the same as that of 1959, except that an approximate 10 percent decline in grain prices from bumper harvests of 1959 is anticipated and a 2.5 percent increase in non-grain prices is used in computations.

3. Increased rice production (although below the level of the ROK Government's planned goal) is anticipated in 1960, but output of other grains is placed at the average level for the past several years.

4. Importation of aid goods including surplus agricultural products under the PL 480 program will continue to decline in 1960 at almost the same rate as in 1959. However, to some extent this decrease in importation of aid goods will be compensated by the increase in foreign exchange receipts from the UN Forces for supplies and services, and by some increase in private saving.

5. Expansion of manufacturing industries will be slowed in 1960 because of decreasing project aid, although some increase in production of cement, fertilizer, paper and certain other commodities is expected from newly completed plants or as a result of longer operation and better management.

The increase of 1960 GNP over that of 1959 in current market prices is set at 3.3 percent and in 1955 constant market prices at 2.9 percent. This sharp decline in the anticipated rate of increase over preceding years has already been the cause for some caustic editorial comment in the opposition or independent press in Korea, with accusations of "failure" of the Government's economic policies and cries of alarm that productivity increases may fall to levels below the net population growth.

Money Supply Reaches Peak in February but Declines Subsequently with Heavy KFX Auctions.

The ROK money supply in the first two months of 1959 continued the unbroken series of increases which began in August 1958 (from 149.0 billion hwan on July 31st) to the all-time peak on February 28 of 223.2 billion hwan, but declined

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steadily thereafter to a 1959 month-end low of 206.7 billion hwan in June. (See Tables III and IV enclosed). The first-half of 1959 financial stabilization agreement, adopted by the Combined Economic Board in February, called for maintaining a ceiling limit of 220 billion hwan through June (raised from an earlier limit of 200 billion hwan), and although this limit was exceeded briefly in February the ROK Government authorities concerned with implementing monetary and fiscal policies did a commendable job in holding the money supply down in the first half of the year.

One important device in achieving this result was the sale by auction of $14 million in ROK Government-controlled foreign exchange during the semester - $4 million on February 12, $3 million on May 6, and $7 million on June 11. This total over a period of four months exceeded the $13 million of KFX sold during the entire year of 1958. The auctions of $14 million retired about 14.2 billion hwan from circulation with weighted averages from bids ranging from 871 hwan to the $1.00 U. S. for the February sale, to 1,069 hwan in May and 1,063 hwan in June. (All hwan paid in excess of the 500 to 1 legal unitary rate were collected as foreign exchange tax by the Korean Government).

The principal expansionary factor to the money supply was the operation of the government budgetary accounts which tended to expand the money supply by 30.1 billion hwan in the first half of 1959 (in 1958 for the same period the increase was 22.1 billion). "Other factors and errors" caused an increase of 5.5 billion hwan (1958 - 2.2 billion). Contractionary factors were operations of the counterpart fund - 14.5 billion hwan (1958 - 9.2 billion), banking activities - 6.6 billion hwan (1958 - 5.9 billion expansionary) and foreign exchange transactions - 287 million hwan (1958 - 2.4 billion expansionary).

Although the operation of the government budgetary accounts had an expansionary effect as a whole, it should be observed that in the first half of the ROK fiscal (calendar) year 1959 revenue collections in the ROK Government general accounts were quite successful and that probably the performance on both the revenue and expenditure sides was the best for comparable periods in recent years. Revenues of 109.1 billion hwan attained 42.6 percent of budgeted income for the general accounts totalling 255.9 billion hwan for 1959. (This excludes the 53 billion hwan contribution for 1959 defense budget support from U. S. counterpart fund sources anticipated but as yet unpaid). Expenditures were 134.6 billion hwan, also 42.6 percent of the expected year's total.

Particularly noteworthy in the contractionary operations of the banks has been the increase in both time and demand deposits. Time deposits which totalled 19.2 billion hwan at the close of 1958 rose rapidly to 33.5 billion on May 31, declining slightly to 33.4 billion on June 30. Demand deposits similarly followed a general rising trend to a peak of 112.9 billion hwan at the end of May (down slightly to 112.7 billion on June 30) from 81.5 billion hwan at the close of 1958. Hwan currency in circulation followed a reverse trend during the same period, declining from 111.1 billion hwan on December 31, 1958, to 94.0 billion on June 30, 1959. During most of the first half of 1959 these two tendencies appeared to be symptomatic both of increased confidence in the hwan and the banking system as a depositary for money and source of interest, and in the gradual growth of private capital which could be used for investment purposes.

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Foreign Exchange Balance Reflects Continued Reliance on ICA Aid and on Sales to UN Forces.

Foreign exchange receipts in the first half of 1959 slightly exceeded foreign exchange payments (exclusive of all foreign aid transactions). Receipts from visible exports totalled $11.2 million while receipts from invisibles were $37.8 million of which receipts from UN Forces were $30.3 million. Against these total receipts of $49.0 million foreign exchange payments totalled $48.1 million, of which $40.6 million were for financing of commodity imports and $7.5 million was for payment of invisibles (travel, transportation, insurance, etc.). The ROK balance of foreign exchange transactions, inclusive of foreign aid transactions, showed $149.6 million in total receipts as against $148.8 million in payments, leaving a net excess of receipts over payments of $0.8 million. This was sharply reduced from the $4.1 million excess for the same period in 1958, and is in part the result of notably increased payments for private imports, which were $40.6 million in January-June 1959 as opposed to $30.9 million in the first half of 1958. (See Table V enclosed).

The so-called "invisible exports", as classified by the Bank of Korea,1/ totalling $138.5 million largely consisted of donations from ICA aid - $100.7 million - and from foreign religious institutions - 2.5 million, and of sales of hwan to the UN Forces - $13.9 million - and of goods and services - $16.4 million. These elements were the principal counterbalances to the visible trade deficit of $129.5 million during January-June 1959. (This compares quite favorably with the visible trade deficit of $360.5 million in the entire year of 1958).

As ICA aid (and aid in the form of PL 480 sales of U. S. agricultural surplus) continues to decline, the increasing importance of sales of hwan, goods and services to the UN Forces in meeting the ROK's need for dollars becomes more apparent. While exact data are not available it is clear that dollar receipts from this source have been rapidly growing - from roughly $21 million in 1956 to $41 million in 1957 and $65 million in 1958. With the recently announced policy of United States Forces Korea/Eighth U. S. Army to maximize local procurement in the ROK, there is good reason to believe that this trend will continue. Further, as Korean industry develops and aid projects come to fruition, there is an increased prospect that Korean goods and services can be supplied to the U. S./UN Forces on a competitive basis with other countries. Admittedly, however, this is only a short-run palliative to one of the major economic ailments of the ROK - the failure to develop exports to approach a balance with import requirements.

In this connection, the receipts from January-June 1959 visible exports - $11.2 million - show a welcome improvement over those for the first half of 1958 - $7.4 million. Of the total shipped in the first half of this year, $8.5 million were exported to Japan, $1.4 million to the United States, $0.9 million to the Ryukyus Islands and $183,000 to Hong Kong. Thus in the first half of 1959 Japan bought 76 percent of the ROK's exports and the United States 12.5 percent, while in the entire year of 1958 the respective percentages were 64 and 20. Korean

1/ The breakdown showing ICA imports and donations in the balance of foreign exchange payments is available in published data only since January 1959, so that complete comparison with 1958 data is not feasible.

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businessmen, at least during the first half of 1959, obviously did not let political differences prevent them from shifting this trade even more heavily toward Japan than hitherto.

Principal sources of the visible imports totalling $140.6 million were the United States - $48.8 million, Japan - $34.7 million, West Germany - $16.8 million, Italy - $6.0 million, and the Philippines - $5.1 million. Here also Japan (and West Germany) has made a sizeable gain on the United States' position as leader. (For all of 1958 ROK imports from the United States were $236.8 million, from Japan - $47.5 million and from West Germany $18.3 million).

Industrial Production Up Slightly; Farms Harvest Record Grains Crops.

During the first quarter of 1959 the industrial production index of the Bank of Korea averaged 146 (1955 equals 100) and rose in the second quarter, mainly from seasonal factors, to 178. For the entire six month period the index was up about 4 percent over comparable figures for 1958. The rise was largely concentrated in improved mining production and electric power output. Anthracite coal production in the second quarter of 1959 was at the highest level since 1945. On the other hand, manufacturing (weight 87 of the 100 total for the index) output increased by 3.7 percent in January-March 1959 over the first quarter of 1958, and only a scant 1.2 percent in the second quarter. Even this improvement was largely attributable to a late spurt in June when the all-time index high of 194 was reached. This resulted largely from sharp increases in production of beverages, cotton goods, rubber shoes, metal products and machinery.

The Ministry of Agriculture and Forestry estimated this summer's yield of non-rice grain at 35.8 million bushels, consisting of 28.9 million bushels of barley, 5.9 million bushels of wheat and about 1 million bushels of other grains. The crop was the largest since 1945 and 23.7 percent above the average yield for 1954-1958. Rice planting was successfully completed by early July and the fall harvest bids fair to breaking last year's 2.4 million metric ton post-1945 record.

The very success of Korean farming, resulting from heavy increases in the use of chemical fertilizer, expanded irrigation, and improved farming techniques, increases the problems of the ROK Government. With PL 480 imports decreased from $50 million under the FY 1958 program to $33 million for the FY 1959 program, a further reduction for the FY 1960 sales of U. S. surplus agricultural products seems a likely prospect as the "grain gap" closes. Since a large majority of the hwan proceeds (82 percent of the FY 1958 program, and 85 percent of the FY 1959) is donated by the United States for ROK defense budget support, this source of financing is correspondingly diminished.

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Cessation of Trade with Japan and the After Effects.

Following the reported agreement between the Japanese Red Cross and the

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North Korean Red Cross on the repatriation of Korean nationals in Japan to communist North Korea, the relations between the ROK and Japan reached a new low. As one result the ROK Government announced that effective June 15 all trade between the ROK and Japan was suspended with certain limited exceptions for ICA-financed imports and other trade for which letters of credit had been opened prior to the suspension date.

The effects of this trade suspension, a purely political move, will be much more detrimental to the ROK than to Japan. With Japan currently buying about three-fourths of Korean exports, until this situation is resolved the future of the ROK's private foreign trade appears bleaker than ever. As was noted above, Japan is also the second largest (after the United States) source of ROK imports. The diversion of this trade to other countries means that higher prices will inevitably be paid for certain imports (e.g., chemical fertilizer, steel and electrical products) and Korea's limited foreign exchange resources will not be put to best economic use.

Another major problem has arisen as a result of the trade suspension. Since the June 15 action, the ROK Government has tried unsuccessfully a number of strategems to evade the provision of ICA Regulation 1 which requires world-wide bidding and selection of bids on the basis of lowest landed cost. Japan as a near neighbor with the only industrial economy in the Far East has been able to benefit widely from low bids on ICA-financed imports by the ROK. As the weeks go by with no move by the ROK Government to restore trade with Japan, implementation of the ICA defense support program is being slowed, if not outright jeopardized, as Washington has stood fast in insisting upon maintenance of the principles of ICA Regulation 1. (Within the past week there has been a partial relaxation of the trade suspension in that certain ICA-financed fertilizer from Japan has been authorized for import, but the ROK Government has announced that such exceptions will be made only for a limited number of "essential" imports, and the ban on private trade continues).

The trade suspension and strained relations leading up to it have had at least a partial role in other developments toward the close of the first half of 1959. Dollar transfer rates rose to highest levels since the establishment of the 500 hwan to the $1.00 legal unitary rate of exchange in August 1955. This rise was also engendered by the decreasing pipeline of ICA commodity imports and the pressure thus diverted to non-ICA import financing. The Seoul wholesale price index rose mainly from seasonal influences in January-June 1959, but attained in June 123.8 percent of the September 1955 average. Prices in May and June were from 5 to 6 percent above those in 1958. Undoubtedly, speculation and hoarding of such goods as fertilizer, caustic soda, rayon, and industrial chemicals resulted in part from traders' anticipation of windfall profits from rising prices as ROK-Japan relations worsened.

<u>The Prospects for the Second Half of 1959</u>.

Economic developments of the ROK in the second half of 1959 depend largely on unknowns -- the question of when and under what conditions trade may be resumed between Korea and Japan, the psychological and economic impact of the

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expected cutback in aid, and the trend of prices which has an important bearing on the exchange rate problem.. As long as the trade rupture continues, Korean exports will be seriously reduced (substitute markets will be difficult, and in some cases impossible, to find). While imports can undoubtedly be obtained with little difficulty from other countries, prices will generally be higher and uneconomic use will be made of Korean-owned foreign exchange. Unless the ROK Government desists from its efforts to avoid importing ICA-financed commodities from Japan, aid imports may be seriously delayed and the defense support program considerably hamstrung.

From a purely economic standpoint, it should be possible for Korea to absorb a moderate cut in aid, which is expected, without imposing any undue hardship in so far as the availability of goods is concerned. The cutback in DS aid, coupled with declining levels of PL 480 imports, will create, however, a difficult problem of local currency financing of the military and economic programs. This problem will become more apparent during the second half of 1959. The most serious impact of the aid cut might well by psychological, resulting in an increased tendency for commodity speculation and hoarding. Prices, which have recently moved upward somewhat more than seasonally, will, of course, be affected by both the Japan trade question and the impact of the aid cut. The fall rice crop, which presently looks good, will be another important factor. If present trends continue (taking into account seasonal factors) the Seoul wholesale price index for July - December will average roughly 10 to 15 percent above the same period last year.

Other long-term economic problems, particularly the shortage of capital for investment purposes, appear to have no immediate prospects of solution. The foreign investment bill, which has now reposed in the National Assembly for one year without any action taken on it, is scheduled for priority consideration in the fall session. Unfortunately, at the present writing even the opening of the session is being delayed by a renewal of the bitter in-fighting between the Liberal (majority) Party and the opposition Democratic Party.

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For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

Enclosures:

Statistical Tables.

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TABLE I. GROSS NATIONAL PRODUCT OF THE ROK BY INDUSTRIAL ORIGIN 1/
(In Billions of Hwan at Current Market Prices)

	1958 2/ Value Added	%	1959 3/ Value Added	%	1960 3/ Value Added	%
1. Agriculture, Forestry and Fishing	641.1	38.4	639.0	36.3	648.6	35.7
2. Mining and Quarrying	19.2	1.2	23.0	1.3	26.2	1.4
3. Manufacturing	191.8	11.5	206.8	11.8	216.5	11.9
4. Construction	62.1	3.7	68.4	3.9	72.5	4.0
5. Electricity Gas, Water and Sanitary Services	16.9	1.0	18.7	1.1	19.1	1.1
6. Transportation, Storage and Communication	58.9	3.5	65.7	3.7	68.3	3.8
7. Wholesale and Retail Trade	245.5	14.7	258.6	14.7	263.4	14.5
8. Banking, Insurance & Real Estate	22.9	1.4	29.8	1.7	37.3	2.0
9. Ownership of Dwellings	113.2	6.8	117.5	6.6	122.0	6.7
10. Public Administration and Defense	128.6	7.7	151.1	8.6	155.1	8.5
11. Services	155.8	9.3	166.7	9.5	174.3	9.6
12. Rest of the World	14.0	0.8	14.3	0.8	14.4	0.8
Gross National Product	1,670.0	100.0	1,759.6	100.0	1,817.7	100.0
Index 1958=100	100.0		105.4		108.8	
Rate of Increase Over Preceding Year			5.4		3.3	
Per Capita GNP (In Hwan, Rounded)	74,500.0		76,800.0		78,000.0	

1/ Source: Bank of Korea study made in July 1959.
2/ Subject to further revision.
3/ Projection, 1959 calculation based on available statistics for January-May.

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TABLE II. GROSS NATIONAL PRODUCT OF THE ROK BY INDUSTRIAL ORIGIN 1/
(In Billions of Hwan at 1955 Constant Market Prices)

	1958 2/		1959 3/		1960 3/	
	Value Added	%	Value Added	%	Value Added	%
1. Agriculture, Forestry and Fishing	449.9	40.8	466.7	40.6	473.5	40.0
2. Mining and Quarrying	13.5	1.2	15.1	1.3	17.2	1.5
3. Manufacturing	141.8	12.9	149.2	13.0	156.2	13.2
4. Construction	41.3	3.7	43.3	3.7	45.9	3.9
5. Electricity, Gas, Water and Sanitary Services	7.5	0.7	8.2	0.7	8.4	0.7
6. Transportation, Storage and Communication	36.9	3.3	39.5	3.4	41.1	3.5
7. Wholesale and Retail Trade	164.5	14.9	173.2	15.0	176.4	14.9
8. Banking, Insurance & Real Estate	14.0	1.3	18.2	1.6	22.8	1.9
9. Ownership of Dwellings	69.9	6.3	71.3	6.2	72.7	6.1
10. Public Administration and Defense	56.1	5.1	52.6	4.6	52.4	4.4
11. Services	95.3	8.6	99.7	8.7	103.9	8.8
12. Rest of the World	13.2	1.2	13.4	1.2	13.5	1.1
Gross National Product	1,103.9	100.0	1,150.4	100.0	1,184.0	100.0
Index 1958=100	100.0		104.2		107.3	
Rate of Increase over Preceding Year			4.2		2.9	
Per Capita GNP (In Hwan, Rounded)	48,900.0		50,100.0		50,700.0	

1/ Source: Bank of Korea study make in July 1959.
2/ Subject to further revision.
3/ Projection, 1959 calculation based on available statistics for January-May.

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TABLE III. ROK MONEY SUPPLY IN JANUARY-JUNE 1959, DEVELOPMENT BY SECTORS
(In Millions of Hwan) 1/.

	Jan. June	Jan. March	April	May	June
A. Government Budgetary Accounts					
1. General Account	-14,629	-7,723	-2,649	-6,864	2,607
2. Grain Management Account	-21,465	-20,963	- 874	744	- 372
3. Other Budget Accounts	5,972	3,173	2,416	2,541	-2,158
Net Surplus or Deficit (-)	-30,122	-25,513	-1,107	-3,579	77
B. Counterpart and Other Aid Resourses					
1. Collections	48,336	28,105	7,340	7,144	5,747
2. Expenditures, Net	24,047	11,708	4,614	4,491	3,234
3. Military Budget Support	9,783	9,783	-	-	-
Net Surplus or Deficit (-)	14,506	6,614	2,726	2,653	2,513
C. Banking Activities					
1. Bank of Korea	43	40	-	3	-
2. Korean Reconstruction Bank	- 1,248	- 752	275	- 706	- 65
3. Korean Agricultural Bank	505	-3,207	924	1,688	1,100
4. Commercial Banks	7,338	7,008	1,787	-1,034	- 423
Net Surplus or Deficit (-)	6,638	3,089	2,986	- 49	612
D. Foreign Exchange	287	-2,787	-1,573	2,592	2,055
E. Other Factors and for Errors	-5,465	440	-2,315	-1,166	-2,424
F. Total Effect on Money Supply	-14,156	-18,157	717	451	2,833
Expansion (-) or Contraction					
Note: Money Supply					
1. Beginning of Period	192,553	192,553	210,710	209,993	209,542
2. Increase or Decrease	14,156	18,157	- 717	- 451	- 2,833
3. End of Period	206,709	210,710	209,993	209,542	206,709

1/ Source: Combined Economic Board publications.

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TABLE IV. ROK MONEY SUPPLY IN JANUARY-JUNE 1959-CURRENCY VS. DEPOSITS.
(End of Month - in Billions of Hwan)

	Currency		Demand Deposits		Total Money
	Amount	% of Total	Amount	% of Total	Supply
1958 December	111.1	57.7	81.6	42.3	192.6
1959 January	108.0	51.9	100.0	48.1	208.0
" February	111.4	49.9	111.8	50.1	223.2
" March	98.7	46.8	112.0	53.2	210.7
" April	98.5	46.9	111.5	53.1	210.0
" May	96.6	46.1	112.9	53.9	209.5
" June	94.0	45.5	112.7	54.5	206.7

Source: Bank of Korea publications.

Bank Deposits
(End of Month - Billions of Hwan)

	Time[1/]	Demand[1/]	Total
1958 December	19.2	81.5	100.7
1959 January	19.0	100.0	119.0
" February	20.0	111.8	131.8
" March	27.4	112.0	139.4
" April	30.2	111.5	141.7
" May	33.5	112.9	146.4
" June	33.4	112.7	145.1
" July (Preliminary)	33.3	111.4	144.7

Source: Office of USOM Adviser to Bank of Korea.

1/ Slight differences exist between these figures and those in Bank of Korea publications because of different interpretations of what should be included. For example, time deposits in this table exclude - which BOK publications do not - Children's School Savings and National Savings Association deposits since these are "frozen" accounts which may not be withdrawn except under special circumstances.

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TABLE V. ROK Balance of Payments for January - June 1959 1/
(In thousands of U.S. dollars)

Receipts	1959 Jan. - June	1958 Jan. - June
Visible Exports	$ 11,155	$ 7,396
Invisible Exports	138,472	33,627*
Of which: Sales of hwan to UN Forces	(13,911)	N. A.
Sales of goods and services to UN Forces	(16,388)	N. A.
Donations: ICA Aid	(100,732)	*Excluding ICA aid
Religious Inst. Aid	(2,505)	N. A.
Total	149,627	* 41,023
Payments		
Visible Imports	140,634	30,860
Of which: ICA Imports	(99,994)	Excluded
Private Imports	(40,640)	(30,860)
Invisible Imports	8,202	6,104
Of which: Foreign Travel Expanses	(1,979)	(917)
Transportation Costs	(2,039)	(635)
Government (inc.diplomatic) Exp.	(1,183)	(1,421)
Miscellaneous Services	(2,718)	(903)
Total	148,836	* 36,964
Excess of Receipts over Payments	791	4,059

1/ Source: Monthly Foreign Exchange Statistics, June 1959, Bank of Korea.

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27	COM-12	REP-1 FE-4 E-7 ICA-11 IRC-15 W/ASC-3 SCS-1
	REC'D 10-2	INFO OTHER USIA-10 TAR-2 TR-3 FRB-2 XMB-4 IN-7 HEW-2 CAB-6 FAA-5 ARMY-35 NAVY-20 AIR-30 CIA-16 OSD-2 OCB-1

SUBJECT: Weekly Economic Review No. 38.

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6. New Commercial Bank Established in Seoul.
7. NWA Files Returned.
8. Still No Fifth Frequency for NWA from Tokyo to Seoul.
9. Seoul Population Nearing 2,000,000.

1. (UNCLASSIFIED) Typhoon Sarah Wreaks Havoc in Southernmost Korea.

Typhoon Sarah, which struck the southernmost provinces and Cheju-do and other islands the evening of September 17, has now been adjudged by the ROK Government as one of the worst natural calamities in modern Korean history. As reports began to filter in slowly to Seoul from the south over the following week-end, ROK and U. S. Government officials realized that damage and destruction wrought by the typhoon and its aftermath of floods and heavy rains were far higher than initially suspected. On September 21 Ambassador Dowling announced an emergency grant of $10,000 to local American charities for purchase of comforters for the destitute and homeless. U. S. Military officials, particularly those on the spot in the Pusan area, began immediate rescue and emergency relief measures, as did various Korean and American charitable and religious organizations including KAVA (Korea Association of Voluntary Agencies) and the Korean Red Cross. Later in the week the ROK Government and Liberal Party announced agreement to release over 1,600 million hwan from the budget as emergency relief to the storm victims. The ROK Government prepared to submit a request for massive U. S. relief aid to USOM/K as soon as estimates of losses are sufficiently firm.

As of September 24, the Public Works Bureau of the Home Ministry reported 563 dead, 3,268 injured or missing, and an estimated 788,000 homeless or seriously affected by property damage in the wake of the typhoon. While the death total was lower than the 603 announced by the National Police Bureau of the Home Ministry and also from the 663 reported from the Health-Social Affairs Ministry, its estimate of

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87.2 billion hwan in damage was sharply higher than the 66 billion hwan estimate of the Police Bureau.

Damages to farmland extended over about 315,000 acres, mainly concentrated in North and South Kyongsang Provinces. The Ministry of Agriculture and Forestry placed farm losses at 32.3 billion hwang with 12.7 billion hwan damages in North Kyongsang, 11.4 billion in South Kyongsang, 2.8 billion in South Cholla and 2.8 billion in Kangwon-do Provinces. Other loss estimates include 19 billion hwan for buildings, mostly homes, 9 billion for vessels, 9 billion for public works and 13 billion for pier, harbor and fisheries facilities.

Damages to U. S. military sites in the Pusan - Taegu areas are estimated at $900,000, and three ROK Navy ships were temporarily grounded at Chinhae harbor, but in general U. S. and ROK military forces seem to have survived the blow, as far as their persons are concerned, in good shape.

Electric power was out generally at Pusan for some days and for a short time the main Seoul - Pusan rail line was cut by a destroyed bridge. Nearly all land communication lines from Seoul to Pusan were briefly disrupted, according to reports.

(OFFICIAL USE ONLY) Comment: Conflicting reports on the personal losses and property damage are to be expected in a situation of this sort, with a natural tendency of ROK Government estimates to be inflated in the hope of maximizing U. S. aid for relief. There is little doubt, however, that Typhoon Sarah was the worst natural disaster to Korea in perhaps the past 50 years. Previous hopes for another post-war record rice crop in the ROK have probably "gone with the wind" but over-all grain stocks are high and there appears to be no serious basis for worry about the nation-wide food situation. (EWT)

2. (UNCLASSIFIED) Industrial Production Declines Seasonally in July.

The Bank of Korea's industrial production index for July registered 185 (1955 equals 100), a decrease of 3.6 percent from June when the index reached an all-time high of 194. However, the July figure still compared very favorably with the 178 index for July 1958 and the decline this year is attributed largely to seasonal factors.

The manufacturing component of the July 1959 index was 180, down 3.7 percent from the preceding month. Textile production was down 6.8 percent, paper and paper products down 3.3 percent and glass clay and stone products down 6.8 percent. The mining component for July stood at 232, or a decline of 1.3 percent from June. Some of this drop may be due to adverse effects from the ROK-Japan trade suspension effective June 15. Electric power production also declined seasonally in July to an index of 185, down 2.6 percent from the previous month.

(UNCLASSIFIED) Comment: July industrial output compared to that of the same month last year was about 4 percent higher, thus following consistently the trend of the first six months of 1959. (EWT)

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3. (UNCLASSIFIED) BOK Analysis Blames Trade Suspension with Japan for Recent Commodity Price Rises.

On September 21 the Research Department of the Bank of Korea (BOK) released a survey in which it pointed out that the severance of trade relations with Japan on June 15 was the principal cause for recent commodity price increases in the ROK. The BOK survey showed that immediately after the trade rupture the Seoul wholesale price index, which had been comparatively steady during the first five months of the year, began a rise substantially unbroken to date.

The survey revealed that while prices of export goods dropped by 3.8 percent during the period from June 15 to August 15, those of import goods increased by 6.5 percent. Prices of other commodities, with the exception of grain, also rose by 2.5 percent during the period. Some notable price rises during the two months surveyed were those for rayon yarn - 34.8 percent, newsprint - 17.3 percent, and ammonium sulphate - 11.5 percent.

(OFFICIAL USE ONLY) Comment: Other facters, including seasonal ones, have played at least equally important roles in producing recent price rises. The remarkable thing here is that the BOK as an agency of the ROK Government hashad the courage in its survey to pinpoint one of the damaging effects of the ROK-Japan trade suspension. The survey has added fuel to the fire of the increasing number of press and business urgings that the ROK Government "do something" about the trade suspension. (EWT)

4. (UNCLASSIFIED) Chusok Feasting Drives Prices to New Record High.

The Seoul wholesale price index rose again on September 18 to 134.0 (September 1955 equals 100), described as an "all-time high" in some press reports, and up 0.9 percent from the preceding week. During the week grain prices dropped surprisingly by 1.2 percent, but this was countered by rises in prices of fuel - 5.3 percent, meat, eggs and fish - 2.2 percent, building materials - 1.6 percent, and textiles - 0.8 percent.

Since September 18 was the height of the Chusok Moon Festival season the general rise is explained by sharp increases in demand for foodstuffs and consumer goods. In addition to being 134.0 percent of the September 1955 average, the September 18 figure was also 12.4 percent above the index a year ago and 5.3 percent about that of a month ago.

Ministry of Finance authorities also reported that in the week ending September 18 currency in circulation increased 9.8 billion hwan, or $19.6 million at the legal exchange rate.

(UNCLASSIFIED) Comment: While the "all-time high" claim is not susceptible of verification, from a quick perusal of records it does appear that 134.0 is the highest weekly level since September 1955. With the effects of Typhoon Sarah in mind prices may not drop as they traditionally do after passing of the Moon Festival. (EWT)

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5. (UNCLASSIFIED) Korea Petroleum Company Formed.

The Korea Petroleum Company held its first meeting on September 22, 1959 and elected Mr. NAMKUNG Yon as president, according to the Korean Republic. Capitalized at 2.5 billion hwan, the new company's chief objective is to construct an oil refinery in Korea. Approximately half of the 500,000 shares of stock have already been paid for. Namkung is reported to hold 262,000 shares. (See Weekly Economic Review No. 35 for earlier story).

(CONFIDENTIAL) Comment: There are many reports circulating in Korea concerning the new company. One of these is that all the company has thus far is a promise from the Government to make foreign exchange available up to $5 million. There is no indication of an assured source for the additional funds required to build a refinery but the initial $5 million and the legal establishment of the company should make the realization of a refinery easier. General Van Fleet (who is now in Korea) and the Gulf Oil Company play an important role in the rumors. Some reports indicate that through General Van Fleet's assistance, Gulf Oil may be induced to lend or invest in a refinery on condition that it be granted the sole right to supply crude oil to Korea over a long period of time.

The dealers in Korea licensed by the MCI to distribute petroleum under the Korea Oil Storage Company (KOSCO) were reportedly "requested" by the MCI to subscribe to one-third of the stock in the company with the implied threat that failure to do so might result in a cancellation of their licenses as dealers. At least one, and perhaps two, of the 34 licensed dealers have seen fit to take the risk of cancellation and have not subscribed to any stock.

The western Oil Company representatives in KOSCO in the meantime are watching developments closely and wondering what their firms' ultimate fate in Korea may be if the reported negotiations for a refinery prove "successful." (JAC)

6. (UNCLASSIFIED) New Commercial Bank Established in Seoul.

On September 18 the Monetary Board approved the constitution of the new Seoul Bank which will operate with that name in Seoul and with several branch offices in the adjacent Province of Kyonggi-do. The Board approval covered only the establishment of the bank in Seoul, with branch office openings subject to separate later approval.

The bank has a nominal capitalization of 2.0 billion hwan, with 1.0 billion paid in, divided into 200,000 shares of 10,000 hwan each. Of the total shares 36 percent are to be offered to the general public and 64 percent to the sponsors of the bank headed by President LEE Jung Nim of the Korea Cement Manufacturing Co. with 25 percent of the stock. The Seoul office of the bank is scheduled to open early next month, with Mr. YUN Bo Byung, former governor of the Commerical Bank of Korea, named to be the president.

(UNCLASSIFIED) Comment: The threat to the commercial banking "monopoly" of the four "City" Banks of Seoul has now become reality. (HWT)

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7. (OFFICIAL USE ONLY) NWA Files Returned.

After seven formal representations made by the Embassy to Ministry of Foreign Affairs officials, the Ministry of Justice was finally induced to return the NWA files on September 23. (See Weekly Economic Review No. 37).

(OFFICIAL USE ONLY) Comment: Despite the Embassy charges that the seizure was in violation of the Treaty of Friendship, Commerce, and Navigation, the Ministry of Justice continues to claim that the seizure was made in accordance with Korean law. The only admission by that Ministry is that the prosecutor failed to leave a receipt required under the law. There has been no offer by the ROK Government, however, to produce the warrant used for the seizure or provide other evidence to show that the action taken on September 14 was a legal one. In any event, the Northwest Airlines office in Seoul is happy to have the files back and does not believe that any further representations would be useful. (JAC)

8. (OFFICIAL USE ONLY) Still No Fifth Frequency for NWA from Tokyo to Seoul.

The question of a fifth frequency for Northwest Airlines (NWA) was brought to the attention of the Acting Foreign Minister on the morning of September 24 after Embassy protests to other officials in that Ministry and in the Ministry of Transportation failed to produce the desired results. A two page letter in which the ROKG was charged with a violation of the bilateral Air Transport Agreement was left with the Acting Minister. Also noted in the representation made by the Deputy Chief of Mission was the fact that the United States Eighth Army supported five and even more frequencies to handle the large volume of APO mail and priority military cargo as well as the assistance provided by NWA to Korean National Airlines in the latter's flights to Seattle. The Minister promised to give the matter his "earnest consideration."

The Embassy hopes there will be a favorable decision on this question but would not be at all surprised if the Government drags its feet for a long time before it reaches a decision or if there is another denial. (JAC)

9. (UNCLASSIFIED) Seoul Population Nearing 2,000,000.

Mayor YIM of Seoul announced at a press conference that at the end of August the population of the city had reached 1,909,729, up 104,242 from the close of July preceding. Strangely enough, this growth appears not to be so much from natural demographic tendencies but from a drive being made by city officials to require all residents to obtain "citizen" (identification) cards. By the time that the registration drive closes at the end of the current month, Mayor Yim believes that the registered population may have attained the 2,000,000 mark.

The August 31 figure includes 5,635 aliens but excludes members of the armed forces stationed in the city limits.

Mayor Yim contended that the ROK capital city has public utilities and facilities "almost unchanged" since 1945 when its population was only 360,000. He stated that as a consequence municipal policies on traffic, housing, city planning and water

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supply must now be reviewed "for better adaption to the realities."

(OFFICIAL USE ONLY) Comment: The Mayor was obviously trying to make headlines, but it must be admitted that he may have found a novel way to increase population - by enforced registration - and a basis for pleading for a larger city budget. (RWT)

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

FROM : AmEmbassy, SEOUL

154
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

September 28, 1959
DATE

REF : 1957 CERP, Section B, Item II-B, III-B-1, 3, V-E(1), VII-B(1), D(1), III-D-1, I-A-4, 5.

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50 For Dept. Use Only	ACTION COM-12	INFO DEPT.	REP-1 IRC-8 FE-3 ICA-11 E-3 SCS-1 PER-2
	REC'D 10-6	INFO OTHER	CIA-10 TR-3 FRB-3 TAR-2 LAB-5 AG-8 IN-7

SUBJECT: Monthly Economic Indicators, ROK, July 1959.

OSD-4 ARMY-6 NAVY-3 AIR-4 XMB-4 EUSIA-10

	July 1959	June 1959	Percent change a/ Jun-Jul 1959	Jul 58 Jul 59	Sept 55 Jul 59
I. PRICES (A.B.C.: 1947=1)					
A. Wholesale index, Seoul	219.7	219.5	+ 0.1	+ 5.9	+23.9
1. Commodity groups					
a. Grain	206.6	207.9	- 0.6	-13.0	- 2.1
b. Meats, eggs, fish	454.2	449.7	+ 1.0	+25.6	+71.8
c. Textile raw materials	152.8	151.0	+ 1.2	+10.7	+27.4
d. Textiles	70.6	70.9	- 0.5	+ 9.5	+ 0.6
e. Building materials	268.3	262.3	+ 2.3	+12.2	+16.4
f. Fertilizer	539.4	539.4	0	0	+68.6
g. Fuel	564.6	566.1	- 0.3	+36.4	+51.5
h. Miscellaneous	130.6	129.6	+ 0.7	+19.1	+47.5
2. All items except grain	228.2	226.9	+ 0.5	+21.0	+46.5
3. Consumer goods	218.1	218.2	- 0.1	+ 1.4	+20.7
4. Producer goods	187.3	186.5	+ 0.4	+13.5	+25.4
B. Seoul Consumer Price Index (1955=100)					
1. General	150.4	150.7	- 0.2	+ 1.6	+29.5
a. Food	147.2	147.3	- 0.1	- 5.9	+17.1
b. Housing	178.2	178.2	0	+ 8.9	+69.9
c. Fuel & light	153.8	157.1	- 2.1	+27.7	+34.0
d. Clothing	108.7	108.7	0	- 1.9	+ 3.8
e. Miscellaneous	168.1	1681.	0	+ 9.0	+57.1
C. Rice, Retail, Seoul Hwan/20 liters	2,874	2,943	- 2.3	-11.4	- 2.9
D. US $1 Greenback, Seoul	1,396	1,296	+ 7.7	+17.4	+82.5

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	July 1959	June 1959	Percent Change Jun-Jul 1959	Jul 58-Jul 59	Sept 55-Jul 59
E. New National Wholesale Price Index (1955=100)					
1. All commodities	148.8	148.6	+ 0.1	+ 2.6	+24.9
a. Foods	144.2	147.3	- 2.1	- 4.8	+ 9.8
b. Fuel & power	153.1	154.2	- 0.7	+10.4	+39.2
c. Mineral products	113.1	111.8	+ 1.2	+ 6.1	+ 9.6
d. Metals products & machinery	177.0	173.3	+ 2.1	+12.2	+65.1
e. Building: (Including metals)	158.2	154.1	+ 2.7	+11.0	+37.0
Materials: Excluding metals	151.0	147.9	+ 2.1	+10.7	+29.8
f. Fiber and fiber products	125.9	121.9	+ 3.3	+ 1.6	+20.8
g. Chemical products	224.3	219.5	+ 2.2	+ 6.4	+59.4
h. Paper	146.2	143.9	+ 1.6	+19.1	+46.3
i. Raw rubber and rubber products	152.7	154.2	- 1.0	+36.6	+33.5
j. Miscellaneous	165.4	163.6	+ 1.1	+ 9.3	+56.8
2. Special groupings					
a. Grains	140.1	143.0	- 2.0	-12.7	- 4.8
b. All commodities excluding grains	151.7	150.4	+ 0.9	+ 8.4	+38.2
c. Producer goods	174.2	170.0	+ 2.5	+13.1	+48.8
d. Consumer goods	138.5	139.9	- 1.0	- 2.1	+15.5

	Billions of Hwan			Percent change	
	July 1959	June 1959	Jul 58 Jul 59	Jun-Jul 1959	Jul 58-Jul 59
II. MONEY SUPPLY (bil.hwan)					
A. Notes & deposits					
1. Bank notes, outside banks	95.5	94.0	+21.4	+ 1.6	+28.9
2. Check/demand deposits, excl. uncleared	132.3	133.1	+23.9	- 0.6	+22.0
3. Foreign official deposits	20.9	20.4	-12.6	+ 2.5	-37.6
4. Total (1+2-3)	206.9	206.7	+57.9	+ 0.1	+38.9
B. Factors affecting money supply					
1. Government finance b/	114.7	115.8	+45.9	- 1.0	+66.7
2. Private credit (inc.BOK, exc. KRB)	172.2	173.3	+33.8	- 0.6	+24.4
3. Other c/	-80.0	-82.4	-21.8	- 2.9	+37.5
4. Total	206.9	206.7	+57.9	+ 0.1	+38.9

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	June 1959	May 1959	Total Jan-Jun 1959 (Average in case of indexes)	Percent change May-June 1959	Percent change June 58-June 59
III. PRODUCTION					
A. Quantities of output					
1. Cotton yarn (mil.lbs)	9.7	8.8	52.7	+ 9.6	+10.0
2. Cotton cloth (mil.sq.yds)	15.5	13.6	80.6	+14.2	+18.7
3. Cement (1,000 mt)	29.4	31.4	149.0	- 6.4	+11.7
4. Rubber shoes (mil.prs)	3.0	2.3	20.0	+33.5	+107.7
5. Coal (1,000 mt)	320	313r	1,771	- 1.2	+51.7
6. Tungsten (mt)	259	167	1,388	+55.1	- 9.1
7. Electric power (mil,KWH)	141	136	827	+ 3.7	+20.5
B. Production indexes (1955=100)					
1. Industrial production (100)	194	177	163	+ 9.6	+ 7.2
a. Mining (10)	235	214	212	+ 9.8	+29.8
b. Manufacturing (87)	189	172	156	+ 9.9	+ 3.8
c. Electricity (3)	193	186	188	+ 3.8	+20.6

	Jun 1959	May 1959	Total Jan-Jun 1959	Percent Change May-June 1959	Percent Change June 58-June 59
IV. FOREIGN EXCHANGE ($ mil)					
A. Holdings (inc. gold)	146.6	144.8	(+0.1)d/	+ 1.2	+23.8
1. Dollars, US	142.7	140.9	(-0.5)d/	+ 1.3	+23.8
2. Uncommitted	90.5	90.4	(-0.2)d/	+ 0.1	+33.1
B. Receipts	8.9	8.6	49.5	+ 3.5	+41.3
1. Exports	2.1	3.0	11.1	-30.0	+61.5
2. Hwan sales	2.1	1.9	14.0	+10.5	-38.2
3. Other	4.7	3.7	24.6	+27.0	+193.8
C. Payments	7.6	13.5	48.9	-43.7	+90.0
1. Imports (non-aid)	6.7	12.4	39.6	-46.0	+123.3
2. Other	0.9	1.1	8.3	-18.2	-10.0

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By [illegible], NARA, Date 1/6/04

	Program (Adjusted)	May 1959	April 1959	During Dec 56- May 58	Dec 57- May 59	Apr-May 1959
V. ECONOMIC AID ($ mil)						
A. ICA arrivals (US FY basis)						
1. 1954	178.4	177,5	177.1	17.6	2.9	0.4
2. 1955	246.7	240.3	240.2	23.2	8.5	0.1
3. 1956	315.7	293.8	293.7	90.9	18.2	0.1
4. 1957	321.8	281.2	279.8	244.5	81.5	1.4
5. 1958	237.3	188.8	186.3	81.6	182.4	2.5
6. 1959	217.3	78.2	65.8	0	78.2	12.4
7. Total	1,517.2	1,259.8	1,242.9	457.8	371.7	16.9
a. Project	495.0	362.4	358.1	116.8	80.1	4.3
b. Non-project e/	1,000.8	887.1	875.0	336.4	284.3	12.1
(1) Surplus agricultural commodities Sec. 402	203.8	188.0	183.5			4.5
(2) Fertilizer	265.3	253.3	252.7			0.6
(3) Other & unassigned to specific non-project uses	551.7	445.8	438.8			7.0
c. Technical cooperation	21.4	10.3	9.8	4.6	7.3	0.5
d. Reserve	215.8	0	5.5	-	-	-5.5
B. US FY 1959 ICA obligations	217.3	186.8	161.4	-	-	25.4
C. PL 480 arrivals	132.0	127.1	127.1	58.8	48.6	0
1. Food	114.4	109.7	109.7	54.4	48.2	0
2. Other	17.6	17.4	17.4	4.4	0.4	0

Footnotes: a/ Computed in most cases from unrounded figures. b/Includes the Government's net position at the BOK (overdrafts less deposits, including operations of counterpart funds); Government bonds, industrial reconstruction bonds and industrial finance debentures (latter two are KRB issues) held by BOK; BOK loans to Government agencies; national bonds held by banks other than the BOK and KRB; and loans by banks, other than BOK and KRB, to local Governments. c/Includes BOK net purchases of foreign exchange, savings and time deposits (decreasing factors), deposits of foreign organisations in the BOK (decreasing factor), and all other influences on the money supply (net). d/ Change between December of year before and June of year indicated, expressed in $ million. e/Being the change on USOM Program Status Report, the categories on Non-Project also changed, Eventually the comparisons with previous periods on Non-project are not available.

For the Ambassador:

RW Tucker

Robert W. Tucker
First Secretary of Embassy

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NND 867400
By [illegible] NARA, Date 1/6/14

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FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL

168
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

October 2, 1959
DATE

REF : CERP - Korea, Section C, Item 1.

27 For Dept. Use Only	ACTION	DEPT.	Com-12
	REC'D 10-9	INFO OTHER	REP-1 FE-4 E-7 ICA-11 IRC-15 W/MSC-3 L-2 USIA-11 AG-8 LAB-5 FRB-2 TR-3 TAR-2 JNS-1 FAR-5 CAB-6 ARMY-35 NAVY-20 AIR-30 CIA-16 OSD-2 OCB-2

SUBJECT: Weekly Economic Review No. 39.

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2. President Calls for Rice and Laver Exports to Japan.
3. Foreign Private Loans Sought.
4. Wholesale Price Index at Still Another High.
5. Ministry of Justice Directs "Discreet" Investigations of Aliens.
6. Registration of Certain Retail Outlets Contemplated.
7. Smuggling and Proposed Customs Administrative Agreement.
8. 30 Million Hwan Worth of Gold Seized from Smugglers at Sea.
9. Foreign Trade in August.
10. First Hogs to Hong Kong.
11. FKTU Factional Struggle Still Far from Settlement.

1. (UNCLASSIFIED) ROK Submits Request for Special U. S. Aid in Restoration of Typhoon Destruction.

On September 28 the Ministry of Reconstruction sent a formal preliminary request for special U. S. aid in restoring damages resulting from Typhoon Sarah on September 17. The MOR placed the total damages at 86.0 billion hwan. Since the ROK Government estimates that Korea can finance from the government's budget and public contributions only about 4.4 billion hwan, or 5 percent of the total, the balance of 81.6 billion hwan, or $163.2 million, is apparently hoped for as the approximate U. S. contribution for repairs.

About $78 million for necessary imported supplies, domestic materials to a value of 7.8 billion hwan, and 45.5 billion hwan for handling the materials and reconstruction labor wages are described as recovery costs. The MOR envisages the recovery project in three phases: the first - one of emergency relief in which supplies of clothing, tents, foodstuffs and medical supplies will be furnished; the second - one in which measures will be adopted to enable typhoon-stricken people to maintain their livelihood, and the third - a restoration of damaged facilities to the pre-typhoon level.

The second and third phases are estimated to require the purchase of some 108 million board feet of lumber, 307,000 metric tons of cement, 3 million square feet of

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make loans to Koreans on a ROK Government guarantee of repayment. However, certain bank and Government officials are reported to have expressed doubt that the Government could provide guarantees for loans of less than three years unless such authority is contained in a foreign investment law.

Begin OFFICIAL USE ONLY: The Australian Commercial Attache to Japan (presently visiting Korea) informed an Embassy official that the processing arrangement for wool suggested by Minister Song in the press would not be acceptable to Australia. The example used by Song was undoubtedly used as a result of that Attache's conversation with the Minister in which the former was exploring means to increase wool sales to Korea and attempting to determine the climate for foreign investment. Australia is willing to increase purchases ffom Korea to help balance trade between the two countries but woolen textiles would not be one of the commodities. Among the commodities that do present some good potential, according to the Attache, are agar agar, canned crabmeat, gray cotton sheeting, and crystalline graphite. (JAC)

4. (UNCLASSIFIED) Wholesale Price Index at Still Another New High.

After creating a new post-September 1955 record high of 134.0 (September 1955 equals 100) on September 18, the Seoul wholesale price index climbed again on September 25 to 134.6, an increase of 0.4 percent from the preceding week and 10.5 percent above the level of September 26, 1958. The increase was attributed largely to a 0.6 percent rise in the price of grain over the preceding week, although building materials prices and those of textiles and textile raw materials also joined the upward trend (up 2.6, 1.1 and 0.9 percent, respectively). The increased grain prices were attributed by one press source to disruption in transportation due to the typhoon disaster.

According to the Embassy's calculations the Seoul wholesale price index during last July, August and September averaged 128.0, a level which is, after the second and third quarters of 1957, the third highest of any tri-monthly period since establishment of the current 500 hwan to the $1.00 legal exchange rate in August 1955.

(UNCLASSIFIED) Comment: As was hazarded in Weekly Economic Review No. 38, prices did not drop as they traditionally do after the Moon Festival season. It is debatable, however, whether grain prices in Seoul wholesale markets (which are largely supplied from farms in neighboring provinces unaffected by Typhoon Sarah) rose because of direct effects of the typhoon. Perhaps, however, an element of speculation may have affected the markets because of anticipated losses from storm damages.

The new national wholesale price index, although it has shown some individual variations from the Seoul index, reflected substantially the same average price index increases from the September 1955 base during the past calendar quarter. (RWT)

5. (UNCLASSIFIED) Ministry of Justice Directs "Discreet" Investigation of Aliens.

According to the Tong A Ilbo of September 30, Minister of Justice HONG Chin-gi on the same date instructed the prosecutors' office to investigate "discreetly" cases involving aliens, especially Americans. He pointed out that Americans enjoy

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most-favored-nation treatment in accordance with the U.S.-ROK Treaty of Friendship, Commerce and Navigation signed on November 28, 1956.

Officials of the Ministry of Justice explained that the special instructions were given in order to "preclude the possibility of officials of lower echelons undermining the friendly relationship out of ignorance of the spirit of the treaty."

(OFFICIAL USE ONLY) Comment: The Embassy's vigorous protests in the case of the apparently illegal seizure of the files of the Northwest Airlines office in Seoul (see Economic Weekly Reviews 38 and 37) appear to have borne some fruit. This action by the Ministry of Justice in warning the prosectuors' office to treat Americans discreetly and in the "spirit" of the FCN Treaty is probably the closest to an admission of guilt in the NWA files affair that can be obtained. (RWT)

6. (UNCLASSIFIED) Registration of Certain Retail Outlets Contemplated.

As a measure to curb black market and smuggling activities in Korea, the Bureau of Customs is contemplating a registration requirement for retailers of certain commodities. The Director of the Bureau of Customs, in a meeting of the Smuggling Surveillance Committee, expressed deep concern over the increased volume of smuggling from Japan since June 15 when Korea suspended trade with Japan. The registration plan is one which would limit outlets for certain commodities, such as radios, television sets, watches, cameras, bicycles, liquor, and cosmetics to legally registered stores. All other outlets would then be illegal and the police could confiscate such merchandise from those outlets. Moreover, the registered stores would be subject to periodic checks to determine that the commodities were legally acquired. This measure, it is contended, would also make the evasion of import duties and commodity taxes much more difficult.

(UNCLASSIFIED) Comment: Although this plan may have its merits, the Embassy doubts that it would be fully effective since a very large volume of black market activities is conducted not in fixed retail establishments but by free-lancing entrepreneurs who would probably continue to flourish at a more prespereus level under the planned proposal. (JAC)

7. (UNCLASSIFIED) Smuggling and Proposed Customs Administrative Agreement.

In the alleged interest of a greater control over smuggling activities in Korea, ROK Customs Bureau representatives have submitted a proposal to the joint US-ROK Smuggling Surveillance Committee which, if adopted, would give the Koreans jurisdiction over certain activities of the US military forces in this country. Among the proposals were: (1) Permission, upon request, for Customs officials to enter military air bases, APO and military units, and army piers for the purpose of investigations, and (2) the immediate transfer by the US forces to the Korean customs of cases involving offenses against the Customs Law, including the articles seized.

The American representatives on the Committee forestalled any detailed discussion of these proposals and indicated that a study of the suggestions would be made.

(CONFIDENTIAL) Comment: It is abundantly clear that the Koreans, in their failure to achieve the negotiation of a status of forces and administrative agreements

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with the United States at other levels in the past, are now attempting to accomplish a part of their objectives under the guise of smuggling control. It is true, of course, that these proposals would give the Koreans greater scope in controlling smuggling and black market activities but they would also give them a far broader power than is necessary to curb black market activities. Black markets could be minimized if the ROK Government would take sufficiently vigorous police action against the Korean operators. (JAC)

8. (UNCLASSIFIED) 30 Million Hwan Worth of Gold Seized from Smugglers at Sea.

The night of September 30 Pusan customs officials confiscated 30 million hwan ($60,000 at the legal exchange rate) worth of gold from a suspected Korean smuggling vessel near Bijin-do island to the south of Pusan. According to the October 2 edition of the Korea Times, a six-man ring of smugglers was arrested on board a sailboat en-route to Tsushima, a Japanese island in the Korea Strait.

(OFFICIAL USE ONLY) Comment: This was an unusually large seizure of smuggled Korean gold. Local trade circles report that only a small percentage of gold mined in the ROK reaches the hands of the Bank of Korea to which it should be legally sold. The large bulk of the gold is sold on the black market where it commands prices two to three times that offered by the Bank of Korea. (RWT)

9. (UNCLASSIFIED) Foreign Trade in August.

The Bureau of Customs has announced that ROK foreign trade in August 1959 amounted to $21.7 million for all imports and $1.6 million for exports. In addition there were $2.7 million earned in foreign exchange from the sale of Korean [redacted] goods [redacted] to the UN Forces in Korea.

For the first eight months of 1959 total imports of $184.7 million are claimed as compared with $228 million for the corresponding period of 1958. An increase of $19.3 million is claimed for exports in the first eight months of 1959 over the same period for 1958.

(UNCLASSIFIED) Comment: This claim, as reported in the press, is inaccurate. The 1959 figure includes sales to the UN Forces of $15.1 million and the 1958 figure, with which the comparison is made, is limited to actual exports. If sales to the UN Forces are excluded from both sets of figures, the 1959 performance for January through August reflects an increase of approximately $4 million over that for 1958. If the Korean Government's present policy of suspending trade with Japan continues indefinitely, total exports from Korea for the entire year 1959 may not be much greater than the level of $16.7 million achieved in 1958. (JAC)

10. (UNCLASSIFIED) First Hogs to Hong Kong.

The Ministry of Agriculture and Forestry (MAF) has informed the Embassy that on September 21 the first shipment of hogs, weighing about 50 metric tons and valued at $400 a ton, went forward from the ROK to Hong Kong. Another estimated 470 tons are scheduled for shipment to Hong Kong by next November 25.

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Certain trading companies are also reported to be making every effort to explore new export markets for livestock in the Ryukyus.

(UNCLASSIFIED) Comment: If the volume of such exports can be sustained at the rate described for the September through November shipments, livestock sales could prove a fairly important addition to the rather meager list of goods capable of earning foreign exchange for the ROK. (RWT)

11. (UNCLASSIFIED) FKTU Factional Struggle Still Far from Settlement.

The factional dispute now raging within the Korean Labor Movement between KIM Ki-ok, Chairman of the Federation of Korean Trade Unions, and CHONG Tae-ch'on, leader of the opposition faction to FKTU leadership, reamins a touchy problem for the Korean Government. Despite government attempts to bring both sides in accord for the 1960 Presidential Election, neither KIM Ki-ok nor Chong Tae-ch'on appear any closer to a settlement. While newspaper reports indicate that the FKTU would accept the Chong faction back into fold, provided he and his group would accept the current FKTU leadership and their decisions, press reports regarding Chong indicate that he will not compromise his five point demand. Included in Chong's five point demand is the reorganization of the FKTU and the dropping of names of about 120,000 "ghost" members from the list of the FKTU.

Korean press reports state that Chong is continuing his efforts to form the National Council of Trade Unions (NCTU) to rival the FKTU. While there appears to be no government support for another union federation, Chong has named KIM Chung-won, Chairman of the Korean Mining Alliance to head the Preparatory Committee to form the NTCU. The Korea Times on September 24, 1959, reported that the NTCU would be formed on September 25; however, this did not materialize.

(OFFICIAL USE ONLY) Comment: Sources from the Chong camp have stated that they are attempting to gain government support for a second federation but appear pessimistic over the outcome. However they maintain that they will form the NCTU without government support if an agreement can not be worked between the FKTU and the opposition. In view of the FKTU now scheduling their annual convention for October 7 and 8, leaders of the NCTU state that they will bring their organization into existance during October. (WTB)

For the Chargé d'affaires' ad interim:

Robert W. Tucker
Robert W. Tucker
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL

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DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

Action Assigned to
October 8, 1959
DATE

Action Taken

REF : CERP - Korea, Section C, Item 1.

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SUBJECT: Weekly Economic Review No. 40.

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1. (UNCLASSIFIED) Senator Humphrey Creates Resentment with Criticism of U. S. Aid Operations in Korea.

Senator Humphrey's recent statement on "Political and Economic Development in Korea" (reported in a UPI dispatch from Washington datelined October 1) has met strong resentment on the part of the Korean press and Government officialdom. Finance Minister SONG was reported in the press to have promised an official protest if Senator Humphrey's statements are carried in the "minutes of the U. S. Congress."

The Korea Times agrees with the Senator's views concer[illegible] deplorable political situation in Korea and questions whether "the minimum [illegible] for democratic development" exists. It takes issue with him on the economi[illegible]ment of Korea, pointing out that economic strides made thus far should be m[illegible] in terms of Korea's backward and damaged base from which it started. If [illegible]ough progress has been made, the United States is alleged to be partly at fault [illegible] having given greater attention to modernization of industrial facilities in [illegible] stages of the program.

The Tonga Ilbo comments, in part, that although inspection [illegible] have been established by the Ministry of Reconstruction to implement the Foreign [illegible] Resources

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Control Law as a measure to insure the proper use of aid funds, the inspection teams have not been permitted to carry out their intended objectives. There have been many instances, continues the paper, in which the heart of the teams' reports has been cancelled, amended, or otherwise overlooked as a result of political pressure. The article concludes that investigations have become a "boondoggle."

The Korean Republic asserts that the Senator was unfair in his comments, claiming that he does not have full knowledge of the situation. Moreover, the political developments in Korea are matters to be decided by the National Assembly and have no bearing upon aid or other United States relations, according to this pro-Government daily.

(OFFICIAL USE ONLY) Comment: It is clear that Senator Humphrey has not won many friends in Korea among ROK Government officials as a result of his statements. It is also clear that other Koreans who may agree with Senator Humphrey on most scores do not have the opportunity to express their opinions in print. (JAC)

2. (UNCLASSIFIED) A New Record Rice Crop Predicted Despite Typhoon Damage.

On October 5 the Ministry of Agriculture and Forestry (MAF) released its second estimate of the 1959 fall rice crop, setting the total at 17.4 million suks or about 2.5 million metric tons, polished. The harvest will consequently exceed 1958's crop by 4.7 percent and will be 14.9 percent above the annual average for the years 1954-1958.

MAF in making its prediction anticipated a loss of 500,000 to 600,000 suks of rice as a result of Typhoon Sarah's destruction on September 17. Even with this loss, however, the fall rice harvest is expected to set a new post-1945 record by a comfortable margin.

(UNCLASSIFIED) Comment: The record rice crop coupled with a record summer grains harvest of 35.8 million bushels (see Weekly Economic Review No. 27) will assure another large step toward closing the Korean "grain gap". Increased farm productivity in 1958 and 1959 has amply exceeded the net population growth rate of the ROK which various estimates have placed at 1.8 to 2.2 percent annually for recent years. (RWT)

3. (UNCLASSIFIED) Seoul Wholesale Price Index Falls with New Rice Arrivals.

The Seoul wholesale price index (September 1955 equals 100) on October 2 tumbled to 130.7, down sharply by 2.9 percent from the September 25 record high of 134.6 (Weekly Economic Review No. 39 and previous). The arrival of the first new rice from fall harvests in Seoul markets caused the grain component of the index to decline by 9.3 percent in one week. Although meat, eggs and fish prices dropped 0.5 percent as did the miscellaneous category by 0.8 percent during the week, non-grain prices as a whole rose 0.5 percent.

(UNCLASSIFIED) Comment: The traditional annual cycle of prices is being repeated. It will be interesting to observe, however, whether falling grain prices will be effective in countering the rise in prices of non-grain commodities which has been unbroken since mid-July. (RWT)

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4. (UNCLASSIFIED) ROK Government Planning Auction of $10 Million Foreign Exchange.

Finance Minister SONG In-sang announced on October 5 that the ROK Government is planning to sell another $10 million of its foreign exchange holdings (KFX) before the close of 1959 if this should prove necessary in order to prevent domestic prices from rising. Minister Song stated that the actual sale of this KFX will be determined after observing results from auctions of $30 to $50 million of ICA aid-financed consumable goods dollars anticipated before the close of this year.

Minister Song also announced that ROK Government fiscal operations have been so successful in 1959 to date that a 2.1 billion hwan surplus from the year's operations is expected as a carry-over to the 1960 budget. Taxes have reportedly been collected so far at a rate exceeding original estimates by 50 percent. The principal fiscal headache now confronting the Government is what to do about the collection of about 10 billion hwan from the 1958-1959 rice liens program now that rice prices are falling under the impact of the first returns from this fall's harvest.

(UNCLASSIFIED) Comment: If realized, the $10 million sale of KFX would bring the 1959 total to $29.4 million as compared to only $13 million in 1958. (RWT)

5. (UNCLASSIFIED) Why Doesn't Korean Rice Sell?

The promotion of Korean rice exports has become a topic of wide discussion among Government and business officials. This campaign to find markets for the grain was given new vigor by President RHEE's September 29 statement urging action to bring sales to fruition.

The Chosun Ilbo in a recent editorial listed several reasons why rice is not exported. Among the obstacles listed was the fact that Korean rice is too expensive as compared with world market prices, in part the result of high costs of production and in part the result of the unrealistic level at which the legal rate of foreign exchange has been established. The editorial states that the successful export of rice depends upon certain prerequisites. These are (1) a review of the foreign exchange rate, the costs of production, and the management of foreign exchange, (2) the establishment of normal diplomatic relations and the negotiation of a Treaty of Friendship, Commerce and Navigation with Japan, and (3) the adoption of "positive" efforts in light of the declining world market for rice.

(OFFICIAL USE ONLY) Comment: The Embassy agrees that some of the points made by the editorial constitute impediments to the export of Korean rice, but perhaps the most telling impediment is the lack of "positive" efforts by the ROK Government. There may not be any rice exported even after efforts with aggressive salesmanship are made to sell at "reasonable" prices, but unless it is attempted in sincerity, the Koreans may never know. Paying lip service to the desirability of rice sales does not secure customers. (JAC)

6. (UNCLASSIFIED) September Trade Imbalance Widens.

Bank of Korea statistics indicate that the imbalance in Korea's trade for

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September deteriorated further. Total exports were listed at $1.5 million while non-aid financed imports amounted to $8.5 million, a private trade deficit of $7 million. In addition, aid financed imports were reported at $21 million for September.

The increase in private imports was attributed to the auction of $4.9 million of Korean Government owned foreign exchange. The decline in exports was the result of the trade ban with Japan, according to the Bank of Korea. September exports were distributed as follows: Japan - $473,000; United States - $453,000; Hong Kong - $116,000; others - $474,000. (JAC)

7. (UNCLASSIFIED) Ryukyus May Buy Korean Rice.

The press reports Mr. KANG Sung Tai, head of the recently returned Korean "good will" private trade mission to the Ryukyus, as having received a committment from the Ryukyuans to purchase at least 5,000 tons of Korean rice.

(UNCLASSIFIED) Comment: An Embassy check with the Korean Traders Association, of which Mr. Kang is the president, reveals that no specific commitments of any trade were made. What was obtained by the mission group was an expression of the opinion that there was a good possibility that the Ryukyus might buy as much as 5,000 tons from Korea if "agreement" could be reached on terms. Although not certain, the Embassy believes that terms in this case means a reasonable price for rice and arrangement for Korea to buy Ryukyuan products in return. The Ryukyuans plan to send another mission to Korea later this month to explore further increased two-way trade involving rice. If nothing else is accomplished, the interest in the sale of rice will have served to increase travel between Korea and the Ryukyu Islands. (JAC)

8. (UNCLASSIFIED) Protectionism Continues.

A recent petition received by the Ministry of Commerce and Industry calls for a ban against the import of 35 mm motion picture projectors, according to the press. The Won Chang Commercial Company claimed in its petition that Korea's annual production of motion picture projectors has reached the high level of 28 units, already in excess of the estimated demand of 25 units. Consequently there is no need for imports. Another company has recently asked for a ban against the import of margarine and shortening since domestic production is estimated to be in excess of demand by approximately 700 tons.

(OFFICIAL USE ONLY) Comment: The idea of foreign trade with a minimum of restrictions does not seem to have made much progress in Korea. Many producers continue to petition the Korean Government for a ban against imports as a measure of protection from foreign competition. This, of course, is a policy objective of producers in other countries as well, but it appears to be more widespread in Korea, probably because there are more "infant" industries here. The possibility of an increasing demand does not seem to play any role in the arguments. Fortunately, not all of the petitions result in the restrictions sought. (JAC)

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9. (UNCLASSIFIED) Admission Tax Reduction on Motion Pictures Proposed.

The Ministry of Finance is reported in the Korean Republic to have proposed a reduction in the Admission tax on motion picture theaters from the current 115 percent down to 60 percent of the admission price to a theater exhibiting a foreign motion picture. The plan also calls for the imposition of a 20 percent tax on domestically produced motion pictures, which are presently free of the admission tax.

(OFFICIAL USE ONLY) Comment: This suggested change in the admission tax for motion pictures is contained in the recommendations of the Tax Advisory Group (Brookings Institution) to the Ministry of Finance. The Embassy is aware that the American motion picture industry considers the present admission tax to be discriminatory to foreign products. If the recommendations of the Tax Advisory Group are accepted and the proposed bill enacted into law by the National Assembly, the degree of "discrimination" will have been reduced but certainly not eliminated. There is no discrimination against American motion pictures as compared with other foreign motion pictures and the difference in tax between domestic and foreign products is justified by the ROK Government on the basis of promoting the growth of the domestic industry. The difference in tax rates might bear some study in relationship to Article XVI of the U.S. - ROK Treaty of Friendship, Commerce and Navigation. (JAC)

10. (UNCLASSIFIED) Three New Atomic Energy Commissioners Appointed.

The ROK Government announced on October 6 the appointment of Professors KIM Dong-il, YI Chong-paek and PAK Dong-gil to fill the three previously vacant scientist commissioner positions in the five-man ROK Atomic Energy Commission.

Professor Pak, aged 62, received his undergraduate education at the Dohuku Imperial University in Japan in physics and has been a longtime specialist in geology and mineralogy at Seoul National University. He has had a number of consultant positions with the ROK Government. Professor Yi, born in 1905, graduated in electrical engineering from Tokyo Imperial University and has also been a professor for many years in the College of Engineering at Seoul National University. He studied electrical engineering and nuclear physics in the United States from 1954 to 1956. Professor Kim, aged 51, also studied at Tokyo Imperial University but in industrial chemistry as a major. He worked as a research scientist in Japan from 1933 to 1939, then in the same capacity in Korea from 1939 to 1945. In 1945 he was appointed professor in the Engineering College of Seoul National University and has retained that position to date. He visited the United States for five months in 1956.

(UNCLASSIFIED) Comment: With these appointments four of the five slots in the ROK Atomic Energy Commission have now been filled. Chairman KIM Pop-lin now lacks only a Vice Chairman (non-scientist) to complete the Commission created in January of this year. (RWT)

11. (UNCLASSIFIED) Week's Highlights in the Continued Labor Dispute.

On October 5, 1959, two days prior to the Twelfth Annual Convention of the FKTU, the Executive Council of the FKTU held a meeting at which time it was decided to

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reinstate those unions purged at Central Executive Committee's meeting held on July 13, 1959 at Taegu. This in effect would allow all delegates of member unions to participate, and would open the way to resolve the factional dispute on the floor of the Convention. However press reports stated that Mr. CHONG Tae-Ch'on, leader of the opposition faction, issued a statement saying that it was too late for them to reach an accord now and he and his group would boycott the convention. Chong still maintained that his five-item proposal previously made would have to be adopted by the FKTU before he and his group would rejoin the FKTU. Chong said he would not recognize the FKTU's Convention being held on October 7 and 8 and his group would go ahead with their plans to hold a convention on October 26 and 27 to establish the National Council of Trade Unions (NCTU).

(OFFICIAL USE ONLY) Comment: From conversations with leaders of the opposition faction and in view of the above the main reason behind the factional dispute appears to stem from a power struggle in the labor movement. Chong's insistence on dropping names of so called "ghost" members would in effect change the balance of power within the FKTU. The largest number of members in the "ghost" charge involves KIM Ki-ok's free workers union. (WTB)

12. (UNCLASSIFIED) FKTU's Twelfth Annual Convention.

On October 7, 1959 the Initial Session of the FKTU's Twelfth Annual Convention was held in Seoul. The most significant point, in view of the heated dispute now raging, was the tranquility that existed throughout the affair. Out of 581 delegates scheduled to attend 511 were reported in attendance at the opening of the convention. Vice Chairman KANG Tae-pom conducted the morning session at which time the proposed agenda was passed. KIM Ki-ok, FKTU Chairman, delivered the opening address. Kim did not mention the factional rift that has split the labor movement into two factions. Others who delivered addresses were the Minister of Health and Social Affairs SON Ch'ang-Hwan and the Chairman of the Liberal Party's Organization Department, YI Chon-Hwa. Son delivered an address for President RHEE who asked the convention to unite for the welfare of the workers.

Just prior to the closing of the morning session a resolution was passed to fill the vacancies of three posts, i.e. Director, Publicity Department; Director, Regulations Department; and General Secretary. A motion was passed from the floor to allow the Chairman and Vice Chairman to nominate candidates for the vacancies. A secret ballot was cast for the full slate chosen by the Chairman and Vice Chairman with the results as follows: 425 yes, 16 no, 32 invalid, and 10 abstained.

(OFFICIAL USE ONLY) Comment: (A summary of the Convention will follow by despatch). At this writing the most significant happenings were the attendance of 4 delegates of the Seoul Electric Workers' Union who are of the Chong faction; President Rhee's sending two messages asking for unity in the labor movement, and the noticeable absence of any political suggestions from Kim Ki-ok in his remarks to the convention. (WTB)

For the Chargé d'Affaires ad interim:

Robert W. Tucker
Robert W. Tucker
First Secretary of Embassy

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Action Assigned to

FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL — 192 DESP. NO. — Action Taken

TO : THE DEPARTMENT OF STATE, WASHINGTON. — October 16, 1959 DATE

REF : CERP - Korea, Section C, Item 1.

15 For Dept. Use Only	ACTION FE-6	DEPT. PER-2 SCS-2 L-2 IO-2 OIC-1 M-1
	REC'D 10/24	INFO RM/R-2 REP-1 IRC-15 ICA-11 USMSC-3 E-7 EUR-2 OTHER OCB-2 COM-12 AG-8 TAR-2 TR-3 FRB-2 OSIA-10 OSD-2 ARMY-35 NAVY-20 AIR-30 CIA-4 XMB-4 IN-7 JAB-5

SUBJECT: Weekly Economic Review No. 41.

Date of Action
Office Symbol
Name of Officer
Direction to Dept

approved File made 11/6/59 RMD

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14. Four FKTU Delegates to Attend ICFTU Convention in Brussels.
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1. (UNCLASSIFIED) Partial Resumption of Korea-Japan Trade Discussed.

Local newspapers have given wide coverage in the past week to numerous reports concerning the resumption of trade between Korea and Japan. Trade between the two countries was suspended by Korea on June 15 and the suspension was later modified to permit some trade to flow under certain relief measures (Weekly Economic Reviews Nos. 24, 37, and 39).

Korean Ambassador YIU Tai Ha was reported to have stated in Tokyo that an agreement was reached with Japan for a partial resumption of trade between the two areas which would permit the sale by Korea of rice, coal, and laver. Full resumption, he is reported as saying, is possible only if there is improvement in over-all ROK-Japan relations. Other articles indicate that the Japanese are not likely to buy Korean rice in light of the bumper crop in Japan, although purchases of coal may

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be made from Korea.

(OFFICIAL USE ONLY) Comment: There have been no definitive statements from Korean Government officials to confirm that there has been agreement with the Japanese to lift the trade ban, even partially. It seems clear, however, from newspaper accounts and from some conversations with ROK officials that a serious attempt is being made by the Koreans, through Ambassador Yiu, to find a market in Japan for Korean rice, particularly as a measure to prevent further declines in the domestic price of the grain. Japan, on the other hand, is interested in Korean anthracite coal but not in rice.

A Ministry of Commerce and Industry officer has informed the Embassy that there is no official decision on the resumption of trade and that the sale of rice, coal, and laver would be considered on an ad hoc basis independently of any relationship to the general trade ban. The Embassy seriously doubts that Japan will commit itself to buy 100,000 tons of rice (the figure mentioned in several press reports) from Korea but there is a chance that Japan may buy a token amount as a gesture of good will (if the price is right). If Korea does succeed in selling rice, it will undoubtedly be more the result of political and diplomatic rather than commercial considerations.

The British Embassy Commercial Officer in Korea informally expressed to an Embassy officer some concern over the possibility that the ban would be lifted. He indicated that Great Britain and West Germany had increased sales to Korea as a result of Japan's exclusion as a supplier. (JAC)

2. (UNCLASSIFIED) Grain Prices Fall Again but Other Commodities Continue Rise.

The Seoul wholesale price index declined on October 9 for the second consecutive week to 129.6 (September 1955 equals 100), down 0.9 percent from October 2. Last week the grain component of the index fell another 5.3 percent and the wholesale price of rice dropped to 22,500 hwan per suk (160 kg.) during the period October 10-13, the lowest Seoul quotation in the past two years, as the new record fall crop continued to flow into Korean markets.

At the same time prices for non-grain commodities continued a rise uninterrupted since mid-July to an index figure on October 9 of 167.1, 1.2 percent above the preceding week and 15.3 percent above a year ago. Leading factors in the week's price increases were building materials (up 6.2 percent), textiles and textile raw materials (both up 2.6 percent) and fuel (up 1.5 percent). As a result of rising non-grain prices the general index is falling at a rate much less precipitous than that experienced in October of 1958 and 1957.

(CONFIDENTIAL) Comment: In a recent conversation with an Embassy officer Finance Minister SONG In-sang noted this development and indicated that the general index is being held up by rising prices of building materials and that "damned fool" firewood (a major fuel component). Minister Song predicted that during the last

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half of 1959 the Seoul wholesale index would average 126 and 127 and inquired how this would affect the legal exchange rate under the exisiting U.S. - ROK agreement. He was informed that, at a minimum, this would result in January 1960 in an automatic devaluation of the hwan by 26 or 27 percent to a new legal unitary rate of 630 or 635 hwan to the $1.00 U. S. (This would still be far below an acceptably realistic rate to most U. S. observers in the ROK). (RWT)

3. (UNCLASSIFIED) Eighth U. S. Army Moves to Convert Direct Hire Korean Employees to Contract Hire.

With a scare-headline entitled "Some 600 Koreans Employed by U. S. Army to Be Left Jobless Soon" the October 11 edition of the Korea Times continued to say that the present security guards employed by the Eighth U. S. Army (EUSA) will be dismissed in mid-November when EUSA will award a contract to a private firm to supply these guards. Reportedly about 600 Korean employees would be left jobless in the Seoul, Inchon and other areas. Five Korean firms and one U. S. firm were reported to be bidding for the contract. EUSA officials were quoted as saying the move was made "for administrative convenience and efficiency." They also indicated that the dismissed guards would be eligible for rehire by the contractor and that "experience has shown" that qualified personnel are likely to be rehired.

A front-page news story in the October 12 issue of Dong A Ilbo incorrectly interpreted this move by EUSA as a measure aimed at eventual payment of all Korean employees of U. S. armed forces in dollars, pointing out that this would not only jeopardize the claimed supply of $3 to $4 million per month paid to the ROK Government to obtain hwan for salaries but would also threaten the maintenance of the official 500 to 1 exchange rate.

The Chosun Ilbo of October 13, however, took an entirely different tack, justifying the EUSA move as an effort to regain the "real value" of its dollars in view of the unrealistic legal rate. The daily argued that the institution of such devices as "mission dollars" (special rates to foreign missionaries) and "USAPAK dollars" (higher rates already allowed U. S. Army Procurement Agency Korea for payment to legal dollar accounts in the Bank of Korea of Korean firms supplying services and goods under contract) served to emphasize the fact that EUSA is "suffering a loss" in buying hwan at the legal rate to pay its Korean employees.

(CONFIDENTIAL) Comment: Chosun Ilbo hit the mark. EUSA has long objected to the severe penalty imposed by the necessity of buying hwan at 500 to 1 to pay for Korean employees' wages when various legal transfer rates of import dollars underline the overvaluation of the hwan at the legal unitary rate. Currently EUSA is considering the contract hire of something less than 2000 security guards, laundry service workers, and repair and upkeep employees who are now on direct hire. This device would merely extend the scope of the USAPAK dollar authorization and is frankly intended to circumvent the unrealistic exchange rate. An alternative approach, but one which is less likely to be approved by the ROKG, is a preferential exchange rate to cover direct hire personnel. (The contract hire device is not considered as desirable as the preferential rate technique but it would provide a means of stretching limited dollar resources). (RWT)

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4. (UNCLASSIFIED) 1960 Budget Bill under Debate in National Assembly.

The long-stalemated fall session of the National Assembly finally got back to work this week and on October 15 Finance Minister SONG In-sang presented the 417.2 billion hwan budget bill for FY (CY) 1960 to the Assemblymen. From press reports the details appear effectively unchanged from those reported in Weekly Economic Review No. 37. Defense expenditures are still set at 148.7 billion hwan or 35.7 percent of the entire budget.

(CONFIDENTIAL) Comment: Press reports indicate that defense budget support from MSA and PL 480-generated counterpart aid funds is still calculated at 53 billion hwan, although ROK Government officials have been privately informed that the U. S. aid contribution for this purpose would be reduced to 50 billion hwan this year. (RWT)

5. (UNCLASSIFIED) Foreign Exchange Tax Receipts through September Exceed Entire 1959 Budget Anticipation.

The Tax Bureau of the Ministry of Finance on October 12 announced to the commercial press that foreign exchange taxes collected in September brought the total collected in the first nine months of 1959 to 36.5 billion hwan - 17.5 billion from the fixed minimum tax (150 hwan to the $1.00 U.S.), and 19.0 billion in taxes from bids in excess of the minimum for import dollars. This is 1.7 billion hwan more than the 34.8 billion anticipated as receipts from this source in the entire fiscal (also calendar) year 1959 budget of the ROK Government.

The weighted average tax rate was 314 hwan per $1.00 (150 hwan fixed minimum tax plus 164 hwan "bidding" tax).

(UNCLASSIFIED) Comment: This weighted average would place the exchange value of hwan for all ICA and Korean foreign exchange (KFX) imports of saleables during January - September 1959 at 814 hwan to the $1.00. However, this figure is weighted down by considerable purchases of such "unpopular" or staple items as raw cotton and wheat which for various reasons bidders are able to obtain in general by payment of only the minimum foreign exchange tax. Note that the last August 28 auction of $5.4 million in KFX (see Weekly Economic Review No. 35) resulted in a weighted average bid of 1,143 hwan to the $1.00. (RWT)

6. (UNCLASSIFIED) Daihan Heavy Industry Corp. Asks $5 Million in ICA Funds for Imports of Scrap, Ingots and Billets.

The commercial press of October 14 indicates that the Daihan Heavy Industry Corp. of Inchon (the ROK's only steel mill of consequence) has requested the Ministry of Commerce and Industry to arrange for the corporation to import $3.5 million worth of steel ingots and billets with ICA funds. According to the corporation 105,000 tons of these commodities are required annually in the ROK, of which 70,000 tons will be met from its own steel output and the balance of 35,000 tons is to be imported. The ingots and billets are to be processed in the corporation's new rolling mill scheduled to commence operations next month.

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Another report indicates that Daihan is also requesting $1.5 million in FY 1960 ICA funds for the procurement of 30,000 tons of scrap iron for its blast furnace.

(CONFIDENTIAL) Comment: The request for these items from ICA consumeables funds will undergo some rough sledding, since USOM officials originally opposed the creation of Daihan (built with ROK Government funds and foreign exchange) as uneconomical and still has doubts as to the economy of its production. The need to import scrap iron seems dubious, particularly with the signing on October 1 last of the U.S. - ROK Excess Property Disposal Agreement which gives the ROK Government priority rights in the purchase of large quantities of ferrous scrap from Eighth U. S. Army salvage depots. Other supplies of scrap in ROK Army possession and in commercial yards are also known to be considerable. One possible explanation for this desire to use ICA aid dollars to import scrap is that Daihan may be attempting to take advantage of the unrealistic legal exchange rate to secure what amounts to a subsidy of its operations, instead of buying at higher hwan prices on the domestic market. (RWT)

7. (UNCLASSIFIED) Relaxation of Import Restrictions Studied.

The Ministry of Commerce and Industry is reportedly studying the advisability of removing import restrictions on certain commodities, the local prices of which registered considerable increases. The commodities of particular concern to the ROK Government include galvanized iron sheets and wire, steel angles, ceramin tiles, lavatory porcelainware, sheet glass, asphalt tiles and woodfree printing paper.

Most, if not all, of these commodities are permitted import under the current trade program but their import is restricted by the Government with the result that only limited quantities are licensed. A removal of the existing restrictions, it is argued, would permit freer import and help to effect lower domestic prices. (JAC)

8. (UNCLASSIFIED) Customs Capers - or a Bull in a China Shop.

Customs examiners at Kimpo Airport have been severely criticized in newspaper editorials for the "rude and thoughtless" treatment given to a group of Chinese ballerinas leaving Korea this week after a 28-day cultural mission in this country. The Hankuk Ilbo of October 15 stated that the customs officials arbitrarily confiscated the foreign exchange held by the ballerinas and searched their "bodies" prior to their leaving the airport en route to Taiwan, although the officials had allowed them to retain it as "a friendly gesture" upon their arrival. The paper demanded that the authorities should punish and dismiss the officials involved and the Foreign Ministry should send an apology to the Chinese to recover some of the prestige Korea lost in the shabby treatment of friendly foreigners.

The Yonhap Sinmun of the same date deplored the conduct of the officials that caused the ballerinas to leave Korea in tears and without pocket money. It considered preposterous a situation in which the Government is struggling to build up tourism to Korea while "low" customs officials are at the same time working in the direction of discouraging travel to Korea.

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(OFFICIAL USE ONLY) Comment: The Embassy has been informed that the money which was seized from the dancers as a result of a "mistake" on the part of the customs officials is being returned to them through the Chinese Embassy at Seoul. It appears that the reputed arrogance of their Japanese mentors may have rubbed off on some of the ROK customs people. (JAC)

9. (UNCLASSIFIED) New Rice Lien Program Proposed as ROKG Purchases Unredeemed Rice under Old Program.

The State Council on October 13 authorized the ROK Government to receive 12 billion hwan in "permanent overdrafts" from the Bank of Korea to finance the purchase of 512,000 suk (73,143 metric tons) of rice still held by the Korean Agriculture Bank under the rice liens program of last fall. An average of 23,407 hwan will be paid for each suk to cover the original loan value of 20,000 hwan to farmers plus accumulated interest, warehousing fees, insurance costs, etc. Last fall's program resulted in the collection of 1,458,000 suk of rice as security for loans but borrowing farmers have redeemed only 946,000 suk. With the current drop in rice prices as the new fall crop reaches the markets there is little likelihood that farmers will redeem the balance.

According to the Seoul Sinmun of October 13, Minister of Agriculture and Forestry YI announced that a new plan has been agreed upon by ROK Government agencies concerned to grant loans on the security of rice from the new crop at the same rate of 20,000 hwan per suk for a total of 1.5 million suks. This proposal must go before the Combined Economic Board (CEB) for approval since counterpart funds will be involved.

(OFFICIAL USE ONLY) Comment: The "permanent overdraft" of 12 billion hwan should have an inflationary effect upon the ROK money supply until such time as the Government may be able to sell off acquired rice. Last year USOM representatives endeavored to establish the liens program at 18,000 hwan per suk but finally yielded to the ROK insistence for 20,000. The folly of using the rice liens program (primarily intended to bail out Korean farmers from the hands of usurers) as a price-support device having been fairly conclusively proven, USOM officials are expected to insist that the new program set a loan limit of about 16,000 hwan per suk. (RWT)

10. (UNCLASSIFIED) Delegates to Rome Conference of FAO Named.

On October 13 the ROK Government announced the names of its delegates to be sent to the Tenth Conference of the Food and Agriculture Organization at Rome from October 31 to November 21.

Senior delegate will be ROK Ambassador to Rome KIM Yong-gi (6855/2657/1505) who will have as a special consultant National Assemblyman WON Yong-sok (0337/1369/1163). Alternate delegates named are Mr. CHONG Nam-gyu (6774/0589/0964), President of the Korean Agricultural Institute and Mr. HONG Song-uk (3163/5110/6735), First Secretary at the ROK Embassy in Rome.

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the National Council of Trade Unions (NCTU) movement and that he and the Seoul Electric Workers' Union would remain with the Federation of Korean Trade Unions (FKTU). This announcement came after many months of discord between Chong and KIM Ki-ok, Chairman of the FKTU, over alleged irregularities in FKTU operations. Chong had been the leading proponent for the establishment of NCTU to rival the FKTU.

(OFFICIAL USE ONLY) Comment: The decision of Chong to rejoin the FKTU came as no surprise since the government has expressed desires that there be unity in the labor movement under the flag of the FKTU. This turn of events seemingly leaves the NCTU movement without the services of a strong personality to give impetus in creating rival union organization. (WTB)

14. (OFFICIAL USE ONLY) Four FKTU Delegates to Attend ICFTU Convention in Brussels.

According to an embassy contact the FKTU is making plans for four delegates to attend the International Convention of the ICFTU to be held in Brussels during mid-December 1959. Those tentatively scheduled to go are KWAK Myong-tok, attorney-at-law and legal advisor of the FKTU, who will act as the delegation interpreter; SONG Chu-kap, Vice Chairman of the FKTU and Chairman of Kyongsang Namdo district unions; KIM Sa-uk, Vice Chairman of the FKTU and Chairman of the Alliance of Marine Workers' Unions; and, KIM Su-yong, Vice Chairman of the FKTU and Chairman of the Alliance of Textile Workers' Unions.

15. (UNCLASSIFIED) Wage Dispute in Korea's Coal Industry.

According to the Hanguk Ilbo of October 11 the labor union of the Korea (Daehan) Coal Corporation is reportedly making plans to strike. This announcement came after negotiations between union and company officials failed to reach an agreement. If the union goes ahead with its plans to strike it will affect some 8,000 coal workers and could present a fuel crisis in Korea with the onset of winter approaching. The union demands a 50% wage-hike; however, the Korea Coal Corporation has stated that any wage hike will be impossible unless the present legally-fixed price of anthracite is raised. The union originally made its demands to management in April 1959 and management representatives agreed to study the request. In August management rejected the demand, whereupon the union filed the dispute with the Minister of Public Health and Social Affairs in accordance with the Labor Dispute Act. In early September the Minister summoned representatives of both sides for a hearing and on 28 September presented a compromise suggesting that the union suspend its demand until the new budget is passed by the National Assembly authorizing an increase in the price of coal. The union rejected the suggestion on the grounds that no increase was necessary in the price of coal, since the Korea Coal Corporation had excess funds to increase labor wages. The Korea Coal Corporation on October 12, 1959 gave five reasons for rejecting the workers' demand:

1. The actual average income of the corporation's workers averaged 43,000 hwan a month during the first half of 1959, 43% over that of 1957.

2. The Bank of Korea price index shows little change in commodity prices from 1957 to the present.

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3. The employees of the corporation have been paid 92% more than the average workers of the nation.

4. The corporation has paid an average of 12% of its employees wages to a retirement fund on a separate basis.

5. The corporation is doing its utmost to improve the treatment of its workers by estimating the funds for an eight-year welfare and sanitary project at 200,000,000 hwan.

According to press reports the coal corporation set the labor cost at 2,926 hwan per ton two years ago on the premise of producing 1,400,000 tons of coal a year with 10,118 employees. This year, it plans to produce 2,000,000 tons of coal, while reducing the number of employees to slightly over 8,000. The labor cost per ton will thus be less than in the estimate made by the National Assembly two and a half years ago. The money saved should be sufficient to warrant some increase.

(OFFICIAL USE ONLY) Comment: While 99% of the members of the coal union voted on October 7, 1959 to strike, it appears doubtful that the government will allow a strike at this time. At the Government's disposal, under Article 4 of the Labor Dispute Act, is the provision authorizing the Government to "designate those works as a public utility within a term of one year which, discontinuation thereof may seriously endanger the national economy or threaten the daily life of the public." The coal mining union also has no support from the FKTU, which very probably stems from the fact that the mining union has been supporting the projected National Council of Trade Unions. (WTB)

For the Chargé d'Affaires ad interim:

Robert W. Tucker
Robert W. Tucker
First Secretary of Embassy

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1. (UNCLASSIFIED) Announcement of "Buy American" Policy by DLF Arouses Speculation.

An October 21 AP despatch from Washington quoted Vance BRAND, Managing Director of the Development Loan Fund, as stating that the DLF would henceforth place "primary emphasis on the financing of goods and services of U. S. origin." The Korean press has widely commented and editorialized on Mr. Brand's statement, generally sympathetically but with expressed fear that the new policy meant a requirement for repaying DLF loans in dollars. Minister of Reconstruction SIN Hyon-hwak was quoted to this effect as he emphasized that with declining ICA developmental aid the ROK must turn increasingly to DLF for assistance. He pointed out that the chronically deficit balance of payments position of the ROK prohibited repayment of DLF loans in dollars and urged that the U. S. reconsider this new policy.

As a result of this wide misunderstanding of the DLF decision, on October 22 the USOM released an announcement through USIS that "the new DLF policy does not affect the manner or terms of payment, nor other conditions of the loans." The announcement also stressed that the DLF policy would not alter the U. S. position as far as ICA grant aid is concerned. Such aid funds would continue to be used to buy from other countries of the Free World.

(OFFICIAL USE ONLY) Comment: Press and ROK Government reaction seemed unduly favorable to the U. S. balance of payments justification for the "Buy American"

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decision of DLF. In a sense this might be considered a desirable move in supporting ROK Government policy aimed at reducing dependence on trade with neighboring Japan. At any rate the general Korean reaction appears to acquiescence with, if not support of, the new DLF policy as long as the ROK can repay DLF loans in hwan. (RWT)

2. (UNCLASSIFIED) ROKG Revised Estimate of Typhoon Sarah Damages.

On October 15 the Ministry of Reconstruction submitted to the USOM a revised estimate of Typhoon Sarah damages, requirements for restoration and ROK Government allocations for relief and rehabilitation. Total damages have been revised upward from the September 28 preliminary estimate (see Weekly Economic Review No. 39) by 18.9 billion hwan to 104.9 billion hwan, or $209.8 million at the legal exchange rate. Local currency requirements for restoration have been reduced to 34.5 billion hwan (previously 45.5 billion) while the estimate of materials available from domestic sources has been nearly doubled to 15.2 billion hwan (previously 7.8 billion). Total costs for restoration would thus be 49.7 billion hwan or $99.4 million.

The MOR also indicated that a total of 12.1 billion hwan would be "released immediately" by the ROKG for emergency relief and rehabilitation purposes from these sources (all in billions of hwan): governmental financial obligations - 2.0; advance allocation and adjustment of the current budget - 1.9; special budget account contingency funds - 1.23 and transportation account - 0.24; ROK relief fund (charity) collections - 1.5; provincial government budget releases - 0.1; "a world wide campaign for donations and relief goods" - amount unspecified.

(OFFICIAL USE ONLY) Comment: Since the figures mentioned in the preceding paragraph add up to about 7.0 billion hwan, the world-wide charity campaign is apparently expected to raise 5.1 billion hwan. This is hardly likely to be available for "immediate release", if in fact the charity drive can attain 5.1 billion hwan. In the October 15 estimate no figure was furnished as to dollar or foreign exchange requirements for imports, but commodity needs were listed by quantity. (RWT)

3. (UNCLASSIFIED) Typhoon Relief Measures Proposed by USOM.

USOM submitted to CEB a proposed program for relief and rehabilitation in the areas affected by Typhoon Sarah. After ROK concurrence aspects of the program which involve U. S. aid funds will be submitted to ICA/W. The USOM recommendations, which contemplate utilization of $5.5 million and Hw 6.5 billion, are as follows:

1. Make dollar funds available through savings from prior-years projects, totaling $4,890,985, and another $661,000 in non-project funds left over from closed-out Project Agreements.

2. Make counterpart available by shifting U.S. aid construction projects from other areas to replace similar facilities destroyed by the storm (estimated Hw 6.5 billion could be made available).

3. Release commodities now in warehouses awaiting program use.

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4. Examine other aid projects to determine whether more funds could be shifted to the disaster area; consider postponing the financing of FY 1960 funds for regular projects to get more money, and consider shifting more programmed projects to the typhoon area from elsewhere in the country.

5. The ROK Government consider setting up a Typhoon Damage Relief and Reconstruction Coordinating Authority for review and coordination of all operations.

6. The functions of the CEB Coastal Area Rehabilitation Work Group be enlarged to help with over-all planning and allocation of funds for typhoon reconstruction. (EG)

4. (UNCLASSIFIED) Eighth Army Adopts New Anti-Black Market Measures.

The United States Eighth Army issued directives on October 15 which limited dependent support in the ROK to medical care and schooling for those dependents which were not authorized by orders to accompany their sponsors and for those dependents acquired in Korea. The net effect of these directives was to eliminate the privilege formerly extended to Korean wives of servicemen, unaccompanied by their husbands, to utilize the facilities of the post exchanges. Such wives (or dependents) are at the same time forbidden to enter the women's departments in the PX's.

Another measure taken by the U. S. Armed Forces in Korea, which does not appear to be covered by a formal directive, is the requirement that allotment checks for Korean wives and dependents be cashed at the Finance Office of the military post for hwan at the official rate of 500 hwan to US$1. In the past when these Korean wives refused to have their checks cashed at the military facilities, the checks themselves were released to the wives.

(OFFICIAL USE ONLY) Comment: These measures recently taken by the U. S. Armed Forces should go a long way in cutting back the volume of black market activities stemming from PX operations and foreign exchange transactions. It is generally recognized that PX supplies constitute a major source of black market stocks, many of which are illegally sold by Korean wives of servicemen, as well as by UN troops. Some 300 Korean wives, according to a press report emanating from the Korean police, are planning to stage a demonstration in protest to the newly imposed restrictions. The report indicates that the Koreans will demand treatment equal to that granted American wives. As the Embassy understands the directive, however, there is no discrimination against Koreans as such, particularly since some American wives are also affected by the regulations. Moreover, these wives may still visit the PX's if they are accompanied by their servicemen husbands (who may buy for them). A representative group of the wives filed a formal appeal with the Embassy on October 22 seeking allotment payments in dollars, continued use of the PX, and elimination of "racial discrimination". An Embassy officer informed them that this was a question of U.S. military regulations which should be handled by the military. Arrangements were made for them to present their case to the Eighth Army Inspector General.

These moves by the U. S. military authorities were not only thoroughly justified but long overdue. It has been a matter of public knowledge that many of the Korean

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wives of U. S. servicemen have been flagrantly violating ROK customs and foreign exchange laws and regulations. (JAC)

5. (UNCLASSIFIED) Daihan Paper Mill Ordered to Produce Newsprint.

The Daihan Paper Manufacturing Company, which received ICA project assistance for the manufacture of newsprint, recently received criticism from other business concerns for its production of woodfree printing paper rather than newsprint. This practice, according to the press, is in violation of the Law of Control for Foreign Aid Resources in that the company was using the assistance granted for purposes other than intended. Woodfree printing paper is reported to be a much more profitable item than newsprint and the MCI expressed concern that other paper companies would shift to its production if Daihan was not asked to stop. The Ministry of Reconstruction is expected to instruct the Daihan Company that it must cease the production of woodfree printing paper and must produce newsprint instead. (JAC)

6. (UNCLASSIFIED) Import Limits on Eight Items Lifted.

The Ministry of Commerce and Industry (MCI) lifted restrictions on eight import commodities on October 15 in a measure to preclude further domestic price increases on those commodities and to permit a freer flow of imports to meet the urgent reconstruction needs brought about by the damages resulting from Typhoon Sarah on September 17 (Weekly Economic Review No. 41). The commodities had been included in the trade program for the second half of 1959 but permitted imports were small in volume. The MCI, after meetings with other economic ministries, relaxed restrictions on galvanized iron sheets, special sanitary ware (flush water systems), asphalt and ceramic tiles, flat glass (both special and ordinary), cement, and steel angles. Unannounced quotas were placed on all items except the sanitary ware and ceramic tiles. In less than four days applications for import licenses exceeded the quota established for some of the items, particularly steel angles. On October 19, the MCI announced that quotas on all of the specified items were removed.

(OFFICIAL USE ONLY) Comment: The MCI has informed the Embassy that the press reports on the relaxations are accurate but that import licenses are still required. Consideration is also being given to the removal of restrictions on other items which have increased in price by 20% or more in recent months and which are deemed essential for the rehabilitation of facilities destroyed by the typhoon. Among those under consideration and their price (percentage) increases are as follows (as reported in the press): cotton yarn, 54.9; plywood, 41.1; woodfree printing paper, 30; staple fiber yarn, 40.9; nylon yarn, 28.8; rayon yarn, 40.3; galvaniged wire, 27.8.

It is not likely that restrictions will be removed on all of these and other items, especially if the protectionistic elements in Korea can prevent it. The concern of the Government, however, over the present level of the wholesale price index and its relationship to the foreign exchange rate agreement will probably result in some further relaxations on imports. (JAC)

7. (UNCLASSIFIED) MCI Expects Better Export Volume in 1959.

The Ministry of Commerce and Industry is reported in the press to expect a higher volume of exports for 1959 than in 1958, despite the suspension of trade with

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By [illegible], NARA, Date 4/6/89

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Japan. According to preliminary figures, exports for the first nine months of this year are in the magnitude of $16.6 million, approximately the same volume for the entire year of 1958 using comparable MCI statistics. This improvement has been registered, MCI believes, as a result of increased or new sales of cotton cloth, plywood, flat glass, rice, red beans, live pigs and the establishment of export promotion devices.

Although exports to Japan have declined sharply in the third quarter to $2.6 million as compared to $5.1 million in the preceding quarter, the slack has been more than offset by increased shipments to the United States, Hong Kong, and the Ryukyus.

(UNCLASSIFIED) Comment: The exports to Japan since the suspension of trade with that country on June 15 this year have taken place under the relief measures adopted by Korea to permit the completion of contracts and commitments concluded on or before that date. (See Weekly Economic Review No. 26). Exports from Korea may register additional increases if some of the export promotion schemes being studied by the Export Promotion Committee are adopted and put into effect. Among the measures under study are (1) the establishment of a foreign exchange retention system for use in export promotion activities abroad, (2) exemptions from taxation on export earnings, (3) more extensive participation in trade fairs and exhibitions without restrictive Government control, and (4) a simplification of export procedures. (JAC)

8. (UNCLASSIFIED) Laver Sale to Japan.

According to a press report emanating from the Ministry of Commerce and Industry the ROK Mission in Japan has announced that some 793,000 bundles of laver exported to Japan previously have been sold in two lots at a net price of $1.24, after deducting various expenses from the gross price of $1.55 per bundle. The entire quantity has been sold to Mitsui Bussan Kaisha through one of its purchasing agencies. It took some four months to sell the laver which was shipped to Japan during April and May of this year. The sales were concluded through a written contract.

(OFFICIAL USE ONLY) Comment: Presumably the sale of the laver was not affected by the June 15 decision of the ROK Government to suspend trade with Japan because the laver was shipped prior to the suspension date. The MCI has verified the correctness of the press report to the Embassy. Apparently money - even of the Japanese variety - has no odor in the ROK. (RWT)

9. (UNCLASSIFIED) Customs Duties Exemptions.

The Ministry of Finance issued two ordinances and one public notice on October 20 which spell out in broad terms conditions under which certain raw materials, machinery, and equipment may be imported into Korea free of customs duty. Although a full English translation of these new provisions is not available as yet, it is reported that among the provisions is the duty exemption on imports of raw materials for the manufacture of export goods.

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(UNCLASSIFIED) Comment: This action is probably one which the Ministry has taken as a result of the "drive" to promote exports. The subject has been discussed by the Export Promotion Committee and the ROK Government appears to have incorporated it in its revisions without waiting for a formal proposal from the Committee. (JAC)

10. (UNCLASSIFIED) 51 Employees Dismissed for Formation of Trade Union.

The Tong A Ilbo recently reported that the Kongsong Flour Company of Seoul allegedly dismissed 51 of their employees for organizing a trade union. The company had a total of 103 employees before the dismissal which supposedly took place in late September. According to the newspaper more than 70 of the employees joined in the organization of the union on June 23, 1959 and registered with proper government officials. A certificate was obtained authorizing the organization. The newspaper stated that in spite of this, the employees were released en masse. Early in the week the workers filed a petition to the authorities in the Labor Bureau of the Ministry of Health and Social Affairs who are now supposedly investigating the charges.

(OFFICIAL USE ONLY) Comment: When YI Chong-su, Director of the Labor Bureau, was contacted by the Embassy he said he knew very little of the case. He admitted that a petition was received but has not been acted on as yet. According to members of the Union, the flour company maintains the release was an economic reduction in forces. However the Union states that all those released were union men of the flour millers Seoul Area Union. After the release of the 51 the flour company is said to have formed a company union at their mill. The union also states that severance pay should have been paid those dismissed in accordance with the Labor Law which the company has failed to do. (WTB)

11. (OFFICIAL USE ONLY) Reason for Success in Recent Textile Negotiations

Mr. KO Il-ha, Vice Chairman of the National Textile Workers Union, attributes their successful negotiations in obtaining the eight hour work day in the Korean textile industry to a unity of effort. (See Weekly Economic Review No. 41). Ko stated that in the past there always existed differences of opinion in the textile union alliance between union leaders. However this time there were no sectional disputes and a council was established to handle negotiations instead of having the local labor leader deal with the local management. In this way management could not threaten local leaders during negotiations. Another new approach was not to air union complaints in public which would have riled company leaders. What they did was to approach each company president separately and informed him that he was violating the labor standard law and that if he did not concede to union demands the Federation of Korean Trade Unions could make an issue of the affair.

While the textile union leaders feel that they have gained much ground, they also are planning to approach management for an hourly wage increase. The eight-hour work day only affected the cotton workers of the textile industry leaving wool and nylon workers still to be aided. The workers in cotton textiles number about 24,000 out of a total of 36,000 textile workers. Another gain the union made when the management adopted the eight-hour work day was/a pension plan be stipulated in the Labor Law.

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(OFFICIAL USE ONLY) Comment: According to some executives in the textile industry, the additional output to the workers may necessitate a slight rise in the cost of cotton goods to the consumer. While they said they could not tell exactly what effect the agreement between industry and labor would have on the cost of company operations, they indicated that if the continued supply of United States cotton under ICA and PL 480 aid programs is assured price raises should be minimal.

Editorial comments regarding recent happenings in the Labor Movement were most favorable. The Chosun Ilbo reported: "This series of events apparently indicates that the country's labor movement is about to be given an active shape. The Labor organizations under the flag of the FKTU have recently stepped up their campaign to promote the position of the workers, to establish a minimum wage system, to implement the eight-hour work day and to ensure other reasonable working conditions." (WTB)

12. (UNCLASSIFIED) Minister of Reconstruction SIN Named ROK Representative on CEB.

On October 21 the ROK Government announced that Minister of Reconstruction SIN Hyon-hwak had been named to take over the position of ROK Economic Coordinator (i.e., chief representative) on the Combined Economic Board. Minister Sin, assumes this second position from Finance Minister SONG In-sang who had been the ROK Economic Coordinator for over two years.

(OFFICIAL USE ONLY) Comment: Apparently this appointment is a mark of confidence in youhg (40 years) Sin by President RHEE and the ROK State Coundil. Minister Sin will have a difficult time filling the capable shoes of Song In-sang, but he gives evidence of having the ability to successfully carry out his new role. Minister Song is being relieved of his second hat in order to have more time for the arduous duties of the Finance Ministry. (RWT)

For the Chargé d'Affaires ad interim:

RW Tucker EA

Robert W. Tucker
First Secretary of Embassy

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NOV 24 1959

FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL

214
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

October 30, 1959
DATE

REF : CERP - Korea, Section C, Item 1.

SCS-1

For Dept. Use Only	ACTION	DEPT.
67	Com-12	Dep-1 IRA-15 ICA-11 E-7 FE-4 EUR-5
	REC'D 11/7	INFO OTHER CIA-16 USIA-10 OCB-2 OSD-2 ARMY-35

SUBJECT: Weeky Economic Review No. 43. NAVY-20 AIR-30 AG-8 IN-7 TREAS-2 FRB-3 NSA-4 LAB-5

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9. Electric Workers Slowdown Strike.
10. Pusan Taxi Drivers One-Day Strike.
11. "Nostink" - a Potential Godsend.

1. (UNCLASSIFIED) Minister Song Hints at Change of Official Exchange Rate.

At a special press conference held on October 26, Finance Minister SONG In-sang was quoted by the Korea Times of the following day as having stated that a change in the present official exchange rate (500 hwan to the $1.00 U.S.)"is likely in the near future as a result of rising commodity prices." However, he added that Koreans under the new rate would pay "at the most" about 150 hwan more per dollar than they do at present. According to the Korea Times article, Bank of Korea officials predict that the Seoul wholesale price index for the last six months of 1959 will average more than 125 (September 1955 equals 100). Minister Song was also quoted as denying that he would propose a new and better price index "when the new exchange rate is negotiated."

The Korean Republic of October 27 headlined a front page article on the same subject "Exchange Rate to Stay Put" and the reader was forced to follow the article almost to its conclusion before acquiring almost the same information as conveyed by the Korea Times.

(CONFIDENTIAL) Comment: Minister Song is obviously preparing the public for an expected devaluation of the hwan, at a minimum to a rate of about 650 to $1.00 by next January. Apparently the Korean Republic article was tailored for President RHEE - to whom the 500 to 1 rate is sacrosanct - with the hope or expectation that he would not read much more than the headline. (RWT)

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2. (UNCLASSIFIED) **Assemblyman Criticizes U. S. Aid Program.**

Considerable consternation was aroused in the local press by an account of a CBS reporter's interview (in Seoul) on October 26 with Independent Assemblyman CHANG Taek-sang (a former Prime Minister and Foreign Minister in the first ROK cabinet), in which Chang was represented as being opposed to American aid, except for military aid, on the ground that it was not needed and was producing little effect because of misuse. He was quoted, in part: "Korea can stand on its own feet without the economic aid of the United States and ..... I should like to see a man who can prove that the factories built with US aid are properly operated now."

Mr. Chang's reported statement was vigorously refuted by various cabinet members, including Finance Minister SONG In-sang and Reconstruction Minister SIN Hyon-hwak, as well as by both pro-Government and opposition members of the National Assembly. In a clarifying statement, Mr. Chang denied that he had questioned the need for economic aid, but said he had referred to American incompetence and Korean corruption in its administration, and reiterated his opinion that because of ineffective administration of the aid program the masses of the population are not being benefited.

(UNCLASSIFIED) Comment: In an unrelated editorial, the vernacular daily Chosun Ilbo reported this week that 4,299 cases involving corruption among ROK Government officials were recorded by the prosecutor's office in the one-year period ended September 30 but that only 621 of these cases were brought to trial, the remainder being dropped. The newspaper suggested three possible explanations of the Government's failure to eliminate corruption: 1) salaries of officials, although doubled about a year ago, still fall short of providing a livelihood; 2) corruption among officials has come to be a "kind of habit"; 3) higher officials are themselves involved. (EG)

3. (UNCLASSIFIED) **National Assembly Inspection of Government Operations.**

For the past week or more, inspecting teams composed of members of National Assembly standing committees have been interviewing Cabinet ministers and conducting inspections of the executive branch preparatory to legislative deliberations on the Government's 1960 budget.

(OFFICIAL USE ONLY) Comment: On the basis of press reports, in a number of instances the inspectors have been outspoken in their criticisms of ministerial operations and activities. At the Ministry of Finance they took favorable note of the proposed downward adjustment of certain unpopular taxes (e.g., a 5 percent tax on third-class meals, 25 percent on middle-class meals, 115 percent admission tax on foreign movies), but cynically inquired how this program will tie in with the Ministry's announced intention of increasing tax collections by 38.5 billion hwan under the proposed 1960 budget. They accused the Housing Administration, under the Public Health and Welfare Ministry, of making an "enormous profit" by charging exhorbitant basic payments and excessive charges for initial electrical installations. According to the inspectors prices of the government-built houses average 30,000 - 40,000 higher per pyong (36 square feet) than the contractors' estimated

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cost of 120,000 hwan per pyong, and electrical installation per housing unit is charged at four times the actual cost. The Bank of Reconstruction was accused of the "unprincipled" release of industrial loan funds for consumptive or political purposes. Cited in this connection were loans totaling 6.6 billion hwan to four enterprises which are under virtual management of the Bank, in its attempt to protect its own financial involvement. These industries are Taejon Leather, Taechang Textile, Metropolitan Film, and Sinkung Paper. At least one of these firms, Taejon Leather Company, has been inoperative for months. The Agricultural Bank and the Ministry of Agriculture and Forestry were accused of taking a profit of 2.2 billion hwan through raising fertilizer handling fees without authorization of the National Assembly, and for various other unauthorized uses of appropriated funds. (EG)

4. (UNCLASSIFIED) PX Privileges for Korean Service Wives Reinstated.

As a result chiefly of the protests registered by a representative group of Korean wives of U. S. service men, General Magruder has temporarily suspended the new regulations of the Eighth Army, which substantially curtailed PX privileges for "unauthorized" and acquired dependents in Korea. (See Weekly Economic Review No. 42). This temporary suspension of the restrictions was made on the basis of the argument that the unauthorized dependents had come to Korea or married service men here at the time that full PX privileges were authorized them and these dependents had "every reason to believe the privileges would be continued." The announcement made clear that the subject is under further study and that the use of PX facilities by dependents may subsequently be modified.

(OFFICIAL USE ONLY) Comment: Eighth Army officials have informed the Embassy that a new directive is likely to be issued in the near future which will restrict the use of PX privileges for those dependents who are acquired or otherwise unauthorized after a certain specified date. Those unauthorized or acquired dependents in Korea prior to the cut-off date may be permitted the continued use of the facilities. The recent recision of the restriction has also resulted in a resumption of the practice of cashing allotment checks for the unauthorized or acquired dependents in Military Payment Certificates, at least temporarily.

The temporary resumption of these privileges will obviously reopen once again that avenue of PX supplies for blackmarket activities which had been blocked, in part at least, by the October 15 directive. As a result, certain ROK Government agencies may be unhappy that blackmarket activities will continue as heretofore. The Korean Republic, however, congratulated General Magruder in an editorial in the October 30 issue for his quick and effective settlement of the problem pointing out that the denial of those privileges to dependents in Korea would have provided the Communists with a propaganda advantage. (JAC)

5. (UNCLASSIFIED) From Protectionism to Liberalism -- a First Step.

The Minister of Commerce and Industry is reported in the press to have announced a change in Korea's foreign trade policy for 1960. This change will be one of relaxing the current rigid import restrictions as a measure to stabilize commodity

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prices and ensure a sound development of domestic industry. The commodities to be liberalized will be those for which the domestic market price continues to increase as a result of an irregular flow to the market. Minister KOO indicated that import restrictions have permitted certain local producers and dealers to take undue advantage of consumers under the protection of trade restrictions. Restrictions have recently been removed on 12 import items. In addition to the eight commodities mentioned in Weekly Economic Review No. 42, item 6, the MCI removed import limits on reinforcing bars, waterproof paper, wire rods, and iron bars.

(OFFICIAL USE ONLY) Comment: The removal of limits on the 12 import items apparently has not resulted in a decline of prices as anticipated by the Government. It is recognized, however, that these construction materials are needed now in Korea and that imports could not be effected until later this year when the construction season will have ended with the winter months. Consequently prices can be expected to remain high until imports actually begin to reach the market.

The liberalization of import restrictions for the new trade program will undoubtedly be limited. Minister Koo made a distinction between local industries which are able to compete with foreign products in both quality and price and those industries which are not so able to compete. If this is to be the criterion in removing import limits, protectionism can be expected to continue on a large scale in Korea. The relaxation which has been promised will probably be limited to those commodities for which there is an inadequate supply in Korea and for which the increasing prices threaten to jeopardize the official rate of exchange through their effect on the wholesale price index. (JAC)

6. (UNCLASSIFIED) Problems of Rice Exports to Ryukyus.

Efforts of the ROKG to export at least 5,000 metric tons of rice to the Ryukyu Islands, as was negotiated in 1958, have not as yet proved successful, nor has the invitation to Ryukyuan officials to come to Korea to negotiate the deal been acdepted.

(UNCLASSIFIED) Comment: The ROK Government is apparently resigned to accepting a lower price than the $155 per ton received for last year's contract; a stumbling block appears to be the Ryukyuan's insistence on establishment of a reciprocal trade deal, reportedly to the extent of using at least 30 percent of the proceeds for importing commodities from the Ryukyuans. Although reciprocity was a feature of the 1958 rice transaction, Korean exporters did not fulfill this part of the deal. Another difficulty is an internal struggle between two rival trading groups for handling the export business. The Ministry of Commerce and Industry is faced with the task of arbitrating the competition. (EG)

7. (UNCLASSIFIED) Export Promotion Devices Considered.

The subcommittees of the CEB's Export Promotion Committee have made three proposals aimed at creating incentives for exporters. These are (1) an exemption from the corporation and income tax on 75 percent of export earnings, (2) the establishment of a foreign exchange retention credit system to finance activities not now freely permitted under Korean regulations, and (3) the institution of a more

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liberal policy concerning private (rather than Government-controlled) participation in international trade fairs.

(OFFICIAL USE ONLY) Comment: All three of these proposals, which were made by the American representatives on the committees, met a rather cool reception on the part of the Korean representatives. Local newspapers have, however, been given the details of the proposals by the Koreans. Although this disclosure to the press does not necessarily indicate Korean acceptance of the measures, it may well indicate that more serious consideration is being given to them than was initially revealed at the meetings. (JAC)

8. (UNCLASSIFIED) Smuggling Activities Increase.

At a regular meeting of the Smuggling Surveillance Committee this week, the Korean Bureau of Customs representative reported that the volume of smuggling, as measured by the number of apprehensions, is increasing substantially. The volume of merchandise confiscated by customs in the first nine months of 1959 was reported at nearly 1 billion hwan, of which over 85 percent was smuggled from Japan. Among the commodities confiscated are cosmetics, textiles, ornaments, and medicines. These statistics were used by the Koreans to support their request for U. S. aid in the form of patrol boats and other necessary equipment for customs policing of the coast.

At the same meeting, the Koreans again raised the points in their earlier proposal for jurisdiction over certain military areas to help them bring smuggling under control (Weekly Economic Review No. 39, Item 7.). The American response was once again noncommittal.

(UNCLASSIFIED) Comment: The alleged increase in smuggling from Japan may very well be the result of the trade ban against Japan. A resumption of normal trade relations between the two countries might have the effect of reducing smuggling activities. The Korean Customs people claim, however, that the trade suspension has little or nothing to do with the increased volume of smuggling from that country. The implication in this statement was that smuggling may have increased after the trade suspension but that the customs people have not as yet been able to identify that phase of smuggling attributable to the trade restrictions. (JAC)

9. (UNCLASSIFIED) Electric Workers Slowdown Strike.

Union members of the South Korea Electric Company, early Monday morning October 26, were ordered by union officials to apply slowdown tactics to persuade management to accept their demands for a 57 percent pay increase. Company officials have offered to raise the monthly base pay by a 1,000 hwan per man, but union officials rejected this offer. According to the Korea Times each electrician has been receiving an average of 42,500 hwan per month since January 1957 and if the union is successful in their demands, would increase the amount to 66,788 hwan per month.

The South Korea Electric Company is government-controlled and supplies electricity to approximately 450,000 houses throughout South Korea with the exception of the Seoul, Inchon, Suwon and Chunchon areas.

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According to the Korean Republic, the Government's English language newspaper, both Government and Electric Company officials believed the slowdown strike would end within a few days with Government labor officials mediating.

While union officials assured the Government that they would continue to supply normal power distribution service, union strikers refused to collect power rates from consumers, to perform maintenance jobs, and to do clerical work. Other union members of the company wuch as street-car crews, mess workers, medical personnel, and telephone operators continued to work as usual in addition to those concerned with the supply of power. The strike was finally called off on Thursday morning October 29 by the union officials in order "to remove a peril for the national health," but the union said the fight for the pay increase would continue.

(CONFIDENTIAL) Comment: FKTU officials in contact with Embassy officers have indicated that union officials would compromise their original 57 percent pay increase demand for any increase over 10,000 hwan per man, per month. Anything less would be rejected. In view of labor's recent success in other recent labor disputes, the South Korea Electric Workers' Union have a favorable chance to receive the compromise figures of at least a pay increase of 10,000 hwan per man.

An interesting development during this dispute is that the Korean Republic, for the first time in several months, carried an article mentioning anything on organized labor. What significance this has can not be determined at this time; however, in the past, since this paper is considered President RHEE's major source of news on local affairs, anything on labor conditions has been purposely omitted. It can be speculated that the Government is taking an adroit laissez faire attitude toward labor in the current labor disputes to influence organized labor's votes in the 1960 presidential election. In the ROK cities in which organized labor is concentrated, the Democratic Party was the victor in the National Assembly election of 1958. The Korean Republic's reporting on labor activities may be a move by controlling government officials to point out to the president, through this medium, that the laborers' situation is being improved by successful collective bargaining with the Government active as mediators. (WTB and RWT)

10. (UNCLASSIFIED) Pusan Taxi Drivers One-Day Strike.

On Friday morning, October 23, 1959, more than 1,000 members of the Pusan Automobile Transportation Workers' Union walked out leaving some 924 taxis idle. Prior to the walkout ninety-eight percent of the 1,300 taxi drivers voted to strike unless their demands were met. The major points of the union's demands were that management sign a collective bargaining agreement and that drivers be granted one day off after two consecutive days of work.

The Korea Times reported that the strike was orderly with a few minor incidents of taxi owners driving their own cars, but the owner driven taxis were finally persuaded by the strikers to clear the street. The newspaper also reported that police were stationed along major points of the city to prevent any danger to public safety from developing because of the dispute. While the strike continued, the 23 taxi companies concerned refused to accept the union's demands, pending final decision of the Central Labor Committee.

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By [illegible], NARA, Date 1/10/01

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The Korea Times on October 25 reported that the union ended their one day strike when employers accepted their demand for the right of collective bargaining. However both sides agreed to accept the decision of the Central Labor Committee over the demand of one day off for the drivers after two consecutive days of work.

(UNCLASSIFIED) Comment: The strike represented the first time, since the establishment of the Republic, that automobile transportation workers have staged a walkout. The success of the workers in having Management accept a collective bargaining agreement marks another major step forward for the Korean labor movement. It was also apparent that the Federation of Korean Trade Unions (FKTU) was actively supporting the cause of the Pusan taxi workers since the Pusan longshoremen of KIM Ki-ok's Free Workers Alliance had scheduled a sympathy strike if the tax workers' demands were not satisfied. (WTB)

11. (UNCLASSIFIED) "Nostink" -- a Potential Godsend.

A local newspaper carried a story this week concerning the "invention" of a new deodorant in Korea which removes "bad smells" from "cabbage and human excretion", which prompted the Embassy to investigate. The Ilkwang Co. Ltd., the manufacturer of the product (called "NOSTINK"), required about five years to perfect it. The deodorant consists of bacteria produced in Inchon in powder form. It is applied in water solution and, with the help of heat and humidity, is reportedly effective in eliminating unpleasant smells and killing injurious insects and hookworms. Present production is at an estimated rate of 60 metric tons per month and the current selling price is 40,000 hwan per ton.

(OFFICIAL USE ONLY) Comment: If the new product turns out to be as effective as claimed, the atmosphere in Korea may be considerably changed for the better. (JAC)

For the Charge d'Affaires ad interim:

Robert W. Tucker
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

FROM : AmEmbassy, SEOUL

215
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

October 30, 1959
DATE

REF : 1957 CERP, Section B, Item II-B, III-B-1, 3, V-E(1), VII-B(1), D(1), III-D-1, I-A-4, 5.

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For Dept. Use Only	ACTION	DEPT.
	EE-4	REP-1 RM/R-2 IRC-8 ICA-11 E-3
	REC'D 11/10	INFO OTHER CIA-10 Com-12 TR-3 FRB-3 IAR-2 LAB-5 AG-8

Action Taken NAR 11/12/59

SUBJECT: Monthly Economic Indicators, ROK, August 1959.

Date of Action
IN-7 OSD-2 Army-1 Navy-3 AOR-1 USIA-10

Name of Officer
Symbol

	Aug 1959	Jul 1959	Percent change[a] Jul-Aug 1959	Aug 58-Aug 59	Sept 58-Aug 59
I. PRICES (A : 1947=1)					
A. Wholesale index, Seoul	226.7	219.7	+ 3.2	+10.1	+27.9
1. Commodity groups					
a. Grain	210.6	206.6	+ 2.0	- 7.8	- 0.2
b. Meats, eggs, fish	473.5	454.2	+ 4.3	+29.0	+79.1
c. Textile raw materials	165.3	152.8	+ 8.2	+16.1	+37.8
d. Textiles	76.3	70.6	+ 8.1	+12.3	+ 8.7
e. Building materials	283.6	268.3	+ 5.7	+19.5	+23.0
f. Fertilizer	539.4	539.4	0	0	+68.6
g. Fuel	577.7	564.6	+ 2.3	+36.7	+55.0
h. Miscellaneous	135.3	130.6	+ 3.6	+22.3	+52.9
2. All items except grain	237.1	228.2	+ 3.9	+23.8	+52.2
3. Consumer goods	223.8	218.1	+ 2.6	+ 5.8	+23.8
4. Producer goods	196.6	187.3	+ 5.0	+16.9	+31.6
B. Seoul consumer price index (1955=100)					
1. General	151.4	150.4	+ 0.7	+ 2.7	+30.4
a. Food	148.2	147.2	+ 0.7	- 4.4	+17.9
b. Housing	178.8	178.2	+ 0.3	+ 9.3	+70.4
c. Fuel & light	155.2	153.8	+ 0.9	+30.0	+35.2
d. Clothing	110.8	108.7	+ 1.9	- 0.4	+ 5.8
e. Miscellaneous	168.7	168.1	+ 0.4	+ 9.4	+57.7
C. Rice, retail, Seoul Hwan/20 liters	2,968	2,874	+ 3.3	- 8.5	+ 0.3
D. US $1 greenback, Seoul	1,355	1,396	- 2.9	+13.9	+77.1

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By [illegible], NARA, Date 4/21/94

	Aug 1959	Jul 1959	Percent change Jul-Aug 1959	Aug 58-Aug 59	Sept 55-Aug 59
E. New national wholesale price index (1955=100)					
1. All commodities	152.4	148.8	+ 2.4	+ 5.8	+28.0
a. Foods	145.9	144.2	+ 1.2	- 1.7	+11.1
b. Fuel & power	154.5	153.1	+ 0.9	+10.8	+40.5
c. Mineral products	115.5	113.1	+ 2.1	+ 7.7	+11.9
d. Metals products & machinery	178.1	177.0	+ 0.6	+12.2	+66.1
e. Building materials: (Including metals) Excluding metals	162.9 / 156.2	158.2 / 151.0	+ 3.0 / + 3.4	+15.3 / +15.8	+41.0 / +34.3
f. Fiber and fiber products	133.8	125.9	+ 6.3	+ 7.7	+28.4
g. Chemical products	230.6	224.3	+ 2.8	+ 8.4	+63.9
h. Paper	159.7	146.2	+ 9.2	+25.3	+59.9
i. Raw rubber and rubber products	155.7	152.7	+ 2.0	+35.9	+36.1
j. Miscellaneous	165.5	165.4	+ 0.1	+ 9.1	+56.9
2. Special groupings					
a. Grains	143.6	140.1	+ 2.5	- 7.4	- 2.4
b. All commodities excluding grains	155.4	151.7	+ 2.4	+10.6	+41.5
c. Producer goods	179.4	174.2	+ 3.0	+15.4	+53.2
d. Consumer goods	141.5	138.5	+ 2.2	+ 1.4	+18.0

	Billions of Hwan			Percent change	
	Aug 1959	Jul 1959	Aug 58-Aug 59	Jul-Aug 1959	Aug 58-Aug 59
II. MONEY SUPPLY (bil.hwan)					
A. Notes & deposits					
1. Bank notes, outside banks	98.9	95.5	+19.8	+ 3.6	+25.0
2. Check/demand deposits, excl. uncleared	109.0	132.3	- 2.0	-17.6	- 1.8
3. Foreign official deposits	10.0	20.9	-26.7	-52.2	-72.8
4. Total (1+2-3)	197.9	206.9	+44.5	- 4.4	+29.0
B. Factors affecting money supply					
1. Government finance b/	100.2	115.6r	+26.6	-13.3	+36.1
2. Private credit (inc.BOK, exc.KRB)	172.2	171.4r	+36.0	+ 0.5	+26.4
3. Other c/	-74.5	-80.1r	-18.1	- 7.0	+32.1
4. Total	197.9	206.9	+44.5	- 4.4	+29.0

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	Jul 1959	Jun 1959	Total Jan-Jul 1959 (Average in case of indexes)	Percent change Jun-Jul 1959	Percent change Jul 58-Jul 59
III. PRODUCTION					
A. Quantities of output					
1. Cotton yarn (mil.lbs)	9.1	9.7	61.8	- 6.4	+21.6
2. Cotton cloth (mil.sq.yds)	14.0	15.5	94.6	-10.0	+22.1
3. Cement (1,000 mt)	37.0	29.4	186.0	+25.9	+68.5
4. Rubber shoes (mil.prs)	3.3	3.0	23.3	+ 9.7	+86.8
5. Coal (1,000 mt)	342	320	2,112	+ 7.5	+55.0
6. Tungsten (mt)	266	259	1,654	+ 2.7	- 5.7
7. Electric power (mil.KWH)	139	141	966	- 1.4	+14.9
B. Production indexes (1955=100)					
1. Industrial production (100)	185	189r	165	- 2.1	+ 3.9
a. Mining (10)	232	235	214	- 1.3	+26.8
b. Manufacturing (87)	180	183	159	- 1.6	+ 1.1
c. Electricity (3)	188	193	188	- 2.6	+13.9

	Jul 1959	Jun 1959	Total Jan-Jul 1959	Percent change Jun-Jul 1959	Percent change Jul 58-Jul 59
IV. FOREIGN EXCHANGE ($ mil)					
A. Holdings (inc. gold)	148.6	146.6	(+2.1)d/	+ 1.4	+22.0
1. Dollars, US	144.7	142.7	(+1.5)d/	+ 1.4	+21.9
2. Uncommitted	90.4	90.5	(-0.3)d/	- 0.1	+27.0
B. Receipts	9.4	8.9	58.9	+ 5.6	+25.3
1. Exports	1.7	2.1	12.8	-19.0	+21.4
2. Hwan sales	2.4	2.1	16.4	+14.3	-46.7
3. Other	5.3	4.7	29.9	+12.8	+231.3
C. Payments	7.5	7.6	56.4	- 1.3	+74.4
1. Imports (non-aid)	6.1	6.7	45.7	- 9.0	+103.3
2. Other	1.4	0.9	9.7	+55.6	+ 7.7

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	Program (Adjusted)	Jun 1959	May 1959	During Dec 56- Jun 58	During Dec 57- Jun 59	During May-Jun 1959
V. ECONOMIC AID ($ mil)						
A. ICA arrivals (US FY basis)						
1. 1954	178.0	177.5	177.5	17.8	2.9	0
2. 1955	245.2	240.3	240.3	25.0	8.5	0
3. 1956	311.3	294.5	293.8	92.4	18.9	0.7
4. 1957	318.5	282.1	281.2	251.3	82.4	0.9
5. 1958	227.7	190.4	188.8	94.0	184.0	1.6
6. 1959	237.5	90.5	78.2		90.5	12.3
7. Total	1,518.2	1,275.3	1,259.8	480.5	387.2	15.5
a. Project	490.8	365.0	362.4	122.7	82.7	2.6
b. Non-project e/	1,005.1	899.4	887.1	352.9	296.6	12.3
(1) Surplus agricultural commodities Sec.402	204.0	191.2	188.0			3.2
(2) Fertilizer	265.3	240.9	240.9r			0
(3) Other & unassigned to specific non-project uses	535.8	467.3	458.2r			9.1
c. Technical cooperation	22.3	10.9	10.3	4.9	7.9	0.6
d. Reserve	216.1	0	0	-	-	0
B. US FY 1959 ICA obligations	237.5	237.0	186.8	-	-	50.2
C. PL 480 arrivals	165.0	127.2	127.1	65.4	48.7	0.1
1. Food	147.4	109.8	109.7	61.0	48.3	0.1
2. Other	17.6	17.4	17.4	4.4	0.4	0

Footnotes: a/ Computed in most cases from unrounded figures. b/ Includes the Government's net position at the BOK (overdrafts less deposits, including operations of counterpart funds); Government bonds, industrial reconstruction bonds and industrial finance debantures (latter two are KRB issues) held by BOK; BOK loans to Government agencies; national bonds held by banks other than the BOK and KRB; and loans by banks, other than BOK and KRB, to local Governments. c/ Includes BOK net purchases of foreign exchange, savings and time deposits (decreasing factors), deposits of foreign organizations in the BOK (decreasing factor), and all other influences on the money supply (net). d/ Change between December of year before and July of year indicated, expressed in $ million. e/ Because of the change on USOM Program Status Report, the categories on Non-Project also changed. Eventually the comparisons with previous periods on Non-project are not available.

For the Chargé d'Affaires ad interim:

Robert W. Tucker
Robert W. Tucker
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL — 223 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — November 6, 1959 DATE

REF : CERP - Korea, Section C, Item 1.

Action Taken Noted Com-12

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67	FE-6	INFO Rm R-2 Rep-1 IRC-15 ICA-11 E-7 SCS-1
	REC'D 11/12	OTHER CIA-16 USIA-10 OCB-2 OSD-2 ARMY-35 NAVY-30 AIR-30 AEC-5 TR-3 FRB-3 TAR-2 LAB-5

SUBJECT: Weekly Economic Review No. 44.

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1. (UNCLASSIFIED) MOR Authorizes Import of ICA-Financed Fertilizer from Japan.

On October 31 the Ministry of Reconstruction announced its decision to accept bids for the procurement of 61,182 tons of fertilizer with ICA financing including 49,682 tons of urea from Japan worth $4,375,000. The balance consisted of 10,000 tons of phosphate fertilizer ($840,000) and 1,500 tons of ammonium nitrate ($34,000) from the United States. The procurement authorization for the fertilizer would have expired at the close of October 31 if this decision by MOR had not been taken.

(OFFICIAL USE ONLY) Comment: The ROK Government reportedly tried "every trick in the book" to avoid the requirement of ICA Regulation I which would force procurement of most of the fertilizer from Japan because Japanese firms made lowest-landed-cost bids. The last minute decision was made in the face of a possible and unpalatable loss of $5,249,000 in aid money if the ROK Government delayed further. (RWT)

2. (UNCLASSIFIED) ROK Government Considering Sale of Anthracite and Coal to Japan.

At a press conference on November 4 Minister of Commerce and Industry KU was reported by the Donghwa Commercial Service as having stated that whether trade between Japan and Korea can be resumed "on a partial scale" will depend on "how much

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sincerity" the Japanese authorities evidence regarding this question. He stated that there could be no full-scale resumption of trade between the two countries until a final solution of the question of repatriation of Korean residents in Japan to North Korea is settled "in Korea's favor." However, he added that this would not preclude the possibility of sales of Korean rice and laver to Japan.

Another commercial press report quoted the Minister as saying that Japanese offers for the importation of Korean anthracite coal and graphite have been formally presented through the ROK Mission in Japan and that letters of credit have already been opened by the Japanese for $240,264 worth of anthracite and $156,876 for laver. However, the Minister added that another reason for hesitating in authorizing these exports is that the Japanese Government has not yet agreed to unfreeze ROK credits from "interim trade" (exports and imports permitted since the June 15 trade suspension because letters of credit were opened prior to the suspension date). He was quoted as saying that the ROK Government would make its final decision on the proposed anthracite and graphite exports to Japan "in two or three days."

(CONFIDENTIAL) Comment: Most of this ground was covered in the Embassy's Confidential telegram of November 4 (No. 119 to Tokyo, No. 329 to the Department). On that date the reporting officer attempted to convince Minister Ku that ROK Government efforts to couple the sale of anthracite to Japan with a sale of rice and laver the Japanese do not particularly want or need are not very likely to succeed, but if the Koreans refuse to sell the Japanese anthracite at a time when it appears to be urgently needed the prospects of rice and laver sales would become dim indeed. However, the reasoning of Minister Ku sometimes follows a pattern remote from Western concepts of logic. (RWT)

3. (UNCLASSIFIED) October Exports Drop Further.

According to statistics released by the Bank of Korea, exports for the month of October dropped to a level of $1.1 million, a decline of nearly $.4 million from the September volume. Japan continued as the major market, although at a much reduced level. Of the $1.1 million, Japan accounted for $420,000, the United States for $194,000, and Hong Kong for $106,000.

(UNCLASSIFIED) Comment: Exports to Japan continue under the relief measures permitting the consummation of transactions concluded prior to the June 15 trade suspension. The effects of the trade ban are becoming clearer now that the pipeline is dwindling. Unless Korea takes some steps to resume private trade with Japan, the level of exports can be expected to decline even further in subsequent months. (JAC)

4. (UNCLASSIFIED) Year-End Money Supply Limit Set at 216 Billion hwan.

Finance Minister SONG told reporters on November 2 that under the ROK Government's funding program for the last quarter of 1959, which has been proposed to the USOM for concurrence, the money supply as of the close of this year will be limited to a maximum of 216.0 billion hwan. Since the money supply at September 30 was 203.7 billion hwan, this would permit an increase of 12.3 billion hwan in the closing quarter. The projected increase would include 8.0 billion hwan in cash releases for rice liens and 2.0 billion in ROK Government expenditures for Typhoon Sarah rehabilitation projects.

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In speaking of the general financial situation Minister Song was quoted as saying that it has been aggravated this year by a shortage of counterpart fund receipts, and particularly by a delay in collection of proceeds from sale of U. S. Public Law 480 surplus farm products.

(OFFICIAL USE ONLY) Comment: If Minister Song's goal is achieved the year-end maximum target reflects creditably on the efforts of the government to contain the money supply in 1959. The year-end figure would be only 23.4 billion hwan, or 8.2 percent, higher than the 192.6 billion hwan total on January 1, 1959, whereas in 1958 the money supply rose 32.6 percent.

By his failure to make any reference to the subject, Minister Song implied that there would be no more auctions of ROK Government-controlled foreign exchange during the remainder of 1959. (RWT)

5. (UNCLASSIFIED) Wholesale Price Index Averages 129 for July - October.

On October 30 the Seoul wholesale price index dropped to 130.0 (September 1955 equals 100), down 1.3 percent from the 131.7 index figure on October 23. The decline was very largely due to a sharp drop in grain prices, down 4.9 percent during the week, as more shipments of the new fall rice crop began reaching the markets. Textile raw materials also dropped by 3.0 during the October 23 - 30 period but non-grain prices as a whole rose by 0.3 percent to 170.6, leaving intact the unbroken price rise of non-grain commodities as a group since mid-July of this year.

The monthly average price indexes for July, August, September and October 1959 were 123.9, 127.9, 133.2, and 130.8, respectively. Thus for the first four months of the second semester the average was 129.0, and for the average to fall below the "critical" 125 level in the July - December period would require monthly average indexes of 117.0 or less in November and December. This would necessitate a drop considerably below price levels of November - December 1958 and is very unlikely.

(CONFIDENTIAL) Comment: In view of this trend it appears probable that under the existing U. S. - ROK exchange rate agreement which set the official rate at 400 hwan to the $1.00 U. S. in August 1955, the U. S. authorities will be in a position to call -- as a minimum -- for a devaluation of the hwan in January 1960 by about 27 to 28 percent, i.e. for a new official rate in the vicinity of 635 to 640 hwan to the $1.00. (RWT)

6. (UNCLASSIFIED) Business Leader Urges Adoption of 1000 to 1 Foreign Exchange Rate.

In a long feature article in the November 1 issue of the Korea Times, Mr. O Chong-su, Vice Chairman of the Korea Trade Association and one of the counselors of the Seoul Chamber of Commerce, is reported as advocating that the ROK Government take the initiative in changing the official hwan exchange rate to "a realistic level -- say 1000 hwan to a dollar regardless of little technical questions on price index numbers." Mr. O, a 1927 graduate of the Massachusetts Institute of Technology, acknowledged that the existing official rate of 500 to 1 makes it possible for the Government to earn annually several billion hwan from foreign exchange taxes

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and "an additional dozen million dollars", but contended that inconveniences and indirect loss of foreign exchange earnings which are generally overlooked offset such benefits.

In particular Mr. O cited the loss of "billions of hwan" of government revenue and the crippling competition to domestic industry caused by leakage of tax-free American PX goods to Korean markets, and he pointed out that 2.5 million cartons of cigarettes per year are officially estimated as reaching Korean markets from U. S. military installations. He argued that setting a new "reasonable" rate of 1000 to 1 would encourage American servicemen to purchase hwan legally instead of blackmarketing PX goods for Korean currency and would attract foreign tourists. At the same time he did not propose readjusting the rate to current export dollar transfer rates of 1200 to 1300 hwan to the $1.00 because of Korea's vulnerable economy and deficit balance of payments. He also pointed out that the new rate would also be necessary to induce private foreign investment in the ROK since foreign firms would be unwilling to accept the 500 to 1 rate for meeting local currency requirements.

(OFFICIAL USE ONLY) Comment: Most recent comments favoring sharp devaluation of the hwan in the Korean press have been anonymous editorials or learned discussions by college economics professors. The 60-year old Mr. O, who is President of the export-import firm Korean Trade Development Co., Ltd., is one of the first prominent Korean businessmen to take a firm public stand against the ROK Government's insistence on maintaining the 500 to 1 exchange rate. (RWT)

7. (UNCLASSIFIED) New Rice Lien Plan.

The Combined Economic Board has adopted a rice lien program for the current crop, with the objective of making cash available to the farmers without necessitating their unloading rice into the market immediately upon harvesting, when prices are seasonally depressed. Under the new program, which differs substantially from the two preceding programs, the Agricultural Bank will take under lien a maximum of 1.5 million suk of rice (about 214,000 metric tons), with a cash loan value of up to 10,000 hwan per suk for top grade rice. The rice will be held until the maturity date of the loan (not to exceed eight months) unless meanwhile either redeemed by the farmer within a specified period or later sold by the Bank. At the time of redemption or sale the proceeds will be applied as follows: 1) repayment of the cash lien advance including interest and carrying charges; 2) the farmer's equity value in the rice after the payment covered in (1) above will be applied against any outstanding fertilizer debt. If the sale price exceeds the total rice loan plus the fertilizer debt the excess will be paid to the farmer; if the sales value falls short, the farmer remains liable for the unpaid balance of his fertilizer debt. The loans are to be liquidated on or before September 15, 1960. The loans will be financed from counterpart only to the extent of 11.5 billion hwan.

The preceding programs each involved 30 billion hwan; in addition to a maximum cash value of 10,000 hwan per suk, credit against fertilizer debts was extended up to 10,000 suk. Farmers who borrowed under the 1958/59 program have failed to redeem some 500,000 suk of rice, valued at about 12 billion hwan. The excessively high basis of the loans, 20,000 hwan per suk (which in effect amounted to price support) relative to the market price of rice (currently around 17,000 hwan per suk at the farm) is largely responsible for the farmers' reluctance to redeem their rice or repay their loans.

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Under the new program, the reduced loan value and other more conservative features are designed to eliminate any price-support influence and to forestall recurrence of the present situation in which the Agricultural Bank is left holding a large quantity of rice which it cannot dispose of (commercially) at a price that would cover acquisition costs plus accumulated handling and storage costs.

(CONFIDENTIAL) Comment: The new loan program is not receiving the support of the Ministry of Agriculture and Forestry (MAF), which is apparently concerned about the adverse election-year consequences of possible farmer dissatisfaction with the more conservative program.

Local newspaper articles, including the Government-owned Korean Republic, have thus far failed to report accurate information concerning the new program. On the contrary, even after the CEB action, the Korean Republic continues to provide details of MAF's directive to the provincial governments outlining a program that is similar in scope and operations to the preceding programs. The program promulgated by MAF, in fact, has little similarity to the CEB program; for example, it involves 30 billion hwan (half cash and half fertilizer credit) and the reported maximum loan value for top grade rice (21,000 hwan per suk) is even more generous than under the former programs. Now that the CEB has taken formal action on the matter, however, the facts are available to the public. (EG)

8. (UNCLASSIFIED) Title II, PL 480, Program Considered for Typhoon Sarah Relief.

In a series of meetings Embassy and USOM officers have discussed with ROK Government the possibilities under Title II of PL 480 for raising local currency to be utilized for wage payments on public works rehabilitation projects in areas affected by Typhoon Sarah, labor requirements for which are estimated at 150,000 man-months at 40,000 hwan per month, or some 6 billion hwan. As a result the ROK Government is expected shortly to make formal application for Title II imports of some $8.5 million worth of raw cotton. These imports (spaced from February to June 1960) would be financed by the Spinners and Weavers Association, with the hwan proceeds deposited in a CEB-administered fund. The view is that this quantity would permit the building up of mill stocks needed for efficient operation, whereas imports under Title I PL 480 and Section 402 of the Mutual Security Act have been wholly utilized in production for current consumption. (EG)

9. (UNCLASSIFIED) Record Coal Production in October.

According to information furnished the Embassy by the Ministry of Commerce and Industry, the Daehan Coal Corporation (comprised of government-owned mines) attained its post-World War II peak in monthly production in October, with an output of 201,347 metric tons. Production by privately owned mines in October is not yet available, but they produced in September 194,961 metric tons. Total coal production for the first nine months of 1959 amounted to 2,827,737 metric tons, or 73.7% of the planned goal of 3.8 million tons. Output in the comparable period of 1958 was 1,891,913 tons and for the entire year, 2,670,979 tons. Consequently, anthracite output in the first three quarters of 1959 has already appreciably exceeded production in 1958. (RWT)

10. (OFFICIAL USE ONLY) "Voluntary" Contributions by Foreign Firms.

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The American Chamber of Commerce has become more concerned than ever over the growing pressures for "voluntary" contributions sought by various organizations. At a recent meeting of the Chamber, the President reported that the Korean Disabled War Veterans had indicated the necessity of receiving a fixed contribution from the Chamber of Commerce on a regular basis. The sum which was initially suggested as an adequate amount was 40,000 hwan per month. Discussion among the members in response to the proposal was enlightening.

If 40,000 hwan a month from the Chamber would eliminate frequent calls at individual business offices of the members for contributions, the proposal appeared to have some merit to some of the members. The consensus however, appeared to be one of distrust. One member expressed the opinion that this was "blackmail". Another indicated that agreement to comply with the request would result in similar requests from other organizations of Disabled War veterans, Army war veterans, Navy war veterans, etc. All, however, were quite aware of the consequences of a refusal. These disabled "hoodlums" as one member put it, were known to be quite capable of all sorts of violence and the police and Bando Hotel management (where most foreign firms in Seoul have offices) apparently are reluctant or unable to cope with them.

Although no final decision was made at the meeting, the hotel manager agreed to talk to the Disabled War Veterans and obtain a clearer picture of the proposal and commitments which the organization is willing to make.

(OFFICIAL USE ONLY) Comment: Although voluntary contributions are an old problem for the foreign business community in Korea, the discussion of the problem at a general meeting of the Chamber on November 5 at which a large number of guests were present, including Embassy and USOM officials, is significant. It seems that the discussion at this meeting served the purpose, among others, of bringing to the attention of Embassy and USOM officials the nature of some of the difficulties encountered by American and other foreign businessmen in Korea. (JAC)

11. (UNCLASSIFIED) Wage Gains for Electric Power Workers and Coal Miners.

Workers of the South Korea Electric Company ended their three day slowdown strike at 9:00 am, October 29, 1959 when management and union agreed to a partial pay increase of 2,000 hwan per worker (Weekly Economic Review No. 43). The pay increase was far short of their original 57 percent demand and only achieved an approximate .04 percent pay hike.

Employees of the Korea Coal Mining Corporation on October 31, 1959 gained a 10 percent pay increase. While short of the original demand of 50%, the dispute was reconciled at an increase of 3,500 hwan per month for the office staff and 6,000 hwan for miners. (Weekly Economic Review No. 41).

(OFFICIAL USE ONLY) Comment: For the second time the Korean Republic in the past week carried an article on labor. (See comment in Weekly Economic Review No. 43, Item 9). The ROK Government's English language newspaper on October 31, 1959 carried a headline in bold print "Electric Strike Ends; Hike in Wages Granted." While pay raises granted can hardly be considered a success for labor, the Government's paper attempted to let the readers believe the electric workers had won their demands.

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Success in the coal miners dispute, in part, can be attributed to a recommendation made by the National Assembly's Commerce and Industry Committee after inspecting conditions in this field. In addition to recommending a pay increase they also reported that standards for welfare, health and safety were below par.

In both the electric and coal miners dispute Government action places the Liberal (majority) Party in a favorable position to gain labor support in the 1960 Presidential election. (WTB)

12. (UNCLASSIFIED) Three FKTU Proposals Adopted for ICFTU Discussion.

The International Conferation of Free Trade Unions (ICFTU) has agreed to discuss three proposals submitted by the Federation of Korean Trade Unions (FKTU) at the Sixth ICFTU World Congress to be held in Brussels during next December. (Weekly Economic Review No. 41).

The proposals of the FKTU are: 1) the establishment of an economic unification committee of the Free World in order to carry out the development of economically backward countries; 2) the organization of a short trade union education course in Korea next year and 3) the transfer of the headquarters of the ICFTU's Asian Regional Organization from New Delhi to another more accessible place.

(CONFIDENTIAL) Comment: The Embassy believes that the last proposal is more political than dictated by practical considerations, and is a direct slap at India's neutrality. While some South Korean labor leaders feel that the climate (political no doubt) and accessibility to New Delhi is an inconvenience to most Asian labor leaders, few South Korean labor leaders have ever had the occasion to visit ARO headquarters. The second proposal in setting up a labor course in South Korea developed recently during various labor leaders' visits to countries where similar programs have been established. There is no doubt that an organized labor education course could appreciably help the South Korean labor movement in organization concept and operation. (WTB)

13. (UNCLASSIFIED) KIM Chu-hong Reelected Chairman of the Alliance of Railroad Workers' Unions (ARWU).

On October 28 and 29, 1959, 86 delegates of the railroad unions assembled at Chinju, Kyongsang Namdo for their annual convention to elect officers and conduct other business. KIM Chu-hong was reelected as Chairman, receiving over two thirds of the ballots cast. The charter was amended to change the number of Vice-Chairmen from 3 to an indefinite number and 5 were elected at this session. The delegates also voted to increase the payment of individual union members' dues from 40 hwan to 60 hwan per month to the Alliance. However, the amount of local dues assessed in each area union would still be determined by the local chairman. One resolution turned over to a study committee concerned the establishment of a Labor Eduction Center similar in concept to the Labor Education Center financed by the ICA aid program in the Philippines.

(CONFIDENTIAL) Comment: (A detailed report will follow by despatch). The convention began in a tense atmosphere with delegates of the anti-Kim Chu-hong faction sharply criticizing the recent election of the delegates from the Seoul area union. While prior indications pointed to a possible unseating of Kim as

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Chairman, in the showdown that developed at the meeting, Kim was supported for Chairman by a large enough number of delegates to leave him still clearly undisputed leader of the Railroad Union. Because of the tense atmosphere, the opening session was delayed one hour while leaders of both groups were lectured by the Chief of the Chinju police, who informed both sides that he wanted no roughhouse tactics during the Convention. While observers were permitted, one small group of the anti-Kim faction, led by KIM Yong-song of the Seoul Area Union, was barred from the Convention Hall as trouble-makers.

A Mr. YI of the Liberal Party's Organization Committee informed the Embassy officer present as an invited observer that the Party had decided to keep hands off from the factional dispute over the ARWU chairmanship. (WTB)

For the Chargé d'Affaires ad interim:

Robert W. Tucker
First Secretary of Embassy

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NOV 13 1959

FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL — 230 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : CERP - Korea, Section C, Item 1.

Action Assigned to NA/NAR November 13, 1959 DATE

Action Taken approved 11/59 NA/E

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	REC'D 11-17	INFO OTHER REP-1 RM/R-2 E-7 IRC-5 ICA-11 BNSC-3 MC-1 COM-12 USIA-10 TAR-2 TR-3 FRB-3 XMB-4 FRA-5 CAD-6 AG-8 LAB-5 AEC-9 CIA-16 OSD-2 OCB-2 ARMY-35 NAVY-28 AIR-30

SUBJECT: Weekly Economic Review No. 45.

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8. How to Create a Newsprint Shortage.
9. Fertilizer Import Program.
10. Estimate of 1959 Rice Crop Reduced but Still a Postwar Record.
11. Employees of U. S. Armed Forces Form New Union.

1. (UNCLASSIFIED) Press and ROK Government Reaction to Announcement of FY 1960 U. S. Economic Aid Level.

Although conditioned to expecting some reduction in the US FY 1960 Korean aid program in line with congressional cutbacks in the overall defense-support appropriation, announcement this week of a program of $180 million for the ROK (as compared with $210 million in 1959) was received with disappointment. Particular concern -- and confused interpretation -- has been reported in the press with respect to the stipulation that some part of the $180 million is to be financed from PL 480 or DLF funds. Minister of Reconstruction SIN Hyon-hwak at first informed the press that this stipulation was "erroneous" and that he would try to receive the $180 million "without any strings attached." However, in another press interview Minister Sin was optimistic that DLF loans and proceeds from possible shifts of agricultural imports from the MSP to PL 480 program could make up the loss in project or investment-type aid, including imports of industrial raw materials; he thought that any gap in the salables program could be made up through use of ROKG foreign exchange, so that the 1960 salables program would be at about the 1959 level of $175 million.

In a lengthy editorial on November 12 the Korea Times took a worried view of the situation, particularly as the reduced aid funds may affect imports of consumer goods, stating in part:

"We fear that the people's sacrifices made hitherto for the sake of stability

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of government budgets and prices will be rendered fruitless, and that the people will again suffer from the ravaging effects of inflation."

In addition to calling for a tightening of governmental policies concerning the management of its foreign currency reserves, the Times looks to an expansion in exports as the key to economic salvation:

"It is imperative that our government and our people should search for measures to beef up exports by a substantial amount. Improvement in the balance of international payments situation is the sole royal road to Korea's self-sufficiency and prosperity."

Finance Minister SONG In-sang has taken a somewhat calmer view, at least publicly. Although recognizing that the new program falls short of ROKG expectations by $10-20 million, he told reporters that "...the discrepancy can largely be offset with further promotion of exports, acquisition of more U. S. development loans, and imports of surplus agricultural commodities under the PL 480 program...the full impact...will not be felt until late in 1960 because backlog goods purchased with previous years' aid allocations will still be flowing in for some time to come."

To allay public apprehensions and misunderstandings, USOM Director Moyer held a press conference Thursday afternoon, in which he explained the possibilities for maintaining an adequate overall level through utilization of supplementary programs, such as DLF and PL 480.

The government-owned Korean Republic withheld editorial comment until November 13. Excerpts --

"...we want the American Government and people to know that the amount is insufficient to the need. The cutback from more than 300 million in 1955-56 and 1956-57 has been too rapid. Korean economic recovery has not kept pace with such slashes...

"...The task is to solidify those /recent years'/ gains and move onto a plateau of semi-self-sufficiency. At that point it will be possible to reduce aid materially and still devote a relatively largeshare of the national product to the requirements of defense.

"Such a time is not yet, however, and we hope that the United States will realize this, and not be penny-wise and dollar-foolish in cutting back too fast..." (EG)

2. (UNCLASSIFIED) Prices of Export Dollars Rise.

Immediately following announcement of the reduced FY 1960 aid level, the bidding price for export dollars for areas other than Japan went up by 20 hwan. The current rate for letter-of-credit transactions is 1,260 hwan per $1 and for deferred-payment transactions 1,180 per $1. This development may portend a spate of speculative competition among traders in anticipation of foreign exchange shortages. Bidding prices for missionary and USAPAK dollars also rose by 20 hwan. (EG)

3. (UNCLASSIFIED) Assembly Committee Passes Improved Foreign Investment Bill.

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The National Assembly's Finance and Economy Committee, according to the Korea Times of November 13, yesterday passed the "Foreign Investment Encouragement" Bill with a "slight" revision. It raised the maximum amount of remittable profits per annum from 15 percent of invested foreign capital to 20 percent. The bill must next be considered by the Commerce and Industry Committee and by the Judiciary and Legislative Committee before receiving consideration at a plenary session of the National Assembly.

Another press report indicates that the Finance and Economy Committee has removed from the bill the controversial requirement that types of industries that may benefit from the advantages offered by the bill must be specified by Presidential decree (thus possibly limiting the scope of inducements to foreign capital).

(OFFICIAL USE ONLY) Comment: After 14 months of repose in the National Assembly's hopper, and some additional months preceding in the creation and consideration stage, the Foreign Investment Bill now appears to be close to enactment. The two reported changes --/if they survive further committee and Assembly scrutiny -- are more than "slight" revisions and would be real improvements to the bill as originally submitted. (RWT)

4. (UNCLASSIFIED) New BOK Loan Limits and Rediscount Rates.

On November 5 the Monetary Board decided to relax its tight control on commercial bank loans made on August 21 as one measure in an effort to hold down the money supply, whereby individual loans in excess of 10 million hwan would be subject to review by the Bank of Korea. Effective November 6 the BOK will be required to review only those individual loans in excess of 30 million hwan, the limit in effect prior to August 21.

At the same time the Monetary Board announced that the BOK's interest rate for loans on commercial bills is being increased from 7.3 percent to 10.22 percent per annum, and the rediscount rate is also being raised from 6.57 percent to 7.3 percent.

(UNCLASSIFIED) Comment: There has been some grumbling reported in the press by the commercial banks that the benefits derived from the increase in the non-reviewed loan limit have been largely cancelled by the rise in BOK interest and rediscount rates. The ROK money supply as of October 15 is reported to have declined to 198.9 billion hwan (down 1.74 billion hwan in 15 days), the lowest figure for 1959 to date except for that of August 31, which was 197.9 billion. The Monetary Board obviously feels that the loan limit raise could be risked in view of the general declining trend of the money supply since the first quarter of the year. (RWT)

5. (UNCLASSIFIED) Seoul Wholesale Price Index Climbs to 132.

On November 6, the Seoul wholesale price index rose to 132.0 (September 1955 equals 100), an increase of 1.5 percent over the preceding week with nearly all elements of the index participating in the increase. Grain prices reversed a declining trend from early October to increase by 0.9 percent during the week. Other leading elements in the price rises were: fuel-up 3.1 percent; meat, eggs and fish - 2.6 percent; and textile raw materials - 1.2 percent.

(UNCLASSIFIED) Comment: Grain prices are believed to have gone up as a result of the announcement of the new fall rice lien program (Weekly Economic Review No. 44).

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Non-grain prices as a group advanced 1.8 percent during the week to maintain the continuous climb since mid-July. The index for November 6 was compiled before announcement of the U. S. economic aid program for FY 1960 (see above) and it will be of considerable interest to observe the initial reaction of prices to the appreciable decrease in dollar assistance. (RWT)

6. (UNCLASSIFIED) OAE Requests Importation of Radioisotopes in 1960.

The Office of Atomic Energy, according to the Economic Press of November 7, has requested the Ministry of Commerce and Industry to include in the first half of 1960 import program radioisotopes and 68 other items to be used for experimental purposes. The request for $540,490 worth of imports covers OAE needs for scientific equipment and supplies during the period and includes, in addition to the radioisotopes, "equipment and supplies for prospecting radioactive minerals" and general laboratory equipment for experimental purposes.

(UNCLASSIFIED) Comment: This move involves two "firsts": the initial use of radioisotopes in the ROK and the commencement of prospecting for fissionable materials under ROK Government auspices. (RWT)

7. (UNCLASSIFIED) Korea-Hong Kong Airline Service Discussed.

Newspaper accounts indicate that the Ministry of Foreign Affairs and the British Embassy are negotiating a resumption of air service between Korea and Hong Kong. Such service has been suspended since July (Weekly Economic Review No. 29, item 4) because Korea would not permit convertibility of hwan earned by Cathay Pacific or its predecessor Hong Kong Airways to dollars or sterling.

(OFFICIAL USE ONLY) Comment: The British Commercial Attaché has informed the Embassy that the newspaper accounts are only partly right in that discussions have been held on the subject, but that those discussions cannot really be termed negotiations in light of the stalemate on convertibility. KNA now operates to Taipei and Cathay Pacific Airways (CPA) reserves a fixed number of seats for KNA passengers from Taipei to Hong Kong. The British Commercial Attache has informed the Embassy that the one concession the British have offered the Koreans is that convertibility may be limited to that portion of the fares for travel as far as Hong Kong and that fares for travel beyond Hong Kong need not be guaranteed convertibility. The Koreans are reportedly now considering the advisability of accepting this proposal. In the meantime the agreement between Korea and the British continues to be suspended. (JAC)

8. (UNCLASSIFIED) How to Create a Newsprint Shortage.

A long editorial in the Korea Times of November 13 indicates that Korean newspapers are presently "reduced to great straits because of the shortage of newsprint." The editorial continues that in addition to the fact that the price of newsprint has "soared" nearly 40 percent in the past year, the deficiency of supply is so acute that many members of the Korean Newspaper Publishers Association are considering a cutback of the weekly pages from the present 56 to 28. The editorial estimates newspaper consumption of newsprint in the ROK at 60 tons daily, slightly higher than domestic production capacity, but paper plants have actually been providing only some 30 tons daily, necessitating imports of over 10,000 tons per year.

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While acknowledging that export dollars and ROK Government-held dollars would be available to newspapers for importing needed newsprint, the editorial argues that newspapers are public utilities and should not be required to pay for imported raw materials on the same basis as "luxury goods." The editorial concludes that ICA aid dollars, to the extent of $2 million for about 10,000 tons of newsprint, should be provided annually to the newspapers on a specified end-user basis and expresses the belief that "American aid authorities will not be miserly over providing newsprint, raw material of democracy."

(OFFICIAL USE ONLY) Comment: This bleeding heart approach was undoubtedly inspired by Mr. CHANG Ki-yong, publisher and president of the Korea Times and its much larger vernacular sister daily, the Hanguk Ilbo. For several weeks now Mr. Chang has been contacting top officials of the Embassy, USIS and USOM to urge greatly increased aid allocations for the import of newsprint on a specified end-user basis as was the practice in 1958 and preceding years. This enabled Korean newspapers to buy imported newsprint at minimum hwan exchange rates (500 to 1) and effectively subsidized their operations. This year the USOM has insisted upon competitive bidding for the $500,000 newsprint dollar allocation which will undoubtedly cost the newspapers more and reduce the subsidized element of their profits. USOM officials estimate that with the $500,000 allocation for FY 1960 newsprint stocks in the ROK should reach the equivalent of 1½ year's supply. Some of this is in the hands of speculators and others who are demanding more for newsprint than the newspapers care to pay. Possibly some action is in order on the part of the Korean Government to pry this loose at reasonable prices to the newspapers. However, the newsprint shortage is nonexistent and the cries of distress from Chang and other newspaper publishers seem to be inspired by the motive of profit, rather than by nobler desires to advance democracy. (RWT)

9. (UNCLASSIFIED) Fertilizer Import Program.

Long disagreement over governmental vs. commercial procurement and distribution of aid-financed fertilizer during US FY 1960 was finally resolved with the proportions established at 60% for ROK Government procurement and 40% through private trade channels. This compares with last year's ratio of 70-30.

(OFFICIAL USE ONLY) Comment: The advance to 40% commercial procurement represents a minor victory from the point of view of promotion of free enterprise concepts, and a considerable retreat from initial Ministry of Agriculture and Forestry demands for 100% governmental procurement. The long debate, however, comes dangerously close to jeopardizing the availability of adequate supplies for early spring land-preparation. Although ROK representatives to the Combined Economic Board have long committed themselves to the acceptance of gradual conversion of fertilizer procurement from government to private trade, in recent years they have in practice balked each autumn when the issue arose. Undoubtedly, the debate with USOM representatives was particularly difficult this year because of the ROK Government desire to maintain a maximum of subsidization in government sales of fertilizer (through operation of the unrealistic legal exchange rate of 500 hwan to the $1.00 U. S.) in order to assure farmer votes for the Liberal Party in the forthcoming Presidential election of spring 1960. (EG & RWT)

10. (UNCLASSIFIED) Estimate of 1959 Rice Crop Reduced but Still a Postwar Record.

The most recent estimate of the current rice crop, as compiled by the Ministry

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of Agriculture and Forestry, places production at 16,601,438 polished suk (about 2,390,600 metric tons, or 82.3 million bushels). This estimate slightly exceeds the bumper crop of 1958 (by 6,000 suk) and represents an increase of 9.8% over the yearly average of 1954-58. It falls slightly short (by 3%) of the goal established for 1959 production owing chiefly to damages incurred by Typhoon Sarah on September 17. Nevertheless, the crop will again set a post-1945 record.

11. (UNCLASSIFIED) Employees of U. S. Armed Forces Form New Union.

At a meeting held in Seoul on November 8, representatives of Korean employees of the U. S. armed forces in Seoul, Ascom, P'aju, Tongtuch'on and Uijongbu organized a new national union. The following resolution was also adopted:

1. American military authorities should suspend local personnel reduction plans and reinstate employees already released;

2. Wage rates should be doubled;

3. The union opposes American military plans to contract out certain services;

4. U. S. military authorities should recognize the union as negotiating representative of the Korean employees.

(OFFICIAL USE ONLY) Comment: Recent reduction in the number of local employees and U. S. military plans to contract out certain services (guards, laborers, etc.) may have stimulated these employees to organize in order to protect job security. The President of the new union, YI Kwang-Cho, recently returned from the U. S. on specialist grant, and CHI Sung-Chun, Secretary General, claim total membership of 18,000 in five local unions. This figure no doubt is exaggerated, nor is it certain the local unions have more than an informal organization. (MC)

For the Charge d'Affaires ad interim:

Robert W. Tucker
First Secretary of Embassy

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TO : THE DEPARTMENT OF STATE, WASHINGTON.

November 20, 1959
DATE

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27	FE-6	REP-1 RM/R-2 E-7 IRC-15 ICA-11
	REC'D 11-23	INFO OTHER COM-12 USIA-10 AG-8 TR-3 FAB-3 ~~XM/3~~ ~~FAR-2~~ LAB-5 ARMY-35 NAVY-20 ~~AIR-30~~ CIA-16 OCD-3 OCB-2

Action Taken
Appraisal made
OMD-12/3/59

Date of Action
NAL

Action Office Symbol

SUBJECT: Weekly Economic Review No. 46.

FM Davenport
File

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5. More Liberal Trade Program Expected.
6. To Export or Not to Export.
7. Miscellaneous Export Developments.
8. Trade Fair Participation Being Improved.
9. Clean Automobile Campaign.
10. Government-Controlled Grain Program.
11. FKTU 1958 Convention Action Nullified by Civil Court.

1. (UNCLASSIFIED) Further Reactions to Announcement of FY 1960 U. S. Aid Level.

Efforts of USOM to clarify the composition of the FY 1960 aid program have been reflected in a lessening of confused and erroneous interpretations in the local press. At a press interview which received wide and fairly accurate coverage, Minister of Reconstruction SIN Hyon-hwak reportedly summed up the current status as follows: 1) no part of the $180 million total of defense support funds will be shifted to PL 480; some question remains as to any shift of project funds to DLF financing, although Minister Sin expressed doubt concerning eligibility of any planned DS projects for financing under DLF; the Minister will push for a maximum portion (possibly $10 - 12 million) of Section 402 (Agricultural) funds to be diverted to triangular imports, under FCA procedures, of more essential industrial goods; about $170 million would be used for saleables imports, and of the remaining $10 million only about $4 million would be available for investment projects, since $6 million is required for service and management contracts.

Taking cognizance of the reduced aid level, President RHEE at a Cabinet meeting instructed the Ministers of Finance and Reconstruction to draw up a long-range program for economic development. Finance Minister SONG Ih-sang stated that such a program should center on: 1) promotion of exports; 2) increased gold production; 3) expansion of tourism; 4) increased participation in DLF and foreign investment.

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According to the Hanguk Ilbo of November 19 the Ministry of Finance now plans to release about $10 million more of ROK Government-controlled foreign exchange (KFX) for auctioning in two installments during November and December of this year. The avowed purpose of these auctions will be to control the money supply through the close of 1959, stabilize commodity prices and "improve the financial situation."

(UNCLASSIFIED) Comment: If these KFX sales materialize it appears that the reduction in the U. S. aid program for FY 1960 may have forced a reversal of a previous decision not to auction any more KFX during the remainder of 1959. (See Comment, Item 4, Weekly Economic Review No. 44) (EG and RWT)

2. (UNCLASSIFIED) Prices of Export Dollars Leveling Off.

The speculative rise in hwan offerings for the various categories of export dollars which developed following announcement of the reduced FY 1960 aid level (See Weekly Economic Review No. 45), has begun to subside. Quotations for most categories as of November 19 had declined to the approximate levels that prevailed before the announcement on the 10th:

	Nov. 10	Nov. 14	Nov. 19
	(Hwan per dollar)		
Letter/Credit, non-Japan	1,270	1,380	1,160
Missionary	1,125	1,220	960
Service	1,125	1,220	1,140
MPC	1,160	1,210	1,210
Greenbacks	1,260	1,280	1,290

(UNCLASSIFIED) Comment: In addition to reflecting calmer reactions to the aid announcement, the decline in black- and free-market quotations for dollars may be influenced by ROKG consideration of holding public auctions of government-held foreign exchange before the end of the year. (EG)

3. (UNCLASSIFIED) "Tourist" Exchange Rate to Be Established.

Finance Minister SONG In-sang announced on November 17 that the Government would establish a "tourist" rate of exchange for foreign tourists in Korea and the personnel of the United Nations Command. The press reported the Minister as saying that the intent of the new rate is to increase Korea's foreign exchange earnings to offset the sharp cut in the volume of American aid available for this year. Purchases of local currency by the UN Command to meet its local expenses, however, would continue to be made at the official rate of 500 hwan to the dollar. Press reports speculate that the tourist rate will be in the neighborhood of 850 - 1,050 hwan to the dollar, although no specific rate has as yet been fixed. The Monetary Board is reportedly being consulted on both the rate and the implementation of the new rates applicability.

(OFFICIAL USE ONLY) Comment: The Embassy has been urging the creation of such a special rate for resident foreigners and tourists in Korea for well over a year but it was apparently only recently that President RHEE has given his undoubtedly

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grudging assent. The Ministry of Finance is currently thinking of applying the new rate to personal expenditures of all tourists and resident foreigners except businessmen and, perhaps, missionaries. (Although "missionary dollars" are supposed to be used only for official expenses of religious organizations, they are frequently used for personal expenses as well). The Embassy, however, will urge that the new rate be made available to all resident foreigners since there is no valid reason for excluding the businessmen or any other group from its benefits.

It may be two weeks or more before the Monetary Board acts to specify regulations for the new rate. Currently the Ministry of Finance is considering having the tourist rate fluctuate with market demand but with a fixed maximum and minimum. Hwan purchases with tourist dollars will be made at commercial banks and not, as is now the case for all legal foreign exchange transactions, at the Bank of Korea.

Presuming that personal expenditures of the foreign business community are eventually also covered by the tourist exchange rate, the legal base rate of 500 to 1 will, after institution of the new rate, be applicable only to official expenditures of foreign institutions (e.g. the embassies, USOM, UN Command, foreign firms, etc.) in Korea and to counterpart fund payments for U. S. aid dollars. This should go a long way -- depending upon what actual rate is selected for the tourist dollar -- toward eliminating black market sales from American Post Exchanges in the ROK (although certain otherwise unobtainable luxuries probably will still command premium prices), and in laying a base for possible expansion of tourism.

Undoubtedly one of the prime reasons that the ROK Government has announced creation of the tourist rate at this time is the hope that this action will dissuade U. S. officials from pressing for a change in what remains of the 500 to 1 rate.
(RWT and JAC)

4. (UNCLASSIFIED) Will the Tourist Rate Attract Tourists?

According to a press statement attributed to a visiting tourist expert in Korea, foreign exchange in the magnitude of $5 million annually may be earned by Korea from tourism attracted by the special rate of exchange. Last year, ended June 30, 1959, saw 9,533 tourists in Korea, according to the Ministry of Transportation, resulting in foreign exchange earnings of $1.5 million. Most of these visitors (7,063) came from the United States. Private tourist facilities, according to the expert, would have to be improved.

(OFFICIAL USE ONLY) Comment: The Embassy agrees that a special tourist rate will help to increase visits to Korea by tourists. It is doubtful, however, that the rate will earn as much as $5 million from tourists alone in the near future. A number of other facilities such as good hotels and restaurants, would have to be provided before Korea can become an attraction for visitors. The largest share of the 9,533 tourist figure used by the Ministry of Transportation is believed to consist of businessmen who come to Korea for business purposes and not for vacations or sightseeing. Moreover, the $1.5 million dollars earned from these visitors was largely dollar payments at the Government owned and operated Bando Hotel, which refuses to accept hwan and where prices remain notoriously high. These visitors,

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however, may increase Korea's dollar earnings by utilizing the legal tourist rate through the banking system rather than the blackmarket rate for their limited hwan needs.

It is very likely that the Korean Government will now seek once again financial assistance from the United States to build and modernize hotels and other facilities. This assistance has been denied in the past principally because the official rate of exchange applicable to tourists made the realization of a tourist trade unlikely.
(JAC)

5. (UNCLASSIFIED) More Liberal Trade Program Expected.

According to various reports emanating from the Ministry of Commerce and Industry, the trade program for the first half of 1960 will be more liberal than heretofore. This reported greater liberalization is aimed at increasing foreign exchange earnings to help defray what is termed a drastic reduction in American grant aid. Among the changes expected to be made in the new trade program are:

1. The addition of new items to the list of "encouraged" export items with preferential treatment accorded use of proceeds.

2. A shift of more commodities from the specific to the automatic approval list.

3. A priority allocation of exchange to traders with outstanding export records.

4. Encouragement of barter trade in certain commodities.

(OFFICIAL USE ONLY) Comment: These and other measures may receive more serious consideration than they have in the past simply because the necessity to export has become more important with the cutback in aid. To what extent these measures will actually be implemented, however, remains to be seen. For example, the floor price on rice was removed earlier this year so that the grain may be sold at any reasonable market price. The trade mission to the Ryukyus, according to the chief of the mission, received an offer of $147 per ton as a counteroffer to the asking price of $155 for up to 5,000 tons. The Ryukyus is sending a mission to Korea at the end of this month to negotiate the price. The Koreans plan to compromise at approximately $151 per ton. If they are inflexible on this position, they may well lose the sale while saving face.
(JAC)

6. (UNCLASSIFIED) To Export or Not to Export.

The Hankuk Ilbo, in an article on November 16, raised some serious questions concerning the Korean Government's sincerity in promoting exports. Noting the cut in American aid to Korea and the need to offset this cut with export earnings, it deplored the current situation in which Minister Song advocates the "study" of comprehensive measures to improve the "international balance sheet to cope with the cuts in aid." The criticism against Minister Song's proposal is that a multitude of measures to promote exports have been discussed for the past ten years and that now

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is the time to act rather than to study. In connection with Song's intention to establish an International Balance Sub-Committee in the Finance and Banking Committee and four smaller subcommittees to deal with promotion of exports and other trade problems, the newspaper points out that there already exists an Export Promotion Committee in the CEB as well as the Economic Development Council. Consequently there is no need for more committees. Traders are doubtful, according to the paper, as to whether the Government will actually attempt to promote exports.

(OFFICIAL USE ONLY) Comment: It is true that export promotion measures have been considered for some time now, particularly in the Ministry of Commerce and Industry and more recently in the Export Promotion Committee. These measures, however, are for the large part still under study. Whether new committees are necessary to consider the measures is doubtful. The Embassy believes that perhaps the greatest export incentive for the Government was created by the announcement of the latest reduction in U. S. aid. Now, perhaps, the Korean Government will pay more than lip service to export promotion measures and transfer them from the study stage to the working stage. (JAC)

7. (UNCLASSIFIED) Miscellaneous Export Developments.

According to the Ministry of Commerce and Industry (MCI), as quoted in the Chosun Ilbo of November 18, Korean exports in 1960 are expected to attain $30 million, an increase of $5 million over the $25 million anticipated for this year. As of the close of October ROK exports are estimated at about $20 million. The MCI is holding a series of meetings with traders specializing in the Hong Kong and European markets to explore ways and means to boost Korean exports to these areas, and away from Japan.

On approximately the same date the Office of Monopoly announced the sale of 400 metric tons of leaf tobacco valued at $200,000 to a West German firm, and the Korean Fresh Fish Exporters Guild submitted a request to the MCI for permits to export $850,000 worth of fresh fish to Japan, pointing out that government delay in permitting the proposed export "could possibly bring about difficulties in maintaining the price of fresh fish on the domestic market."

(UNCLASSIFIED) Comment: The MCI's forecast of 1959 and 1960 exports appears to be far more modest and realistic than is its wont. (RWT)

8. (UNCLASSIFIED) Trade Fair Participation Being Improved.

The Embassy and USOM, in providing assistance to trade fair visitors from the United States, have utilized the presence of those officials to help in convincing the Korean Government that its participation in fairs should be improved for better results. Both Mr. Richard REVNES of the Chicago International Trade Fair and Mr. Charles WIGGINS of the Seattle International Trade Fair were cooperative and, after briefings from the Embassy and a USOM contract officer in design and handicraft work, did a remarkably good job in pointing out to government and private Korean officials how best to participate in fairs. As a result the Korean Government is expected to participate in both fairs in 1960 with a greater variety of products and, more importantly, with privately rented booths as well as a Government booth.

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The feature of souvenir selling at the fair appears to have interested most of the people contacted. (JAC)

9. (UNCLASSIFIED) Clean Automobile Campaign.

On November 18 an American businessman resident in Seoul had his jeep impounded by a traffic policeman in front of the American Embassy because the vehicle needed re-painting in the judgement of the officer. The jeep was released after representations by the American Consul on condition that the businessman would have it painted the following day. It appears that the National Police have been conducting a campaign to have motorists keep their vehicles in "clean" condition. Thus far the Embassy knows of only two vehicles for which the police required new paint jobs -- both of them were owned by foreigners.

(OFFICIAL USE ONLY) Comment: The Embassy is still attempting to obtain clarification of the regulation or rule governing this campaign, which reportedly was announced in the vernacular press. An Embassy officer examined the jeep of the American before it was painted and found that it was in far better condition than many other jeeps which are still free to travel on the streets of Seoul. The Embassy can have no objection to a campaign of this type in Korea if it is equally applicable to Koreans. Unfortunately, this appears to be one more example of police discrimination against foreigners, and especially American businessmen. (JAC)

10. (UNCLASSIFIED) Government-Controlled Grain Program.

Supply-demand estimates of grain under the Government's Controlled Food Program for food year 1960 (November 1, 1959 - October 31, 1960) were submitted to the State Council and will later be considered by the National Assembly. The program, administered by the Ministry of Agriculture and Forestry, will not utilize imported grain and contemplates maintenance of large reserves for market control and stocks. Reserve grains will be held largely in rice, under MAF's plan to encourage farmers to consume more miscellaneous grains while meeting their in-kind tax and other payments in rice. By expanded rice collections, the Government hopes to maintain better control of rice prices. The proposed program is summarized below (in units of 1,000 suks):

	Rice	Miscellaneous Grains	Total
Demand:			
Armed Forces	1,069	286	1,355
Gov-operated facilities 1/	65	144	209
Market control	107	166	273
Other	5	854	859
Reserve	1,371	400	1,771
Total	2,617	1,850	4,467

1/ Includes public welfare institutions, prisons, relief.

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Supply:	Rice	Miscellaneous Grains	Total
Carry-over	776	1,530	2,306
Land tax	900	-	900
Exchange grains	300	-	300
Summer grains	-	320	320
Grain loans	500	-	500
Other	141	-	141
Total	2,617	1,850	4,467

(EG)

11. (UNCLASSIFIED) FKTU 1958 Convention Action Nullified by Civil Court.

The Seoul District Court ruled on November 17 that action of the Eleventh Federation of Korean Trade Unions (FKTU) national convention, held in Pusan in October 1958 to amend the FKTU constitution was null and void following a complaint lodged by KIM Mal-yong and NO ung-Byok. Kim Mal-yong is currently chairman of the newly organized National Council of Trade Unions, while No headed the United Coal Mine Workers Union until he was expelled last July. Both are members of the CHON Tae Chong faction.

The Complainants charged that the Pusan convention was conducted illegally since (1) the convention revised the charter replacing the previous five man supreme committee system with a one-man presidential system without giving the required two week advance notice of intention in the convention agenda; (2) the convention was attended by only 329 labor representatives, eleven short of the required quorum; and (3) more than 180 of the representatives present were "ghosts".

(OFFICIAL USE ONLY) Comment: The only clear fact that emerges out of the confused comments from FKTU leadership on this event is that the case had not been considered seriously and that the FKTU, with what appears to be farcical bungling, left its defense in the hands of the then General Secretary, YI Chu Ki. Yi, who later joined the Chon faction, was expelled from the FKTU, presumably for embezzlement. The newly-appointed legal adviser, KWAK Myung Duk, states that he had not been apprised of the pending court action even though it has been in process for a year, but is confident that after appeal a superior court will reverse the decision. Meanwhile, union business will go on as usual, (since an appeal will have the effect of suspending the lower court's decision) although the court ruling may furnish the anti-FKTU forces apparent substance to their corruption charges. (MC)

For the Chargé d'Affaires ad interim:

Robert W. Tucker
Robert W. Tucker
First Secretary of Embassy

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TO : THE DEPARTMENT OF STATE, WASHINGTON.

Action Assigned to AA/C
November 27, 1959
Action Taken

REF : CERP - Korea, Section C, Item 1.

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	REC'D 11-30	INFO OTHER USIA-10 COM-12 TA-3 XAB-4 FRB-3 TAR-2 Armbo 8 LAB-1 IN-7 ARMY-35 NAVY-25 AIR-30 CIA-16 OSD-2 OCB-1 Dunford FAA-5 CAB-6

SUBJECT: Weekly Economic Review No. 47.

Contents

1. Limited Resumption of Exports to Japan.
2. DLF Program of $206 Million to Be Proposed.
3. NWA Fifth Frequency (Tokyo-Seoul) Still Undecided.
4. Tax Revisions Considered.
5. October Coal Production Sets New Record.
6. Rice Lien Program Moving Slowly.
7. Pension Bill Defeated in National Assembly.
8. Violations of Labor Laws.
9. Longshoremen Demonstrate at Inchon.

1. (UNCLASSIFIED) Limited Resumption of Exports to Japan.

After weeks of delay the ROK Government announced on November 26 that certain pending export applications from Japan would be fulfilled, although this action is not to be construed as a complete resumption of trade. The exports involved reportedly total about $1 million in anthracite ($348,378), amorphous graphite ($156,876) and fresh fish ($438,108). Commerce and Industry Minister KU Yong-so reiterated the oft-repeated caveat that full resumption of ROK-Japan trade will be dependent upon Japan's willingness to purchase Korean rice, and unblocking $3.7 million frozen balances in the open account accumulated at the time of the June 15 trade suspension.
(EG)

2. (UNCLASSIFIED) DLF Program of $206 Million to Be Proposed.

The local press reports that the ROK Government has compiled a program covering 35 projects and totaling $206 million, which it intends to propose for DLF financing. Included among the projects are 3 totaling $42 million for the development of natural resources, 22 totaling $141 million for mining and industry, and 10 totaling $23 million for transportation and miscellaneous facilities. Thirteen of the projects are government-sponsored and include: a thermoelectric power plant, a hydroelectric plant, and another (third) fertilizer plant. The privately sponsored projects include manufacturing and processing facilities for dairy products, sugar beets, cork, and whale oil; funds are also to be requested for the development of privately owned tin and nickel mines and for construction of silos.

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(UNCLASSIFIED) Comment: A DLF loan agreement signed this week, $5.6 million for construction of a soda ash plant, brings the total loans thus far approved for Korea to $12.7 million. In view of the modest performance to date, the $206 million program cited above appears ambitious in the extreme. (EG)

3. (OFFICIAL USE ONLY) NWA Fifth Frequency (Tokyo-Seoul) Still Undecided.

Further representations were made this week by the Embassy to ROK Government officials on Northwest Airlines' plan to institute a fifth frequency into Seoul from Tokyo (Weekly Economic Review No. 38). At this meeting the Embassy pointed out once again that permission should be granted automatically by the ROK Government and that the question of capacity and demand should not come up at this time. Since, however, the ROK's were studying the need for a fifth frequency, the Embassy presented statistics to indicate, among other things, that weight load factors on flights have averaged 95 percent for the past two months, that APO mail offers had to be rejected by NWA, and that mail and cargo has been delayed. These and other factors clearly demonstrate the need for another frequency.

The Koreans promised to conclude their study in a few days, taking into consideration the statistics concerning mail, cargo, and load factors.

(OFFICIAL USE ONLY) Comment: A Korea Times article reported on November 27 that five cabinet ministers had met on the 26th and decided to turn down NWA's request for a fifth frequency. One of the ministers was reported to have favored Pan American service to Korea if additional service is required. The Ministry of Foreign Affairs telephoned the Embassy to deny the validity of the newspaper comment and to report that no action has as yet been taken on the question. This newspaper account may very well have been speculation on the part of the Korea Times, as the Ministry of Foreign Affairs has suggested. It may also have been an intentional leak on the part of one of the Ministers in an attempt to influence a final decision. Whatever the intent, an official decision should be forthcoming in the very near future. (JAC)

4. (UNCLASSIFIED) Tax Revisions Considered.

The Cabinet was reported in the press as having approved certain changes affecting the Theater Admission Tax, the Entertainment, Drink and Food Tax, the Stamp Tax and the Land Income Tax. Four bills amending the taxes are expected to be sent to the National Assembly for consideration. An important change in the Admission Tax consists of a reduction in the rate on foreign motion pictures from 115 percent of the admission price to 30/130ths of total ticket proceeds (about 23%). At the same time a new tax on locally produced films will be established at 10/110ths of box office proceeds (about 9%). At present domestic films may be shown without the payment of an admission tax.

(UNCLASSIFIED) Comment: The revision proposed by the Tax Advisory Group under contract to the Ministry of Finance was one of reducing the Admission tax on foreign films to 60 percent and the institution of a tax on domestic films at the rate of 20 percent. The Ministry of Finance has apparently reduced these rates further but has preserved the discriminatory feature in the rates. Although full details of the

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changes in the other revisions are not yet available, press accounts indicate that the basic change is one of providing a specific rate, rather than an ad valorem rate, on establishments providing entertainment, drink and food. The land income tax revision appears to be one which entitles the farmer to a 10% discount if he pays his tax before the deadline date. (JAC)

5. (UNCLASSIFIED) October Coal Production Sets New Record.

The Ministry of Commerce and Industry (MCI) announced November 24 that anthracite coal production of both government-controlled and privately operated mines broke all previous records during October. Output of the six mines run by the ROK Government's Dai Han Coal Corporation totalled 201,374 metric tons, or a startling 23 percent increase over the government's target production. Dai Han's previous monthly record, attained in September 1959, was 175,540 tons. Private mines produced 207,706 tons of anthracite in October, also a new record and 14 percent over the government's forecast for the month. During the Japanese occupation prior to 1945 these same mines produced only an average of 80,000 tons per month.

Officials of the MCI ascribed increased production to improved managerial efficiency and better planning by the government ministries concerned in hauling coal to consumption areas at the right times. Prices of anthracite briquettes, which have become a staple household fuel in place of firewood, have been stabilized between 55 and 60 hwan a piece and the MCI guarantees there will be no shortage of supply this winter.

(UNCLASSIFIED) Comment: Undoubtedly improved productivity of the mines and the furnishing of more modern equipment and technical assistance under the ICA aid program merit considerable credit for this improvement, although the MCI made no mention of these factors. (RWT)

6. (UNCLASSIFIED) Rice Lien Program Moving Slowly.

The 1959-60 rice lien program has been very slow in getting under way, reportedly due to the reluctance of the Ministry of Agriculture and Forestry to put into effect the plan as adopted by the CEB (Weekly Economic Review No. 44). As presently implemented, farmers are being offered the same terms as under last year's program, i.e. farmers owing fertilizer debts receive 10,000 hwan per suk in cash and a matching amount in credit against their debts; debt-free farmers are loaned 20,000 per suk on the pledged rice. Unless more counterpart is made available for financing the program than was initially announced (11.5 billion hwan) the total rice taken under lien will fall short of the announced 1.5 million suk. Current collections are reported at only some 16,000 suk, against 600,000 suk scheduled for November.

(UNCLASSIFIED) Comment: The CEB agreement specified that no more than 10,000 hwan per suk in cash would be paid to farmers as a loan regardless of whether debts were owed for government-distributed fertilizer. (EG)

7. (UNCLASSIFIED) Pension Bill Defeated in National Assembly.

The Ministry of Health and Social Affairs' ambitious unemployment insurance

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and pension bill was turned down by the Health and Social Affairs Committee of the National Assembly during budgetary hearings. Complete details on this bill have not been made public, but it appears that the Ministry of Social Affairs had initially proposed an unemployment insurance and pension bill which would have included all workers in establishments employing 10 or more persons. This plan had been proposed to become effective 1961. Costs, presumably, would be covered by contributions from the employer, employee, and the Government.

(UNCLASSIFIED) Comment: It appears that this bill was turned down for budgetary reasons, but in its stead the administration proposed an alternate bill, a pension system for Government employees and military personnel. In addition, the HSA Committee approved funds to conduct a study of possible costs of the broader bill, postponing the issue into the future. The pension system for Government employees and military personnel will very likely receive little effective opposition in the Assembly. (MC)

8. (UNCLASSIFIED) Violations of Labor Laws.

The Labor Bureau of the Ministry of Health and Social Affairs disclosed that as of October 15, 1959, there were during the current year 1,448 violations of the Labor Standard Law. This number compared with 235 cases disclosed the previous year. The principal violations involved excessive hours worked by women and children, and insufficient rest periods. The Labor Bureau stated that all but 82 of the cases were settled.

Following a survey conducted by the Seoul Vocational Guidance Council, the Seoul City Government cracked down on three local firms ordering them to comply with the provisions of the 1956 Military Assistance Law. In part, this law requires that firms employing 30 or more workers shall employ a 10% proportion of veterans.

(UNCLASSIFIED) Comment: The great increase in violations for 1959 compared with the previous year stems not from an increase in the violations committed, but from improved investigative procedures employed by the Labor Bureau. (MC)

9. (UNCLASSIFIED) Longshoremen Demonstrate at Inchon.

Approximately 300 longshoremen marched through the streets of Inchon November 24 carrying placards protesting "conspiratorial bidding" among private contractors for U. S. Army labor service contracts.

(UNCLASSIFIED) Comment: Letting of labor service contracts to private contractors is a sore point for the labor unions, which fear that under the U. S. Army's competitive bidding longshoremen's wages will be depressed. Although the demonstration was aimed at the private contractors, it is significant that the line of march passed in front of U. S. military headquarters. (MC)

For the Charge d'Affaires ad interim:

Robert W. Tucker
Robert W. Tucker
First Secretary of Embassy

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FROM : AmEmbassy, SEOUL — 265 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — November 30, 1959 DATE

REF : CERP Korea, C-2

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	REC'D 12-7	OTHER CIA-10 *Lab-5 *Tav-2 TR-3 FRB-3

SUBJECT: Quarterly Economic Summary - July-September 1959, Republic of Korea.

USIA-10 NAVY-3 *IMB-4 AF-8 ARMY-8

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Summary

The third quarter of 1959 opened with a large black cloud hanging over the economy of the Republic of Korea - the decision of the Government to suspend trade with Japan. During the quarter some figurative rays of economic sunshine broke through the cloud, but the period ended with the very real aftermath of Typhoon Sarah which struck on September 17.

Industrial production in the ROK reached an all-time high during July-September, but growth appeared to be slowing since the third quarter's output was only

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was only 2.2 percent above that of the same period of 1958, as compared to a 4 percent growth rate in January-June 1959. Further, production in September slumped 6.5 percent from the preceding month and only held its own with the output of September 1958. Manufacturing was particularly affected in September with all industries except rubber and paper reducing production. Electric power output declined seasonally but was appreciably higher in the third quarter of 1959 than in the preceding year. Mining extraction continued at a record pace with July-September 1959 anthracite output setting a new three-months record since 1945.

Commercial freight car loadings of the Korean National Railroad declined seasonally but were 16.1 percent higher than in the third quarter of 1958. However, the growth rate was halved from the preceding quarter with a possible indication of a slowing-down in domestic trade. Building construction set still another post-World War II record during July-September, and construction in the first nine months of 1959 was already well ahead of that in the entire year of 1958.

The action of the ROK Government in suspending trade with Japan on June 15 continued throughout the third quarter with resultant diminished Korean exports and increased cost of imports. Although, in order to meet the requirement of ICA Regulation 1 for selecting bids for aid-financed goods at lowest landed cost, the ROK Government permitted the import of $4.2 million worth of Japanese fertilizer on September 16, this was declared to be only a necessary exception to the trade ban. Press and business began to realize that the ROK was suffering more from the trade suspension than was Japan - and began to say so.

Korean exports in the third quarter fell almost one-third from April-June preceding, largely as a result of the ROK-Japan trade cutoff, but decreased imports reduced the over-all visible trade deficit and private trade deficit in the third quarter from that in the second.

The ROK money supply showed a general declining tendency during July-September with a sale of $5.4 million in foreign exchange in August largely balancing the effect of heavy holiday spending in September. Although currency in circulation rose during the quarter and demand deposits declined, time deposits continued the remarkable increase of the first half of 1959.

Dollar transfer rates, under the impact of the ROK-Japan trade suspension, declining aid pipeline and prospects of a further U.S. Fiscal Year 1960 aid program cut, rose to new highs during July and August, but dropped in September. Illegal dollar rates generally continued, as in April-June, appreciably below most legal transfer rates.

The Seoul wholesale price index continued the steady rise begun in the preceding quarter to reach the all-time high of 134.6 on September 25 (basis: September 1955 equals 100). Prices of non-grain commodities as a group began a climb in

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a climb in July that has been unremitting to the present, but grain prices averaged 10 percent below those of the third quarter of 1958. Increased prices were attributed to the decline in the aid pipeline and prospects of a cut in Fiscal Year 1960 aid; cessation of trade with Japan; and commodity speculation. Secondary causes were the anticipation of an ROK budget deficit in 1960 and, at the close of the quarter, the effect on prices of construction materials caused by the damages from Typhoon Sarah.

The summer barley and wheat harvest estimate was revised to a new 35.8 million bushel record since 1945. Fall rice production, although suffering an estimated 3 percent loss from Typhoon Sarah, still was expected to surpass last year's 2.4 million metric ton production - also a post-World War II record.

Typhoon Sarah, which struck on September 17, was an unmitigated disaster to the southern provinces and islands of Korea, with between 568 and 663 reported killed, an estimated 788,000 left homeless and property damage estimated officially at 104.9 billion hwan. Reconstruction and rehabilitation continue with cooperative efforts between the ROK Government and U.S. Government agencies in Korea, together with relief efforts of Korean and American charities. Fortunately the grain supply position of the ROK is good and the typhoon's victims should not want for food this winter.

* * * * * *

Industrial Production Attains New Record but Slumps at Quarter's End

Industrial production in the Republic of Korea attained an all-time high during the third quarter of 1959 with the Bank of Korea's index (1955 equals 100) reaching 182. However, industrial growth showed definite signs of slowing down, since the third quarter's output was only 2.2 percent higher than that of both the preceding three months and of the third quarter of 1958. During the first half of 1959 production ran consistently about 4 percent above that of the comparable period of 1958. Further, industrial output in September slumped to an index level of 175, about a 6.5 percent decline from the August index of 187 and identical with output in September 1958. In addition to seasonal factors, higher costs for raw materials (due at least in part to the suspension of trade with Japan and the declining ICA aid pipeline), and disruptions caused by Typhoon Sarah on September 17 were reasons given for the September decline.

The manufacturing component of the index, which reached 179 in July and 182 in August, slumped badly to 168 in September - down 7.7 percent in one month. All industries except rubber and paper participated in the September decline. Textile production reportedly was especially affected by a temporary shortage in raw cotton stocks. Electric power production, although 2.7 percent less in the third quarter of 1959 than in the second, was still 12.3 percent higher than in July-September 1958. Mining production continued as an unalloyed bright spot. Its index level at 232 was 4.5 percent higher than

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in the second quarter of 1959 and a whopping 34.9 percent above the third quarter of 1958. Anthracite coal production in July-September 1959 attained a new record quarterly high since World War II. (Although statistics are incomplete to verify it, this also appears to be the all-time record for South Korea).

Monthly average car loadings of commercial freight on the Korean National Railroad for the third quarter were 22,400. This reflected a largely seasonal decline of 10.8 percent from the second quarter average of 25,100 but was 16.1 percent above the level for the third quarter of 1958. However, this latter increase is little more than half the 32.1 percent increase of April-June 1959 over April-June 1958 and may portend some slowing down in the growth rate of domestic trade, to the extent that car loading statistics can reflect such trade.

Building Construction Again Breaks Record

Issuance of permits for new construction, reconstruction and expansion of buildings in principal cities of the ROK attained 6,389 in July-September 1959, 4.9 percent higher than in the preceding quarter and 51.8 percent above the third quarter of 1958. Again it appears that a new post-World War II construction record may have been set for a three-month period. In the first nine months of 1959 construction permits totalled 13,992, exceeding by a comfortable margin the total of 12,065 permits issued in the entire year of 1958.

ROK Suspension of Trade with Japan Continues throughout Quarter

The action of the ROK Government in suspending trade with Japan effective June 15, as a politically-motivated retaliation to the reported agreement between the Japanese Red Cross and the NKRC on the repatriation of Korean nationals in Japan to communist North Korea, continued throughout July-September with increasing effects on the economy of the ROK. During the first half of 1959 Japan purchased 76 percent of ROK exports, but the pipeline of Korean exports to Japan (from transactions executed before the June 15 suspension date) diminished rapidly during the third quarter and ROK Government efforts to find markets elsewhere were generally unsuccessful. Prices for private imports, generally cheaper from neighboring Japan, were also driven higher by the necessity of purchasing from distant and more expensive sources.

The press and some Korean business interests during July-September began increasingly to admit that the trade suspension was doing far more harm relatively to Korea than to Japan, and there resulted some open urgings for a restoration of normal trade. On September 16 the ROK Government did decide to relax the trade suspension to the extent of permitting the importation of $4.2 million of Japanese urea fertilizer financed with ICA aid funds. (Additional fertilizer imports of $4.4 million were authorized on Oct. 31). Even this action, however, was taken in the face of urgent need of fertilizer for fall barley sowing and under pressure of the ICA insistence, under Regulation 1, on purchase of goods at lowest landed cost.

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On September 29 President Rhee surprisingly urged his cabinet to increase efforts for the export of rice and sea laver to Japan. However, later developments have indicated that the President was apparently talking in terms of long-run generalities and not with specific intent of lifting the trade suspension. The fact remains that private trade between the ROK and Japan was banned throughout the third quarter of 1959.

Exports Drop Sharply but Trade Deficit Declines with Reduced Imports

Exports of Korean goods during the third quarter totalling $5.0 million dropped almost one-third below the preceding quarter's total of $7.4 million, without doubt largely as a result of the suspension of trade with Japan effective June 15. July-September exports consisted mainly of raw materials (excluding fuels) - $3.6 million, manufactured goods - $0.6 million, and foodstuffs - $0.4 million. 1/ ROK exports for the first nine months of 1959 totalled $16.1 million, and on the basis of third quarter performance should attain $20 to $21 million in the entire year, appreciably above the 1958 exports of $16.7 million but still roughly $5 million less than might have been accomplished but for the trade suspension with Japan.

Slightly decreased imports of ICA-financed goods ($35.0 million in July-September vs. $37.0 million in the second quarter) coupled with sharply lessened private imports ($15.6 million vs. $24.7 million) resulted in reducing the visible trade deficit for July-September to $45.6 million from $54.3 million in the second quarter, in spite of decreased expprts. The private trade deficit also declined to $10.6 million in the third quarter from $17.3 million in the second, again largely because of the sharp reduction in imports.

The Export Promotion Committee of the Combined Economic Board (CEBEP) which began functioning in August met three times during the third quarter and its first major accomplishment was the creation of an export promotion fund, approved by the CEB in the initial amount of 2 billion hwan in counterpart funds at the Board's meeting of September 16. The fund is to be loaned for financing of three-fourths of costs incurred by applicants in processing or producing goods for export, or of the amount exporters re-lend to their suppliers, or of the costs incurred by exporters in purchasing commodities for exports. The interest rate was set at 10 percent per annum, divided 7 percent for the commercial banks, 2 percent for the export promotion fund, and 1 percent for the Bank of Korea.

1/ Note that statistical data in the annexed Tables VI and VII are not exactly comparable since Table VI data are based on exchange receipts and those of Table VII on Customs Bureau declarations.

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Money Supply Declines Slightly with August KFX Sale Balancing September Spending

The money supply of the ROK during the third quarter of 1959 followed a general declining trend with the total rising slightly to 206.9 billion hwan on July 31 (from 206.7 billion on June 30), dropping sharply on August 31 to 197.9 billion hwan, and rising again to 203.7 billion hwan on September 30.

At the August 28 auction of $6.5 million in ROK Government-controlled foreign exchange bidders purchased only $5.4 million, and the Government has since made no further offers of KFX sales. However, the August sale brought total KFX auctions in 1959 to $19.4 million as compared to only $13 million in all of 1958. Further, the weighted average of valid bids on August 28 was 1,143 hwan to $1.00 U.S. (as opposed to the official legal rate of 500 to $1), the highest on record for such auctions. The failure of Korean businessmen to buy up the entire $6.5 million offered was attributed not to lack of interest in acquiring import dollars, but principally to an August 21 measure of the Monetary Board which reduced the maximum individual loans which could be granted by commercial banks without review by the Bank of Korea from 30 million hwan to 10 million. It was also reported that, under instructions from the Monetary Board, the Bank of Korea was particularly vigilant in preventing commercial banks from granting "speculative" loans to businessmen for the purchase of these dollars.

The rise in money supply during September following the dollar auction resulted principally from traditional spending for feasting and purchase of consumer goods in the Chusok Moon Festival season from September 17 through 20. This is also a time for employers to pay back wages and bonuses.

Although the money supply trend for the quarter was downward, currency in circulation rose from 94.0 billion hwan on June 30 to 95.5 million hwan on July 31, and to 98.9 billion and 101.9 billion at the close of August and September, respectively. Conversely, demand deposits which stood at 112.7 billion hwan on June 30, dropped to 111.4 billion hwan on July 31, plummeted to 99.0 billion on August 31, but rallied slightly to 101.8 billion on September 30. On the other hand, time deposits (a decreasing factor to the money supply) rose from 33.4 billion hwan on June 30 to 42.5 billion on September 30. Time deposits in Korean banks have increased by a remarkable 121 percent in the first nine months of 1959, demonstrating continued public confidence in the hwan and the banking system.

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The decreased money supply in the third quarter was largely attributable to a 16.4 billion hwan contraction effected by the banking sector, of which 14.7 billion hwan represented collection of rice lien loans from farmers by the Korean Agricultural Bank. This was partially offset by an 8.1 billion hwan expansion from counterpart fund operations (excess of expenditures over collections) and an expansion of 6.0 billion hwan from "other factors and/or errors".

In spite of the August 28 auction of $5.4 million, foreign exchange holdings of the ROK rose to $149.0 million on September 30 (of which $87.6 million were uncommitted) from $145.1 million on June 30 ($88.8 million uncommitted).

Dollar Transfer Rates Hit Record Highs but Drop at Close of Quarter

The decision of the ROK Government to suspend trade with Japan effective June 15, the declining pipeline of ICA aid and the prospect of a cut in the U.S. Fiscal Year 1960 aid program combined to drive legal dollar transfer rates in Seoul to the highest levels in ROK history during July and August, continuing the trend begun in the second quarter. However, as reflected in the following table showing monthly average bids of hwan per $1.00 U.S., the rates dropped considerably in September.

Dollar Transfer Rates

1959	Mission Dollars 1/	Japan Export Dollars		Other Export Dollars		USAPAK Dollars 2/	
		L/C Base	D/P Base	L/C Base	D/P Base	L/C Base	D/P Base
June	1,071	1,434	1,354	1,327	1,255	1,327	1,255
July	1,238	1,442	1,343	1,417	1,339	1,417	1,339
Aug.	1,306	1,410	1,317	1,415	1,346	1,415	1,346
Sept.	1,173	Not available		1,328	1,247	1,328	1,247

The September decline is generally attributed to the stringent credit measures of August 21 (see above) imposed by the Monetary Board and to the diversion of hwan currency to holiday spending during the Moon Festival season.

1/ Special rates authorized for the transfer of remittances by foreign missionaries, exclusive of the minimum 150 hwan to the $1.00 foreign exchange tax (not charged on the other rates listed).

2/ Dollars earned from sales of services and goods to the U.S./UN Forces.

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Quotations of Japan export dollars (which became irregular by September) resulted from continuation of some trade involving transactions negotiated before the June 15 cut-off date and some speculation on the possibility of trade resumption.

Illegal dollar rates rose from average quotations of 1,296 hwan for greenbacks and 1,199 hwan for Military Payment Certificates in June to 1,396 hwan and 1,226 hwan, respectively, in July. Thereafter the greenback and M.P.C. rates declined to 1,355 hwan and 1,178 hwan in August, and to 1,297 hwan and 1,125 hwan in September. As in the preceding second quarter, however, during July-September 1959 most legal dollar transfer rates continued to exceed the illegal ones. (This is even true of missionary dollars when quoted rates are adjusted by addition of the minimum 150 hwan to the dollar foreign exchange tax which must be paid by the buyer of such dollars.)

Wholesale Prices Reach All-Time High at Close of Quarter

The Seoul wholesale price index continued the climb which began in the preceding quarter throughout July-September. From the June average of 219.5 (1947 equals 1) the July average rose slightly to 219.7, then jumped to 226.3 in August and to 236.2 in September. Price rises were clearly more than seasonal since they were 5.9 percent higher in July 1959 than in July of last year, and 9.7 percent higher in August and 10.8 percent higher in September compared to the same months of 1958. Using September 1955 as a base (i.e., 100) July 1959 prices averaged 123.9, August - 127.0, and September - 133.2. The September 25 index of 238.6, or 134.6 on the September 1955 base, reached an all-time high. Prices of all commodities except grain as a group began climbing in mid-July and have unremittingly continued rising through late November. On the other hand, grain prices in the third quarter of 1959 averaged about 10 percent below those of the same period in 1958. The bumper summer grain crop and prospects of another record rice harvest in the autumn kept over-all price indices from balooning even higher.

The disparity between grain prices and non-grain prices continued to increase during the third quarter, resulting not only in a further worsening of the Korean farmers' "terms of trade", but also having the effect of masking the seriousness of inflationary tendencies (which have persisted throughout all of 1959). The grain index for the third quarter was 99.4, using September 1955 as the base, up seasonally from the second quarter's 93.5, but sharply down from the July-September 1958 index of 110.9. In contrast, the third quarter 1959 index for non-grain prices — 153.4 — was 7.4 percent above that of the second quarter, but it was also an impressive 24.0 percent above the index for the third quarter of 1958.

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Increased wholesale prices are attributable to three main influences: (1) a decline in the pipeline of ICA aid and the prospect of an appreciable reduction in the U.S. FY 1960 aid program for the ROK; (2) the loss of Japan as a source of cheap imports and buyer of most of the ROK's exports, because of the trade suspension; (3) speculation and hoarding of some commodities because of the anticipation of higher prices resulting from the other factors just described. Raw rubber, newsprint, rayon fiber and wool tops were commodities particularly the subject of such speculation. Secondary factors were anticipation of an ROK budget deficit in 1960, and, at the close of the quarter, the effect on prices of construction materials caused by the destruction of Typhoon Sarah.

The new and more comprehensive national wholesale price index (1955 equals 100) followed the same general trend as the Seoul index in the third quarter, rising from an average of 148.6 in June to 148.8 in July, 152.4 in August and 155.2 in September. Comparative increases over July, August and September of 1958 were, respectively, 2.6 percent, 5.8 percent, and 6.6 percent, and thus were considerably lower than those reflected by the Seoul index. The Seoul consumer price index (1955 equals 100) was comparatively stable in July (150.4 - down 0.3 from June preceding) and August (151.4), but shot up in September to 160.0 mainly as a result of heavy spending in the Chusok (Moon Festival) holiday season.

Summer Grains Harvest Estimate Revised Upward to New Record

In July the Ministry of Agriculture and Forestry revised upward its estimate of the ROK summer grain crop to a total of 35.8 million bushels, consisting of 28.9 million bushels of barley, 5.9 million bushels of wheat and about 1 million bushels of other grains. The crop was the largest since World War II and 23.7 percent above the average yield for the 1954 - 1958 crop years.

Throughout most of the third quarter of 1959 the fall rice crop was developing well and predictions continued that it, too, would achieve a new post - 1945 record in excess of the 2.4 million metric ton record of 1958. After the devastation left behind by Typhoon Sarah on September 17 it was at first thought that hopes for a record rice crop had gone glimmering. However, later and recent appraisals have revealed that in spite of an estimated 3 percent destruction to the crop by the typhoon, the harvest will still set a new record, although only barely larger than that of last year.

In spite of the rice lien program and efforts of the ROK Government to subsidize Korean farmers (e.g., through cheap fertilizer distributed by the government) grain prices fell under the impact of bountiful crops and averaged 10.3 percent lower during July - September than in the same quarter of 1958. Grumbling continued from both press and legislators (majority and opposition) at the "failure" of the ROK Government to sustain farm prices against natural market reactions.

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Typhoon Sarah Strikes Southern Tip of Korea

Typhoon Sarah, up from the East China Sea, struck the southernmost provinces of Korea and Cheju-do and other islands off the south coast the evening of September 17 with a force so devastating that it was later appraised by ROK Government authorities as one of the worst natural calamities in modern Korean history, and certainly the worst in the last 50 years. Most tropically-generated storms have the tendency — fortunate for Korea — of veering away from the peninsula or arriving in the ROK with diminished force. As a consequence it was some time before reports coming into the capital brought realization of the damage and destruction caused by the typhoon's winds and heavy rains and subsequent tidal wave and floods, particularly in the coastal areas.

A massive rehabilitation effort began immediately in the wake of the storm, with ROK Government and military, American Embassy and USOM, U.S./UN Forces, various Korean and American charitable and religious organizations headed by KAVA (Korea Association of Voluntary Agencies) and the Korean Red Cross all participating in emergency relief measures. By late September surveys by different ROK Government agencies placed the death total at between 568 and 663; injured or missing at 2,700; and an estimated 788,000 homeless or seriously affected by property damage. Value of property destroyed was estimated at 87.2 billion hwan, raised in late October to 104.9 billion hwan.

Farm damages extended over about 315,000 acres, mainly in North and South Kyongsang Provinces. The Ministry of Agriculture and Forestry estimated such losses at 32.3 million hwan, with 12.7 billion hwan damages in North Kyongsang, 11.4 billion in South Kyongsang, 2.8 billion each in South Cholla and Kangwon-do Provinces. Other loss estimates included 19 billion hwan for buildings - mostly residences, 9 billion for vessels, 9 billion for public works and 13 billion for pier, harbor and fisheries facilities. The fishing industry of the south and southwest coasts of the ROK was particularly hard hit.

Electric power was out generally at Pusan for some days and transport disrupted with trolley lines down. For a short time the main Seoul-Pusan rail line was cut by a destroyed bridge and nearly all land communication lines between the two cities were disrupted. Roads and bridges in the area were heavily damaged.

Restruction and rehabilitation is continuing with funds and resources diverted to the purpose by the USOM and ROK Government, and with continuing delivery of foodstuffs, clothing and essentials by the charitable organizations. Damage to the rice crop did not prove to be so severe as originally feared, but much of the vegetable crop essential to the staple Korean dish kimchi was ruined in the southern areas. Heavy distribution of grains to typhoon victims

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will be required this winter but the overall grain supply position of the ROK is good and no starvation or serious want should result.

For the Charge d'Affaires ad interim:

Robert W. Tucker
First Secretary of Embassy

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By [illegible], NARA, Date 1/16/24

QUARTERLY (3rd Qtr.) ECONOMIC SUMMARY JULY - SEPT 1959, ROK

TABLE I. Industrial Production.

	3rd Qtr 1959 av.	2nd Qtr 1959 av.	3rd Qtr 1958 av.	Percent change Col. I over Col. 2	Percent change Col. I over Col. 3
Ind. Prodn. Index (1955=100)	182	178	178	+ 2.2	+ 2.2
Mining (weight 10)	232	222r	172	+ 4.5	+34.9
Manufacturing (weight 87)	176	172r	180	+ 2.3	- 2.2
Electricity (weight 3)	183	188	163	- 2.7	+12.3

Source: Bank of Korea.

TABLE II. Korean National Railroad Total Cars Loaded with Freight.
(Monthly Average, in thousands)

	1959	1958	Increase	% Increase 1959 over 1958
July	36.3	34.9	1.4	+ 4.0
August	38.0	35.4	2.6	+ 7.3
September	36.1	33.6	2.5	+ 7.4
Monthly Average, Qtr.	36.8	34.6	2.2	+ 6.4

Source: Ministry of Transportation, Seoul.

TABLE III. Korean National Railroad Cars Loaded with Commercial Freight 1/
(Monthly Average, in thousands)

	1959	1958	Increase	% Increase 1959 over 1958
July	21.2	19.2	2.0	+10.4
August	23.3	18.8	4.5	+23.9
September	22.8	19.8	3.0	+15.2
Monthly Average, Qtr.	22.4	19.3	3.1	+16.1

Source: Ministry of Transportation, Seoul.

1/ Excluded cars loaded with aid cargo and freight for the UN Forces, ROK Army, and Korean National Railroad.

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TABLE IV. Number of Building Construction Permits Issued in Principal Cities 1/

	3rd Qtr. 1959		2nd Qtr. 1959		3rd Qtr. 1958	% Change Col. 1 over Col. 3
July	1,756	April	1,891	July	1,521	+15.5
August	2,294	May	2,100	August	1,233	+86.1
September	2,339	June	2,103	September	1,458	+60.4
Qt.Total	6,389		6,094		4,212	+51.8

Source: Bank of Korea Publications.

1/ Includes permits for new construction, reconstruction, and extensions.

TABLE V. Foreign Exchange Holdings 1/ (Close of Quarter) ($ million)

	3rd Qtr. 1959	2nd Qtr. 1959	3rd Qtr. 1958	% Change 1 over 2	% Change 1 over 3
Net holdings	149.0	145.1r	126.7	+ 2.7	+17.6
Uncommitted	87.6	88.8	74.8	- 1.4	+17.1

Source: Bank of Korea Publications.

1/ Excludes gold. Gold holdings as of Sept. 30, 1959, were $1.7 Million, on June 30, 1959: were $1.7 Million, and Sept. 30, 1958: $1.6 Million.

TABLE VI. Commodity Imports, Exports, and Trade Deficit.

	1959					1958 1/		
	Imports				Trade	Imports		Private Trade
	Total	ICA 1/	Private	Exports	Deficit	Private	Exports	Deficit
July	17.8	11.7	6.1	1.7	16.1	3.0	1.4	1.6
August	16.8	12.3	4.5	1.6	15.2	3.2	1.3	1.9
September	16.0	11.0	5.0	1.7	14.3	3.5	1.2	2.3
Qt.Total	50.6	35.0	15.6	5.0	45.6	9.7	3.9	5.8

Source: Based on Bank of Korea statistics of exchange receipts and payments for visible trade.

1/ ICA breakdown not available before January 1959. Includes both private and government imports financed by ICA and settled through BOK.

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TABLE VII. Value of Exports by Commodity Groups. ($million)

	Total	Food	Inedible Crude Materials, Excluding Mineral Fuels	Mineral Fuels Lubricants & Related Materials	Manufactured Goods Classified by Materials	Misc. Manufactured Articles.	All Others
1955	18.0	1.1	13.6	0.5	1.2	0.4	1.2
1956	24.6	1.5	19.5	0	2.4	0.2	1.0
1957	22.2	3.3	14.0	negl	3.4	0.6	0.9
1958	16.5	2.5	10.6	0.3	2.4	0.1	0.6
1959							
July	1.4	0.2	1.0	0.1	0.1	negl	0
Aug.	1.5	0.1	1.1	0.1	0.2	negl	0
Sept.	1.9	0.1	1.5	0	0.3	negl	0

Source: Bureau of Customs data, published by Bank of Korea. (Rounded Totals)

TABLE VIII. Private Foreign Exchange Transactions (Quarterly Totals) ($ million)

	3rd Qtr. 1959	2nd Qtr. 1959	3rd Qtr. 1958	% Change - Private Col. 1 over Col. 2	% Change - Private Col. 1 over Col. 3
Receipts	27.2	25.7r	23.0	+ 5.8	+18.3
Visible	5.0	7.4	3.9	-32.4	+28.2
Invisible	22.2	18.3r	19.1	+21.3	+16.2
Payments	22.1	27.8	13.7	-20.5	+61.3
Visible	15.5	24.7r	9.7	-37.2	+59.8
Invisible	6.6	3.1r	4.0	+112.9	+65.0
Net Receipts(+) or Payments (-)	+5.1	-2.1	+9.3		

Source: Bank of Korea publications.

TABLE IX. Money Supply Trends. (Billions of Hwan)

	1959	1958	% Increase 1959 over 1958
December 31 (1958 & 1957)	192.6	145.2	32.6
July 31	206.9	149.0	38.9
August 31	197.9	153.4	29.0
September 30	203.7	165.8	22.9

Source: Bank of Korea publications.

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TABLE X. Seoul Wholesale Price Index (1947=1) 1/

Monthly Average	1959 Over-All	1959 Grain	1958 Over-All	1958 Grain	% Change 1959 over 1958 Over-All	% Change 1959 over 1958 Grain
July	220	207	208	237	+ 5.9	-12.7
August	226	211	206	228	+ 9.7	- 7.5
September	236	212	213	236	+10.8	-10.2

	3rd Qtr 1959 Mon. Av.	2nd Qtr 1959 Mon. Av.	3rd Qtr 1958 Mon. Av.	Percent Change Col.1 over Col.2	Percent Change Col.1 over Col.3
Over-All	228	213	209	+ 7.0	+ 9.0
Grain	210	197	234	+ 6.6	-10.3

Source: Bank of Korea.

TABLE XI. National Wholesale Price Index (1955=100)

	1959 Over-All	1959 Grain	1958 Over-All	1958 Grain	% Change 1959 over 1958 Over-All	% Change 1959 over 1958 Grain
July	148.8	140.1	145.0	160.5	+ 2.6	-12.7
August	152.4	143.6	144.1	155.0	+ 5.8	- 7.4
September	155.2	144.7	145.6	161.0	+ 6.6	-10.1

Source: Bank of Korea.

TABLE XII. Seoul Consumer Price Index (1955=100)

	1959 July	1959 Aug	1959 Sept	1958 July	1958 Aug	1958 Sept	% Change 1959 over 1958 July	% Change 1959 over 1958 Aug	% Change 1959 over 1958 Sept
Total Index	150.4	151.4	160.0	148.1	147.4	150.7	+ 1.6	+ 2.7	+ 6.2
Foods	147.2	148.2	163.3	156.4	155.0	159.9	- 5.9	- 4.4	+ 2.1
Housing	178.2	178.8	179.6	163.6	163.6	163.7	+ 8.9	+ 9.3	+ 9.7
Fuel & Light	153.8	155.2	163.8	120.4	119.4	129.2	+27.7	+30.0	+26.8
Clothing	108.7	110.8	110.9	110.8	111.2	112.2	- 1.9	- 0.4	- 1.2
Miscellaneous	168.1	168.7	171.4	154.2	154.2	154.2	+ 9.0	+ 9.4	+11.2

1/ See also Table X,a on the following page.

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	A Av. July - Sept 59	B Av. Jul - Sept 58	Average % Change A to B
Total Index	153.9	148.7	+ 3.5
Foods	152.9	157.1	- 2.7
Housing	178.9	163.6	+ 9.4
Fuel & Light	157.6	123.0	+28.1
Clothing	110.1	111.4	- 1.2
Miscellaneous	169.4	154.2	+ 9.9

Source: Bank of Korea Publications.

TABLE X, a Seoul Wholesale Price Index (September 1955=100)

Monthly Average	1959 Non-Grain	1958 Non-Grain	% Change 1959 over 1958
July	146.5	121.0	+ 20.8
August	152.2	123.0	+ 23.8
September	161.6	126.9	+ 27.3

	3rd Qtr 1959 Mon. Av.	2nd Qtr 1959 Mon. Av.	3rd Qtr 1958 Mon. Av.	Percent Change Col. 1 over Col. 2	Percent Change Col. 1 over Col.3
Non-Grain	153.4	142.8	123.6	+ 7.4	+24.0

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TO : THE DEPARTMENT OF STATE, WASHINGTON.

December 4, 1959
DATE

REF : CERP - Korea, Section C, Item 1.

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67	CAP-2	INFO Rep-1 IRC-16 ICA-15 E-7 FE-4 EUR-5 PER-2
	REC'D 12/14	OTHER CIA-16 USIA-10 OCB-2 OSD-2 ARMY-35 NAVY-20 AIR-30 AG-8 IN-9 TR-3 FRB-3 XMB-4 TAR-2 LAB-5

SUBJECT: Weekly Economic Review No. 48.

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2. NWA Fifth Frequency (Tokyo-Seoul) Still in the Air.
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9. Another Record in Coal Production.
10. Price Supports for Grains?
11. Kimchi Costs Soar.
12. Free Worker's Union Threatens Strike over Wage Dispute.

1. (UNCLASSIFIED) Wholesale Price Index Rises by 2.6 Percent.

Led by a resurgence of grain prices the Seoul Wholesale Price Index shot up 2.6 percent in one week to 134.0 (September 1955 equals 100) on November 27. The grain component of the index rose a remarkable 5.8 percent to halt at least temporarily a general declining trend of the past six weeks. The rise was attributed to the delayed impact of the rice liens program which has allegedly cut down the flow of fall rice crops to the markets. Grains still stood at only 82.9 while non-grain prices as a group rose 1.3 percent during the week to 178.3, continuing the unbroken ascent of the latter since mid-July.

The grain price rise was accompanied by a 7.1 percent increase in the prices of meat, eggs and fish, reportedly mainly the result of the short supply of pollack - a fish widely popular with Koreans in the winter months.

(CONFIDENTIAL) Comment: The general index average for the entire month of November was 132.2, and the average for July-November, inclusive, was 129.6. It now appears that the index for the last half of 1959 will approach an average of 130, and thus result next January in a minimum devaluation of the hwan-dollar exchange rate under the U. S. - ROK agreement to about 650 hwan to the $1.00 from the existing 500 to $1.00 legal rate.

(RWT)

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2. (UNCLASSIFIED) NWA Fifth Frequency (Tokyo-Seoul) Still in the Air.

The Korean Government has not as yet announced its decision concerning authorization to Northwest Airlines to institute a fifth weekly frequency into Seoul from Tokyo. Local newspapers have, however, twice reported that the Government has decided to deny permission for additional service by NWA. The Foreign Ministry denies that any decision has as yet been made but states that the question is still under study.

(CONFIDENTIAL) Comment: The NWA Seoul manager was approached by Transportation Ministry officials at the Section Chief level, who explored at an "off the record" meeting NWA's willingness to conclude a side arrangement with Captain SHIN, President of Korean National Airlines, as a possible solution to the problem. The arrangement suggested was one which would permit NWA to fly direct Seattle runs from Seoul under the Korean flag and KNA name but with NWA aircraft and crew. This would give KNA an opportunity to appear to have inaugurated a service which it cannot now find economically feasible. If this could be done, Captain Shin would remove his opposition to a fifth frequency. The clear implication is that Captain Shin is the fly in the ointment. The answer to the suggestion was "no" by the NWA manager. (JAC)

3. (OFFICIAL USE ONLY) Prospects for Rice Exports to the Ryukyus.

The Ryukyu Islands planned to send a delegation to Korea on December 15 to negotiate a trade agreement involving the purchase of Korean rice and the sale of Ryukyuan products or other products through the Ryukyuan free trade area. The Embassy was requested by the American Consul General at Okinawa to determine the ROK Government attitude to such an agreement containing a provision that at least 25 percent of the rice proceeds be set aside for purchase from the Ryukyus (including free trade area). The Korean Government officials have been studying the proposal for over a week and have not as yet given a formal reply. Newspaper accounts indicate, however, that Korea cannot agree to these terms (25 percent) since Korea has not been able to live up to the similar 5 percent provisions of last year's agreement.

(OFFICIAL USE ONLY) Comment: Perhaps Korea will sell some rice to the Ryukyus this year, but it does not appear that any such sales will be the result of any salesmanship qualities on the part of the Koreans. If any sales are concluded, it will be in spite of the generally negative or lackadaisical attitude which the Korean Government has demonstrated so far. (JAC)

4. (UNCLASSIFIED) New Trade Program Announced.

The Ministry of Commerce and Industry has announced its foreign trade program for the first half of 1960. Although English translations are not yet available, press accounts indicate that the ROK Government estimates exports will reach $30 million in the first six months as a result of the liberalization in restrictions. Among the reported changes in the program are the following:

1. Pigs, frozen fish products, and weasel fur have been added to the "Encouraged Export Items" list.

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2. The rate of retention credits from such exports for the purchase of preferential imports has been set at 30 percent for industrial art goods, 20 percent for all others, and at 100 percent for items which are exported for the first time. (This high rate is applicable only to the initial shipment).

3. Added to the list of preferential imports which may be financed only with the foregoing retention credits, are cameras, watches, panama hats, raincoats, razors, electric refrigerators, fountain pens, ball and key chains, and snap buttons.

4. The automatic approval export list has been expanded to include beer, rice wine, grain spirits, ginseng wine, and sugar.

5. Newly authorized exports include hogs, pine seeds, peppermint oil, menthol, and molybdenite concentrates.

6. New automatic approval import items include lead storage batteries, industrial sewing machines, motion picture projectors, crude sugar, cement, glass, asphalt tiles, etc.

Approximately 28 different commodities normally prohibited import may be permitted entry under the new program. Shifts have been made from the specific list to the ordinary list and from the restricted list to the automatic approval list.

(OFFICIAL USE ONLY) Comment: Although it is too early to determine the significance of the changes, it would appear from newspaper accounts that a degree of desirable liberalization has actually been achieved for the new trade program. The Embassy suspects, however, that the liberalization will be accompanied by more than a proportionate share of administrative "red tape" which may well offset, in part at least, the attractiveness of the liberalization. (JAC)

5. (UNCLASSIFIED) Medical Trade Program Announced.

Separate from the MCI trade program, the Ministry of Health and Social Affairs announced its foreign trade program for the first half of 1960. The chief differences between the new and old programs are the import prohibitions against chloramphenicol, menthol and peppermint oil, streptomycin, and others; certain unspecified restrictions placed on imports of antibiotic ointments, empty capsules, salvarsan preparations, and propylene glycol; an import ban established on dental equipment; and the newly authorized import of cortisone preparations, tonics, and progesterone preparations. (JAC)

6. (UNCLASSIFIED) Preferential Export Dollar Rate Rises.

The rate of exchange for export dollars which have been earned from the sale of "encouraged export items" has recently increased from 1,400 hwan to 1,700 hwan per dollar with the announcement that such popular items as watches, cameras, and refrigerators may be purchased with those dollars. Business circles in Korea have expressed the opinion that the rate may go as high as and perhaps higher than 2,000 hwan per dollar in view of the limited availability (about $82,000) of such exchange at present.

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(OFFICIAL USE ONLY) Comment: This export promotion device is one which plays havoc with any attempt to rationalize the validity of the existing unrealistic official rate of exchange. On the other hand, it provides a clearer indication of a truer value of the hwan in terms of specific commodities. (JAC)

7. (UNCLASSIFIED) First Commercial Teletype Service in Korea.

According to the Korean Republic of December 1, Korea's first commercial teletype exchange will be established some time in 1960 with headquarters at Seoul. The teletype network will connect the five major cities of the ROK: Seoul, Pusan, Taegu, Taejon and Kwangju. The Ministry of Communications indicated that the network will serve banks, weather stations, radio stations, airline firms, and various government agencies and public organizations. Major newspapers and news agencies are also expected to be important subscribers.

The new facilities will cost 50 million hwan.

(OFFICIAL USE ONLY) Comment: The Embassy has been informed that an American supplier has the inside track for the new teletype exchange facilities but actual selection of the equipment has not yet been made by the Ministry of Communications. (RWT)

8. (UNCLASSIFIED) Banking Developments.

The Hungop Bank, one of the four "city banks" of Seoul, has received permission of the Monetary Board to change its name to the Hanil (literally: "Korean One") Bank, with the new name to take effect next January 1.

On December 1 the new Seoul Bank (see Weekly Economic Review No. 38) opened its doors for business in downtown Seoul and received some 2.5 billion hwan from its first depositors. This was some 500 million hwan short of the bank's goal, explained by reason of month-end settlements of the expected depositors. The bank has applied to the Monetary Board to establish four branches in the city before April 1960.

(UNCLASSIFIED) Comment: The main depositors were reported to be the four "city banks" (now, of course, become five), small and medium businessmen and "promoters." It is difficult to fathom the action of the four "city banks" in being among the first heavy depositors when not too many months ago they were among the most vociferous opponents of the establishment of the new bank. (RWT)

9. (UNCLASSIFIED) Another Record in Coal Production.

November coal production of the Dai Han mines (government owned) surpassed the peak achieved last month (Weekly Economic Review No. 47). The 215,308 metric-ton output in November was 14 percent above the target of the Government's Five Year Coal Plan. November output of the private mines is not yet available, but even without this figure and with another month to go, the 3.5 million tons accounted for thus far in 1959 is nearly 30 percent above total 1958 production.

(UNCLASSIFIED) Comment: Encouraging as this development is, it is almost

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certain that the recent high production, especially in the private mine sector, cannot be sustained. With but one or two exceptions the privately owned "mines" are merely surface operations which to date have not required the sinking of shafts. In many instances these locations have by now been worked out, and underground operations will have to be undertaken. USOM is engaged in selecting the more promising sites for development and, where warranted, will provide equipment and engineering assistance. (EG)

10. (UNCLASSIFIED) Price Supports for Grains?

According to the press, the administration is giving favorable consideration to a bill for "maintenance of grain prices" in which the government would purchase grain in amounts and at prices adequate to maintain "proper" grain prices.

(OFFICIAL USE ONLY) Comment: The Embassy is attempting to obtain more information concerning this proposed legislation, which, however, may prove to be merely a pre-election pitch for the farm vote. Achievement of grain price stability through laying the basis of a free grain exchange, accompanied by a sound rural credit system, would appear a much more desirable approach than price supports. The latter system is bound to be administratively complicated and cumbersome, and in all probability beyond the financial capability of the ROK Government. The Embassy has noted the unfortunate effects already experienced from the price-control aspects of the rice lien programs (Weekly Economic Reviews Nos. 44 and 47), and will use its influence to oppose any outright price support program. (EG)

11. (UNCLASSIFIED) Kimchi Costs Soar.

Seoul housewives now engaged in preparing the winter's supply of kimchi (Korean national dish made of fermented vegetables, in the manner of sauerkraut) are finding that total cost of the delicacy is 68 percent higher than last year. Of the major ingredients, only garlic is cheaper than in the fall of 1958. Major factor in the high cost of kimchi is a shortage in this year's crop of Korean cabbage (the type known as "Chinese" cabbage in the United States), partly as a result of devastation from Typhoon Sarah last September 17.

November 1959 and 1958 costs of the major materials used in kimchi making for a family of 5 persons are compared below:

Principal Ingredients	Total Cost 1/ (Hwan) 1959	1958	Percentage Change
Korean cabbage	16,150	7,450	116.8
Korean radish	6,895	3,780	82.4
Red pepper	4,692	3,852	21.8
Scallion	915	564	62.2
Garlic	1,627	2,383	-31.7
Total	30,279	18,029	67.9

1/ Quantities required (kilograms): cabbage 187.5; radish 131.25; pepper 6; scallion 11.25; garlic 1. (EG)

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(OFFICIAL USE ONLY) Comment: The Western community is hoping against hope that the cheaper price of garlic will not encourage a too generous abandon in its use; the normal run of kimchi features garlic in an amount that more than satisfies the average Western palate -- or nose.

12. (UNCLASSIFIED) Free Worker's Union Threatens Strike over Wage Dispute.

Two daily Korean newspapers, the Korea Times and the Tong A Ilbo, reported that members of the Korean Free Worker's Union have threatened to strike unless back wages are paid and the wage cut made in October is rescinded. The Free Workers are comprised of some 80,000 dock and inland handling workers and are headed by KIM Ki-ok, President of the Federation of Korean Trade Unions and President of the Free Workers Union. The Free Workers instigated the dispute with the Korea Forwarding Company in October when the company reduced wages following a cut in handling charges for fertilizers by the government. According to the Korean Forwarding Company, it has been paying wages whenever funds are released by the Office of Supply.

Newspaper reports state that both the Korea Forwarding Company and the Korea Rice Warehousing Company are in arrears in wage payments to the workers. The Forwarding Company is behind in wage payments amounting to 380 million hwan, including 180 million hwan of wages in arrears for four months for laborers working at eight harbors and 200 million hwan of wages in arrears for four months for laborers working at the company's land transportation agents. The Korea Rice Warehousing Company is in arrears to the extent of 70 million hwan.

The dispute over lower wages evolved from the government ordering a reduction in fees for the handling of imported fertilizer and the forwarding company reducing wage payments in proportion to the fee reduction. According to the Tong A Ilbo the handling fee for imported fertilizer was set at 7,670 hwan per ton including 1,587 hwan paid to the harbor laborers. With lower handling fees the cost is now 5,770 hwan per ton and wages reduced to 1,162 hwan.

(OFFICIAL USE ONLY) Comment: According to labor sources the threat of a strike was lessened when the free workers were assured 180 million hwan back wages on December 1, 1959 and were told that on December 5, 1959 they would be informed when the balance would be paid. The union also accepted management's proposal to negotiate the restoration of the wage cut.

While the Korean press indicated that the dispute was between the laboring group and the Korean Forwarding Company, close observers offered that the forwarding company sanctioned labor's demand in order to provoke action by the Office of Supply in releasing funds in order that back wages could be paid by the forwarding company.

Accusations of graft in overcharging for freight handling in the distribution of fertilizer have frequently been a topic of discussion in the National Assembly and press in the past year. It may be that the workers are being made the unnecessary victims of the reduction in handling fees which resulted from these accusations.
(WTB)

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For the Chargé d'Affaires ad interim:

Robert W. Tucker
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

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DEC 11 1959

FROM : Amembassy SEOUL

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DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

December 11, 1959
DATE

REF : CERP - Korea, Section C, Item 1.

15 For Dept. Use Only	ACTION	DEPT.	SCS-2 PER-2 EUR-5
	FE-6	INFO	RM/R-2 REP-1 IRC-16 ICA-11 O/MSC-3 E-7 L-2
	REC'D 12/14	OTHER	OCB-2 TR-3 FRB-2 XMB-4 TAR-2 TN-7 AGR-10 USIA-10 OSD-2 ARMY-35 NAVY-20 AIR-30 CIA-16 LAB-5 COM-12

Action Assigned to NAR

Action Taken NAR

SUBJECT: Weekly Economic Review No. 49.

Action Office Symbol FA/E

Name of Officer

Direction to DC/R File

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3. $10 Million Foreign Exchange Sales Planned to Fight Inflation.
4. Foreign Businessmen May Obtain Favorable Exchange Rate.
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6. Customs and Calendars.
7. Korean Plywood - a Potential Dollar Earner.
8. More Funds Requested for Construction of Naju Fertilizer Plant.
9. Tungsten Chemical Plant in Operation.
10. Proposed FY 1960 Agricultural Import Program.

1. (UNCLASSIFIED) Progress (?) of the Foreign Investment Bill.

A ROK Government official aptly describes the position of the Foreign Investment Acceleration Bill these days as being "on a seesaw." In the course of weeks of study by various committees and subcommittees of the National Assembly, many changes have been proposed -- some liberalizing, some restrictive, some neutral. Among the changes proposed: to change the name to "Foreign Investment Induction Law"; to change the chairmanship of the control committee from the Minister of Finance (as named in the present bill) to the Minister of Reconstruction; to spell out more specifically the types of eligible foreign investments, including a prohibition against enterprises "liable to wither domestic industry or bring about surplus production"; to delete tax exemptions or reductions specified in the present bill.

(CONFIDENTIAL) Comment: A more hopeful sign is that the four "economic" Cabinet Ministers have voiced objection to the more restrictive of the proposed changes (especially deletion of the tax-exemption clauses), and in conferences with the Assembly Committeemen reportedly are recommending that the bill be passed in its original form. Vice Minister of Reconstruction CHONG Yong-gi told an Embassy officer in confidence that the Liberal Party has already made a decision to pass the bill without serious modification of the original liberal features and that amending actions of the various National Assembly committees would be meaningless. The Liberal Party leaders are merely permitting the committee members to "have their fun".

(EG and RWT)

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2. (UNCLASSIFIED) National Assembly Approves DLF Loan for Power Plant Design.

On December 9 the National Assembly ratified the Development Loan Fund agreement for a loan of $1.5 million to pay for design work on a projected 150,000 KW hydroelectric power plant at Chungju. The loan agreement was signed in April 1959 between DLF representatives and the state-owned Korea Electric Power Co. (KEPCO) and the ROK Government. At the same time the Assembly passed a resolution asking the Government to report within three months to the next plenary session of the legislative body detailed plans for improving the management of KEPCO and other electric power companies and for transferring some of these utilities firms to private ownership.

The Korean Republic of December 10 indicated that before the close of the year it is expected that a formal application will be submitted to DLF for a loan to finance the cost of constructing the hydro plant, currently estimated at $40 million.

(UNCLASSIFIED) Comment: It is significant that this loan agreement ratification is the first conclusive action taken by the National Assembly since the stormy session of December 24, 1958, when the majority rammed through a number of bills by a forcible exclusion of the opposition Democratic Party from the Assembly floor. This fact alone indicates the high priority now being given by the ROK Government to obtaining DLF developmental loans. Still to be considered by the Assembly is a blanket bill which would authorize advance approval of DLF loans yet to be negotiated. (Assembly approval of such loans is necessitated by a requirement of ROK law that any loans guaranteed by the ROK Government must be authorized by the legislature). Government leaders have indicated confidence that the blanket bill will be passed without difficulty. (RWT)

3. (UNCLASSIFIED) $10 Million Foreign Exchange Sales Planned to Fight Inflation.

Finance Minister SONG In-sang announced on December 7 that the ROK Government is establishing a program to sell $10 million in government-held foreign exchange (KFX) in December and January in order to combat "inflationary dangers that still exist." He told a press conference that the principal objective of the dollar auctions will be to contract the money supply which tends to rise during the closing weeks of the year and the period immediately thereafter.

Dollars released from KFX will also be used to supplement the ICA saleables import program, according to Minister Song. The Korean Republic of December 8 quoted him to the effect that the ICA saleables program for U. S. fiscal year 1960 "has gotten off to a bad start" so that the KFX auctions intended for February-March 1960 had to be advanced to the December - January period.

The Muyok Tongsin ("Trade Press") of December 9 indicated that officials of the Ministry of Commerce and Industry are planning to propose for consideration of the four "economic" Cabinet Ministers a system whereby only those with export records will be eligible to bid for KFX sales. It was reported to be uncertain, however, whether such a linking system would be authorized in time to be applicable for the December - January exchange sales.

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(OFFICIAL USE ONLY) Comment: Two months ago (Weekly Economic Review No. 40) Minister Song forecast the possible sale of $10 million in KFX in order to keep prices down, but there is little doubt that declining ICA aid is also beginning to play an important role in forcing the ROK Government to disgorge some of its net increment in foreign exchange acquisitions (largely earned by sales of hwan, services and goods to the U.S./UN Forces). In 1956, 1957 and 1958 KFX holdings greatly increased, with an excess of receipts over payments of $31.5 million in 1958 alone. (RWT)

4. (UNCLASSIFIED) Foreign Businessmen May Obtain Favorable Exchange Rate.

The American Chamber of Commerce in Korea presented to the American Embassy on December 2 its recommendations concerning the rate of exchange at which local currency should be acquired for the foreign business community. In essence the Chamber asked the ROK Government to extend to foreign businessmen the same privilege now enjoyed by Koreans in the permissible sale of dollar commissions as export dollars at the prevailing market rate. The Chamber also recommended that additional amounts required for local expenses should be permitted acquisition at the same rate of exchange as may be determined under the pending "tourist rate."

The Economic Counselor of the Embassy made representations to the Minister of Finance, who in turn instructed his foreign exchange experts to draft a regulation to permit the same treatment to foreigners as is presently granted to Korean businessmen on sales of commission earnings. The Embassy has been informed by the Foreign Exchange Section Chief that the regulation has now been drafted and sent to the Minister for his approval. Under the present draft, as the Embassy understands it, those business concerns in Korea, whose parent firms are established in a country with which Korea has a Treaty of Friendship, Commerce and Navigation, may deposit dollar commissions into BOK import accounts and "transfer" them to other traders at the prevailing rate of exchange up to 2 percent of the L/C amount for raw materials and up to 5 percent of the L/C for machinery.

(OFFICIAL USE ONLY) Comment: Although the prospects for obtaining this "privilege" seem promising, the Embassy has informed the Chamber not to bank on its availability until a final decision is made and announced. The accomplishment of this change will result in the establishment of national treatment for Americans called for in the U.S. - ROK Treaty of Friendship, Commerce, and Navigation. This treatment has not been available in the past and the Treaty obligation was accordingly called to the attention of the Finance Minister. Although the request of the Chamber and the Embassy/was on behalf of the entire foreign business community in Korea, it is apparent that the Ministry plans to consider only those foreigners covered by an FCN treaty. If this tentative plan is implemented, the Germans, Italians, and other foreigners in Korea will undoubtedly cry "discrimination," but it may impel some of their parent governments to a hurried consideration of instituting an FCN treaty with the ROK. (JAC)

5. (OFFICIAL USE ONLY) Ryukyus and Rice.

The Ministry of Foreign Affairs, after deliberations for over a week, informed the Embassy that the ROKG was willing to comply with the suggested terms of the Ryukyu Government concerning a probable trade agreement between the two areas, (See

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By [illegible], NARA, Date 1/10/01

Weekly Economic Review No. 48). The Ryukyus had sought the ROKG position on an arrangement calling for the Korean use of at least 25 percent of the proceeds from rice sales to the Islands for the purchase of Ryukyuan products and/or other products through the Naha free trade area. The Government of Korea has now stated it is willing to set aside 25 percent of rice proceeds for the purchase of Ryukyuan products and "only" raw materials from the Naha free trade zone. The Embassy has forwarded this information to the American Consul General at Okinawa, and newspapers subsequently indicated that a three man mission from the Ryukyus will visit Korea on December 15 to begin negotiations.

(OFFICIAL USE ONLY) Comment: It seems clear that the ROKG limitation on purchases from the free trade area (limited to Ryukyuan products and unspecified "raw materials") is intended to preclude the purchase of Japanese finished and semifinished goods from the Ryukyus. No official reaction to this suggested provision has as yet been received from Naha. Moreover, there has been no indication as to how much the Ryukyus are willing to pay for Korean rice but the Koreans apparently are unwilling to make any sales at much less than $155 per metric ton -- they will probably not go lower than $150. (JAC)

6. (UNCLASSIFIED) Customs and Calendars.

A number of American firms recently informed the Embassy that the Korean Customs Office had refused to release imported calendars for free distribution in Korea as advertising. A check with the Bureau of Customs disclosed that the Bureau has not permitted their release because many Koreans in 1958 sold duty-free calendars and "made a fortune" on such sales. The Embassy urged that the Bureau release the calendars in accordance with the prevailing regulations under the Customs Law, which permit duty-free entry for give-aways.

A decision was made this week to release "non-sale" foreign calendars free of duty, except for the following: (1) calendars of "Japanese characteristics", (2) those which are harmful to public morals, and (3) those which lend themselves to "commercialization" in view of quantities and other factors. The importer of the acceptable calendars must certify in writing that they will not be sold and must permit the Customs officials to stamp each calendar to indicate that it has been permitted entry duty-free.

(OFFICIAL USE ONLY) Comment: The drive to exclude Japanese merchandise often goes to ridiculous extremes. A Customs official informed the Embassy that if only one of the stamped calendars is sold by anyone, the importer will be compelled to pay the 60% duty on the entire shipment. How an importer can control the acts of Koreans to whom the calendars are given is difficult to imagine, to say the least. At the moment, however, the important accomplishment is that advertising calendars are once again permitted duty-free entry. (JAC)

7. (UNCLASSIFIED) Korean Plywood - a Potential Dollar Earner.

Mr. CHUN Taik Bo, president and owner of the plywood producing Taesung Lumber Company in Inchon, left Korea for the United States on December 9 on a mission to explore and conclude arrangements for the export of lauan plywood to the United States.

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 1/21/21

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His company, which has recently installed new West German equipment, together with two other plywood producers -- the Tongmyung Lumber Corp. and the Songchang Enterprise Company, anticipate an export potential of $1,500,000 for 1960. The potential exports may grow to $5 million annually in just a few years, he estimates. Mr. Chun will meet with about 10 importing companies in the United States -- all of them in California, Washington, Oregon and New York. Getz Brothers of San Francisco, for whom Chun is the agent in Korea, is at the top of the list of potential buyers.

Mr. Chun has informed the Embassy that Korean lauan plywood can compete in the United States with that of Japan, the Philippines, and Formosa in terms of both price and quality. Urea resin will be used as the bonding agent instead of soybean glue. The emphasis will be placed on one-quarter inch thick panels rather than doorskins, particularly since the Koreans do not believe that they can efficiently produce doorskins to specifications in competition with Japan.

(UNCLASSIFIED) Comment: Mr. Chun and his colleagues in Korea are optimistic about prospects, particularly in light of the fact that there is a greater demand in the United States than is met from Japan with its "voluntary" export quotas. The cutback in the American aid to Korea this year seems to have had some effect upon the plywood producers to develop export markets as a measure to offset the loss of aid dollars. Moreover sales of plywood to the U. N. Forces in Korea and the recent export of plywood by the Songchang Enterprise Company to the U. S. Plywood Corporation have apparently spurred these producers to greater targets. The Embassy is inclined to believe that Mr. Chun's mission will achieve a measure of success. (JAC)

8. (UNCLASSIFIED) More Funds Requested for Construction of Naju Fertilizer Plant.

According to the Tong A Ilbo of December 9, despite the fact that the excavation and foundation work for the Naju urea fertilizer plant has only attained 60 percent completion and the main construction project has yet to begin (although the completion target date is December 1960), the West German consortium which is undertaking the construction has requested an additional $1.25 million and 200 million hwan for the project. The newspaper pointed out its fears that the "whole construction may follow the example of the Chungju fertilizer plant, the construction of which has been delayed 30 months while its construction cost has been almost doubled due to repeated requests for additional construction funds."

In addition to the original estimated cost of $23.5 million plus 2.5 billion hwan for the Naju plant, the German consortium has reportedly asked for $400,000 more for a "generator" (which Tong A Ilbo said was originally to be donated by the consortium), $700,000 for parts and additional machinery, and $150,000 for iron, cement and other supplies.

(OFFICIAL USE ONLY) Comment: This is one of the additional headaches in store for the Naju project predicted in Weekly Economic Review No. 34. According to one rumor, additional costs are in part the result of failure to adequately test soil composition at the plant site and to provide sufficiently strong foundations for the plant structures. (RWT)

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By [illegible], NARA, Date 11/21/24

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9. (UNCLASSIFIED) Tungsten Chemical Plant in Operation.

A test run of the new chemical plant at the Samdong works of the Korea Tungsten Mining Company resulted in production of a greatly improved grade (WO_3 85 percent) which will increase the company's profit on exports by $3 per short ton unit. The plant is capable of processing 450 metric tons of table and flotation concentrates per month.

(EG)

10. (UNCLASSIFIED) Proposed FY 1960 Agricultural Import Program.

The Ministry of Reconstruction has submitted to the Embassy the following proposal for PL 480 (Title I) and MSP Section 402 imports of surplus agricultural commodities during US FY 1960:

Commodity	Sec. 402	PL 480	Total
Wheat ($ mil)	-	17.0	17.0
(1,000 mt)		250	250
Cotton ($ mil)	23.7	20.5	44.2
(1,000 mt)	39.7	36.3	76.0
Tallow ($ mil)	1.2	-	1.2
(1,000 mt)	4.8		4.8
Corn ($ mil)	-	0.5	0.5
(1,000 mt)		9.0	9.0
Linseed ($ mil)	0.1	-	0.1
(1,000 mt)	0.5		0.5
Total ($ mil)	25.0	38.0	63.0

(OFFICIAL USE ONLY) Comment: Note that the cotton request is considerably above the Embassy's analysis of requirements of 69,000 metric tons, at an estimated value of $40 million (see Embtel 419). The wheat request of $17 million compares with $20.3 million under the FY 1959 PL 480 program. The Embassy has not initiated inter-governmental working-level discussions of the ROK Government proposal, and does not plan to do so pending additional opportunity to observe performance against the current program.

(EG)

For the Charge d'Affaires ad interim:

Robert W. Tucker
First Secretary of Embassy

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DEC 21 1959

FOREIGN SERVICE DESPATCH

FROM : Amembassy, SEOUL

303
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

December 18, 1959

REF : CERP - Korea, Section C, Item 1.

15 For Dept. Use Only	ACTION *FE-6	DEPT. L-2 SCS-1 PER-2 MC-1 PPT-2 M-1 IO-2
	REC'D 12/28	INFO RM/R-2 REP-1 *IRC-15 *ICA-11 ~~O/MSC-3~~ E-7 EUR-5 OTHER OCB-2 *COM-12 *IR-3 *FRB-12 *XMB-4 *TAR-2 USIA-10 OSD-2 ARMY-35 NAVY-20 AIR-30 CIA-16 IN-7 FAA-5 Dms-2

SUBJECT: Weekly Economic Review No. 50 *LAB-6 *AG-8

Action Assigned to NAR
Action Taken NAR 1-6-60
Date of Action
Action Office Symbol
Name of Officer
Section No. DC/R

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2. Goods to be Imported with KFX Auction Dollars Announced
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5. Minerals Production Plan for 1960
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7. Hong Kong Trade Center Proposed
8. Reentry for Hill and Winter Now Cleared
9. Ministry of Health and Social Affairs Backs Organized Labor

1. (UNCLASSIFIED) Improved Outlook for Foreign Investment Bill

The National Assembly Policy Committee of the majority Liberal Party, working with the "economic" cabinet Ministers, approved the Foreign Investment Encouragement Bill on December 13th in a more liberalized version than was indicated at various times during its consideration of the bill. (See Weekly Economic Reviews Nos. 49 and others). In its present form the bill provides tax relief phased over 6 and 8 years (10 in the original bill), whereas the Reconstruction Committee had previously voted for elimination of tax relief provisions; the percentage of profits authorized for remittance is increased to 20 per cent (from 15 per cent) and the two-year deferment period has been eliminated. Although administration remains under the jurisdiction of the Minister of Finance, an amendment provides for participation by the Minister of Reconstruction in the screening of applicants.

(CONFIDENTIAL) Comment: This bears out information privately given the Embassy by Vice Minister of Reconstruction CHONG Yong-gi that liberal features of the bill knocked out by Assembly committees would be restored by the Liberal Party leaders. The bill reportedly provides income tax relief of 6 years for capital investment projects of foreigners and 8 years for taxes on incomes from "technical aid" contracts (royalties from patent rights and licensing agreements). The bill apparently is now ready to be considered and voted upon by the entire Assembly, with favorable prospects for its early enactment.
(EG and RWT)

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NND 867600
By NARA, Date

2. (UNCLASSIFIED) Goods to be Imported with KFX Auction Dollars Announced

At a meeting on December 17 the four "economic" Cabinet Ministers agreed on a program to permit the import of 23 different types of commodities with the $10 million in ROK Government-held dollars (KFX) to be auctioned this December and January, although exact times and amounts of the sales are yet to be specified (Weekly Economic Review No. 49). These categories are: cement, flat glass, 20-denier cotton yarn, rayon yarn, iron and steel products, caustic soda, soda ash, newsprint, raw rubber, paraffin, raw cotton, general industrial chemicals, abaca, raw wool, wool tops, nylon yarn, non-ferrous metals, lumber and bamboo, sulfur, printing paper, latex, and galvanized iron sheets.

On December 12 Finance Minister SONG In-sang announced, as quoted in the Seoul Sinmun of December 13, that it would not be possible to link the auction of KFX with export records, i.e., restrict the bidders to exporters only. Although the proposal might contribute to the development of exports, Minister Song contended that it would be contrary to the "fundamental spirit of the Foreign Exchange Tax Law or the principle of controlling foreign exchange."

(OFFICIAL USE ONLY) Comment: Minister Song might have added a practical objection to the export-linking idea -- it would have left manufacturers and importers at the mercy of a comparatively few exporters from whom they would have undoubtedly had to pay high premiums for the KFX or goods acquired with it. Nearly all of the commodities authorized for importation with KFX dollars have been and are still being imported with ICA aid dollars, so that it is apparent that the KFX sale is to supplement what the ROK Government deems to be a short fall in the U. S. FY 1960 saleables aid program for Korea.

The appearance of raw cotton on the authorized import list is significant since it can be taken to mean that the ROK Government is moving to implement the U. S. Government requirement that Korean textile and yarn exports made with U. S. aid-financed (and subsidized) cotton must be replaced with commercially procured cotton bought at world market prices. (RWT)

3. (UNCLASSIFIED) New MCI Vice Minister

Mr. KIM Yi-chang, Vice Minister of the Ministry of Commerce and Industry since September 1955, has been replaced by Mr. KIM Chi-yong, a long-time government official, most recently serving as President of the Korea Minting Company (bank-note printing firm). KIM Yi-chang is newly appointed as Governor of the state-owned Daehan Coal Mining Corporation.

(OFFICIAL USE ONLY) Comment: KIM Yi-chang, not active in the Liberal Party, has been passed over several times for top spot in the Ministry. However, in view of the increasing attention laid to coal output (see Weekly Economic Reviews Nos. 47, 48 and others), the governorship of Daehan is not necessarily to be regarded as a demotion.

The former Governor, CHONG In-uk, a highly competent mining engineer who has achieved outstanding success in rehabilitating the Daehan mine complex, quietly resigned and to date has received no other post. It is understood that he plans

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to give full-time attention to his personally owned mine (Kang-wan), which is regarded as a model operation. Financial irregularities have recently been rumored on the part of some of Mr. Chong's subordinates, and his resignation may be in accordance with the accepted Oriental practice of the head man's assumption of responsibility. (Democratic Party accusations were recently made in the National Assembly of corrupt practices against Mr. Chong). The Embassy has not been able to confirm these rumors. The new appointee KIM Yi-chang is regarded as an able administrator, but has no technical qualifications for the Daehan governorship.
(EG)

4. (UNCLASSIFIED) Smuggling and Black Market Statistics Released

The Ministry of Defense announced on December 15 a "new" policy, effective January 1, 1960 for safeguarding the proper utilization of supplies to the Korean Armed Forces. One aspect of the policy is that no military tires will be permitted to be used by civilian vehicles, including those licensed for ROK Government use. "Foreign vehicles", whose license numbers begin with a 5 will be "charged" by joint ROK and U. S. teams when they use military tires. The Ministry of Defense will also develop a campaign to prevent civilians from having unauthorized material such as engineer signal equipment through a "rigid system of stopping the flow of supplies to private markets."

The MOD indicated that 507,502 items of military supplies valued at about 314.9 million hwan have been recovered from private sources during the period from December 10, 1958 to December 1, 1959. Among these were some 14,501 military tires recovered since last June 1.

Also on December 15 the Finance Ministry announced that during the first 11 months of 1959 there were 1971 cases of smuggling detected by customs authorities and goods confiscated were valued at 1,255 million hwan. Of the contraband seized 90 per cent was of Japanese origin. By commodities textile products amounted to 29.9 per cent of the total seized goods by value, and cosmetics totaled 20.9 per cent.

(CONFIDENTIAL) Comment: The publicly announced recovery data of the MOD coincide roughly with confidential information available to the Embassy's Army Attache. There is obviously nothing "new" to a policy by the MOD which has been in effect since last June, and the Ministry's Public Relations Officer is evidently endeavoring to stir up some publicity. It is worth noting that the 14,501 military tires recovered in only six months (June 1 - December 1) constitute more than 10 per cent of the tires used by the entire ROK civilian automotive vehicle park (assuming an average of five tires to a vehicle) of 28,025 as of the close of 1958. Further, this means that during only the first six months of the tire-seizing campaign on the average more than half of the civilian vehicles were found to have at least one tire illegally obtained from the armed forces!

The expression "foreign vehicles" used by the MOD appears to refer to automobiles owned by non-diplomatic foreigners identifiable by a 5 which is the first number on the license plate. The statement that "foreign vehicles" will be "charged" by joint ROK-U. S. teams is undoubtedly inaccurate. U. S. military police have no jurisdiction over foreigners except on military bases. This does,

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however, indicate some sensitivity by the ROK Government to the Embassy's protests against the seizures of military type tires from vehicles owned by resident Americans which may have been acquired legally (Weekly Economic Review No. 32). (RWT)

5. (UNCLASSIFIED) Minerals Production Plan for 1960

The Ministry of Commerce and Industry has announced the following minerals production program for the coming year:

Mineral	Planned 1960 Production (metric tons)	Est. Percentage Incr. over 1959
Gold	250 1/	17
Copper	12,600	255
Iron ore	300,000	5
Tungsten	5,000	70
Limestone	800,000	88
Amorphous Graphite	105,000	0
Anthracite coal	5,027,600	23
Lead	3,000	591
Zinc	500	150

1/ kilograms

(OFFICIAL USE ONLY) Comment: Most of these planned increases appear to be entirely unrealistic. In the case of copper, lead, and other non-ferrous metals, increased production is dependent on the complete rehabilitation of the Changhang smelter (at Chungchong Namdo). An engineering survey of this project is nearing completion by Smith, Hinchman & Grylls Assn., under contract with the USOM. (EG)

6. (LIMITED OFFICIAL USE) U. S.-ROK Air Agreement "Not Violated" by Refusing Fifth Frequency (Tokyo-Seoul) to NWA

An official of the Foreign Ministry has informed the Embassy of the ROK Government's conclusion that it is not in violation of the Air Agreement with the United States in its denial of a fifth frequency between Tokyo and Seoul for Northwest Airlines. This statement came in reply to the representations made by the Embassy charging the ROK's with a violation of both the letter and the spirit of the agreement. Further consideration, however, is being given to the need for a fifth frequency on the basis of traffic demand and capacity as reflected in statistics supplied by NWA.

(LIMITED OFFICIAL USE) Comment: Although there has been no formal reply to the protests registered by the Embassy in connection with the fifth frequency problem, it is now very clear what form that reply will take, at least in part. It is also apparent that if the United States wishes to question that interpretation, it may be necessary to request consultations under the provisions of Article 12 of the Agreement. It is still possible that Korea may grant NWA permission to fly a fifth frequency, perhaps on a temporary basis to accommodate peak traffic seasons. A provisional accommodation of that type may be intended to serve the purpose of dissuading the United States from questioning the Korean interpretation of the Agreement.

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In the meantime, NWA has been giving serious consideration to some of the "minor" but nevertheless "irritating" practices of NWA as seen by the Koreans. A decision has already been made to replace the Japanese stewardesses with Korean girls for the flights between Tokyo and Seoul. A picture of Korea has been included in the NWA calendar for 1960 and others are planned for subsequent years. Courtesy calls are being made to the Minister of Transportation when NWA officials visit Seoul.

NWA Has informed the Embassy that it is now studying the possibility of inaugurating flights to Hong Kong from Seoul. It does anticipate, however, that the Korean Government may not take kindly to the institution of such a service, particularly since the ROK Government has been negotiating with the British for permission to resume Korean National Airlines flights to Hong Kong. (JAC)

7. (UNCLASSIFIED) Hong Kong Trade Center Proposed

An appropriation of about 25 million hwan has been requested in the 1960 ROK Government budget for the establishment of a trade center in Hong Kong similar to the center in New York. Ministry of Commerce and Industry officials believe that the funds will be provided and that the center will be a formally established early next year. The purpose of the Center will be to promote Korean exports to Asian countries.

(OFFICIAL USE ONLY) Comment: The success of any center in Hong Kong will depend upon the manner in which it is operated. Business circles in Korea (Korean Traders Association and the Korea Chamber of Commerce) have expressed the opinion that the trade center should be operated by private business organizations rather than by the Government, if it is to be a successful venture. The New York center should not be used as a model since it has not been successful. Operated by the Korean Consulate in New York, that center has engaged in retail selling in competition with New York stores with the result that importers and other large buyers have not patronized the center and have kept imports of Korean handicrafts to a minimum. Businessmen have quoted Mr. Charles K. Wiggins of the Seattle Trade Fair (who visited Korea in November) in support of their arguments that the center should be privately managed to ensure maximum export benefits. (JAC)

8. (OFFICIAL USE ONLY) Reentry for Hill and Winter Now Cleared

The Ministry of Foreign Affairs has finally decided that Mr. Robert L. Winter of AMKOR Corp. and Mr. Dwight Hill of GENACO Co. are free to leave and reenter Korea. These two businessmen had been indicted for violations of foreign exchange controls although the indictments were later withdrawn. The ROK Government's original proposal to deport them was changed to permit them to stay indefinitely but not to permit their return to Korea once they had left. Finally a promise was made to the American Ambassador that they would be permitted to reenter (Weekly Economic Review No. 5 and previous). Upon application, however, the two businessmen had been denied reentry permits. With the decisions of December 16, after many representations made by the Embassy, the two are now free to leave and return. (JAC)

9. (UNCLASSIFIED) Ministry of Health and Social Affairs Backs Organized Labor

Leather workers striking for back pay and petition from a group of workers fired from the Korea Gun Powder Co. of Inchon for organizing a union prompted the

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Ministry of Health and Social Affairs to issue two statements during the past week. The first urged all employers to pay their workers back wages and year-end allowances before the close of 1959, while the second warned that discharging of workers for organizing a union is illegal. Coincidentally, both incidents occurred during "Human Rights Week".

The incidents evoked a spate of press articles condemning the Ministry for not acting promptly on the petition submitted by the employees fired for unionizing and accusing the Federation of Korean Trade Unions (FKTU) of standing idly by. In a lengthy article, the pro-Democratic Party Tong A Ilbo, seized upon the occasion to condemn the HSA Ministry for suppressing the formation of the National Council of Trade Unions, a recently formed politically independent dissident labor group. It also went on to say that the formation of the NCTU had become necessary because the FKTU had failed to promote a genuine labor movement, had lost the confidence of the workers through its corruption, is a tool of a political party, and as a union has been "demolished". The Hankuk Ilbo, independent daily, repeated the Tong A Ilbo's charges in somewhat softer tones, but broadened its attack to include the judiciary system's "imperfections" on labor law and foot dragging on the part of the courts, charges which may have some merit.

(OFFICIAL USE ONLY) Comment: It may be overly caustic to observe that in a pre-election period labor acquires many "friends" but the attention given to labor problems in recent weeks should be considered at least partially in that light. Possibly because of unconditioned reflexes, the MHSA's Labor Bureau needed prompting from the opposition press before acting on these disputes. In the FKTU's case, the delay was inexcusable, although the Embassy has been informed that KIM Ki-ok, the FKTU president, has belatedly taken personal interest in the dispute. (MC)

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

311
DESP. NO.

FROM : Amembassy, SEOUL

TO : THE DEPARTMENT OF STATE, WASHINGTON.

DEcember 24, 1959

REF : CERP - Korea, Section C, Item 1

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27	*FE-6	REP-1 RMA-2 *IRC-15 *E-7 *ICA-11 W/ASA-3 1-6-60
REC'D 12-28		OTHER USIA-10 *COM-12 AG-8 *TAR-2 Dat-8 *[illegible] 2 HW-7

SUBJECT: Weekly Economic Review No. 51

050-2 OCA-2 Cont-16 Symms-35 NAVY-20 AIR-30

Name of Officer

Direction to DC/R

File

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6. Ryukyus Purchase of Korean Rice in Doubt
7. Experts Show Little Improvement Through November
8. Conflict over Cement Imports
9. New MAF Vice Minister

1. (UNCLASSIFIED) $11 Million Auction of KFX in December and January

Reconstruction Minister SIN Hyen-hwak announced on December 21 that ROK Government-held foreign exchange (KFX) totalling $11 million has been earmarked for auction, with President Rhee's approval, in two installments -- $5 million on December 29 and the remaining $6 million on next January 15. (See Weekly Economic Reviews 50 and 49). Consequently, the four "economic" Cabinet Ministers who originally proposed these auctions on December 7 as an anti-inflationary measure have raised the original $10 million program by $1 million in the intervening period.

Minister Sin stated that the KFX will be auctioned on an ordinary bidding basis but the qualifications of bidders "for some special items" will be restricted. He also indicated that the 30 items selected for importation with the $5 million auctioned on December 29 will be readjusted at the time of the auction of the remaining $6 million on the basis of results from the first auction.

The 30 items chosen for importation from the December 29 KFX auction are as follows: Industrial machinery (excluding cotton textile machinery, worsted textile machinery, flour-making machinery, and confectionery machinery), Iron and steel products, non-ferrous metals, non-metallic minerals (including sulphur), scientific equipment, electrical apparatus, dyestuffs, chemicals, raw rubber, deep sea fishing equipment, seeds (including peppermint bulbs), agricultural chemicals, PVC, lumber, wool tops, pulp, caustic soda and soda ash, rayon yarn (including tire cord), medicines and raw materials, abaca, bamboo, raw cotton (for replacement of raw cotton imported with aid funds which was used for the manufacture of cotton textiles for exportation), staple fibre yarn and staple fibre, paraffin, beef tallow, raw

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By [illegible], NARA, Date 10/1/04

materials for vegetable oil (including copra, linseed, and pine seed), woodfree printing paper, newsprint, raw hide, and flat glass.

(UNCLASSIFIED) Comment: Although nothing was specifically stated on this point by Minister Sin, regulations subsequently released by the Bank of Korea specified that no KFX from the first auction may be used for purchases from Japan. Sales of KFX in 1959 will total $24.4 million as compared to $13 million in 1958. (RWT)

2. (UNCLASSIFIED) BOK Governor Forecasts Tough Credit Policy in 1960

Governor KIM Chin-hyeng of the Bank of Korea at a press conference on December 18 (quoted in the Korean Republic of the following day) said that bank credit in the ROK will have to be controlled more carefully in 1960 to maintain financial stability "despite the adverse impact on the economy" of the reduction in U. S. economic aid to Korea under the U. S. FY 1960 ICA aid program. Since the aid cut will make balancing of ROK Government finances more difficult next year, banking activities "will probably have to be tightened up further to prevent too much money from going into circulation," Governor Kim stated. He anticipated, however, that commercial bank credit can be expanded by about 15 billion hwan next year -- about the same rate of credit expansion as in 1959, on the basis of matching rises in outstanding bank loans with increases in time deposits.

In obvious response to criticism by certain press articles and by commercial bankers that the 1959 year-end credit policy of the Monetary Board as implemented by the BOK is too restrictive, Governor Kim said he believes the present commercial loan ceiling is adequate to meet year-end rises in loan demands and warned that commercial banks should first build up paid-in capital before asking for further credit expansion.

(UNCLASSIFIED) Comment: Although the impact of the U. S. economic aid cut should not have much direct effect on the need for commercial credit in 1960, Governor Kim is apparently preparing the banking community for a stiff anti-inflationary monetary policy next year. (RWT)

3. (OFFICIAL USE ONLY) Transfer Exchange Rate for U. S. Businessmen Postponed

The Ministry of Finance has informed the Embassy that consideration of extending to American businessmen the more favorable exchange rate (transfer rate) on dollar commission sales has been postponed (See Weekly Economic Review No. 49). This postponement, it was implied, would put off further consideration of the measure until late January 1960.

(CONFIDENTIAL) Comment: The reason for this postponement was stated by the Finance Ministry official to be one involving the relationship of the transfer rate to other applicable rates. It was clearly implied, however, that the Korean Government has changed its tactics on the exchange rate problem. It appeared initially that the Government would establish a tourist rate and the transfer rate for business commissions as a measure to dissuade the United States from invoking the provision of the existing agreement that calls for a change in the official rate commensurate with the change in the wholesale price index. Now the position appears to be one which does not provide for any change, at least until the final U. S.

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position on another extension of the official 500 to 1 rate is known. The Embassy anticipates that the Koreans will attempt to bargain a tourist rate and a transfer rate for U. S. businessmen in exchange for the status quo on the official rate.
(JAC)

4. (UNCLASSIFIED) Peak Industrial Production in October

The Bank of Korea's over-all industrial production index for October reached 194 (calendar year 1955 is the base period), the highest postwar level. The increase, 10% above September, was shared by all major segments of the index, as follows: mining, 13% above the previous month, manufacturing, 9.5%, and electric power production, 16%.
(EG)

5. (UNCLASSIFIED) $29.9 Million of ROK Contracts with U. S./UN Forces in Jan. - Oct. 1959

According to statistics released by the Ministry of Finance on December 21, during the first ten months of 1959 dollar contracts approved for furnishing Korean services (labor) or supplies to the U. S./UN Forces totalled $29.9 million. The data were as follows:

Service contracts		Supply contracts	
	(in $ millions)		
Item	Amount	Item	Amount
Construction projects	15.2	Construction supplies	2.7
Transportation	2.6	Foodstuffs	1.7
Repairs	1.6	FEES supplies	.2
FEES services	.7	Others	.6
Management contracts	1.0		
Shows	3.2	Sub-total:	5.3
Labor	.3		
Sub-total:	24.6	Grand total:	29.9

(UNCLASSIFIED) Comment: These statistics appear to be slightly at variance with those published by the Bank of Korea (Monthly Foreign Exchange Statistics - October, 1959) as to actual receipts from the U. S./UN Forces. Receipts for January - October 1959 were reported at $54.5 million of which $31.2 million were for services and goods and $23.3 million for hwan sales. ROK dollar earnings in 1959 from foreign troops should not be much below the 1958 figure of $65.5 million notwithstanding the fact that the latter included a $7 million check paid a year ago as a onetime settlement in connection with the U. S.-ROK Utilities Claims Settlement Agreement.
(RWT)

6. (OFFICIAL USE ONLY) Ryukyus Purchase of Korean Rice in Doubt

Although the Korean Government had consented to sell rice to the Ryukyus on condition that a share of the proceeds would be used for purchases from the Islands, there has been no official reply from Naha to the Embassy's telegram on the subject (Weekly Economic Review No. 49). The Ministry of Foreign Affairs, which apparently felt that the transaction under its terms would be a "dead cinch" is

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now concerned over the absence of strong interest from the Ryukyus. One unefficial message received by that Ministry from Naha reported that only one private businessman (instead of a three-man delegation) would be sent to Korea to explore rice purchases but there was no indication of when.

(OFFICIAL USE ONLY) Comment: The ROK Government's confidence in the sale of rice to the Ryukyus this year has been reflected in leaks to the press. This confidence is now on the verge of being shattered. All, however, is not yet lost. Perhaps the Koreans will learn that negotiations of terms must be mutually acceptable for a sale to be successful in time to save this particular potention transaction. The Embassy has been requested by the Foreign Ministry to make an official inquiry as to when the Ryukyuan delegation will come to Korea. (JAC)

7. (UNCLASSIFIED) Experts Show Little Improvement Through November

According to the Bureau of Customs, total experts in the month of November amounted to $1,238,000. This volume represents a substantial improvement over the low level of $641,531 achieved in the previous month but no improvement over the values of some earlier months. Total experts for the first eleven months of the year were valued at $17.1 million as compared with $16.7 million for the entire year of 1958. Imports in November totaled $19.9 million (including aid financed purchases). The import value for the first eleven months reached $267.3 million.

(OFFICIAL USE ONLY) Comment: Experts in the first eleven months have exceeded the 1958 level despite the suspension of trade with Japan last June 15. This has been accomplished partly through the heavier than usual shipments to Japan in the first half of the year although an estimated $5 million in experts will be lost in the latter half of 1959 from the suspension. Unless Korea resumes normal trade relations with Japan and unless the export promotion campaign is more than just talked about, Korea should not expect to appreach its $30 million export target for 1960. (JAC)

8. (UNCLASSIFIED) Conflict over Cement Imports

The age-old problem of protecting or not protecting "infant" industries finds a concrete (!) example in the dispute being waged over cement between the Ministry of Reconstruction and local construction contractors. The latter claim that they are at a disadvantage in being required by the Government to use higher priced domestic cement, while foreign firms competing for Armed Forces building contracts are able to import cement. Cement can be imported without restriction under regular commercial terms, but has been banned for aid-financed import. It has also been excluded from the list of commodities eligible for import with government-held foreign exchange to be auctioned December 9 (see Item 1 above).

Locally produced cement has been selling for about 1,600 hwan per 100-pound bag, or 32,000 hwan per short ton. Cement can be imported from Japan at $21 per ton. The price advantage is thus substantial, even if computed in terms of the market rate of exchange; at the official rate of 500 hwan to $1, local cement costs $64 per short ton.

The country's two cement plants are capable of producing some 350,000 tons annually, while the Construction Association estimates requirements (at the current

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rate) are for 760,000 tons. (EG)

9. (UNCLASSIFIED) **New MAF Vice Minister**

Vice Minister of Agriculture and Forestry KIM Chang-sop resigned this week in order to run for the National Assembly as a Liberal Party representative of Kyongsang Pukdo. He was replaced by Mr. PAK De-un. Mr. Pak has been a Director of the Korea Agricultural Bank, and previous to that has held positions at the bureau-chief level in MAF. (EG)

For the Ambassador:

Robert W. Tucker
Second Secretary of Embassy

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DESP. NO.

FROM : Amembassy, SEOUL

TO : THE DEPARTMENT OF STATE, WASHINGTON.

DATE December 28, 1959

REF : 1957 CERP, Section B, Item II-B, III-B-1, 3, V-E(1), VII-B(1), D(1), III-D-1, I-A-4, 5.

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	REC'D 1/5	INFO OTHER

ACTION: EE-4
DEPT: REP-1 RM/R-2 IRC-8 ICA-11 E-3
OTHER: CIA-10 TR-3 FRB-3 TAR-2 LAB-6 AG-8

SUBJECT: Monthly Economic Indicators, ROK, September 1959.

OSD-4 army-6
navy-3 air-4 xmb-4
USIA-10 Com-2 File

	Sept 1959	Aug 1959	Percent change [a] Aug-Sept 1959	Sept 58-Sept 59	Sept 55-Sept 59
I. PRICES (A:1947=1)					
A. Wholesale index, Seoul	236.2	226.7	+ 4.2	+11.0	+55.2
1. Commodity groups					
a. Grain	212.0	210.6	+ 0.7	-10.2	+ 0.5
b. Meats, eggs, fish	536.8	473.5	+13.4	+42.3	+103.1
c. Textile raw materials	166.8	165.3	+ 1.0	+17.3	+39.1
d. Textiles	77.2	76.3	+1.2	+12.8	+10.0
e. Building materials	319.5	283.6	+12.7	+33.0	+38.6
f. Fertilizer	539.4	539.4	0	0	+68.6
g. Fuel	629.8	577.7	+ 9.0	+55.9	+68.9
h. Miscellaneous	135.9	135.3	+ 0.4	+22.1	+53.5
2. All items except grain	251.6	237.1	+ 6.1	+27.3	+61.6
3. Consumer goods	232.7	223.8	+ 4.0	+ 6.1	+28.8
4. Producer goods	201.5	196.6	+ 2.5	+18.8	+34.9
B. Seoul consumer price index (1955=100)					
1. General	160.0	151.4	+ 5.7	+ 6.2	+37.8
a. Food	163.3	148.2	+10.2	+ 2.1	+29.9
b. Housing	179.6	178.8	+ 0.4	+ 9.7	+71.2
c. Fuel & light	163.8	155.2	+ 5.5	+26.8	+42.7
d. Clothing	110.9	110.8	+ 0.1	- 1.2	+ 5.9
e. Miscellaneous	171.4	168.7	+ 1.6	+11.2	+60.2
C. Rice, retails, Seoul Hwan/20 liters	3,000	2,968	+ 1.1	- 9.0	+ 1.4
D. US $1 greenback, Seoul	1,297	1,355	- 4.3	+ 7.4	+89.5

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	Sept 1959	Aug 1959	Percent change Aug-Sept 1959	Sept 58-Sept 59	Sept 55-Sept 59
E. New national wholesale price index (1955=100)					
1. All Commodities	155.5	152.4	+ 2.0	+ 6.8	+30.6
a. Foods	149.4	145.9	+ 2.4	- 0.8	+14.0
b. Fuel & power	155.7	154.5	+ 0.8	+ 9.6	+41.5
c. Mineral products	115.5	115.5	0	+ 6.5	+11.9
d. Metals products & machinery	183.3	178.1	+ 2.9	+14.5	+71.0
e. Building materials:					
(Including metals)	177.1	162.9	+ 8.7	+21.8	+53.3
Excluding metals	171.7	156.2	+ 9.9	+23.1	+47.6
f. Fiber and fiber products	134.6	133.8	+ 0.6	+ 8.7	+29.2
g. Chemical products	232.3	230.6	+ 0.7	+ 9.3	+65.1
h. Paper	163.6	159.7	+ 2.4	+21.5	+63.8
i. Raw rubber and rubber products	157.9	155.7	+ 1.4	+36.8	+58.0
j. Miscellaneous	166.0	165.5	+ 0.3	+ 9.3	+57.3
2. Special groupings					
a. Grains	144.6	143.6	+ 0.7	-10.2	- 1.7
b. All commodities excluding grains	159.2	155.4	+ 2.4	+13.3	+45.0
c. Producer goods	183.7	179.4	+ 2.4	+19.1	+56.9
d. Consumer goods	144.1	141.5	+ 1.8	+ 1.4	+20.2

	Billions of Hwan			Percent change	
	Sept 1959	Aug 1959	Sept 58-Sept 59	Aug-Sept 1959	Sept 58-Sept 59
II. MONEY SUPPLY (bil.hwan)					
A. Notes & deposits					
1. Bank notes, outside banks	102.0	98.9	+13.6	+ 3.1	+15.4
2. Check/demand deposits, excl. uncleared	113.0	109.0	+10.9	+ 3.7	+10.7
3. Foreign official deposits	11.3	10.0	-13.4	+13.0	-54.3
4. Total (1+2-3)	203.7	197.9	+57.9	+ 2.9	+22.9
B. Factors affecting money supply					
1. Government finance b/	107.9	100.2	+27.0	+ 7.7	+33.4
2. Private credit (inc. BOK, exc. KRB)	175.2	172.2	+41.3	+ 1.7	+30.8
3. Other c/	-79.4	-74.5	-30.4	+ 6.6	+62.0
4. Total	203.7	197.9	+57.9	+ 2.9	+22.9

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	Aug 1959	Jul 1959	Total Jan-Aug 1959 (Average in case of indexes)	Percent change Jul-Aug 1959	Percent change Aug 58-Aug 59
III. PRODUCTION					
A. Quantities of output					
1. Cotton yarn (mil.lbs)	9.3	9.1	71.1	+ 2.9	+181.4
2. Cotton cloth (mil.sq.yds)	13.5	14.0	108.1	- 3.3	+ 4.7
3. Cement (1,000 mt)	35.0	37.0	221.0	- 5.6	+10.7
4. Rubber shoes (mil.prs)	1.3	3.3	24.6	-61.2	-61.3
5. Coal (1,000 mt)	344	342	2,456	+ 0.6	+45.3
6. Tungsten (mt)	253	266	1,907	- 4.9	+112.6
7. Electric power (mil.KWH)	139	138r	1,104	+ 0.7	+15.8
B. Production indexes (1955=100)					
1. Industrial production (100)	187	185	168	+ 1.1	+ 2.7
a. Mining (10)	228	232	216	- 1.7	+31.8
b. Manufacturing (87)	182	179r	162	+ 1.7	- 1.1
c. Electricity (3)	190	188	188	+ 1.1	+16.6

	Aug 1959	Jul 1959	Total Jan-Aug 1959	Percent change Jul-Aug 1959	Percent change Aug 58-Aug 59
IV. FOREIGN EXCHANGE ($ mil.)					
A. Holdings (inc. gold)	150.1	148.6	(+3.6)d/	+ 1.0	+19.6
1. Dollars, US	146.2	144.7	(+3.0)d/	+ 1.0	+19.4
2. Uncommitted	92.1	90.4	(+1.4)d/	+ 1.9	+24.8
B. Receipts	8.8	9.4	67.7	- 6.4	+ 4.8
1. Exports	1.6	1.7	14.4	- 5.9	+23.1
2. Hwan sales	2.6	2.4	19.0	+ 8.3	-57.4
3. Other	4.6	5.3	34.5	-13.2	+360.0
C. Payments	6.5	7.5	62.9	-13.3	+35.4
1. Import (non-aid)	4.5	6.1	50.2	-26.2	+40.6
2. Other	2.0	1.4	11.7	+42.9	+25.0

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	Program (Adjusted)	Jul 1959	Jun 1959	During Dec 56- Jul 58	During Dec 57- Jul 59	During Jun-Jul 1959
V. ECONOMIC AID ($ mil)						
A. ICA arrivals (US FY basis)						
1. 1954	178.0	177.5	177.5	17.8	2.9	0
2. 1955	245.2	240.4	240.3	25.6	8.6	0.1
3. 1956	311.3	294.8	294.5	94.1	19.2	0.3
4. 1957	318.5	293.3	282.1	254.6	83.6	1.2
5. 1958	227.7	192.0	190.4	107.7	185.6	1.6
6. 1959	237.4	101.8	90.5	0.1	101.8	11.3
7. 1960	0	0.1	0			0.1
8. Total	1,518.1	1,289.9	1,275.3	499.9	401.8	14.6
a. Project	490.8	367.6	365.0	127.0	85.3	2.6
b. Non-project e/	1,005.0	910.9	899.4	367.5	308.1	11.5
(1) Surplus agricultural commodities Sec.402	203.9	194.9	191.2			3.7
(2) Fertilizer	272.7	256.9	255.3r			1.6
(3) Other & unassigned to specific non-project uses	528.4	459.1	452.9r			6.2
c. Technical cooperation	22.3	11.4	10.9	5.4	8.4	0.5
9. Reserve (Current FY)	0	0	0	-	-	0
B. US FY 1959 ICA obligations	237.4	236.9	237.0	-	-	0.1
C. PL 480 arrivals	162.0	127.2	127.2	69.4	48.7	0
1. Food	136.9	109.8	109.8	65.0	48.3	0
2. Other	25.1	17.4	17.4	4.4	0.4	0

Footnotes: a/ Computed in most cases from unrounded figures. b/ Includes the Government's net position at the BOK (overdrafts less deposits, including operations of counterpart funds); Government bonds, industrial reconstruction bonds and industrial finance debantures (latter two are KRB issues) held by BOK; BOK loans to Government agencies; national bonds held by banks other than the BOK and KRB; and loans by banks, other than BOK and KRB, to local Governments. c/Includes BOK net purchases of foreign exchange, savings and time deposits (decreasing factors), deposits of foreign organizations in the BOK (decreasing factor), and all other influences on the money supply (net). d/ Change between December of year before and August of year indicated, expressed in $ million. e/ Because of the change on USOM Program Status Report, the categories on Non-Project also changed. Eventually the comparisons with previous periods on Non-project are not available.

For the Ambassador:

Robert W. Tucker

Robert W. Tucker
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

FROM : Amembassy, SEOUL — 321 DESP. NO. — December 31, 1959 DATE

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : CERP - Korea, Section C, Item 1

For Dept. Use Only	ACTION	DEPT.
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	REC'D 12-4	INFO OTHER: REP-4 RM/R-2 IRC-15 ICA-11 E-7 W/MSC-3 COM-12 USIA-10 LAB-6 IN-7 AGR-8 TRR-2 TRE-2 FRB-3 IMB-4 ARMY-35 NAVY-20 AF-30 CIA-16 OSD-2 OCB-2

Action Assigned to WAE
Action Taken NAR
Date of Action
Action Office Symbol NAF
Title of Officer
Action to DC/R

This Document must be returned to the RM/R Department

SUBJECT: Weekly Economic Review No. 52

Contents

1. Foreign Investment Law Enacted
2. KFX Auction a Big Success
3. Wholesale Price Index Rises Slightly
4. Labor Committee Rules Against Electric Company
5. ROK-Japan Trade
6. Rice Production Costs

1. (UNCLASSIFIED) **Foreign Investment Law Enacted**

The National Assembly, after lengthy study and debate, passed the Foreign Investment Bill on December 28, apparently without any seriously delimiting modifications (an official translation of the law as passed is being prepared and will be forwarded as soon as available). The law, now entitled Foreign Investment Induction Law, provides for tax reduction or exemption extending over the first eight years (total exemption for the first five years for equity investment, two-thirds waiver for the next two years, and one-third for the eighth year). Customs duties are to be reduced or totally waived. Annual remittance of profits is permitted up to 20%, with no waiting period imposed. After the first two years principal may be withdrawn at an annual rate of 20% of the investment. The supervisory committee will be headed by the Minister of Finance; in addition to other specified government officials, the committee will be comprised of the president of the Chamber of Commerce of Korea and two private citizens "well informed on law and economics" to be nominated by the Finance Minister. The incentives and guarantees under the law are to be extended only to nationals of countries which have concluded a commerce and navigation treaty with the ROK. Under a new amendment, the terms of the law will be extended to Korean citizens who have resided in an FCN country for at least 10 years.

(OFFICIAL USE ONLY) Comment: As the Embassy has previously observed, passage of a satisfactory investment law is not expected to result in a flood of foreign investment capital, but it is certainly an encouraging development. Passage of the bill with most of the original provisions intact is due in no small measure to the strong support given by the "economic" ministries. In only one major respect is the law less liberal than the original draft -- reduction of the tax-relief period from 10 years to 8 years; on the other hand, elimination of the two-year deferment [illegible]

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remittance of profits, as originally proposed and the increase in the profit remittance limit from 15 to 20 per cent, are improvements.

The applicability of the law solely to citizens of countries who have entered into FCN treaties with the ROK in effect limits it to U. S. investors. This restriction is almost certain to elicit objections from West Germany, Great Britain, and other countries, and may spur them to take appropriate action to conclude FCN treaties.

The law will not be effective until promulgated by Presidential edict, but this is expected without delay since President Rhee has repeatedly urged passage of the bill.

The Embassy has been informed by an official of the Finance Ministry that the ROKG is prepared to open negotiations for a ROK-US investment guaranty agreement on January 5, 1960. (EG)

2. (UNCLASSIFIED) **KFX Auction a Big Success**

Competition for the $5 million of government-held foreign exchange (KFX) offered for public auction December 29 was unusually keen with 382 traders participating. Approximately 5.5 billion hwan was acquired in exchange for $4.5 million, at a weighted average bid of 1,029 hwan per dollar. A residual of $500,000 for which tie-bids were received will be re-allocated December 30.

(UNCLASSIFIED) Comment: The willingness of private traders to pay high rates for dollars reflects continued uncertainty of the ROK-Japan trade situation, as well as the inclusion of many popular items on the list of eligible import commodities (see Weekly Economic Review No. 51). Another $6 million of KFX is scheduled for auction January 15. (EG)

3. (UNCLASSIFIED) **Wholesale Price Index Rises Slightly**

The overall Seoul Wholesale Price Index averaged 133.1 of the September 1955 base during the first 25 days of December; grain prices averaged 80.6 and all other prices 178.6. Compared with November, the overall index registered a 0.7 per cent increase; grain prices were 2.0 per cent lower and prices of all other commodities reached a new high -- up 1.8 per cent from November.

The December figure brings the July-December average to 130.2 of the September 1955 base month. (EMC)

4. (OFFICIAL USE ONLY) **Labor Committee Rules Against Electric Company**

The Seoul Labor Committee ruled that the Seoul Electric Company should reinstate five employees who were discharged last May, all of whom were company labor union officials. According to the press, they were discharged for attempting to control the union. All of the union officials were representatives of the FKTU faction.

The origin of the dispute is lost in the confused post-WW II period, but it appears to involve a conflict of factions and personalities between the Chong Tae Chon

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group, supported by management, and the FKTU faction, who are in a majority.

After the five employees were discharged last May, the FKTU filed a complaint charging that the firing was illegal, and the case eventually was brought before the Seoul Central Labor Committee. Under procedural rules, the Company has 15 days to appeal the Committee's ruling, but union sources state that the Company will abide by the Labor Committee's decision. Obviously, the Committee's decision will strengthen the FKTU faction in the Seoul Electric Company union, but of greater significance is the growing role of the Labor Committees in labor-management disputes. (MC)

5. (UNCLASSIFIED) ROK-Japan Trade

The Japanese have offered to buy and the Koreans have agreed to sell $441,000 of anthracite, $159,294 of graphite, and $850,000 of fresh fish. As of December 30, Korea has already shipped $228,000 of anthracite, $101,200 of graphite, and $315,000 of fresh fish -- a total of $644,200. The Koreans, however, claim to have agreed to sell these commodities on two conditions: 1) that the Japanese remove the freeze on the open account, which now has a credit of $3.71 million in Korea's favor; and 2) that Japan agree to buy rice from Korea. Despite the fact that there has been no acceptance by Japan of these conditions, the shipments indicated above have been permitted. There has been, however, a Japanese offer to buy various quantities of iron ore, kaolin, liver oil, wangal grass, and alumina shale. The Koreans are now considering this latest offer to purchase, but the feeling at the moment seems to be one of not authorizing such sales until Japan has complied with the two conditions mentioned above. (JAC)

6. (UNCLASSIFIED) Rice Production Costs

The Ministry of Agriculture and Forestry estimates that production of one suk of rice (180 liters) costs the farmer 23,318 hwan, some four to five thousand hwan above the current wholesale price. The cost estimates are itemized below:

Production Costs	Hwan
Self Labor	7,510
Direct, total	7,404
Seed	356
Chemical fertilizer	1,662
Compost	520
Other materials	673
Hired labor	1,533
Warehousing	108
Implements	174
Taxes	1,528
Draught animals	714
Miscellaneous	136
Indirect, total	10,487

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Interest for Farming Fund	1,481
Interest on real estate assets	9,006
Total costs	25,401
Less income from by products	2,083
Net production costs	23,318

(UNCLASSIFIED) Comment: It is impossible to verify MAF's cost estimates. The nature of Korean farm production -- largely a family operation and utilizing labor which would otherwise be unoccupied -- does not lend itself to precise cost analysis. However, there is not much doubt that the farm economy has been in a price-cost squeeze, with grain prices running substantially below the levels of a year ago while prices of non-grain items have in general increased. A major factor in high farm costs is the farmer's perennial necessity to obtain loans from private money-lenders at usurious rates of interest (probably hidden in MAF's estimates of "indirect costs").
(EG)

For the Ambassador:

Edwin M Cronk

Edwin M. Cronk
Counselor of Embassy
for Economic Affairs

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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL

283
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

March 7, 1956
DATE

REF : CERP D-17, 23

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	FE-4	INFO RM/R-2 REP-2 OLI-6 E-5 ICA-10 U/MSA ~~USIA-4~~ FAR-2 OSD-4 NSA
	REC'D 3/12	OTHER CIA-5 COM-10 FRB-2 TR-3 XMB-3 AG-8 IN-7

SUBJECT: Transmittal of Draft ROK 5-Year Plan

Action to DC/R

Transmitted as an enclosure to this despatch is a reproducible copy of the current draft 5-year reconstruction plan as drawn up by the ROK Ministry of Reconstruction. It is being transmitted at this time without extensive comments or analysis by the Embassy in order to expedite delivery.

The plan covers the period FY 1957-61 and calls for a total expenditure of $2.375 billion. $2 billion would be derived from U. S. economic aid and $375 million from private foreign investment and ROK foreign exchange. $1,075 billion would be used for the importation of capital goods and $1,300 for procurement of raw materials and other related items.

The Embassy has not yet discussed the plan in detail with the responsible ROK government officials. However, from informal discussions it has been learned that the plan was pulled together on a crash basis, apparently in preparation for Secretary Dulles' forthcoming visit, without any extensive research or analysis. A cursory review of the document gives the same impression.

For the Charge d'Affaires ad interim

Edwin M. Cronk
First Secretary of Embassy

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LONG RANGE PROGRAM FOR KOREAN REHABILITATION AND RECONSTRUCTION

Ministry of Reconstruction

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TABLE No. 4 Dollar Funding

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TABLE No. 6 Justification for each Major Investment Project

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28 February 1956

LONG RANGE PROGRAM
FOR
KOREAN REHABILITATION AND RECONSTRUCTION

INTRODUCTION

1. Up to the present, although detailed plans for financial stabilization and economic reconstruction have been put forward by Dr. Tasca and others, it has been impossible to implement them, because actual appropriations of economic aid funds were not made in accordance with those plans.

The result has been that capital construction - which is essential to make Korea a self-supporting and vialbe economy - has had to be postponed from year to year. A high proportion of the aid granted has had to be used for consumer goods for the maintenance of the civilian economy and Korea is very little nearer industrialization and self-sufficiency than it was a decade ago.

2. Korea does not want to remain indefinitely on the breadline of her American friends. If full financial support is given to the program now proposed and that program is efficiently administered it is probable that Korea can, by 1963, stand on her own feet economically.

3. The program now put forward refers solely to economic aid. Military aid for the ROK Defence Forces in the Common fight against Communism must continue.

4. The program now presented is based on the past 3 years' experience and includes necessary revisions and additions to original plans tentatively prepared by the ROK Government.

This new program lays down proposals, in continuation of the FY 56 economic aid program, for the fiscal years 1957 to 1961 inclusive.

5. An estimated total of $2.375 billion, spread over this five year period, is required. At the end of this period Korea should be independent of further economic aid.

6. Of this $2.375 billion, $1.075 billion is required during the 5 years for capital construction and $1.300 billion for import of raw materials and finished products.

7. It is suggested that funding of the $2.375 billion should be obtained as follows: -

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$2.0 billion as US Economic Aid
$0.375 billion from Foreign private capital investment, ROK foreign exchange etc.

Any surplus agricultural products that may be procured with Hwan currency under US Public Law 480 would be additional to the above.

DETAILS OF PLAN

8. The tables attached cover both dollar requirements and Hwan requirements. The latter are derived both from ROK revenues and from counterpart funds.

9. The plan is shown under the following main heading and tables: -

Table (1) Overall Requirements for each of the 5 years showing the investment and consumer goods components.

Table (2) Breakdown of Investment Component for each of the 5 years

Table (3) Breakdown of Commodities Component for each of the 5 years

Table (4) Dollar Funding for each of the 5 years

Table (5) Hwan Funding for each of the 5 years

(with additional explanatory tables):
5 II. Basis for Government Revenues
5 III. Basis for Aid Goods sales
5 IV. Schedule for Korean Reconstruction Bank Loan repayments
5 V. Estimates of Hwan requirements for investment
5 VI. Estimated increase in money supply
5 VII. Government revenues and expenditures

Table (6) Justifications for each major investment project

10. A brief summary, for reference purposes, is given showing the results of the FY 54, 55 and 56 economic aid programs. (See Table 7)

11. If the plan is carried out as now proposed it is confidently expected that Korea will be able to equalize its international balance of payments by FY 63. A projection is shown in Table 8.

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TABLE No. 1

OVERALL REQUIREMENT (Unit : thousand dollars)

	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Investment Component	211,700	213,000	212,700	221,500	216,000	1,074,900
Agriculture and Forestry	21,500	24,500	19,500	14,000	13,500	93,000
Fisheries	11,000	13,500	15,000	16,000	16,000	71,500
Coal Mining	7,300	8,000	5,500	6,500	5,000	32,300
Mining Other than Coal	7,700	7,000	2,500	5,500	7,000	29,700
Power	23,000	21,000	22,000	23,000	28,000	117,000
Transportation	23,000	23,650	24,000	33,700	22,300	126,650
Communication	8,000	15,000	8,000	9,000	9,000	49,000
Manufacturing Industry	39,500	31,500	69,000	42,000	50,000	232,000
Iron and Steel Industry	5,000	7,350	-	5,000	-	17,350
Education	17,000	15,500	8,000	12,000	10,500	63,000
Health and Welfare Facilities	8,000	6,000	5,000	9,000	10,000	38,000
Public Works	18,000	17,500	15,500	22,900	16,000	89,900
Housing	12,700	11,000	12,700	15,900	27,700	80,000
Vessels and Shipyard	10,000	11,500	6,000	7,000	1,000	35,500
Raw materials & Finished Products	300,000	280,000	260,000	240,000	220,000	1,300,000
Total	511,700	493,000	472,700	461,500	436,000	2,374,900

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TABLE No. 2

INVESTMENT PROJECT

Field : Agriculture and Forestry

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Seed Treatment & Development	609	559	524	504	519	2,715
Agricultural Research	500	350	350	300	300	1,800
Pesticide Facilities	1,530	576	624	672	722	4,124
Agricultural Extension	1,067	1,067	1,069	1,239	1,026	5,468
Soil Testing Services	123	156	150	135	135	699
Agr. Statistic	200	82	100	108	100	590
Forestry	1,450	1,400	1,050	1,050	1,450	6,400
Livestock Veterinary	674	2,614	300	471	471	4,530
Irrigation and Land Reclamation	15,347	16,696	14,333	9,521	8,777	64,674
Farmers Industry	-	1,000	1,000	-	-	2,000
Total	21,500	24,500	19,500	14,000	13,500	93,000

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TABLE No. 2

INVESTMENT PROJECT

Field : Fisheries

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Fishing Facilities	2,800	3,000	3,000	3,000	3,000	14,800
Fishing Boat Construction	5,200	6,400	8,300	9,700	10,000	39,600
Fishing Boat	2,000	2,600	2,700	2,300	3,000	12,600
Fish Canning Facilities	1,000	-	1,000	1,000	-	3,000
Fish Processing Facilities	-	1,500	-	-	-	1,500
Total	11,000	13,500	15,000	16,000	16,000	71,500

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TABLE No. 2

INVESTMENT PROJECT

Field: 1. CoalMining
2. Mining other than coal

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
1. Coal Mining	7,300	8,000	5,500	6,500	5,000	32,300
2. Mining other than Coal & Gold	3,500	3,000	1,000	2,000	2,000	11,500
Gold Mining	2,800	3,000	1,000	2,750	4,450	14,000
Geologic Survey	1,400	1,000	500	750	550	4,200
Total	15,000	15,000	8,000	12,000	12,000	62,000

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TABLE No. 2

INVESTMENT PROJECT

Field : Power

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Hydro Electric Power	18,000	18,000	20,000	-	-	56,000
Thermal Power	1,500	-	-	23,000	20,000	44,500
Transmission and distribution	3,500	2,000	2,000	-	8,000	15,500
Nuclear Ractor	-	1,000	-	-	-	1,000
Total	23,000	21,000	22,000	23,000	28,000	117,000

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TABLE No. 2

INVESTMENT PROJECT

Field : Transportation

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Railway Construction	5,310	5,930	7,120	13,680	8,200	40,240
Railroad Rehabilitation	4,240	4,230	1,720	1,500	1,500	13,190
Rolling Stock	6,200	5,490	7,160	10,320	6,800	35,970
Railroad Logistic Supply	6,000	6,000	6,000	6,200	5,800	30,000
Cargo Handling Facility	-	500	500	500	-	1,500
Street Cars	1,000	1,000	1,000	1,000	-	4,000
Aviation Facility	250	500	500	500	-	1,750
Total	23,000	23,650	24,000	33,700	22,300	126,650

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TABLE No. 2

INVESTMENT PROJECT

Field : Communication

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Inside Cable Plant	960	4,800	3,940	2,917	935	13,552
Inside Cable Plant Equipment	2,720	5,400	922	2,739	3,057	14,838
Radio-telegraph Facility	1,120	1,800	1,604	2,300	3,411	10,235
Telecommunication Maintenance Equipment	400	500	600	500	600	2,600
Telecommunication Experiment Equip.	160	250	200	-	-	610
Communication School Equipment	80	50	50	-	-	180
Building for Communication	2,470	2,120	620	516	969	6,695
Vehicles	90	80	64	28	28	290
Total	8,000	15,000	8,000	9,000	9,000	49,000

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TABLE No. 2

INVESTMENT PROJECT

Field : Manufacturing Industry

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Fertilizer plant	20,000	-	20,000	-	-	40,000
Cement plant	8,000	-	4,000	-	-	12,000
Oil Refinary	-	12,000	-	-	-	12,000
Pulp plant	2,000	1,800	-	2,800	-	6,600
Paper Industry	-	-	3,800	2,000	-	5,800
Chemical Industry	-	5,000	12,000	13,000	21,000	51,000
Textile Industry	3,900	4,000	13,000	13,700	13,500	48,100
Mechanic Industry	3,000	7,000	16,000	10,200	15,500	51,700
Handicraft Industry	100	200	200	300	-	800
Night soil Processing plants	-	1,500	-	-	-	1,500
Briquet plant	2,500	-	-	-	-	2,500
Total	**39,500**	**31,500**	**69,000**	**42,000**	**50,000**	**232,000**

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TABLE No. 2

INVESTMENT PROJECT

Field: Iron and Steel Industry

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Yangyang and Samhwa Iron Mining	850	-	-	-	-	850
Samhwa Iron Refinery	-	1,500	-	-	-	1,500
Daihan Heavy Industrial Cooperation	4,150	5,850	-	5,000	-	15,000
Total	5,000	7,350	-	5,000	-	17,350

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TABLE No. 2

INVESTMENT PROJECT

Field : Education

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Classroom Construction	5,000	5,000	5,000	5,000	5,000	25,000
School Equipment	5,000	4,000	1,000	3,000	2,000	15,000
Technical Education	6,000	5,500	1,000	3,000	2,500	18,000
Cultural Facility	1,000	1,000	1,000	1,000	1,000	5,000
Total	17,000	15,500	8,000	12,000	10,000	63,000

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TABLE No. 2

INVESTMENT PROJECT

Field: Health and Welfare Facilities

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Hospital Facility	4,200	3,700	1,700	1,600	2,800	14,000
Sanitation Facility	2,800	1,300	2,100	1,500	800	8,500
Social Welfare	1,000	1,000	900	5,700	6,200	14,800
Pharmaceutical Facility	-	-	300	200	200	700
Total	8,000	6,000	5,000	9,000	10,000	38,000

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TABLE No. 2

INVESTMENT PROJECT

Field: Public Works

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Flood Control	1,000	1,000	500	1,000	500	4,000
Water Works	2,200	2,000	2,000	2,600	2,000	10,800
City Planning	1,500	1,000	1,000	1,300	600	5,400
Roads and Bridges	4,000	4,000	3,800	6,300	1,100	19,200
Public Building	2,000	2,000	2,200	5,200	9,200	20,600
Fire Fighting Equipment	300	200	-	-	-	500
Police Communication	1,000	-	-	-	-	1,000
Coastal Guard Boats	1,000	-	-	-	-	1,000
Harbor Rehabilitation	4,000	4,800	6,000	6,500	2,600	23,900
Light House	1,000	1,500	-	-	-	2,500
Dredging	-	1,000	-	-	-	1,000
Total	18,000	17,500	15,500	22,900	16,000	89,900

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TABLE No. 2

INVESTMENT PROJECT

Field: Vessels & Shipyard

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Vessels	6,000	7,000	5,000	5,000	-	23,000
Shipyard	4,000	4,500	1,000	2,000	1,000	12,500
Total	10,000	11,500	6,000	7,000	1,000	35,500

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TABLE No. 3

BREAKDOWN OF COMMODITIES

(in 1,000 US$)

Item	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Fertilizer	57,000	63,200	56,900	52,400	48,300	277,800
Raw Cotton	43,600	41,200	41,200	38,200	33,200	197,400
Bituminous Coal	26,169	22,209	13,530	9,999	8,250	80,157
P. O. L.	20,000	20,000	20,000	18,000	18,000	96,000
Coaltar Pitch	2,000	2,800	3,100	3,500	3,900	15,300
Pesticide	1,500	1,500	1,500	1,500	1,500	7,500
Logs & Lumber	5,200	5,200	6,000	6,500	7,000	29,900
Cement	7,500	5,000	2,500	-	-	15,000
Flat Glass	500	-	-	-	-	500
Iron & Steel shapes	6,000	6,000	5,000	5,000	4,000	26,000
Non-ferrous metals	3,000	4,000	4,000	4,000	4,000	19,000
Tire & Tube	1,800	-	-	-	-	1,800
Industrial machinery	10,000	10,000	10,000	10,000	10,000	50,000
Creosote	400	400	400	400	400	2,000
Raw Wool	2,000	2,000	2,000	2,000	2,000	10,000
Worsted yarn	2,000	-	-	-	-	2,000

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TABLE No. 3 BREAKDOWN OF COMMODITIES (cont'd)

Item	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Synthetic fibre	12,000	12,000	12,000	9,000	6,000	51,000
Raw Rubber	7,000	7,000	7,000	8,000	8,000	37,000
Tallow	2,000	2,000	2,000	2,000	2,000	10,000
Chemicals	8,000	8,000	8,000	8,000	8,000	40,000
Dye stuff	1,300	1,300	1,300	1,300	1,300	6,500
Pulp	3,300	3,100	3,100	2,500	1,700	13,700
Paper	1,500	800	800	800	500	4,400
Explosive	700	800	800	800	800	3,900
Raw Sugar	6,000	6,000	6,500	7,000	7,000	32,500
Medical supplies	8,000	8,000	8,500	8,500	9,000	42,000
Grain	25,740	19,260	12,870	10,000	10,000	77,870
Others	35,791	28,231	31,000	30,601	25,150	150,773
Total	300,000	280,000	260,000	240,000	220,000	1,300,000

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TABLE No. 4

DOLLAR FUNDING

(in million dollars)

Source of Fund	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
I C A	461.7	430.0	397.7	374.6	336.0	2,000.0
Other (Foreign Investment. Korean Foreign Exchange etc.)	50.0	63.0	75.0	86.9	100.0	374.9
Total	511.7	493.0	472.7	461.5	436.0	2,374.9

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TABLE No. 5

Hwan Funding

Overall Financial Balance
(in billions of Hwan)

FY:	Overall Availabilities: Gov't Revenues a/	Aid Goods sales b/	Time Deposits f/	KRB Repay c/	Capital Mobiliz. c/	Increased Money Supply e/	Total	Overall Requirements: Gov't Expend f/	Investment g/	Banking Credits f/	Total
1957	170	117.0	10.8	1.4	9.1	24	332.3	226.8	84.7	20.8	332.3
1958	183	103.5	13.0	4.2	14.5	29	347.2	237.3	85.2	24.7	347.2
1959	206	90.0	15.6	11.2	19.3	34	376.1	259.4	85.1	31.6	376.1
1960	226	76.5	18.7	20.8	24.2	42	408.2	270.1	88.6	40.5	408.2
1961	249	63.0	22.4	31.4	29.4	45	440.2	307.3	86.7	46.2	440.2
TOTAL	1,034	450.0	80.5	69.0	96.5	174	1,904.0	1,309.9	430.3	163.8	1,904.0

NOTE: a/ See Table B and G
b/ See Table C
c/ See Table D
d/ See Table E, Column (i)
e/ See Table F
f/ As estimated by Ministry of Finance including all expenditures of national and local Government. Also see table G
g/ See Table E, Column (f) thereof.

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Basis for Government Revenues

($ 000,000 ₩ 000,000,000)

FY	(a) Estimated GNP	(b) Collections 20% of (a) $	(b) Collections 20% of (a) ₩
1957	$ 1,700	$ 340	₩ 170
1958	1,830	366	183
1959	2,060	412	206
1960	2,260	452	226
1961	2,490	498	249
Total	10,340 a/	2,068 b/	1,034 c/

a/ Tentative targets.

b/ Estimated by Ministry of Finance; This figure is approximately 25% of national income based on ratios between GNP (100) as against national income (80).

c/ Includes all collections of whatever kinds by national and local Governments.

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Basis for Aid Goods Sales (Consumer Goods)
($ 000,000 ₩ 000,000,000)

	(a) Imports Requirements	(b) Imports by ROKFX	(c) Imports as Aid Goods (a - b)	(d) Proceeds of (c)
1957	$ 300	$ 40	$ 260	₩ 117.0
1958	280	50	230	103.5
1959	260	60	200	90.0
1960	240	70	170	76.5
1961	220	80	140	63.0
TOTAL	1,300 a/	300	1,000	450.0 b/

a/ Raw materials and finished consumer goods only.

b/ Based upon assumptions:

1) that imports during respective year be sold during the same year:

2) that proceeds would by on ₩ 450 : # 1.

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Schedule for Korea Reconstruction Bank Loan Repayments
(in billions of hwan)

	K.R.B. Loans in this year:	Cumulative	Repayments a/
1955	7.0	7.0	-
1956	15.0	22.0	-
1957	36.5	58.5	1.4
1958	51.2	109.7	4.2
1959	57.9	167.6	11.2
1960	75.3	242.9	20.8
1961	68.7	311.6	31.4
TOTAL:			69.0

a/ Repayments to be made two years later against loan at the rate of 20% of the loan.

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Estimates of Hwan Requirements for Investment
($ 000,000 Hw 000,000,000)

	Investment Program With Aid $ (a)	Other than Aid $ (b)	Total (c)	Recapitulations of (c) Public Investment (d)	Private Investment (e)	Hwan Cost for (c) (f)	(Domest. Capital) Mobilization Total (g)
1957	$ 201.7	$ 10.0	$ 211.7	$ 161	$ 50.7	Hw 84.7	Hw 9.1
1958	200.0	13.0	213.0	141	73.0	85.2	14.5
1959	197.7	15.0	212.7	128	84.7	85.1	19.3
1960	204.6	16.9	221.5	122	99.5	88.6	24.2
1961	196.0	20.0	216.0	107	109.0	86.7	29.4
TOTAL:	1.000.0	74.9	1.074.9	658	416.9	430.3	96.5

D: Ratios between D:E against (A):

	(A):	(D):	(E):
1957	100%	80%	20%
1958	100	70	30
1959	100	65	35
1960	100	60	40
1961	100	55	45

(G): (e) x Hw 400 + Hw 500 x ratio; See (H)

(D)
(G)

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Estimated Increase In Money Supply
(₩ 000,000,000)

Money Supplies

FY	As of last July 1 year	As of this June 30 year	Increase a/ Per year
1957	₩ 120	₩ 144	₩ 24
1958	144	173	29
1959	173	207	34
1960	207	249	42
1961	249	294	45
TOTAL:	893	1,067	174

a/ Projects a 20% expansion in Money Supply per year, on assumption that an increase of this ratio would not cause price increases throughout the program periods due to the offsetting factor of increased productivity of goods and services brought about by the implementation of this program.

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Recapitulation
Revenues and Expenditures of Governments
(₩ 000,000,000)

FY	Revenues	Expenditures	Balance
1957	₩ 170	₩ 226.8	₩ 56.8
1958	183	237.3	54.3
1959	206	259.4	53.4
1960	226	279.1	53.1
1961	249	307.3	58.3
TOTAL	1,034	1,309.9	275.9

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Estimated plan for
Domestic Capital Mobilization

($ 000,000)
(H/ 000,000,000)

	(A) Total private Investment	(B) Total Project cost a/	Domestic capital mobilization Ratio to (B)	Amount
FY				
1957	$ 50.7	H/ 45.6	20%	H/ 9.1
1958	73.0	65.7	22%	14.5
1959	84.7	77.2	25%	19.3
1960	99.5	89.6	27%	24.2
1961	109.0	98.1	30%	29.4
TOTAL	416.9	376.2	25%	96.5

a/ Total project cpmsts per investment dollar being H/ 9000 consisting of H/ 400 for the utilization costs and H/ 500 for acquisition costs for dollar financed goods. } S.C.

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Table No. 6

JUSTIFICATION FOR EACH MAJOR INVESTMENT PROJECT

(1) Agriculture and Foresty

(2) Fisheries

(3) Coal Mining and other mining

(4) Electric Power

(5) Transportation

(6) Communications

(7) Manufacturing Industries

a. Fertilizer Plants

b. Cement Plants

c. Oil Refinery

d. Pulp Plants

e. Textile Industry

f. Miscellaneous Manufacturing Industries.

(8) Iron and Steel Industry

(9) Education

(10) Public Works

(11) Housing

(12) Vessels and Shipyards

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TABLE No. 6

JUSTIFICATION FOR MAJOR INVESTMENT PROJECTS

The following summary justifications only include major investment projects. It is considered unnecessary, at this stage, to prepare detailed justifications for the smaller projects. Full data, however, is available at the Ministry of Reconstruction for all projects listed.

(1) Agriculture and Forestry

1. South Korea is primarily an agricultural country and some 70% of its population are so engaged. It is thus important to make the outmost use of all available land by improving irrigation and methods of cultivation, and by drainage and other methods to reclaim land that is not now used for crops. In addition, it is necessary to improve treatment of and develop seeds for planting to prevent the spread of plant diseases and also to have available proper chemicals for the treatment of plant pests.

2. Another important phase is to educate the conservative farming community to better cultivation methods.

3. A total of $86 M. is programmed to cover the above during the next 5 years.

4. Of the above $86 M. some $64 M. is programmed for irrigation and land-reclamation. It is estimated that if this sum were spent 600,000 chungbo (1 Chungbo - 2.451 acres) of new land would be brought under cultivation and that in consequence foodgrains production would be increased by 3 million suk (7 suk = 1 ton).

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TABLE No. 6

5. Also, there is great need to conserve and develop the existing forests and to engage in large schemes of reforestation in order both to prevent further erosion and to provide necessary softwoods for industry, housing and fuel. A sum of $6.4 M. is programmed for such work.

(2) Fisheries

1. One of Korea's greatest natural resources has traditionally been fish and fish products. Korea ranks sixth in the world in its capacity for supply of fish. But, up to the present, lack of capital has prevented proper development and full exploitation of the available resources.

2. It is thus proposed to spend a total of $71.5 M. over the next 5 years in developing Korean fisheries. Plans include the extension of the fishing fleet (much depleted by war time losses) by imports of deep sea going trawlers and motherships, whale catching vessels, etc, and by building locally boats for off-shore fisheries. Also, supplies and equipment for the industry are at present inadequate and it is intended to obtain modern equipment of all descriptions.

3. Also, a sum of $3 M. is programmed for fish canneries - mainly to can such delicaties as crab, prawns, lobsters and shrimps but also to prepare the cheaper grades of fish for supply to the Defence

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TABLE No. 6

Forces.

(3) Coal Mining & Other Mining

a. Coal Mining

1. Korea has practically unlimited deposits of anthracite coal, some of which is a very high grade. Present production, however, is less than 2 M. tons p.a.

2. Although UNKRA is now assisting in the technical development of coal mines, the industry suffers from a grave lack of proper machinery and equipment and a lack of capital to develop the mines fully. It is proposed to spend a total of $32.3 M. over the 5 years for the improvement of existing mines and the opening-up of new ones, so that by FY 63 production will be increased to 5.5 M. tons p.a. At present, nearly 800,000 tons of bituminous coal has to be imported annually at a cost of over $20 M. The increased production of local coal and its more extensive briquetting should by 1963 reduce import costs to only $5.5 M.

b. Gold and other mining

1. Korea has ample deposits of gold and other minerals, such as tungsten, graphite, molybdenum, manganese, etc. Lack of capital, however, has prevented proper exploitation of these deposits. A total of $25.5 M. is thus programmed during the 5 year period for the proper development both of gold and other minerals.

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b. Gold and other mining

2. Also, Korea has never had proper geological survey except a more or less imperfact one conducted during the Japanese occupation. The Japanese Department of Mines, however, refuse to make what data they have available to the Korean Government. It is thus important that a proper geological survey should be undertaken as soon as possible and a total sum of $4.2 M. is programmed for this purpose. The general geologic formation of Korea is extremely favourable to deposits of various mineral ores and it is hoped and expected that many additional valuable deposits will be found.

(4) Electric Power

1. With a large industrialization program the concurrent development of electric power is essential.

2. At present existing hydro-electric plants, and steam power plants, can produce about 130,000 K/W. Thermal plants, when the present plant now under construction by the Pacific-Bechtel Corporation is completed, will produce another 100,000 K/W. However, the eventual total requirements of Korea are estimated at 1 Million K/W.

3. However, the program presented aims at a production of 600,000 K/W by FY 63. It is considered necessary to have one more thermal power plant producing 100,000 K/W and to develop hydro-electric power (according to the Han River development scheme) to produce another 200,000 K/W. The remainder may be provided from the proposed nuclear

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TABLE No. 6

(4) Electric Power

reactor.

4. The total amount programmed is the sum of $117 M. which includes transmission and distribution costs. The hydro-electric power scheme will cost $56 M. detailed plans have already been prepared after survey of the Han River basin.

(5) Transportation

1. Korea's railway system was seriously damaged during the war and much rolling stock was destroyed. A sum of $13.19 M. is programmed for necessary railroad rehabilitation work and $35.97 M. for rolling stock replacement and repair.
2. Also, development of mines and industries is hampered by the lack of rail transportation in certain areas. A sum of $40.24 M. is programmed during the 5 years for the construction of several small "Feeder" lines from industrial and mining areas to connect with the main transportation system. It will be noted that in FY 1954 & 55 some $7 M. of ICA funds were used for the construction of a new lines from Yongju to Chollam and for the Yongwol line. These new lines have greatly facilitated transportation of coal and assisted in the thermal power operation.
3. In addition, the worn-out street cars in Seoul and Pusan must be replaced or they will completely fall to pieces. The sum involved is $4 M.

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TABLE No. 6

(5) Transportation

4. A sum of $1.75 M. is also programmed for improvement of the civil airports at Seoul, Pusan and other important centres.

(6) Communications

The whole communications system in Korea was very badly damaged during the war. It is estimated that 50% of all telegraph and telephone facilities were destroyed. A sum of $50 M. has already been provided in earlier years' programs for rehabilitation. But facilities still remain inadequate and the existing equipment is insufficient to meet the volume of traffic. A further sum of $49 M. over 5 years is required to rehabilitate this most essential project.

(7) Manufacturing Industries

(a) Fertilizer Plants

1. Two fertilizer plants are included in the 5 years program, each costing $20 M.
2. At present $57.5 M. of foreign exchange is required annually for fertilizer imports. In earlier years' programs (FY 55 and FY 56) two fertilizer plants were included. The total production of these two plants will be 170,000 tons of urea, equivalent in fertilizing value to approximately 274,000 tons of ammonium sulphate.
3. The two new plants will also be designed to produce a similar capacity of urea. When they and the two plants programmed

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earlier are completed, it is estimated that Korea will be practically self-supporting though it is probable that a small quantity (namely 120,000 tons of other types of fertilizer costing some $6.5 M.) will still have to be imported.

(b) Cement Plants

1. Two cement plants costing respectively $8 M. and $4 M. are programmed.
2. It is essential with large industrial schemes under way and with other requirements for reconstruction that foreign exchange should be saved by the erection of sufficient cement plants to meet total domestic requirements. The total annual estimated requirements are 600,000 tons.
3. At present there is one cement plant at Samchok at full production (100,000 tons p.a.) and another under construction with UNKRA funds to produce 200,000 tons p.a.
4. The present 5 year program thus includes two plants to supply the deficit, namely one to produce 200,000 tons and the other 100,000 tons. There are ample limestone deposits to provide the necessary raw materials.
5. If these two plants are erected as planned, Korea will be completely self-supporting by 1960.

(c) Oil Refinery

1. By FY 61 it is estimated that refined POL imports will amount to $22 M. At Ulsan in Kyungsang Namdo Province an oil refinery erected by the Japanese is lying partly destroyed and unused.

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It is proposed to spend $12 M. in FY 58 to rehabilitate and extend this plant.

2. When this project is completed it is estimated that the annual savings of foreign exchange by refining imported crude oil will amount to $5 M. The project is thus very worth while.

(d) Pulp Plants

1. Present requirements of pulp are estimated at 18,000 metric tons p.a. and in view of the rapidly increasing paper manufacture in Korea are expected to rise to some 25,000 metric tons by 1961.

2. Included in the FY 56 program is $1 M. for a straw pulp plant. This is still at the programming stage. There is much straw available, where as it is undesirable to deplete the already thin forests for paper manufacture. However, it is considered essential to reduce to the minimum imports of pulp for paper making. If the three proposed plants, costing $2 M., $1.8 M and $2.8 M. are erected it is considered that by FY 63 Korea could become practically self-supporting, and foreign exchange to the amount of over $4.M. could be saved.

(e) Textile Industry

1. While much has been done to rehabilitate the destroyed textile industry - in fact progress in this field has been better than in most other industrial fields - only 375,000 spindles are now (words obviously omitted) the Korean population and the average requirement per caita per annum is 13 yards. Present spindles, however, can only produce sufficient to supply 6 yards per capita p.a.

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It is thus proposed to install sufficient looms to meet the full Korean demand.

2. Also, in order to reduce the large amount of foreign exchange now spent for raw cotton imports (between $40-50 p.a.) it is also proposed to erect a rayon manufacturing plant costing approximately $15 M.

3. A total of $ 48.1 M. is programmed for all textile industries. The great part of this sum will be spent for cotton textile rehabilitation. But sums are also programmed for the rehabilitation of silk and other miscellaneous products.

4. It may also be noted that every effort is made to expand and improve domestic production of raw cotton.

(f) Miscellaneous Manufacturing Industries

1. The program also includes a total of $5.8 M. for the paper industry, $51 M. for the chemical industry, $51.7 M. for machinery, equipment and tools manufacture and $2.5 M for a briquetting plant for anthracite coal.

2. The development of all these local industries will save Korea large amountsoof foreign exchange for goods of these natures which now have to be imported. The proposed developments include; new paper factories; a caustic-soda and chlorine plant; miscellaneous small chemical plants; the manufacture of farm tools, mining equipments, pumps, steel pipes, etc; and plants to briquette locally produced coal, to make it capable for use in KNR and for industrial and home use.

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3. A total of $0.8 M. is also programmed for the encouragement of local handicraft industry. Korean craft products are much in demand abroad and development of these small industries should provide a growing amount of foreign exchange.

4. $ 1.5 M. is also included for the erection of night soil processing plants at Seoul, Taegu and Pusan. These are desirable both from the sanitation viewpoint and in order to produce improved fertilizers.

(8) Iron and Steel Industry

1. Although Korea has fairly extensive deposits of iron ore, Government has been unable to develop either the mining or refining or iron. Finances have been insufficient.

2. It is proposed to spend a total of $17.35 M. firstly to mine the metal at Yang Yang and Samhwa, then to refine the ore at the latter location and afterwards to produce steel from the ore so refined at Inchon.

(9) Education

1. A very high proportion of Korean schools and other educational institutions were more or less destroyed during the war. Most school equipment were lost. Although certain rehabilitation has already taken place in this field a further $40. M. is required to rehabilitate existing institutions and to provide for further schools for the increasing population.

2. A provision of $18 M. is also included for technical education. With the industrialization program on hand it is essential

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concurrently to provide for a supply of trained techinicians. This sum will allow for the erection and equipment of polytechinics, technological institutes, etc.

(10) Public Works

1. The 11 items included in Table No. 2 under this heading are more or less self-explanatory. But the following may be mentioned: - The Flood Control programmed amount of $4 M. is related to the irrigation and forestry program. Water Works were very largely destroyed during the war: the sum of $10.8 M. programmed will cover the rehabilitation of the water facilities in Seoul and 28 other cities. The item City Planning is to cover drainage and sewage. As for roads and bridges and public buildings the sum of nearly $40 M. allotted is mainly to cover rehabilitation of damage caused during the war.

2. Another main item is harbour rehabilitation and dredging, for which $24.9 M. is programmed. Due to lack of proper equipment and to damage during the war Korean ports can now hardly handle the large volume of traffic. It is essential for all important harbours to be put into proper order and to be kept properly dredged.

(11) Housing

1. During the war approximately 600,000 houses were destroyed. $80 M. is programmed over the 5 years to build 120,000 houses.

2. It is expected that through the importation of logs and lumber, cement, flat glass, steel products etc. as programmed in the

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commodity sector (Table No. 5) as well as by utilizing domestic materials, the Korean people will be able to build another 400,000 houses.

(12) Vessels and Shipyards

1. In order to save foreign exchange now paid for freight on Korean imports and exports it is desired to develop an efficient Korean Marchant Marine and to provide facilities for the dry docking and repair of Korean and foreign vessels.

2. A sum of $23 M. is thus programmed for the purchase of ocean and coastal vessels.

3. Also, $12.5 M. is provided for a shipyard which will not only provide repair facilities but which will construct small vessels for coastal use.

Note to Table No. 9 - Projection of International Balance of Payment for FY 63.

1. It should be noted by FY 63 that the industries etc. developed by the 5 years plan should by then be in full production.

2. But certain raw materials and finished goods must continue to be imported. These include POL, coal tar pitch for briquetting, iron and steel manufactures, other metal products, industrial machinery, raw cotton and synthetic fibers, raw rubber, chemicals, sugar, etc.

3. But the 5 year plan should by then provide sufficient funds from exports to pay for all necessary imports. The most important export items will be rice, minerals, marine products and handicrafts.

4. Briefly, the whole program has been designed to make Korea a self-supporting economy by reducing the expenditures for imports and providing measures to stimulate and expand production for home consumption and for export.

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TABLE No. 7

Result of FY 1954/55/56 Aid Program

(in thousand Dollars)

Activity Field	FY 1954	FY 1955	FY 1956	Total
Investment Component				
Agriculture of natural resources	1,328	7,181	6,547	15,056
Industry and Mining	57,190	38,360	39,258	134,808
Transportation (Power, rail, port)	23,882	79,912	26,691	130,485
Health and Sanitation	2,726	2,514	2,250	7,490
Education	750	629	3,600	7,979
Public Administration	-	179	-	179
Social Welfare and Housing	-	19,053	8,542	27,598
Miscellaneous	70	1,224	3,990	5,284
Technical Assistance	-	-	5,000	5,000
Salable Commodity				
Component	100,926	113,739	208,122	422,787
Total	186,872	262,771	304,000	753,643

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TABLE No. 8

PROJECTION OF INTERNATIONAL BALANCE OF PAYMENT FOR FY 1963

(In thousand Dollars)

Commodity	Income (Export)	Payment (Import)
Fertilizer	-	6,500
Raw Cotton	-	18,240
Marine Products	25,000	-
Minerals	35,000	-
Bituminous Coal	-	5,500
P. O. L.	-	17,000
Coal Tar Pitch	-	3,500
Pesticide	-	500
Logs and Lumbers	-	2,000
Iron and Steel Shapes	-	3,000
Non-ferrous metals	-	2,000
Industry Machinery	-	5,000
Creosote	-	400
Raw Wool	-	2,000
Raw Silk	500	-
Synthetic Fibres	-	6,000

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TABLE No. 8 (cont'd)

Commodity	Income (Export)	Payment (Import)
Tallow	-	2,000
Raw Rubber	-	8,000
Chemicals	-	8,000
Dyestuffs	-	1,300
Pulp	-	500
Raw Sugar	-	5,000
Salt	1,500	-
Medical Supplies	-	5,000
Rice	40,000	-
Grains	-	10,000
Hand Craft	5,000	-
Others	5,000	5,560
Invisible	15,000	10,000
Total	127,000	127,000

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Office Memorandum • UNITED STATES GOVERNMENT

TO : NA - Mr. Hemmendinger
Mr. Parsons

DATE: March 26, 1956

FROM : NA - Mr. [redacted]

SUBJECT: Comments on the ROK Five-Year Plan.

FW 3-756

Despatch 283 from Seoul transmitted a copy of the ROK five-year plan recently prepared for the Secretary. Embassy Seoul did not comment on the plan except to observe that it apparently was done on a crash basis.

A thorough analysis of the plan cannot be made without discussions with the drafters to ascertain the validity of the amounts of investment funds earmarked for each field of investment. However, a brief aggregative analysis reveals that the plan suffers from over-optimism, as have its predecessors:

1. The plan assumes an annual rate of increase in the GNP of about 10%. This is about double the rate considered possible with the indicated investment and in an absolute sense is an extremely high rate to achieve.

2. This increase in GNP would be made with gross investment which would yield a capital: product ratio (ratio of investment to increase in output) of 3:1 the first year and about 1.7:1 the other years. The 3:1 ratio is about right according to experience in other countries. The latter rate is grossly optimistic, i.e., it understates the volume of investment necessary by about half.

3. The balance of payments at the end of the period seems to be optimistic on both the import and export sides. For example, the following exports are assumed: fish, $25 million; minerals, $35 million, and rice, $40 million (about 300,000 tons). On the import side, raw cotton is listed at $18 million, compared to about $40 million at present (a rayon plant is assumed); total imports are assumed to total $127 million, compared to about $300 million in raw materials and saleables now imported.

4. The plan assumes $375 million available over the five-year period from ROK foreign exchange and foreign investment. Again, highly optimistic.

A good deal of work probably went into the plan. It is internally consistent. Nevertheless, there is little to recommend it for current planning purposes, and it will not obviate the need for a mission to develop a plan. However, the plan should have stimulated ROK thinking about economic development, and to that extent the ROK can be more helpful to a mission than it otherwise would be.

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Direction to DC/R

FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL — 305 DESP. NO. — March 28, 1956 DATE

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : CERP D-17, 23

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	REC'D 4/3	INFO RM/R-2 REP-2 OLI-6 E-5 ICA-10 O/MSA-1 IO-4 TAR-3 CIA-6 COM-12 FRB-2 TR-3 XMB-3 AG-8 IN-7 OSD-4

SUBJECT: Revisions Made in ROK 5-Year Plan Document

During Secretary Dulles' meeting with the ROK Government officials on March 17, PAIK Too Chin (ROK Economic Coordinator) mentioned that a new economic 5-year plan had been drafted by the ROK authorities, but that some revisions still had to be made. He said that he would transmit the plan when completed and requested that it be given consideration. The document has now been made available. An outline of its contents is attached as Enclosure 1 to this Despatch. The revised plan itself is attached as Enclosure 2. The draft transmitted with Embassy Despatch No. 283 of March 7, 1956, therefore, is now obsolete.

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It will be noted that the major change between the two documents is the much more highly optimistic PROJECTION OF INTERNATIONAL BALANCE OF PAYMENTS. It now balances ROK exports and imports at $201 million in 1963, instead of $127 million as shown in the draft plan. In addition, Table No. 6 in the draf (pp 27-39 of D-283), JUSTIFICATION FOR EACH MAJOR INVESTMENT PROJECT, has bee dropped. Sections of it have been incorporated in a new general text at the beginning of the report. Table No. 4 in the Draft (p 19 of D-283), DOLLAR FUNDING, also has not been included in the revised version.

Most of the other sections of the final draft are identical with the original. Where changes have been made, they are generally of a minor nature.

For the Charge d'Affaires ad interim

Edwin M Cronk

Edwin M. Cronk
First Secretary of Embassy

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Enclosures:
1) Outline of ROK 5-yr plan
2) 5-Year Plan

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REVISED OUTLINE

I. LONG-RANGE PROGRAM

Introduction
Outline of Plan
Further Explanations on Certain Important Capital Projects
Financial Arrangements
Projected International Balance of Payments in FY 1963
Conclusion

II. TABLE NO. 1 Overall Requirements

TABLE NO. 2 Investment Projects:-

Field: (1) Agriculture and Forestry
" (2) Fisheries
" (3) Coal Mining
Mining Other than Coal
" (4) Electric Power
" (5) Transportation
" (6) Communications
" (7) Manufacturing Industry
" (8) Iron and Steel Industry
" (9) Education
" (10) Health and Welfare Facilities
" (11) Public Works
" (12) Vessels and Shipyards

TABLE NO. 3 Breakdown of Commodities

TABLE NO. 4 Hwan Funding and Financing (with 6 Supporting Tables)

TABLE NO. 5 Programming of FY 1954/55/56 Economic Aid Programs

TABLE NO. 6 Projection of International Balance of Payments for FY 1963

TABLE NO. 7 Breakdown of Projected Minerals Export for FY 1963

TABLE NO. 8 Breakdown of Projected Marine Products Export for FY 1963

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LONG-RANGE PROGRAM FOR KOREAN REHABILITATION AND RECONSTRUCTION

INTRODUCTION

1. Korea, as an aid-recipient country, is unique. She is the only Free World country which has been devastated by war with the Communists. The total war damage on conservative estimates exceeds $5 million. During the war 10 million people were refugees and at one time no less than 5 million were on relief. 600,000 buildings, one-fifth of the total structures in the Republic of Korea, were destroyed or rendered uninhabitable. All major industrial plants were gutted. Harbour facilities and warehouses were destroyed.

On the other hand, so-called under-developed countries now receiving aid are receiving that aid merely to promote a better standard of living for their people; but in Korea great war devastation has first to be rehabilitated.

2. Up to the present, although detailed plans for financial stabilization and economic reconstruction were put forward by Dr. Tasca and others, it has been impossible to implement them, because actual appropriations of economic aid funds were not made in accordance with those plans.

The result has been that capital construction - which is essential to make Korea a self-supporting and viable economy - has had to be postponed from year to year. A high proportion of the aid granted has had to be used for consumer goods for the maintenance of the civilian economy and Korea is very little nearer industrialization and self-sufficiency than it was a decade ago.

Korea does not want to remain indefinitely on the breadline of her American friends. If full financial support is given to the program now proposed and that program is efficiently administered it is certain that Korea can, by 1963, stand on her own feet economically.

3. The program now put forward refers solely to <u>economic aid.</u> Separate <u>military aid</u> for the ROK Defence Forces in the common flight against Communism must continue.

4. The most important problem is the inadequacy of the present volume of economic aid. It is true that there are considerable achievements to recall. The textile industry has been largely reconstructed, a thermal electric power plant is approaching completion, and a fertilizer plant manufacturing urea will be finished within thirty months. But these achievements fall far short of requirements.

Large-scale capital reconstruction is essential to make Korea a viable economy; but during the three fiscal years 1954, 1955 and 1956 a total of $777 million was appropriated for Korean economic aid but of this sum only $330 million was programmed for capital type projects. In the present fiscal year of 1956 out of $297 million appropriated only $90 million has been programmed for the latter purpose and, due to delays in appropriations in Washington,

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programming only commenced in October 1955 after one-quarter of the fiscal year had elapsed. Delays still continue. So far, although nearly nine months of the year have passed, we are still engaged in paper work and actual arrivals are negligible.

5. Another aspect of the necessity for industrialization is that of unemployment. The present number of unemployed is nearly half a million, of which 80% are urban residents. Also, although 65% of the total population is engaged in agricultural pursuits, the rural areas suffer from an excess of population. The average agricultural holding per family of six persons is only 2.45 acres, perhaps the lowest in the world. This means that the rural population are not fully employed throughout the year. Thus, their income and purchasing power is extremely low and there is a danger of a reduction in agricultural production because there is a tendency for poorly paid agricultural labourers to migrate to the towns: this is a problem which is now giving serious concern to Government.

A further problem is that of the large amount of potentially valuable labour now in the Armed Forces. Even though, in the Korean viewpoint, those forces are still too small to resist possible Communist aggression from the North, one day it may be possible, if world conditions change, to return them to civil life. If there are no industries in which they could be profitably employed a very serious political and social problem would arise.

OUTLINE OF PLAN

6. As Table No. 1 in the Appendix shows, it is considered that a total of $2.375 billion is required during the five-year period FY 1957 through FY 1961 to reconstruct the economy to make it self-supporting. This sum is allocated under various headings for each of the five years in figures gradually decreasing from $511.7 million in the first year to $436 million in FY 61. The plan has been carefully constructed so that sufficient raw materials and finished products are imported to sustain the civilian economy and to prevent further inflation while at the same time extensive capital reconstruction is undertaken. Of the total of $2.375 billion, $1,075 billion is programmed for capital investment projects and the remainder, namely $1.3 billion, is programmed for consumer goods and raw materials.

7. As for the $1,300 million allotted for raw materials and finished products (consumer goods) the annual amount programmed is gradually reduced from $300 million in FY 57 to $220 million in FY 61 - reductions being made as Korean production increases under the capital reconstruction program. The main items in order of importance that must be imported are:

Fertilizers (until the programmed fertilizer plants are completed);
Raw cotton (for supply to the textile mills);
POL (which will always remain necessary);
Bituminous coal (necessary until local anthracite production and briquetting facilities are adequate);
Metal manufactures;

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Industrial machinery;
Foodgrains (to enable the local high quality rice to be exported and for the civilian population to be fed on cheaper imported grains such as wheat and barley);
Medical supplies;
Chemicals; and such other essential goods that cannot be produced in Korea.

8. As for the $1,075 million to be spent during the five years for investment type projects, these may be grouped under the following main headings, namely:

(a) Projects to rehabilitate facilities destroyed during the war. These amount to $563.5 million. They are completely essential for the industrialization program but only affect production in an indirect manner. These projects include:

Electric power rehabilitation ($117 million);
Transportation, including railroad, streetcars, and aviation ($126.6 million);
Communications ($49 million);
Housing ($80 million);
Education, including classroom construction, school equipment, technical education, etc. ($63 million);
Health and welfare facilities ($48 million); and
Public works, including flood control, water works, roads and bridges, public buildings, rehabilitation of harbours, etc. ($89.9 million).

(b) Projects to increase agricultural production. It is most important to make the utmost use of all available land by improving irrigation and methods of cultivation and by drainage and other methods to make available and reclaim land that is not now used for crops. In addition, it is necessary to improve treatment and development of better seeds for planting and to prevent the spread of plant diseases. A sum of $93 million is programmed under this main heading. Of this sum, the major part, namely $64.7 million, is allocated for irrigation and land reclamation. It is estimated that if this sum were spent 600,000 chungbo (1 chungbo = 2.451 acres) of new land would be brought under cultivation and that, in consequence, foodgrains would be increased by 3 million suk (7 suk = 1 ton). Also, there is a great need to conserve and develop the existing forests and to engage in large schemes of reforestation in order to prevent further erosion and to provide necessary soft woods for industry, housing and fuel. A sum of $6.4 million is programmed for such work.

(c) Projects of direct industrialization. A total of $418.4 million is programmed under this main heading. All these projects are directly productive and will either save foreign exchange for imports needed for local consumption or will enable foreign exchange to be earned by exports of goods or services.

In the field of manufacturing industry ($223 million) the main projects are:

Two new fertilizer plants (total cost $40 million) to manufacture urea. At present nearly $60 million of foreign exchange is required annually for

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fertilizer imports. When these two plants and the other two plants programmed for FY 1955 and FY 56 are completed, it is estimated that Korea will be practically self-supporting although it is probable that a small quantity of other types of fertilizer costing some $12 million will still have to be imported;

Two cement plants costing in all $12 million to supply the deficit in local production which has now to be imported;

An oil refinery costing $12 million which, it is estimated, will save $5 million by refining imported crude oil instead of buying the finished products. (At Ulsan an oil refinery erected by the Japanese is lying partly destroyed and unused.);

Textile industry requirements $48.1 million. (The greater part of this sum will be spent for cotton textile rehabilitation as cotton cloth is the usual clothing of the Korean population and at present less than one-half of annual requirements are produced locally.) Also included in this $48.1 million is a sum of $15 million for a rayon manufacturing plant in order to reduce the requirements for foreign exchange for raw cotton.

Other miscellaneous industries programmed include:

$5.84 million for the paper industry;
$51 million for the chemical industry;
$51.7 million for machinery, equipment and tools manufacture, and
$2.5 million for briquetting plants for anthracite coal. (This is most important as it provides fuel for the KNR and for household use at one-quarter of the price of wood fuel.)

These miscellaneous industries include paper factories, a caustic soda and chlorine plant, miscellaneous small chemical plants, manufactories for farm tools, mining equipment, pumps, steel pipes, etc.

In the field of the iron and steel industry ($17.3 million programmed), it is proposed firstly to mine iron ore from the extensive and high quality deposits at Yang Yang and Samwha and then to refine the ore at the latter location and afterwards to produce steel from the iron so refined at Inchon. The proposed capacity of the latter plant is 84,000 tons per annum. Korea now has to import large quantities of iron and steel manufactures of all sorts and up to the present, due to the lack of capital, Korea has been unable to develop these natural resources.

In the field of mining ($62 million programmed) a total of $32.3 million is proposed for the development of Korea's coal mines. There are practically unlimited deposits of anthracite, some of which is of a very high calorific content. Present production, however, is only 1.3 million tons per annum and the industry suffers from a grave lack of proper machinery and equipment. It is expected, if the program is implemented efficiently, to increase production to 5.5 million tons per annum by FY 63 and to reduce the enormous quantity of 800,000 tons of bituminous coal that now has to be annually imported

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at a cost of over $20 million. The increased production of local coal and its more extensive briquetting should reduce import costs of bituminous coal to $8 million annually.

The remainder of the $62 million is programmed for gold mining ($14 million), other mining ($11.5 million) and geological survey ($4.2 million).

Korea has ample deposits of gold and other minerals, such as tungsten, graphite, molybdenum, manganese, tantanium, kaolin, etc. It is hoped that if these mines are developed according to plan, minerals to the value of $73 million will be available for export by FY 63.

As for the item of $4.2 million for geologic survey, Korea has never had a proper survey except a more or less imperfect one during the Japanese occupation. It is considered that if a nation-wide geologic survey were undertaken that many additional valuable deposits of minerals of various kinds would be found.

In the field of fisheries ($71.5 million programmed), it may be noted that one of Korea's greatest natural resources has traditionally been fish and fish products. Lack of capital, however, has prevented proper development and exploitation. Plans include extension of the fishing fleet by the importation of twenty or more vessels, such as deep sea-going trawlers, refrigerating mother-ships, whale catching vessels, etc. and building locally smaller boats for off-shore fishing. A sum of $49.6 million is programmed for fishing boat construction - a traditional craft in Korea. The many small shipyards in Korea need rehabilitation and supplies such as imported equipment, boat building materials, lumber, engines, etc. A sum of $3 million is programmed for five fish canneries, mainly to can various types of crustaceans, and also to prepare cheaper grades of fish for supply to the Defence Forces. The $1.5 million programmed for fish processing facilities is intended to cover the erection of two plants for processing whale and other fish. (It should be noted that during the Japanese occupation several fish canneries existed which are now destroyed and large exports of canned products were made to Japan and elsewhere. Also, up to one hundred whales were caught in local coastal waters annually and processed for industrial purposes.)

In the field of vessels and shipyards ($35.5 million programmed) it is desiredto develop an efficient Korean Merchant Marine and to provide facilities for the dry-docking and repair of Korean and foreign vessels. A sum of $23 million is thus programmed for the purchase of ocean-going vessels of about 5,000 tons and coastal vessels of an average of 1,000 tons. These vessels will not be used in competition with US flag vessels. Also, $12.5 million is provided for shipyards at Pusan, Inchon, Kunsan and Mokpo, which will not only provide repair facilities, but enable small vessels for coastal use to be constructed. It must be noted that the building up of a Korean Merchant Marine and the provision of shipyards will be of immense value in the event of a resumption of any hostilities.

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FURTHER EXPLANATIONS ON CERTAIN IMPORTANT CAPITAL PROJECTS

9. In paragraph 8 (a) above, four important projects are included which call for further explanation. These are electric power development, transportation, communications and harbour rehabilitation. These are briefly dealt with seriatim in the immediately succeeding paragraphs.

10. Electric power. Development of electric power is essential, not only for industrialization but also because practically no towns or villages other than provincial capitals are now supplied with electricity. Even in those cities where facilities exist, the supply is totally inadequate to meet demands. The supply of available power has to be phased so that for considerable periods large areas are without electric light or power throughout the night. The eventual total requirements of Korea are estimated at 1 million kilowatts, but at present existing hydro-electric and steam power plants produce about 130,000 kw while a new thermal plant now under construction will produce another 100,000 kw when completed in June next. The program presented aims, however, at a production of 600,000 kw annually and to achieve this figure it is considered necessary to have one more thermal power plant producing 100,000 kw and to develop hydro-electric power (according to the Han River Development Scheme) to produce another 250,000 kw.

The remainder, it is hoped, will eventually be provided by the nuclear reactor plant which is proposed.

Korea wishes to participate in President Eisenhower's plan for the peaceful development of atomic energy and has already concluded an atomic energy agreement with the USA on this matter. It is understood that Japan is already planning to have a nuclear reactor to produce 10,000 kw of electric power within the next few years and that the cost of such production is not expected to exceed that for electricity generated by thermal plants. Thus it is requested that consideration be given to concluding a detailed agreement as to the setting up of such a plant in Korea.

The total amount programmed for electric power is $117 million which includes transmission and distribution costs. The hydro-electric power scheme will cost $66 million and detailed plans for its implementation have already been prepared after extensive surveys of the Han River basin.

11. Transportation. Korea's railway system was seriously damaged during the war and much rolling stock was destroyed. A sum of $13.19 million is programmed for necessary railroad rehabilitation work and $35.97 million for rolling stock replacement and repair.

Rehabilitation work includes equipment and materials for repair shops and for bridges, rail communications, water systems, track maintenance, repair to destroyed stations and building, etc. More freight cars and passenger coaches are required to replace destroyed, damaged, and worn-out rolling stock. Great difficulties are now experienced and ports are sometimes clogged because of an insufficiency of freight cars.

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Also, development of mines and industries is hampered by the lack of rail transportation in certain areas. A sum of $40.24 million is thus programmed during the five years for the construction of several small "feeder" lines from industrial and mining areas to connect with the main transportation system. It will be noted that in FY 1954 and FY 1955 some $7 million of ICA funds were used for the construction of a new line from Yongju to Chollam and for the Yongwol line. These new lines have greatly facilitated transportation of coal and assisted in supplying the thermal plant.

In addition, the worn-out streetcars in Seoul and Pusan must be replaced or they will completely fall to pieces. The sum involved is $4 million.

A sum of $1.75 million is also programmed for improvement of the civil airports at Seoul, Pusan and other important centres.

12. Communications. The whole communications system in Korea was very badly damaged during the war. It is estimated that 50% of all telegraph and telephone facilities were destroyed. A sum of $50 million has already been provided. A further sum of $49 million over five years is required to rehabilitate this most essential project.

Both internal and foreign communications are now very bad with consequent difficulties to commercial interests. It is most important that facilities should be restored at least to prewar level - the aim of the present plan.

13. Harbour rehabilitation. Another main item is harbour rehabilitation and dredging, for which $24.9 million is programmed. The main ports are very badly damaged and maintenance has been neglected for many years. Due to lack of proper equipment and to damage during the war, Korean ports can now hardly handle the large volume of traffic, and much money is wasted in demurrage charges and through uneconomic methods of handling cargoes. It is essential for all important harbours to be put into proper order and to be kept properly dredged.

The American military authorities informed us that during the Korean war very great difficulties and enormous extra expenses were caused because Korean ports could not accomodate large vessels. In consequence, munitions of war had to be trans-shipped at Japanese ports into smaller vessels for Korea. In the event of any resumption of hostilities it would be tragic if these difficulties were to persist. It is thus considered important completely to rehabilitate the ports of Pusan, Inchon and Yosu.

As for Inchon, the port of Seoul, it is at present impossible to load or unload vessels with civilian cargoes except at high tide. There is a small tidal basin which is now exclusively used by the U.S. Eighth Army. It is completely essential to build a second tidal basin at a cost of $4 million to cope with civilian supplies in the event of war. Inchon is one of the nearest ports of the Free World to Red-dominated territories.

FINANCIAL ARRANGEMENTS

14. Table No. 4 in the Appendix, together with its supporting tables, shows the

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Hwan funding and financing during the period of this five year plan.

15. The following figures call for explanation (although the main table is supplemented by supporting tables giving detailed calculations), namely:

(a) Government revenues. The figures for Government revenues and Government expenditures include those both of the Central and Local Governments. For example, the figure for FY 57 of H/ 170 billion includes some $30 billion of Local Government revenues. FY 1956 Central Government revenues are budgeted as H/100.5 billion. Thus, the Central Government revenue for FY 1956 shows an increase of nearly 40%. This target could, it is considered, be achieved because in FY 56 the increased Central Government revenues due to the revision of the exchange rate from H/180:$1 to H/ 500:$1 (the basis of assessment for many taxes) was only in force for part of FY 56. For example, in FY 57 assessments of ad valorem customs duties, commodity taxes, business tax, etc. will be at the new rate for the full year. Also, attention is drawn to the sub-table "Basis for Government Revenues", showing tax calculations as 20% of the GNP - a figure the competent Ministry considers quite feasible to collect.

(b) Government expenditures. As stated above, Government expenditures also include Local Government requirements. In FY 57 out of a total of H/ 226.8 billion some H/ 43 billion is required for the latter. The Central Government expenditures for FY 56 total H/ 136 billion. The figure for FY 57 thus shows an increase in Central Government expenditures of some H/47 billion. A high proportion of this increase is due to the contemplated pay increases to Civil Servants and to the Defence Forces. If, however, revenues do not come up to expectations these very necessary pay increases will have to be deferred as they were in FY 56.

(c) Aid Goods Sales. In the FY 56 budget aid goods sales were budgeted as H/ 91 billion. The increase in FY 57 to H/117 billion is, in view of the anticipated increased volume of consumer goods and raw materials, a very reasonable figure.

(d) Investment. In calculating Hwan costs it will be seen that the figure of H/ 400 per dollar is estimated for local utilization costs. This may appear somewhat low, but it is considered a fair average. For a considerable proportion of the investment projects require very little Hwan expenditure; for example, railway rolling stock and fishing boat importations. Also, it is intended to minimize Hwan costs by the utilization of Army labour.

PROJECTED INTERNATIONAL BALANCE OF PAYMENTS IN FY 1963

16. Table No. 6 shows a projection of the international balance of payments for FY 63 and is supported by two tables (Nos. 7 and 8) showing breakdowns of projected minerals exports and of marine products exports - two of the major export items.

17. By FY 1963, the industries and the agricultural facilities developed by

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the five year plan should be then be in full production. As for the projected income of $45 million from rice exports, it should be noted that various higher estimates have been made by American economists as to possible income from rice exports - up to as high a figure as $112 million. It is thus considered that with the increased production due to the large projected irrigation schemes the former figure will be easily obtainable, even if rice prices have fallen by 1963.

18. The figures of imports have taken into account the fact that local production of such commodities as fertilizer, raw cotton, anthracite coal, locally refined POL, metal goods, and chemicals, will either have been started or will have been greatly augmented.

19. Generally, it is considered that by FY 63 Korea will become completely self-supporting and will be able to increase in subsequent years its capacity for exports. The figure projected of a balance at $201 million may perhaps be considered as a rather small return for the huge volume of aid invested. But it must be remembered that of the $2.4 billion programmed, $563.5 million or 23.5% will have to be used for the rehabilitation of war devastation for facilities which only indirectly contribute to production.

CONCLUSION

20. The self-sufficing Republic of Korea which could be created if the present plan were accepted and properly implemented would form a firm and permanent bastion against the advance of Communism in Asia. On the other hand, aKorea with large numbers of unemployed and under-employed, suffering from continuing inflation and almost completely dependent for an unknown period on foreign aid, may well prove to have a tragic future.

The sympathetic consideration of this viewpoint and of the detailed proposals in this present document are thus respectfully solicited.

The Government of the Republic of Korea considers that there are mutual advantages both to America and to Korea if this plan were implemented. For, from the American viewpoint, the expenditure of this definite sum of $2.4 billion spread over five years should be preferable to having to provide continued economic aid to Korea in smaller annual amounts over a very long and indefinite period of years. For smaller annual aid would merely mean that large volumes of consumer goods and raw materials would have to be imported to continue to sustain the civilian economy and after the lapse of perhaps several decades Korea would still not be self-supporting. In other words, a "dollar in time saves nine" and the American taxpayers' total contributions will, in aggregate, be reduced.

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TABLE No. 1

OVERALL REQUIREMENTS

(Unit: thousand dollars)

	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Investment Component	211,700	213,000	212,700	221,500	216,000	1,074,900
Agriculture and Forestry	21,500	24,500	19,500	14,000	13,500	93,000
Fisheries	11,000	13,500	15,000	16,000	16,000	71,500
Coal Mining	7,300	8,000	5,500	6,500	5,000	32,300
Mining Other than Coal	7,700	7,000	2,500	5,500	7,000	29,700
Electric Power	23,000	21,000	22,000	23,000	28,000	117,000
Transportation	23,000	23,650	24,000	33,700	22,300	126,650
Communications	8,000	15,000	8,000	9,000	9,000	49,000
Manufacturing Industry	39,500	31,500	69,000	42,000	50,000	232,000
Iron and Steel Industry	5,000	7,350	-	5,000	-	17,350
Education	17,000	15,500	8,000	12,000	10,500	63,000
Health and Welfare Facilities	8,000	6,000	5,000	9,000	10,000	38,000
Public Works	18,000	17,500	15,500	22,900	16,000	89,900
Housing	12,700	11,000	12,700	15,900	27,700	80,000
Vessels and Shipyards	10,000	11,500	6,000	7,000	1,000	35,500
Raw Materials and Finished Products	300,000	280,000	260,000	240,000	220,000	1,300,000
Total	511,700	493,000	472,700	461,500	436,000	2,374,900

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TABLE No. 2 (1)

INVESTMENT PROJECTS

Field: Agriculture and Forestry

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Seed Treatment and Development	609	559	524	504	519	2,715
Agricultural Research	500	350	350	300	300	1,800
Pesticide Facilities	1,530	576	624	672	722	4,124
Agricultural Extension	1,067	1,067	1,069	1,239	1,026	5,468
Soil Testing Services	123	156	150	135	135	699
Agricultural Statistics	200	82	100	108	100	590
Forestry	1,450	1,400	1,050	1,050	1,450	6,400
Livestock Veterinary	674	2,614	300	471	471	4,530
Irrigation and Land Reclamation	15,347	16,696	14,333	9,521	8,777	64,674
Farmers Industry	-	1,000	1,000	-	-	2,000
Total	21,500	24,500	19,500	14,000	13,500	93,000

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TABLE No. 2 (2)

INVESTMENT PROJECT

Field: Fisheries

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Fishing Facilities	2,800	3,000	3,000	3,000	3,000	14,800
Fishing Boat Construction	5,200	6,400	8,300	9,700	10,000	39,600
Fishing Boats	2,000	2,600	2,700	2,300	3,000	12,600
Fish Canning Facilities	1,000	-	1,000	1,000	-	3,000
Fish Processing Facilities	-	1,500	-	-	-	1,500
Total	11,000	13,500	15,000	16,000	16,000	71,500

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TABLE No. 2 (3)

INVESTMENT PROJECT

Field: 1. Coal Mining
2. Mining Other than Coal

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
1. Coal Mining	7,300	8,000	5,500	6,500	5,000	32,300
2. Mining other than Coal						
Gold Mining	2,800	3,000	1,000	2,750	4,450	14,000
Other Mining	3,500	3,000	1,000	2,000	2,000	11,500
Geological Survey	1,400	1,000	500	750	550	4,200
Total	15,000	15,000	8,000	12,000	12,000	62,000

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TABLE No. 2(4)

INVESTMENT PROJECT

Field: Electric Power

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Hydro Electric Power	18,000	18,000	20,000	-	-	56,000
Thermal Power	1,500	-	-	23,000	23,000	44,500
Transmission and Distribution	3,500	2,000	2,000	-	8,000	15,500
Nuclear Reactor	-	1,000	-	-	-	1,000
Total	23,000	21,000	22,000	23,000	28,000	117,000

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TABLE No. 2 (5)

INVESTMENT PROJECT

Field: Transportation

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Railway Construction	5,310	5,930	7,120	13,680	8,200	40,240
Railroad Rehabilitation	4,240	4,230	1,720	1,500	1,500	13,190
Rolling Stock	6,200	5,490	7,160	10,320	6,800	35,970
Railroad Logistic Supply	6,000	6,000	6,000	6,200	5,800	30,000
Cargo Handling Facility	-	500	500	500	-	1,500
Street Cars	1,000	1,000	1,000	1,000	-	4,000
Aviation Facility	250	500	500	500	-	1,750
Total	23,000	23,650	24,000	33,700	22,300	126,650

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TABLE No. 2 (6)

INVESTMENT PROJECT

Field: Communications

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Inside Cable Plant	960	4,800	3,940	2,917	935	13,552
Inside Cable Plant Equipment	2,720	5,400	922	2,739	3,057	14,838
Radio-Telegraph Facility	1,120	1,800	1,604	2,300	3,411	10,235
Telecommunication Maintenance Equipment	400	500	600	500	600	2,600
Telecommunication Experiment Equipment	160	250	200	-	-	610
Communication School Equipment	80	50	50	-	-	180
Building for Communication	2,470	2,120	620	516	969	6,695
Vehicles	90	80	64	28	28	290
Total	8,000	15,000	8,000	9,000	9,000	49,000

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TABLE No. 2 (7)

INVESTMENT PROJECT

Field: Manufacturing Industry

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Fertilizer Plant	20,000	-	20,000	-	-	40,000
Cement Plant	8,000	-	4,000	-	-	12,000
Oil Refinery	-	12,000	-	-	-	12,000
Pulp Plant	2,000	1,800	-	2,800	-	6,600
Paper Industry	-	-	3,800	2,000	-	5,800
Chemical Industry	-	5,000	12,000	13,000	21,000	51,000
Textile Industry	3,900	4,000	13,000	13,700	13,500	48,100
Mechanic Industry	3,000	7,000	16,000	10,200	15,500	51,700
Handicraft Industry	100	200	200	300	-	800
Night Soil Processing Plants	-	1,500	-	-	-	1,500
Briquet Plant	2,500	-	-	-	-	2,500
Total	39,500	31,500	69,000	42,000	50,000	232,000

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TABLE NO. 2 (8)

INVESTMENT PROJECT

Field: Iron and Steel Industry

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Yangyang and Samhwa Iron Mining	850	-	-	-	-	850
Samhwa Iron Refinery	-	1,500	-	-	-	1,500
Daihan Heavy Industrial Cooperation	4,150	5,850	-	5,000	-	15,000
Total	5,000	7,350	-	5,000	-	17,350

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TABLE No. 2 (9)

INVESTMENT PROJECT

Field: Education

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Classroom Construction	5,000	5,000	5,000	5,000	5,000	25,000
School Equipment	5,000	4,000	1,000	3,000	2,000	15,000
Technical Education	6,000	5,500	1,000	3,000	2,500	18,000
Cultural Facility	1,000	1,000	1,000	1,000	1,000	5,000
Total	17,000	15,500	8,000	12,000	10,500	63,000

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TABLE NO. 2 (10)

INVESTMENT PROJECT

Field: Health & Welfare Activities

Project:	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Hospital Facility	4,200	3,700	1,700	1,600	2,800	14,000
Sanitation Facility	2,800	1,300	2,100	1,500	800	8,500
Social Welfare	1,000	1,000	900	5,700	6,200	14,800
Pharmaceutical Facility	-	-	300	200	200	700
Total	8,000	6,000	5,000	9,000	10,000	38,000

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TABLE NO. 2 (11)

INVESTMENT PROJECT

Field: Public Works

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Flood Control	1,000	1,000	500	1,000	500	4,000
Water Works	2,200	2,000	2,000	2,600	2,000	10,800
City Planning	1,500	1,000	1,000	1,300	600	5,400
Roads and Bridges	4,000	4,000	3,800	6,300	1,100	19,200
Public Building	2,000	2,000	2,200	5,200	9,200	20,600
Fire Fighting Equipment	300	200	-	-	-	500
Police Communication	1,000	-	-	-	-	1,000
Coastal Guard Boats	1,000	-	-	-	-	1,000
Harbor Rehabilitation	4,000	4,800	6,000	6,500	2,600	23,900
Light House	1,000	1,500	-	-	-	2,500
Dredging	-	1,000	-	-	-	1,000
Total	18,000	17,500	15,500	22,900	16,000	89,900

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TABLE NO. 2 (12)

INVESTMENT PROJECT

Field: Vessels and Shipyards

Project	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Vessels	6,000	7,000	5,000	5,000	-	23,000
Shipyard	4,000	4,500	1,000	2,000	1,000	12,500
Total	10,000	11,500	6,000	7,000	1,000	35,500

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TABLE No. 3

BREAKDOWN OF COMMODITIES

(in 1,000 US$)

Item	FY 1957	FY 1958	FY 1959	FY 1960	FY 1961	Total
Fertilizer	57,000	63,200	56,900	52,400	48,300	277,800
Raw Cotton	43,600	41,200	41,200	38,200	33,200	197,400
Bituminous Coal	26,169	22,209	13,530	9,999	8,250	80,157
P. O. L.	20,000	20,000	20,000	18,000	18,000	96,000
Coal Tar Pitch	2,000	2,800	3,100	3,500	3,900	15,300
Pesticide	1,500	1,500	1,500	1,500	1,500	7,500
Logs and Lumber	5,200	5,200	6,000	6,500	7,000	29,900
Cement	7,500	5,000	2,500	-	-	15,000
Flat Glass	500	-	-	-	-	500
Iron and Steel Shapes	6,000	6,000	5,000	5,000	4,000	26,000
Non-Ferrous Metals	3,000	4,000	4,000	4,000	4,000	19,000
Tire and Tube	1,800	-	-	-	-	1,800
Industrial Machinery	10,000	10,000	10,000	10,000	10,000	50,000
Creosote	400	400	400	400	400	2,000
Raw Wool	2,000	2,000	2,000	2,000	2,000	10,000
Worsted Yarn	2,000	-	-	-	-	2,000
Synthetic fibre	12,000	12,000	12,000	9,000	6,000	51,000
Raw Rubber	7,000	7,000	7,000	8,000	8,000	37,000
Tallow	2,000	2,000	2,000	2,000	2,000	10,000
Chemicals	8,000	8,000	8,000	8,000	8,000	40,000
Dye stuffs	1,300	1,300	1,300	1,300	1,300	6,500
Pulp	3,300	3,100	3,100	2,500	1,700	13,700
Paper	1,500	800	800	800	500	4,400
Explosive	700	800	800	800	800	3,900
Raw Sugar	6,000	6,000	6,500	7,000	7,000	32,500
Medical supplies	8,000	8,000	8,500	8,500	9,000	42,000
Grain	25,740	19,260	12,870	10,000	10,000	77,870
Others	35,791	28,231	31,000	30,601	25,150	150,773
Total	**300,000**	**280,000**	**260,000**	**240,000**	**220,000**	**1,300,000**

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TABLE No. 4

Hwan Funding and Financing

Overall Financial Balance
(in billions of Hwan)

	Overall Availabilities:							Overall Requirements:			
FY:	Gov't Revenues a/	Aid Goods Sales	Time Deposits c/	KRB Repay b/	Capital Mobiliz. c/	Increased Money Supply d/	Total	Gov't Expend e/	Invest-ment f/	Banking Credits c/	Total
1957	170	117.0	10.8	1.4	9.1	24	332.3	226.8	84.7	20.8	332.3
1958	183	103.5	13.0	4.2	14.5	29	347.2	237.3	85.2	24.7	347.2
1959	206	90.0	15.6	11.2	19.3	34	376.1	259.4	85.1	31.6	376.1
1960	226	76.5	18.7	20.8	24.2	42	408.2	279.1	88.6	40.5	408.2
1961	249	63.0	22.4	31.4	29.4	45	440.2	307.3	86.7	46.2	440.2
TOTAL	1,034	450.0	80.5	69.0	96.5	174	1,904.0	1,309.9	430.3	163.8	1,904.0

NOTE:

a/ See Table (A)
b/ See Table (B)
c/ See Table (C) Column (e)
d/ See Table (D)
e/ As estimated by Ministry of Finance including all expenditure of national and local Government. Also see table (E)
f/ See Table (C) Column (d) thereof.

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4 (A)

BASIS FOR GOVERNMENT REVENUES
($ 000,000 HW 000,000,000)

FY	(a) Estimated GNP	(b) Collections 20% of (a) $	HW
1957	$ 1,700	$ 340	HW 170
1958	1,830	366	183
1959	2,060	412	206
1960	2,260	452	226
1961	2,490	498	249
Total	10,340 a/	2,068 b/	1,034 c/

a/ Tentative targets:

b/ Estimated by Ministry of Finance; This figure is approximately 25% of national income based on ratios between GNP (100) as against national income (80).

c/ Include all collections of whatever kinds by national and local Governments.

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4 (B)

SCHEDULE FOR KOREA RECONSTRUCTION BANK
LOAN

Repayments
(in billions of Hwan)

	K.R.B. Loans in this year:	Cumulative	Repayments a/
1955	7.0	7.0	-
1956	15.0	22.0	-
1957	36.5	58.5	1.4
1958	51.2	109.7	4.2
1959	57.9	167.6	11.2
1960	75.3	242.9	20.8
1961	68.7	311.6	31.4
TOTAL			69.0

a/ Repayments to be made two years later against loan at the rate of 20% of the loan.

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4 (C)

ESTIMATES OF HWAN REQUIREMENTS FOR INVESTMENT

($000,000 HW 000,000,000)

	Total (a)	Public Investment (b)	Private Investment (c)	Hwan Cost for (a) (d)	(Domest. Capital) Mobilization Total (e)
1957	$ 211.7	$ 161	$ 50.7	HW 84.7	HW 9.1
1958	213.0	140	73.0	85.2	14.5
1959	212.7	128	84.7	85.1	19.3
1960	221.5	122	99.5	88.6	24.2
1961	216.0	107	109.0	86.7	29.4
TOTAL	1,074.9	658	416.9	430.3	96.5

NOTE 1. Ratios between (b) & (c) against (a):

	(a)	(b)	(c)
1957	100%	75%	25%
1958	100	65	35
1959	100	60	40
1960	100	55	45
1961	100	50	50

NOTE 2. (e)= (a) x HW400 + HW500 x ratio; See Table (F).

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4 (D)

ESTIMATED INCREASE IN MONEY SUPPLY
(H/ 000,000,000)

FY	Money Supplies: As of last July 1 year	As of this June 30 year	Increase Per Year a/
1957	H/ 120	H/ 144	H/ 24
1958	144	173	29
1959	173	207	34
1960	207	249	42
1961	249	294	45
Total	893	1,067	174

a/ Projects a 20% expansion in Money Supply per year, on assumption that an increase of this ratio would not cause price increases throughout the program periods, due to the offsetting factor of increased productivity of goods and services brought about by the implementation of this program.

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4 (E)

RECAPITULATION
REVENUES AND EXPENDITURES OF GOVERNMENTS
(₩ 000,000,000)

FY	Revenues	Expenditures	Balance
1957	₩ 170	₩ 226.8	₩ 56.8
1958	183	237.3	54.3
1959	206	259.4	53.4
1960	226	279.1	53.1
1961	249	307.3	58.3
TOTAL	1,034	1,309.9	275.9

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4 (F)

Estimated Plan for Domestic Capital Mobilization

($ 000,000)
(H/ 000,000,000)

FY	(A) Total Private Investment	(B) Total Project Cost a/	Domestic Capital Mobilization Ratio to (B)	Amount
1957	$ 50.7	H/ 45.6	20%	H/ 9.1
1958	73.0	65.7	22%	14.5
1959	84.7	76.2	25%	19.3
1960	99.5	89.6	27%	24.2
1961	109.0	98.1	30%	29.4
TOTAL	416.9	375.2	25%	96.5

a/ Total project costs per investment dollar being H/900 consisting of H/400 for local utilization costs and H/500 for acquisition costs for dollar financed goods.

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TABLE No. 5

PROGRAMMING OF FY 1954/55/56 ECONOMIC AID PROGRAMS
(in thousand Dollars)

Activity Field	FY 1954	FY 1955	FY 1956	Total
Investment Compound				
Agriculture of Natural resources	1,328	7,181	6,547	15,056
Industry and Mining	57,190	38,360	39,258	134,808
Transportation (power, rail, port)	23,882	79,912	26,691	130,485
Health and Sanitation	2,726	2,514	2,250	7,490
Education	750	629	3,600	4,979
Public Administration	-	179	-	179
Social Welfare and Housing	-	19,053	8,542	27,595
Miscellaneous	70	1,224	3,990	5,284
Technical Assistance	-	-	5,000	5,000
Salable Commodity				
Component	100,926	113,739	208,122	422,787
Total	186,872	262,791	304,000	753,663

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TABLE No. 6

PROJECTION OF INTERNATIONAL BALANCE OF PAYMENTS FOR FY 1963

(in thousand Dollars)

Commodity	Income (Export)	Payment (Import)
Fertilizer	-	12,400
Raw Cotton	-	18,240
Marine Products (See Table 8)	38,000	-
Minerals (See Table 7)	73,000	-
Bituminous Coal	-	8,250
P. O. L.	-	22,000
Coal Tar Pitch	-	3,500
Pesticide	-	500
Logs and Lumber	-	2,000
Iron and Steel Shapes	-	3,000
Non-ferrous metals	-	2,000
Industrial Machinery	-	5,000
Creosote	-	400
Raw Wool	-	2,500
Silk and Cotton textiles	3,500	-
Synthetic Fibres	-	8,000
Tallow	-	3,000
Raw Rubber	-	8,000
Chemicals	-	9,000
Dyestuffs	-	1,300
Pulp	-	500
Raw Sugar	-	5,000
Salt	1,500	-
Medical Supplies	-	8,500
Rice	45,000	-
Grains	-	20,000
Handicraft	5,000	-
Others	10,000	37,910
Invisible	25,000	20,000
Total	201,000	201,000

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TABLE No. 7

BREAKDOWN OF PROJECTED MINERALS EXPORT FOR FY 1963
(in 1,000 $)

Item	Unit Price $	Production Goal Quantity M/T	Production Goal Value	Domestic Use Quantity M/T	Domestic Use Value	Export Quantity M/T	Export Value
Gold	1,120,000	15	16,800	15	16,800	-	-
Copper	900	2,500	2,250	-	-	2,250	2,250
Lead	280	4,000	1,120	4,000	1,120	-	-
Zinc	160	4,500	720	4,500	720	-	-
Tungsten	2,200	17,000	37,400	-	-	17,000	37,400
Iron Ore	15	600,000	9,000	400,000	6,000	200,000	3,000
Amorphous graphite	25	220,000	5,500	-	-	200,000	5,500
Crystalline graphite	150	7,000	1,050	100	15	6,900	1,035
Cerium Ore	400	8,000	3,200	-	-	8,000	3,200
Tantalite	9,000	180	1,620	-	-	180	1,620
Molybdenite	1,300	1,000	1,300	-	-	1,000	1,300
Manganese Ore	36	14,000	504	-	-	14,000	504
Kaolin	26	60,000	1,560	10,000	260	50,000	1,300
Talc	30	60,000	1,800	6,000	180	54,000	1,620
Fluorite	34	80,000	2,720	-	-	80,000	2,720
Bismuth	4,500	800	3,600	-	-	800	3,600
Silica sand	7	150,000	1,050	3,000	21	147,000	1,029
Other ores	-	-	6,922	-	-	-	6,922
TOTAL			98,116		25,116		73,000

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TABLE No. 8

BREAKDOWN OF PROJECTED MARINE PRODUCTS EXPORT FY 1963
(in 1,000 $)

Commodity	Production Goal		Domestic Use		Export	
	Quantity M/T	Value	Quantity M/T	Value	Quantity M/T	Value
Fresh fish	277,000	57,600	227,700	47,100	49,300	10,500
Shell fish	16,500	4,100	16,500	4,100	-	-
Seaweed	29,000	4,300	29,000	4,300	-	-
Other fishery products	93,000	14,000	92,300	13,900	700	100
Oyster	1,200	1,440	400	740	800	700
Laver	480	1,920	280	1,120	200	800
Other Cultured fish	6,820	2,240	6,820	2,240	-	-
Canned products	53,800	22,300	3,370	1,400	50,430	20,900
Other processed fishery products	60,500	24,200	52,000	19,200	8,500	5,000
TOTAL	538,300	132,100	428,370	94,100	109,930	38,000

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American Embassy,
Seoul, Korea,
July 18, 1956.

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Dear Noel:

In your notes for the week ending June 29, you asked if Harold Lady was dismissed from his job as ROK Advisor.

I do not think it would be correct to say that Lady was dismissed. However, when his contract expired it was not renewed. I do not believe the President ever made much out of him during the eighteen months he was here. As far as I could judge, he was never given much opportunity to express his views, and his opinions when expressed were not often taken seriously.

Carl is too kind. Gus

Mr. Lady was present at the first three conferences on the taxation controversy in the Ministry of Finance. He was extraordinarily helpful to me on these occasions and it was the ammunition that he supplied that enabledus eventually to win the case. This was the only connection in which he gave us any notable assistance but he was incidentally helpful to the Embassy from time to time.

Sincerely yours,

Carl

Carl W. Strom
Counselor of Embassy

Noel Hemmendinger, Esquire,
Acting Director,
Office of Northeast Asian Affairs,
Department of State.

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MEMORANDUM FOR: Dr. D. A. Fitzgerald,
Deputy Director for Operations,
International Cooperation Administration.

SUBJECT: Proposed ICA Program Approval No. 52-168 - Korea Technical Cooperation

The Department of State has reviewed the above-mentioned program for Korea in the amount of $4,712,000 for planning and implementation, received in this office April 22, and recommends approval. It is understood that the increase of $200,000 in this program is to be taken from the programmed reserve, thereby decreasing programmed reserve from $400,000 to $200,000.

Signed:

Robert G. Barnes
Special Assistant for
Mutual Security Coordination

Clearances:
FE Mr. Yost
ED Mr. Springsteen
W/MSC Mr. Burn

W/MSC:RGConlin:meg

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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL

765
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

June 2, 1958
DATE
JUN 3 1958

REF : CERP Section B, Item IV-A-1; Item IV-B-1,2; Item IV-C-1; Item IV-D-1a,.2.

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	REP-3	RM/R-2 IRC-8 LR-1 FE-4 E-4 ICA-10 IO-4 PER-2
	REC'D 6/6	OTHER CIA-15 COM-10 LAB-5 HEW-5 USIA-10

SUBJECT: CERP Publications

There are being forwarded under separate cover four copies of the 1957 Statistical Yearbook of The Republic of Korea published by the Bureau of Statistics of the Ministry of Home Affairs.

The yearbook has been published on an irregular schedule, the first issue having appeared in December 1953, the second in June 1955, the third in December 1955. The present edition, the fourth issue, was published at the end of March 1958 while the fifth issue is scheduled for the latter part of December of this year.

There is no charge for the Yearbook but only a limited number of volumes can be obtained as publication is limited to 1,000 copies.

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

LRyan:hcn
REPORTER

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SENT DEPARTMENT 532, HONGKONG 7.

SEOUL BLACKMARKET PRICE GOLD HAS RISEN STEADILY FROM 4200 HWAN PER 3.75 GRAMS ON NOVEMBER 7 TO 5200 HWAN ON NOVEMBER 29. GOLD PRICE FAIRLY STABLE PRECEDING MONTHS. IN EXAMINING REASONS BEHIND SUDDEN RISE WOULD APPRECIATE INFORMATION REGARDING RECENT DEVELOPMENTS INTERNATIONAL MARKET PRICE GOLD. REQUEST HONG KONG PROVIDE DATA GOLD PRICE TREND MACAU RPT MACAU.

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DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

June 11, 1957
DATE

REF : 1957 CERP, Section B, items II-B-1-a and III-B-4.

Date of Action
JUN 13 1957

For Dept. Use Only	ACTION	DEPT.	Action Office Symbol
	REC'D	INFO OTHER	Name of Officer
			Direction to DCR

SUBJECT: Daily Unofficial (Illegal) Prices for Gold, Dollars and Yen and Weekly Seoul Price Indexes.

The illegal selling prices for gold, greenbacks, military payment certificates and yen during the period since the Embassy's last weekly report were as follows:

Hwan paid for Gold, Greenbacks and MPCs in Seoul

Date	Gold (3.75 grams)	Greenbacks (US $1)	MPCs (US MPC $1)
June 3	4,800	980	770
4	4,800	980	780
5	4,800	980	780
6	4,800	980	770
7	4,700	980	770
8	4,700	985	770
9	4,700	985	780

Hwan paid for Japanese Yen in Pusan

Date	Yen (¥ 360)
June 2	972
3	954
4	954
5	936

The weekly Seoul wholesale and retail price indexes as of June 7, 1957 were as follows:

	Weights	Index (1947=100)	Percent change from 31 May 57	Percent change from 10 May 57	Percent change from 8 Jun 56	Percent change from Sept.55 av.
WHOLESALE	100	23,724.8	+ 2.1	+ 3.5	+20.9	+33.8
Grain	39	32,150.1	+ 4.1	+ 9.1	+22.9	+52.4
Meats, eggs, fish	6	32,991.4	0	0	+35.1	+24.8
Textile raw materials	10	14,309.1	- 0.2	+ 1.1	+20.2	+19.3
Textiles	8	6,476.0	negl	- 4.4	- 5.3	- 7.7
Building materials	[illegible]	25,488.7	+ 0.2	+ 2.3	+12.1	+10.6
Fertilizer	2	53,940.0	0	0	0	+68.6
Fuel	7	38,783.0	0	- 9.0	+13.1	+ 4.0
Miscellaneous	25	10,798.0	+ 0.2	+ 0.7	+3[illegible].0	+22.0
All items except grain*	61	18,338.1	negl	- 2.1	+1[illegible].7	+17.7
Consumer goods		25,541.9	+ 2.8	+ 5.0	+23.9	+41.4
Producer goods		17,242.9	+ 0.1	- 0.1	+ 6.9	+15.4
RETAIL		26,011.2	- 1.0	- 5.8	+2[illegible].4	+27.9
Food		27,534.7	- 1.6	- 5.8	+23.7	+34.7
Clothing		10,954.9	+ 0.6	0	+ 6.4	- 1.4
Fuel		37,237.1	0	- 7.2	+19.5	+19.7
Miscellaneous		9,139.3	0	0	+17.5	+29.6

EMCronk:rks
REPORTER

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 4/27/94

*Computed by Embassy.

Source of price indexes: Bank of Korea

For the Ambassador:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

cc: OEC

0434

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 1/17/89

August 28, 1958

Dear Miss Cowan:

Your letter of July 25, 1958 to the Department of Defense concerning conditions in Korea has been referred to the Department of State for reply.

Living conditions such as housing vary, and specific information can be obtained from your prospective employer. Health standards, while not the same as those in the United States, also vary. Civilians attached to United States Government agencies in Korea are eligible for medical treatment at United States Army medical units, while these facilities are not available to civilians there in a private capacity. There is enclosed an information sheet issued by the Passport Office for American civilians accompanying the military forces in Korea which I believe will be of interest to you. Those paragraphs applying only to civilian personnel attached to United States Armed Forces and to dependents of military personnel have been crossed out. There is also enclosed for your convenient reference a brochure on the Republic of Korea.

The United States continues to maintain armed forces in the Republic of Korea under the United Nations Command together with forces from other United Nations countries. Although there has been no political settlement in Korea, hostilities were terminated in July 1953 by an armistice agreement which remains in effect. The internal political situation has been stable during the past several years.

I hope this information is helpful to you.

Sincerely yours,

For the Secretary of State:

RM/R
Ina 68
sv
at

Temple Wanamaker
Acting Chief
Public Services Division

S/S-CR
AUG 27 1958 P.M.

Enclosures:
Selected material.

Miss Phyllis L. Cowan,
Apartment I 8 E,
11 Riverside Drive,
New York 23, New York.

1 Sept GM Barkin P:SEO:RH Gann:129
8/22/58

811.7-2258

0435

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date 4/17/29

SUGGESTED REPLY TO MISS PHYLLIS L. COWAN

Dear Miss Cowan:

Your letter of July 25, 1958, to the Department of Defense, inquiring about conditions in Korea, has been referred to this office for reply. With respect to your inquiry regarding living conditions, it is not possible to give you specific information since your housing, for example, would depend on whether you went to Korea as an employee of a United States Government agency or of a private firm. In any event, your prospective employer should be in a better position to advise you regarding the housing arrangements which you could expect.

Health standards in the Republic of Korea are not the same as they are in the U. S. Again, however, conditions regarding medical care would depend on your employment status. For example, civilians attached to U.S. Government agencies are eligible for treatment at U.S. Army medical units in Korea. These facilities, however, are not available for U.S. citizens in Korea in a private capacity.

The U.S. continues to maintain armed forces in the Republic of Korea, together with forces from other United Nations countries,

under

Miss Phyllis L. Cowan
Apt. 7 M E
11 Riverside Drive
New York 23, New York

795.00/10-2558

0436

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date 4/29/11

under the United Nations Command. Although there has been no political settlement in Korea, hostilities were terminated in July 1953 by an armistice agreement which remains in effect. The internal political situation has been stable during the past several years.

Attached is a Department of State Passport Office notice which is normally distributed only to dependents of military and civilian personnel of U. S. Armed Forces visiting Korea on a tourist status. Pertinent sections of this notice, containing certain information which may also be of interest to you, have been marked. Those sections applicable only to dependents of military and civilian personnel of U.S. Armed Forces have been crossed out.

I hope this information will be helpful to you.

Sincerely yours,

Attachment:

Passport Office Notice

FE:NA:EMBarbis

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E.O. 12356, Sec. 1.3
NND 867400
By [illegible], NARA, Date [illegible]

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON 25, D. C.

July 29, 1958

PUBLIC AFFAIRS

MEMORANDUM FOR CHIEF, PUBLIC SERVICES DIVISION, DEPT. OF STATE

SUBJECT: Referral of Correspondence

The inclosed correspondence is forwarded for consideration and appropriate action to include direct reply to the writer who has not been notified of this referral. Information copy of your reply is not requested.

Encl: Ltr dtd 25 July 1958
PHYLLIS L. COWAN
New York,23, New York

Personal Services Branch
Office of Public Services
Room 2D 776, The Pentagon
LIberty 5-6700, Ext. 76462

RM/R
Anal
Rev
Cat

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 1/10/89

Dept of State

DRAFT

File RHG

Aug. -7, 1958

Apt. 7 M E,
11 Riverside Drive,
New York 23, N.Y.
July 25, 1958

This Document must be Returned to the RM/R Central Files

895B.01/7-2558

Public Affairs Office,
Department of Defense,
Washington, D.C.

Dear Sir:

I am considering the possibility of working in Korea for a few years and would be interested in securing any information you could give me about living conditions, health etc. at the present time.

795A.00
795A.55
895A.55

Does the United States, or other U.N. nations, still maintain armed forces in South Korea? What are the prospects for political stability in the country?

Whatever information you could send me would be greatly appreciated.

Yours faithfully,

Phyllis Cowan

Phyllis L. Cowan

CS/G

PUBLIC AFFAIRS DIV. PCB

TO NA 8/4/58 RHG

1958 JUL 31 PM 2 40 DEPARTMENT OF STATE

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PUBLIC SERVICES DIVISION
CHIEF OF DIVISION
JUL 31 1958
DEPARTMENT OF STATE

895A.01/7-2558

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NND 867400
By [illegible], NARA, Date 11/17/99

VIA AIR POUCH
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FOREIGN SERVICE DESPATCH

FROM : Amembassy, SEOUL — 402 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — January 28, 1959 DATE

REF : CERP - Korea, Section B, Item II-B-1, a (D-584, January 20, 1959)

For Dept. Use Only	ACTION	DEPT.
	REC'D 1/31	INFO OTHER

ACTION: EAB-5
DEPT.: RAP-1 IRC-8 E-7 FE-4 ICA-10 TAR-2
OTHER: CIA-1 USIA-10 TA-3 Am-1 FRB-3 Xmit

SUBJECT: National Wholesale Price Index

The national wholesale price indexes for January 10 - 20, 1959 were as follows:

	Weights	Index (1955=100)	Percent change from* 1-10 Jan 59	Dec 58	Jan 58	Sept 55
All Commodities	100	139.4	0	+ 0.5	- 1.8	+17.6
Foods	41.81	129.1	- 0.5	- 0.1	- 7.1	- 1.7
Fuel & Power	6.80	159.0	+ 0.6	+ 5.0	+ 8.7	+44.5
Mineral Products	1.05	117.4	+ 0.3	+ 0.3	+11.1	+15.8
Metals Products & Machinery	5.78	166.2	+ 0.1	0	+ 4.2	+55.0
1/ Building (Including Metals)	(6.51)	150.3	+ 2.2	- 0.2	+15.3	+30.1
Materials Excluding Metals	5.15	146.6	+ 2.9	+ 0.2	+19.1	+26.1
Fiber and Fiber Products	22.24	125.1	- 0.9	- 0.4	- 5.4	+20.1
Chemical Products	5.61	212.9	- 0.3	- 0.6	- 1.1	+51.3
Paper	1.79	125.3	0	+ 1.0	-12.7	+25.4
Raw Rubber & Rubber Products	3.57	127.8	+ 5.2	+ 5.2	+18.9	+11.7
Miscellaneous	6.22	155.6	+ 1.0	+ 1.3	+ 3.3	+47.5
Special Groupings						
Grains	24.94	126.2	- 0.8	- 0.6	-10.3	-14.2
All Commodities Excluding Grains	75.06	145.8	+ 0.3	+ 0.8	+ 1.0	+31.0
Producer Goods	28.80	161.0	+ 0.6	+ 0.4	+ 2.8	+37.5
Consumer Goods	71.20	130.6	- 0.3	+ 0.5	- 4.0	+ 8.9

* Computed by Embassy.

Source of Price Indexes: Bank of Korea.

Footnote: 1/ The group "Building Materials Including Metals" includes not only 15 regular items such as lumber and cement, but also paint and 7 metal products which are included elsewhere. They are not, however included twice in calculating the All Commodities index. Thus the weights given to "Building Materials Including Metals" are not included in those totalling 100 under "All Commodities".

For the Chargé d'Affaires ad interim:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

FILED
FEB 19 1959

LWS

EMTucker:YKChon/hcn
REPORTER

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JAN 29 1959

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RW.

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NND 867400
By ____, NARA, Date 1/27/99

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FOREIGN SERVICE DESPATCH

FROM : Amembassy, SEOUL

433
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

February 11, 1959
DATE

REF : CERP - Korea, Section B, Item II-B-1, a (D-384, January 20, 1959)

67 For Dept. Use Only	ACTION	DEPT. LAB-5
	REC'D 2/17	INFO OTHER CIA-10 Com-10 AG-8 FRB-3 TR-3

SUBJECT: National Wholesale Price Index

895B.15/
LAB RUR IRL ICA to PEK
Cu AG CIA FRB TR-3

The national wholesale price indexes for January 21 - 30, 1959 were as follows:

	1/ Weights	Index (1955=100)	Percent change from* 11-20 Jan 59	Dec 58	Jan 58	Sept 55
All Commodities	100	158.7	- 0.5	0	- 2.3	+16.5
Foods	41.8	128.3	- 0.7	- 0.7	- 7.6	- 2.3
Fuel & Power	6.8	159.2	+ 0.1	+ 5.1	+ 8.8	+44.7
Mineral Products	1.0	118.3	0	+ 1.1	+11.3	+14.6
Metals Products & Machinery	5.8	166.4	+ 0.1	+ 0.1	+ 4.3	+55.2
Building Materials (Including Metals) 2/	6.5	151.2	+ 0.6	+ 0.4	+16.0	+30.9
Excluding Metals	5.2	147.4	+ 0.5	+ 0.8	+19.7	+26.7
Fiber and Fiber Products	22.2	122.6	-2.0	- 2.4	- 7.3	+17.7
Chemical Products	5.6	212.3	- 0.1	- 0.8	- 1.4	+50.9
Paper	1.8	126.0	+ 0.6	+ 1.5	-12.3	+26.1
Raw Rubber and Rubber Products	3.6	128.7	+ 0.7	+ 5.9	+19.7	+12.5
Miscellaneous	6.2	156.3	+ 0.4	+ 1.8	+ 3.7	+48.2
Special Groupings						
Grains	24.9	124.6	- 1.2	- 1.9	-11.4	-15.3
All Commodities Excluding Grains	75.1	143.3	- 0.3	+ 0.5	+ 0.6	+30.5
Producer Goods	28.8	161.2	+ 0.1	+ 0.6	+ 2.9	+37.7
Consumer Goods	71.2	129.5	- 0.9	- 0.4	- 4.8	+ 8.0

* Computed by Embassy.

Source of Price Indexes: Bank of Korea.

Footnote: 1/ Rounded; See Embassy Despatch 402, January 28, 1959 for exact weights.
2/ See explanation Embassy Despatch 402, January 28, 1959.

For the Charge d'Affaires ad interim:

RWTucker

Robert W. Tucker
First Secretary of Embassy

RWTucker:YKChon:hcn
REPORTER

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FEB 12 1959

MAR 9 - 1959
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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 1/27/94

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FOREIGN SERVICE DESPATCH

FROM : Amembassy, SEOUL

464
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

March 4, 1959
DATE

REF : Vol- CERP Section B, II, B-1; Embassy Despatches 377 and 384: TOICA-2161 & A-2523

For Dept. Use Only	ACTION	DEPT.
67	Rep-3 *	INFO Rmr-2 IRC-8 LR-1 E-7 FE-4 EUR-5 ICA-1 * *
	REC'D 3/9	OTHER LAB-5 ** Cm-10 CAB-10 * TR-3 * TAR-2 * FRB-3 * PER **

SUBJECT: New National Wholesale Price Index Prepared by Bank of Korea

Rep LAB Rep IRC ICA FE PER 895b.13-1
Cm AG Cu FRB TR

Forwarded as Enclosure No. 1 are twelve copies of a reprint, published by the Bank of Korea, of an article carried in the October 1958 English-language issue of the Monthly Statistical Review, giving details of the Bank's new national wholesale price index.

The referenced communications discuss some of the reasons contributing to divergent movements in the National and Seoul indexes and apparent distortions in the price picture as reflected in the Seoul index, particularly those which occurred during the final months of 1958 as a result of the sharp price rises in the heavily weighted fuel category; price movements of specific commodities are also detailed. Some additional observations are provided below.

For the time being the BOK plans to publish both the old index (reflecting Seoul wholesale prices, with 1947 as the base period) and the new national index (in general, based on wholesale prices in ten cities and surrounding areas, with 1955 as the base). For some commodities in the new index, prices are collected only in designated areas which, from the Bank's past experience, have proved to be representative of prices throughout the country; e.g., prices of most import and export commodities are gathered only in Seoul and Pusan. In all cases, however, weights have been calculated on the value of wholesale transactions throughout the country during the base year, 1955. (See paragraphs 2 and 5 of Enclosure No. 1 for details concerning regional coverage.)

The new series, with its expanded territorial and commodity coverage and more recent base period (which also coincides with the base period of the Seoul Consumer Price Index), appears to have definite advantages over the old index.

Enclosure No. 2 is a chart prepared to facilitate comparison of the movements of the two indexes from September 1955, the base date of the exchange rate agreement. The tabulation below summarizes some of the interesting developments depicted in the chart:

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NND 867400
By [illegible], NARA, Date 1/17/89

	National Index	Seoul Index
Highest point in 1958	123 (May)	126 (Oct)
Lowest point in 1958	117 (Dec)	110 (Jan)
Months in which index exceeded 125% of Sept. 1955:		
1957	Jan-Sept	Mar-Sept
1958	None	Oct
Average deviation from Sept. 1955:		
1955 (Oct-Dec)	90	84
1956	111	105
1957	128	125
1958	120	116
1959 (Jan-Feb)	117	119

The new index, generally speaking, follows a somewhat smoother curve but at slightly higher levels than the old index.

Expansion of the commodity composition (from 45 items to 199) and careful attention to insure selection of truly representative commodities, the Bank advises, give expression in the new index to changed economic conditions, including changes in the pattern of individual consumption. For example, the old index did not include such items as beverages, electric power, woolen cloth, medicines, dyestuffs, and a long list of commonly used manufactured articles. Such significant items as rubber shoes, soap, paper, and various industrial chemicals and other increasingly important producer-type goods were grouped under "miscellaneous". These items are now segregated in the new index under appropriately defined groups. The old "miscellaneous" category carried a weight of 25 at original base; the new "miscellaneous" group, in which cigarettes constitute the major item, carries a weight of 6.

The expanded and more representative commodity coverage also reduces the problems which arose from attachment of undue significance to individual items in the total distribution of the Seoul index. Thus the weight of solid fuels (coal, firewood, and charcoal) is reduced to 3 from 7. Similarly, the weight of grain is reduced to 25 from 39, even though there has been no perceptible change in eating habits (if anything, per capita consumption of grain was probably higher in 1955 than in 1947, the base year of the old index). This reduced weighting for grains (with accompanying reduction in the weighting of the total food component in the new index -- from 45 to 35) reflects the marked increase in average living standards since 1947, in that expenditure for food has become a significantly smaller proportion of total consumer spending (Engel's index). A more refined distinction between producer and consumer goods is reflected in the new index, with, however, little change in the weighting of these groups.

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NND 867400
By [illegible], NARA, Date 1/10/24

In addition to publishing the detailed commodity price data of the new series, the BOK plans to continue compilation and publication of the two special groupings: 1) all grain and all commodities other than grain, and 2) producer goods and consumer goods. Weights of the special groupings under both indexes are compared below:

	National Index	Seoul Index
All grain	24.9	39
Rice	(20.4)	(32)
Commodities other than grain	75.1	61
	100.0	100
Producer goods	28.8	27
Consumer goods	71.2	73
	100.0	100

For the Ambassador:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

Enclosures:

1. "General Explanation of the New Wholesale Price Index", twelve copies.

2. Chart, twenty copies.

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 1/17/89

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FOREIGN SERVICE DESPATCH

FROM : Amembassy, SEOUL

470
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

March 4, 1959
DATE

REF : 1957 CERP, Section B, Item II-B, III-B-1, 3, V-E(1), VII-B(1),D(1), III-D-1, I-A-4, 5.

15 For Dept. Use Only	ACTION	DEPT.
	LAB-5	~~AMB-2~~ REP-1 IRC-8 FE-4 E-7 ICA-10 PER-2 SCS-
	REC'D 3/13	INFO OTHER TAR-2 ARMY-4 NAVY-2 AIR-1 CIA-10 COM-12 AG-10 FRB-3 TR-3 XMB-4 IN

SUBJECT: Monthly Economic Indicators, ROK, December 1958

	Dec 1958	Nov 1958	Percent change a/ Nov-Dec 1958	Dec 57-Dec 58	Sept 55-Dec 58
1. PRICES (A.B.C.: 1947=1)					
A. Wholesale index, Seoul	211.4	212.4	- 0.5	+ 8.4	+19.3
1. Commodity groups					
a. Grain	185.9	191.7	- 3.0	- 8.7	-11.9
b. Meats, eggs, fish	377.9	376.3	+ 0.4	+17.0	+43.0
c. Textile raw materials	152.5	147.8	+ 3.2	- 1.9	+27.1
d. Textiles	74.1	73.5	+ 0.9	+ 8.1	+ 5.7
e. Building materials	271.6	268.2	+ 1.3	+ 9.5	+17.8
f. Fertilizer	539.4	539.4	0	0	+68.6
g. Fuel	680.6	671.3	+ 1.4	+60.5	+82.6
h. Miscellaneous	114.0	114.3	- 0.3	+ 4.3	+28.8
2. All items except grain	227.8	225.6	+ 0.9	+20.1	+46.2
3. Consumer goods	208.1	210.4	- 1.1	+ 7.6	+15.1
4. Producer goods	179.6	177.6	+ 1.1	+ 1.7	+20.3
B. Seoul Consumer Price Indexes (1955=100)					
1. General	144.7	147.1	- 1.6	+ 5.3	+24.6
a. Food	138.3	143.1	- 3.4	+ 4.9	+10.0
b. Housing	170.8	170.0	+ 0.5	+.6.5	+62.8
c. Fuel & Light	175.8	175.1	+ 0.4	+36.5	+53.1
d. Clothing	110.3	113.1	- 2.5	- 7.1	+ 5.3
e. Miscellaneous	154.4	154.0	+ 0.3	+ 0.4	+44.3
C. Rice, retail, Seoul Hwan/ 20 liters	2,545	2,643	- 3.7	- 5.7	-14.0
D. US $1 Greenback, Seoul	1,188	1,219	- 2.5	+ 7.8	+55.3

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NND 867400
By [illegible], NARA, Date 1/17/24

	Billion of Hwan			Percent change	
	Dec 1958	Nov 1958	Dec 57-Dec 58	Nov-Dec 1958	Dec 57-Dec 58
II. MONEY SUPPLY (bil.hwan)					
A. Notes & deposits					
1. Bank notes, outside banks	111.1	98.8	+25.1	+12.4	+29.2
2. Check/demand deposits, excl. uncleared	100.8	105.6	+20.3	- 4.5	+25.2
3. Foreign official deposits	19.3	26.1	+ 2.0	-26.1	- 9.4
4. Total (1+2-3)	192.6	178.3	+47.4	+ 8.0	+32.6
B. Factors affecting money supply					
1. Government finance b/	98.4	87.7	+28.4	+12.2	+40.6
2. Private credit (incl.BOK, excl. KRB)	156.7	141.6	+49.3	+10.7	+45.9
3. Other c/	-62.5	-51.0	-30.3	+22.5	+94.1
4. Total	192.6	178.3	+47.4	+ 8.0	+32.6

	Nov 1958	Oct 1958	Total Jan-Nov 1958 (Average in case of indexes)	Percent change Oct-Nov 1958	Nov57-Nov 58
III. PRODUCTION					
A. Quantities of output					
1. Cotton yarn (mil.lbs)	9.9	8.0	87.1	+24.1	+12.9
2. Cotton cloth (mil.sq.yds)	15.2	11.5	135.2	+31.6	-18.0
3. Cement (1,000 mt)	31.9	29.5	271.8	+ 8.0	+153.5
4. Rubber shoes (mil.prs)	3.5	3.3	25.8	+ 5.6	+208.7
5. Coal (1,000 mt)	240	214	2,347	+12.1	- 5.5
6. Tungsten (mt)	244	235	2,778	+ 3.8	-14.4
7. Electric power (mil.KWH)	138	134	1,364	+ 3.0	+17.9
B. Production indexes (1955=100)					
1. Industrial production (100)	170	163r	164	+ 4.3	- 2.3
a. Mining (10)	192	170	181	+12.9	- 5.9
b. Manufacturing (87)	167	162r	162	+ 3.1	- 2.3
c. Electricity (3)	189	183	169	+ 3.3	+18.1

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NND 867400
By [illegible], NARA, Date 1/07/99

	Nov 1958	Oct 1958	Total Jan-Nov 1958	Percent change Oct-Nov 1958	Percent change Nov 57-Nov 58
IV. FOREIGN EXCHANGE ($ mil)					
A. Holdings (inc. gold)	136.0	131.6	(+20.4) d/	+ 3.3	+21.3
1. Dollars, US	132.8	128.3	(+20.2) d/	+ 3.5	+21.7
2. Uncommitted	83.1	80.1	(+19.8) d/	+ 3.7	+37.6
B. Receipts	9.2	7.7	81.0	+19.5	+21.1
1. Exports	1.7	1.6	14.6	+ 6.3	+ 6.3
2. Hwan sales	6.6	5.0	52.0	+32.0	+34.7
3. Other	0.9	1.1	14.4	-18.2	-18.2
C. Payments	4.7	4.8	60.1	- 2.1	- 6.0
1. Imports (non-aid)	3.4	4.0	48.0	-15.0	0
2. Other	1.3	0.8	13.1	+62.5	-18.8

	Program (Adjusted)	Oct 1958	Sept 1958	During Dec 55-Oct 57	During Dec 56-Oct 58	During Sept-Oct 1958
V. ECONOMIC AID						
A. ICA arrivals (USFY basis)						
1. 1954	178.8	176.7	176.7	35.7	17.8	0
2. 1955	246.9	239.3	239.3	70.2	26.4	0
3. 1956	315.7	288.8	287.5	271.6	97.0	1.3
4. 1957	321.8	265.0	263.4	168.7	263.7	1.6
5. 1958	237.3	146.5	134.6	1.5	146.5	11.9
6. 1959	188.8	1.0	0.6		1.0	0.4
7. Total	1,489.3	1,117.3	1,102.1	547.7	552.4	15.2
a. Project	500.6	331.4	328.2	162.1	139.0	3.2
b. Non-project e/	967.3	778.7	767.2	383.3	406.4	11.5
(1) Surplus agricultural commodities Sec. 402	199.8	164.1	162.2			1.9
(2) Fertilizer	259.1	220.5	217.5			3.0
(3) Other & Unassigned to specific non-project uses	508.4	394.1	387.5			6.6
c. Technical cooperation	21.4	7.2	6.7	2.3	7.0	0.5
d. Reserve	187.8	28.0	70.0	0	28.0	-42.0
B. USFY 1959 ICA obligations	188.8	102.1	92.1	87.6	102.1	10.0
C. PL 480 arrivals	132.0	113.6	110.8	69.4	80.6	2.8
1. Food	114.4	96.2	93.4	57.5	76.2	2.8
2. Other	17.6	17.4	17.4	11.9	4.4	0

0447

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E.O. 12356, Sec. 3.3
NND 867400
By lgd, NARA, Date 1/17/29

Footnotes:

a/ Computed in most cases from unrounded figures. b/ Includes the Government's net position at the BOK (overdrafts less deposits, including operations of counterpart funds); Government bonds, industrial reconstruction bonds and industrial finance debentures (latter two are KRB issues) held by BOK; BOK loans to Government agencies; national bonds held by banks other than the BOK and KRB; and loans by banks, other than BOK and KRB, to local Governments. c/ Includes BOK net purchases of foreign exchange, savings and time deposits (decreasing factors), deposits of foreign organizations in the BOK (decreasing factor), and all other influences on the money supply (net). d/ Change between December of year before and November of year indicated, expressed in $ million. e/ Being the change on OEC Program Status Report, the categories of Non-Project also changed, Eventually the comparisons with previous periods on Non-Project are not available.

For the Ambassador:

RW Tucker

Robert W. Tucker
First Secretary of Embassy

0448

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E.O. 12356, Sec. 3.3
NND 867400
By NARA, Date 1/10/24

VIA AIR POUCH
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895b.01/3-659

FOREIGN SERVICE DESPATCH

FROM : Amembassy, SEOUL

486
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

March 6, 1959
DATE

REF : CERP - Korea, Section B, Item II-B-1, a (D-384, January 20, 1959)

67 For Dept. Use Only	ACTION LAB-5	DEPT.
	REC'D 3/13	INFO RMR-2 IRC-8 FE-4 E-7 ICA-10 PER-2 OTHER CIA-10 Com-10 AG-8 IN-7 FRB-3 TAR-2 USIA-10

SUBJECT: National Wholesale Price Index

The national wholesale price indexes for February 21 - 28, 1959 were as follows:

	Weights 1/	Index (1955=100)	Percent change from* 11-20 Feb 59	Jan 59	Feb 58	Sept 55
All Commodities	100	138.6	- 0.7	- 0.2	- 3.1	+16.4
Foods	41.8	129.7	- 1.3	+ 0.5	-10.0	- 1.2
Fuel & Power	6.8	154.9	- 1.7	- 2.4	+ 5.1	+40.8
Mineral Products	1.0	117.7	0	- 0.2	+10.5	+14.1
Metals Products & Machinery	5.8	167.8	+ 0.2	+ 1.0	+ 7.9	+56.5
Building Materials (Including Metals) 2/	6.5	149.4	- 1.0	- 0.1	+10.9	+29.4
Excluding Metals	5.2	144.8	- 1.3	- 0.5	+11.2	+24.5
Fiber and Fiber Products	22.2	119.5	- 0.8	- 3.6	- 6.0	+14.7
Chemical Products	5.6	213.5	+ 0.3	+ 1.1	- 0.7	+51.7
Paper	1.8	134.7	+ 5.1	+ 7.3	- 5.9	+34.8
Raw Rubber and Rubber Products	3.6	135.4	+ 0.4	+ 7.5	+28.3	+18.4
Miscellaneous	6.2	155.7	- 0.1	+ 0.3	+ 3.2	+47.6
Special Groupings						
Grains	24.9	127.2	- 1.9	+ 0.9	-13.0	-13.5
All Commodities Excluding Grains	75.1	142.4	- 0.4	- 0.6	+ 0.2	+29.7
Producer Goods	28.8	161.5	+ 0.2	+ 0.6	+ 3.9	+37.9
Consumer Goods	71.2	129.3	- 1.2	- 0.7	- 6.4	+ 7.8

* Computed by Embassy.

Source of Price Indexes: Bank of Korea.

Footnote: 1/ Rounded; See Embassy Despatch 402, January 28, 1959 for exact weights.
2/ See explanation Embassy Despatch 402, January 28, 1959.

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

MAR 10 1959

RWTucker:YKChon/hcn
REPORTER

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MAR 31 1959

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0449

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NND 867400
By lgm NARA, Date 1/17/29

-VIA AIR POUCH
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FOREIGN SERVICE DESPATCH

FROM : AmEmbassy, SEOUL

579
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

April 9, 1959
DATE

REF : CERP - Korea, Section B, Item II-B-1, a (D-384, January 20, 1959)

For Dept. Use Only	ACTION	DEPT.
67	LAB-5	
	REC'D 4/15	INFO OTHER Econ-10 AG-8 FRB-3 TR-3 CIA-10 TDR-2

SUBJECT: National Wholesale Price Index

895B.15/ Econ AG CIA LAB Rep IRC ICA FE PER FRB TR

The national wholesale price indexes for March 21 - 30, 1959 were as follows:

	1/ Weights	Index (1955-100)	Percent change from* II-20 Mar 59	Feb 59	Mar 58	Sept 58
All Commodities	100	137.7	- 0.4	- 1.1	- 3.2	+15.6
Foods	41.8	127.2	- 0.9	- 2.5	-10.1	- 3.1
Fuel & Power	6.8	153.6	+ 0.5	- 2.2	+ 4.6	+39.6
Mineral Products	1.0	110.2	0	- 6.4	+ 3.1	+ 6.8
Metals Products & Machinery	5.8	166.8	- 0.2	- 0.4	+ 7.3	+55.6
Building Materials: Including Metals 2/	6.5	148.2	- 0.3	- 1.4	+ 6.2	+28.3
Building Materials: Excluding Metals	5.2	143.4	- 0.5	- 1.9	+ 5.1	+23.3
Fiber and Fiber Products	22.2	120.1	0	- 0.2	- 5.3	+15.3
Chemical Products	5.6	218.6	- 0.1	+ 3.1	+ 1.8	+55.4
Paper	1.8	132.2	+ 0.6	+ 2.5	- 4.9	+32.3
Raw Rubber and Rubber Products	3.6	135.9	- 0.2	+ 1.9	+29.3	+18.8
Miscellaneous	6.2	156.5	0	+ 0.4	+ 3.6	+48.3
Special Groupings						
Grains	24.9	124.1	- 1.3	- 3.4	-14.4	-15.6
All Commodities Excluding Grains	75.1	142.2	- 0.1	- 0.4	+ 0.6	+29.5
Producer Goods	28.8	164.0	+ 0.5	+ 1.5	+ 5.0	+40.1
Consumer Goods	71.2	127.1	- 0.8	- 2.4	- 6.9	+ 6.0

* Computed by Embassy.

Source of Price Indexes: Bank of Korea.

Footnote: 1/ Rounded; See Embassy Despatch 402, January 28, 1959 for explanation weights.
2/ See explanation Embassy Despatch 402, January 28, 1959.

FILED
APR 28 1959

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

RWTucker:YKChon/hcn
REPORTER

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APR 10 1959

ACTION COPY — DEPARTMENT OF STATE

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895B.01/4-959

0450

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E.O. 12356, Sec. 3.5
NND 867400
By lgm, NARA, Date 6/17/99

VIA AIR POUCH
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FOREIGN SERVICE DESPATCH

FROM : AmEmbassy, SEOUL

620
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

April 27, 1959
DATE

REF : CERP - Korea, Section B, Item II-B-1, a (D-384, January 20, 1959)

For Dept. Use Only	ACTION	DEPT.
67	EAB-5	
	REC'D 5/1	INFO OTHER: RAP-1 IRC-8 FE-4 CA-10 JOR-1 CA-10 USIA-10 ACM-10 TR-3 FRB-3 XMB-4 AG-8 IN-7

SUBJECT: National Wholesale Price Index

The national wholesale price indexes for April 11 - 20, 1959 were as follows:

	Weights 1/	Index (1955-100)	Percent change from* 1-10 Apr 59	Mar 59	Apr 58	Sept 55
All Commodities	100	140.5	+ 0.2	+ 1.8	- 1.8	+18.0
Foods	41.8	133.8	+ 0.8	+ 4.7	- 8.7	+ 1.9
Fuel & Power	6.8	153.1	0	- 0.3	+ 9.5	+39.2
Mineral Products	1.0	111.1	+ 0.8	+ 0.8	+ 3.9	+ 7.7
Metals Products & Machinery	5.8	167.9	+ 0.7	+ 0.4	+ 8.5	+56.6
Building Materials: (Including Metals) 2/	6.5	150.6	+ 0.1	+ 1.5	+ 3.9	+30.4
Building Materials: Excluding Metals	5.2	146.5	+ 0.2	+ 1.9	+ 2.2	+26.0
Fiber and Fiber Products	22.2	121.3	+ 0.2	+ 1.1	- 3.5	+16.4
Chemical Products	5.6	215.1	+ 0.3	- 1.8	+ 1.2	+52.9
Paper	1.8	137.1	0	+ 4.0	+11.9	+37.2
Raw Rubber and Rubber Products	3.6	128.9	- 4.7	- 5.2	+22.1	+12.7
Miscellaneous	6.2	155.9	- 0.1	- 0.2	+ 3.2	+47.8
Special Groupings						
Grains	24.9	125.5	+ 0.8	+ 0.5	-18.7	-14.7
All Commodities Excluding Grains	75.1	145.5	+ 0.1	+ 2.2	+ 3.9	+32.5
Producer Goods	28.8	164.0	+ 0.2	+ 0.4	+ 4.9	+40.1
Consumer Goods	71.2	131.0	+ 0.2	+ 2.5	+ 2.0	+ 9.3

* Computed by Embassy.

Source of Price Indexes: Bank of Korea.

Footnote: 1/ Rounded; See Embassy Despatch 402, January 28, 1959 for exact weights.
2/ See explanation Embassy Despatch 402, January 28, 1959.

FILED
MAY 4 1959

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

RWTucker:YKChon/hcn
REPORTER

UNCLASSIFIED

APR 28 1959

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895B.01/4-2759

LWS

0451

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 6/17/99

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FOREIGN SERVICE DESPATCH

FROM : Amembassy, SEOUL

106
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

August 31, 1959
DATE

REF : CERP - Korea, Section B, Item II-B-1, a (D-384, January 20, 1959)

For Dept. Use Only	ACTION	DEPT.
67	ARA-5	INFO Rep-1 IRC-8 FE-4 E-7 ICA-11
	REC'D 9/9	OTHER COM-10 AG-8 IN-7 TR-3 FRB-3 TAR-2

SUBJECT: National Wholesale Price Index CIA-10 USIA-10

The national wholesale price indexes for August 11 - 20, 1959 were as follows:

	Weights 1/	(1955-100)	Percent change from* 1-10 Aug 59	Jul 59	Aug 58	Sept 55
All Commodities	100	152.6	+ 0.9	+ 2.6	+ 5.9	+28.1
Foods	41.8	146.3	+ 1.2	+ 1.5	- 1.4	+11.0
Fuel & Power	6.8	154.7	+ 0.7	+ 1.0	+11.0	+40.6
Mineral Products	1.0	113.7	- 1.6	+ 0.5	+ 6.1	+10.2
Metals Products & Machinery	5.8	178.3	+ 0.2	+ 0.7	+12.3	+66.3
[redacted]ding Metals) 2/	6.5	161.5	+ 1.6	+ 2.1	+14.3	+39.8
[redacted]cluding Metals	5.2	154.4	+ 2.0	+ 2.3	+14.5	+32.8
[redacted]Products	22.2	134.4	+ 0.7	+ 6.8	+ 8.2	+29.0
Chemical Products	5.6	230.7	+ 0.3	+ 2.9	+ 8.5	+64.0
Paper	1.8	157.6	+ 0.1	+ 7.8	+23.6	+57.8
Raw Rubber and Rubber Products	3.6	156.1	+ 2.2	+ 2.2	+36.2	+36.5
Miscellaneous	6.2	165.5	+ 0.1	+ 0.1	+ 9.1	+56.9
Special Groupings						
Grains	24.9	144.1	+ 1.6	+ 2.9	- 7.0	- 2.0
All Commodities Excluding Grains	75.1	155.5	+ 0.6	+ 2.5	+10.7	+41.6
Producer Goods	28.8	179.3	+ 0.8	+ 2.9	+15.3	+53.1
Consumer Goods	71.2	141.8	+ 0.9	+ 2.4	+ 1.6	+18.3

* Computed by Embassy.

Source of Price Indexes: Bank of Korea.

Footnote: 1/ Rounded; See Embassy Despatch 402, January 28, 1959 for exact weights.
2/ See explanation Embassy Despatch 402, January 28, 1959.

For the Ambassador:

FILED
SEP 26 1959

Robert W. Tucker
Robert W. Tucker
First Secretary of Embassy

RWTucker:YKChon/hcn
REPORTER

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SM-7

0452

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 1/10/89

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8956.01/10-759

FOREIGN SERVICE DESPATCH

FROM : Amembassy, SEOUL

176
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

October 7, 1959
DATE

REF : CERP - Korea, Section B, Item II-B-1, a (D-384, January 20, 1959)

For Dept. Use Only	ACTION	DEPT.
67	ACTION EA-5	
	REC'D 10/13	INFO Rmp-7 IRC-8 FE-4 E-7 ICA-11
		OTHER Com-10 AG-8 IN-7 CIA-10 USIA-10 TAR-1 FRB-3

SUBJECT: National Wholesale Price Index

The national wholesale price indexes for September 21 - 30, 1959 were as follows:

	Weights 1/	Index (1955=100)	Percent change from* 11-20 Sept 59	Aug 59	Sept 58	Sept 55
All Commodities	100	156.1	+ 0.6	+ 2.4	+ 7.2	+31.1
Foods	41.8	148.6	- 0.3	+ 1.9	- 1.3	+13.2
Fuel & Power	6.8	156.8	+ 0.7	+ 1.5	+10.3	+42.5
Mineral Products	1.0	115.5	0	0	+ 6.5	+11.9
Metals Products & Machinery	5.8	184.5	+ 0.2	+ 3.6	+15.2	+72.1
Building Materials: (Including Metals) 2/	6.5	183.3	+ 4.4	+12.5	+26.1	+58.7
Building Materials: Excluding Metals	5.2	178.8	+ 5.7	+14.5	- 0.4	+53.7
Fiber & Fiber Products	22.2	135.9	+ 1.3	+ 1.6	+ 9.8	+30.4
Chemical Products	5.6	233.0	+ 0.1	+ 1.0	+ 9.9	+65.6
Paper	1.8	162.9	- 0.9	+ 2.0	+21.0	+63.1
Raw Rubber & Rubber Products	3.6	158.1	+ 0.1	+ 1.5	+37.0	+38.2
Miscellaneous	6.2	166.4	+ 0.2	+ 0.5	+ 9.5	+57.7
Special Groupings						
Grains	24.9	143.4	- 1.1	- 0.1	-10.9	- 2.5
All Commodities Excluding Grains	75.1	160.3	+ 1.1	+ 3.2	+14.1	+46.0
Producer Goods	28.8	185.7	+ 1.3	+ 3.5	+20.4	+58.6
Consumer Goods	71.2	144.1	+ 0.2	+ 1.8	+ 1.4	+20.2

* Computed by Embassy.

Source of Price Indexes: Bank of Korea.

Footnote: 1/ Rounded; See Embassy Despatch 402, January 28, 1959 for exact weights.
2/ See explanation Embassy Despatch 402, January 28, 1959.

For the Charge d'Affaires ad interim:

NOV 4 - 1959

Robert W. Tucker
First Secretary of Embassy

RWTucker:YKChon/hcn
REPORTER

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NND 867400
By lgd, NARA, Date 4/17/89

VIA AIR POUCH
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DEC 21 1959

FOREIGN SERVICE DESPATCH

FROM : Amembassy, SEOUL — 305 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — December 18, 1959 DATE

REF : CERP - Korea, Section B, Item II-B-1, a (D-384, January 20, 1959)

For Dept. Use Only	ACTION	DEPT.
	LAB-6	
	REC'D 12/28	INFO OTHER Dep-1 IRC-8 E-7 FE-4 ICA-11 U/MSC-3 FRB-3 CIA-10 USIA-10 Com-10 AG-8 IN-7 FRB-3 TR-3 TAR-2

SUBJECT: National Wholesale Price Index

The national wholesale price indexes for December 1 - 10, 1959 were as follows:

	Weights 1/	Index (1955=100)	Percent change from* 21-30 Nov 59	Nov 59	Dec 58	Sept 59
All Commodities	100	153.8	+ 1.1	+ 1.5	+10.8	+29.1
Foods	41.8	133.6	- 0.1	- 0.2	+ 3.4	+ 1.8
Fuel & Power	6.8	167.6	+ 0.7	+ 1.2	+10.6	+52.4
Mineral Products	1.0	127.7	+ 0.1	+ 6.2	+14.3	+23.7
Metals Products & Machinery	5.8	189.0	+ 0.9	+ 1.1	+15.7	+76.3
Building Materials: (Including Metals) 2/	6.5	202.3	+ 6.6	+ 5.3	+34.3	+75.2
Building Materials: Excluding Metals	5.2	202.0	+ 8.3	+ 6.6	+38.1	+73.7
Fiber and Fiber Products	22.2	140.8	- 0.5	+ 1.6	+11.8	+35.1
Chemical Products	5.6	236.7	0	+ 0.3	+10.6	+68.2
Paper	1.8	153.7	+ 2.3	+ 3.6	+23.9	+53.9
Raw Rubber and Rubber Products	3.6	177.7	+14.4	+15.0	+46.3	+55.3
Miscellaneous	6.2	164.2	- 0.1	- 0.8	+ 6.9	+55.6
Special Groupings						
Grains	24.9	117.7	- 0.8	- 0.8	- 7.3	-20.0
All Commodities Excluding Grains	75.1	165.8	+ 1.5	+ 2.0	+16.2	+51.0
Producer Goods	28.8	193.1	+ 1.9	+ 2.4	+20.4	+64.9
Consumer Goods	71.2	137.9	+ 0.6	+ 1.0	+ 6.0	+15.0

* Computed by Embassy.

Source of Price Indexes: Bank of Korea.

Footnote: 1/ Rounded; See Embassy Despatch 402, January 28, 1959 for exact weights.
2/ See explanation Embassy Despatch 402, January 28, 1959.

for the Ambassador:

Robert W. Tucker
First Secretary of Embassy

RWTucker:YKChon/hcn
REPORTER

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NND 867400
By Lyd NARA, Date 1/29/99

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August 30 1956

Dear Mr. Rothensdorf:

I wish to acknowledge the receipt of your letters of August 23, 1956 to Secretary Dulles and to Under Secretary Hoover and the enclosed copies of correspondence between your office and the International Cooperation Administration concerning the American-Korean Foundation "Homes for Korea" project in South Korea. We have read this correspondence and the attached copy of a letter of July 14, 1956 to you from President Syngman Rhee with great interest.

We find, after discussing the matter with ICA, that your letter of August 23, 1956 addressed to the Office of the Director, attention of Mr. Fitzgerald has been received by that agency. In the absence of the Director, Mr. Hollister, his staff has been directed to make a study of the additional points brought forth in your letter. We are informed that upon completion of the study and upon the return of Mr. Hollister a decision relative to the project will be communicated to you.

Sincerely yours,

Karl Rothensdorf
Acting Director
Office of Northeast Asian Affairs

DC/R
Anal. FY
Rev.

Mr. William Rothensdorf, President,
Korea & Oriental Relationship,
305 Madison Avenue,
New York 17, New York.

cgh S/S-CR
AUG 30 1956 A.M.

WOO
FE:NA:HEGeorgette
August 29, 1956

ICA-RD - Mr. R. C. Hall

895B.02/8-2356

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DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By Lgm, NARA, Date 1/17/24

DEPARTMENT OF STATE

EXECUTIVE SECRETARIAT

August 27, 1956

NA

Action

WCo to originator for action

FE - Mr. Waddell

For the preparation of a reply to Mr. Zeckendorf, cleared as appropriate with ICA, by Wednesday, August 29, with copies for S/S.

Signature within FE is suggested.

R. L. Burns
S/S-RO

Attachment: Ltr. for Mr. Hoover dtd 8/23/56 enclosing exchange of correspondence between ICA and General James Van Fleet re housing in Korea.

3766

0456

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E.O. 12356, Sec. 3.3
NND 867400
By lgd NARA, Date 11/19/21

FE - Mr. Waddell

53 v 4

August 27, 1956

August 30 1956

FE - Mr. Waddell

For the preparation of a reply to Mr. Zeckendorf, cleared as appropriate with ICA, by Wednesday, August 29, with copies for S/S.

Signature within FE is suggested.

RLB

R. L. Burns
S/S-RO

Attachment: Ltr. for Mr. Hoover dtd 8/23/56 enclosing exchange of correspondence between ICA and General James Van Fleet re housing in Korea.

EXECUTIVE SECRETARIAT
AUG 27 11 12 AM 1956
DEPARTMENT OF STATE

FW 895.2-8/27

DC/R 79

3766

DEPARTMENT OF STATE
EXECUTIVE SECRETARIAT
AUG 27 11 :1a

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E.O. 12356, Sec. 3.3
NND 867400
By lgm, NARA, Date 4/24/24

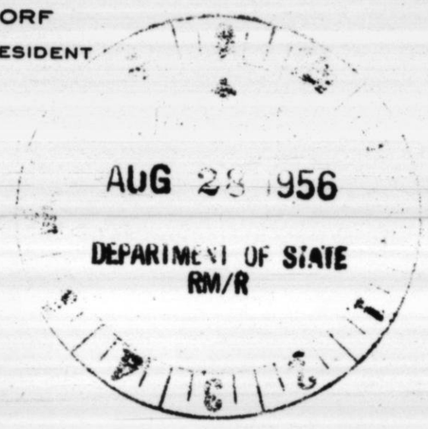
ACTION
is assigned to
FE/SW

RM/R

WEBB & KNAPP, INC.
383 MADISON AVENUE
NEW YORK 17, N.Y.

WILLIAM ZECKENDORF
PRESIDENT

August 23, 1956



Letter to Mr. Zeckendorf

My dear Mr. Secretary:

I am enclosing herewith self-explanatory exchange of correspondence between the International Cooperation Administration and General James A. Van Fleet with respect to housing in Korea.

Your comments would be very much appreciated.

Respectfully yours,

William Zeckendorf

The Honorable John Foster Dulles
Secretary of State
Washington, D.C.

3 Encl. att. a/c.

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Ord.

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SEP 5 - 1956
895B.02/8-2356

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date 1/31/24

INTERNATIONAL COOPERATION ADMINISTRATION

OFFICE OF THE DIRECTOR

Washington 25, D. C.

JUL 24 1956

General James A. Van Fleet
Auburndale, Florida

Dear General Van Fleet:

With reference to our letter of July 12, 1956, the Office of the Economic Coordinator for Korea has thoroughly reviewed all aspects of ICA participation in the American Korean Foundation Homes for Korea project and has submitted its report to this office.

This report stresses the need for housing Koreans of the lower income brackets who are unable to afford the level of housing constructed by the AKF. It follows that any housing efforts on the part of ICA must be directed at the area of greatest need; therefore, ICA does not believe it could justify the financing of additional AKF housing.

In the event that AKF is unable to continue the Homes for Korea project and desires to turn over to the Korean Government the woodworking shop and pre-stressed concrete beam plant, ICA will further study this aspect of the problem and will endeavor to assist the Korean Government to acquire these facilities at installed cost.

In view of the outstanding contributions made to Korea by the AKF, ICA regrets the necessity of this decision and has the greatest sympathy and understanding for the high purposes with which this project was undertaken.

Sincerely yours,

Walter B. Gerald

Acting Director

0459

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date 11/21/96

WEBB & KNAPP, INC.
383 MADISON AVENUE
NEW YORK 17, N.Y.

August 23, 1956

WILLIAM ZECKENDORF
PRESIDENT

Office of the Director
International Cooperation Administration
Washington 25, D.C.

Attention: Mr. A. D. FitzGerald
Assistant Director

Gentlemen:

This letter is in response to your letter to General James A. Van Fleet and the undersigned, relative to the American-Korean Foundation "Homes for Korea" project in Seoul, Korea.

It is our considered opinion that the second paragraph of your letter is predicated on an unproved and probably erroneous impression. It is our belief that housing of the character that we built in Seoul, can be mass-produced at prices comparable to the so-called "low-cost" units. It is for this reason that we find it regrettable a decision has been made not to finance or assist in the continuance of this project.

If our statement in respect to the cost of this type of housing can be verified, would you review your decision as to whether ICA would consider financing construction comparable to the "Homes for Korea" project?

Webb & Knapp has donated several hundreds of thousands of dollars to this project in the sole hope of being able to contribute to the welfare and progress of the Korean people. As President of Webb & Knapp, I can assure you we have no financial interest in this venture. Our sole desire is to fulfill a pledge made in 1953 when I visited Korea under the auspices of the American-Korean Foundation.

0460

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date 4/27/21

For these reasons we urge you to give further analysis and consideration to the comparable cost before finally rejecting these plans. This is a matter of possible great historic importance. We cannot accept your decision as final unless we are given a clear opportunity to prove that better housing can be delivered at comparable cost. I know you will be interested in the following facts:

1. More than a year of research in the Field and in our Home Offices has been employed in determining the needs for mass Korean housing.

2. The full capacity of our Design Staff headed by Mr. Ieoh Ming Pei has been dedicated to the engineering of this project.

3. To further implement the general spirit of this type of enlightened "high-level" shelter, Korean architects were brought to the United States and spent more than six months under our tutelage at our expense.

4. When the project was finally instituted, Webb & Knapp sent one of America's most outstandingly qualified housing experts - Mr. Carl Lans - to Korea to implement the construction. Mr. Lans was formerly Director of Research for the Federal Housing Administration, and also Director of Research of the National Association of Home Builders, and a national builder in his own right.

5. Webb & Knapp has developed the first pre-stressed concrete plant to be seen in Korea. The process, which has been greatly admired by both the Korean Government and your organization, is available for the continuation of the program.

6. The initial cost of drawing and implementing plans has been borne by the first 100 units. The succeeding units will have the benefit of the planning, cost of setting up and experience gained in the early days of experimentation. We sincerely hope that all of this will not be lost.

I am enclosing for your elucidation on this subject a photostatic copy of a letter dated July 14th received from President Syngman Rhee, which sets forth his views on the desirability of the housing which

0461

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date 1/27/09

has just been completed. The Korean people at every economic and social level have rejoiced over the prospect of this new type of design and way of living, and they will be deeply disappointed if it is cut off without a most thorough-going analysis stating the reasons.

Your prompt response will be deeply appreciated, as on your decision the type of housing that will be progressed in Korea now hangs in the balance.

Very truly yours,

William Zeckendorf

WZ:wmg

Copies to:

The Honorable Syngman Rhee
The Honorable John Foster Dulles
The Honorable Herbert Hoover, Jr.
Mr. John B. Hollister
Mr. C. Tyler Wood
Doctor Milton S. Eisenhower
Doctor Howard A. Rusk
General James A. Van Fleet

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date 4/27/89

KYUNG MU DAI
SEOUL

July 14, 1956

Dear Mr. Zeckendorf:

I am deeply gratified to learn from your letter as a member of the Executive Committee of "Homes for Korea" of the completion of one hundred homes. On behalf of the people and Government of Korea I extend grateful thanks to you and through you to all the members of the Executive Committee. By meeting immediate and desperate housing needs and serving as models for future homebuilding in Korea these homes will contribute immeasurably to the well-being of our people.

It was more than generous of you to agree to contribute the amount which it was necessary to borrow to complete the project so that the houses could be turned over to us free of indebtedness. We accept your wonderful offer with heartfelt thanks.

The modernization of construction methods is a fundamental factor in Korea's economic recovery and we are especially grateful for the foresight of "Homes for Korea" in building a plant at the project site to serve as a training center and a prestressed concrete plant at Anyang. I know these plants will make a major contribution to improved methods of construction throughout our country.

Again, let me assure you, Mr. Zeckendorf, of my personal appreciation and the deepest appreciation of our people in the realization that "Homes for Korea" will alleviate human suffering, strengthen the bonds of international understanding and friendship, and further the cause of freedom.

Sincerely,

Syngman Rhee

Mr. William Zeckendorf
Homes for Korea Committee
270 Park Avenue
New York 17, New York

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E.O. 12356, Sec. 3.3
NND 867480
By [illegible] NARA, Date [illegible]

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WEBB & KNAPP, INC.
383 MADISON AVENUE
NEW YORK 17, N.Y.

August 23, 1956

WILLIAM ZECKENDORF
PRESIDENT

UNDER SECRETARY
RECEIVED
AUG 24 1956
DEPARTMENT OF STATE

Letter to Mr. Zeckendorf

My dear Mr. Hoover:

I am enclosing herewith self-explanatory exchange of correspondence between the International Cooperation Administration and General James A. Van Fleet with respect to housing in Korea.

Your comments would be very much appreciated.

Respectfully yours,

William Zeckendorf

The Honorable Herbert Hoover, Jr.
Undersecretary of State
Washington, D.C.

Returned to
895B.02/8-2356
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SEP 5 - 1956
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E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date 4/7/24

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INTERNATIONAL COOPERATION ADMINISTRATION
OFFICE OF THE DIRECTOR
Washington 25, D. C.

JUL 24 1956

General James A. Van Fleet
Auburndale, Florida

Dear General Van Fleet:

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This report stresses the need for housing Koreans of the lower income brackets who are unable to afford the level of housing constructed by the AKF. It follows that any housing efforts on the part of ICA must be directed at the area of greatest need; therefore, ICA does not believe it could justify the financing of additional AKF housing.

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Sincerely yours,

W. Fitz Gerald

Acting Director

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0 4 6 5

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E.O. 12356, Sec. 3.3
NND 867460
By [illegible], NARA, Date 11/6/26

WEBB & KNAPP, INC.
383 MADISON AVENUE
NEW YORK 17, N.Y.

August 23, 1956

WILLIAM ZECKENDORF
PRESIDENT

Office of the Director
International Cooperation Administration
Washington 25, D.C.

Attention: Mr. A. D. FitzGerald
Assistant Director

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NND 867400
By [illegible] NARA, Date 1/27/87

For these reasons we urge you to give further analysis and consideration to the comparable cost before finally rejecting these plans. This is a matter of possible great historic importance. We cannot accept your decision as final unless we are given a clear opportunity to prove that better housing can be delivered at comparable cost. I know you will be interested in the following facts:

1. More than a year of research in the Field and in our Home Offices has been employed in determining the needs for mass Korean housing.

2. The full capacity of our Design Staff headed by Mr. Ieoh Ming Pei has been dedicated to the engineering of this project.

3. To further implement the general spirit of this type of enlightened "high-level" shelter, Korean architects were brought to the United States and spent more than six months under our tutelage at our expense.

4. When the project was finally instituted, Webb & Knapp sent one of America's most outstandingly qualified housing experts - Mr. Carl Lans - to Korea to implement the construction. Mr. Lans was formerly Director of Research for the Federal Housing Administration, and also Director of Research of the National Association of Home Builders, and a national builder in his own right.

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I am enclosing for your elucidation on this subject a photostatic copy of a letter dated July 14th received from President Syngman Rhee, which sets forth his views on the desirability of the housing which

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NND 867400
By [illegible], NARA, Date 11/7/24

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Your prompt response will be deeply appreciated, as on your decision the type of housing that will be progressed in Korea now hangs in the balance.

Very truly yours,

WZ:wmg

Copies to:

The Honorable Syngman Rhee
The Honorable John Foster Dulles
The Honorable Herbert Hoover, Jr.
Mr. John B. Hollister
Mr. C. Tyler Wood
Doctor Milton S. Eisenhower
Doctor Howard A. Rusk
General James A. Van Fleet

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E.O. 12356, Sec. 3.3
NND 867400
By lgm NARA, Date 11/27/24

KYUNG MU DAI
SEOUL

July 14, 1956

Dear Mr. Zeckendorf:

I am deeply gratified to learn from your letter as a member of the Executive Committee of "Homes for Korea" of the completion of one hundred homes. On behalf of the people and Government of Korea I extend grateful thanks to you and through you to all the members of the Executive Committee. By meeting immediate and desperate housing needs and serving as models for future homebuilding in Korea these homes will contribute immeasurably to the well-being of our people.

It was more than generous of you to agree to contribute the amount which it was necessary to borrow to complete the project so that the houses could be turned over to us free of indebtedness. We accept your wonderful offer with heartfelt thanks.

The modernization of construction methods is a fundamental factor in Korea's economic recovery and we are especially grateful for the foresight of "Homes for Korea" in building a plant at the project site to serve as a training center and a prestressed concrete plant at Anyang. I know these plants will make a major contribution to improved methods of construction throughout our country.

Again, let me assure you, Mr. Zeckendorf, of my personal appreciation and the deepest appreciation of our people in the realization that "Homes for Korea" will alleviate human suffering, strengthen the bonds of international understanding and friendship, and further the cause of freedom.

Sincerely,

Syngman Rhee

Mr. William Zeckendorf
Homes for Korea Committee
270 Park Avenue
New York 17, New York

3766

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date 7/16/97

This document must be returned to DO/R Central files

September 9 1957

Dear Mrs. Daly:

Your letter and enclosure of July 31, 1957 to Assistant Secretary Walter Robertson has been referred to this Division for reply. Your interest in writing is appreciated.

The Department of State is aware that travellers passing briefly through Korea frequently make observations similar to those which you quote from the book by Mr. Rubin. However, on longer acquaintance with the country, its people and government, these views usually become modified.

The United States returned the Bando Hotel to the Korean Government, and we have no evidence that its ownership has ever been transferred to any individual.

Sincerely yours,

5 ✓

Maurice S. Rice
Deputy Chief
Public Services Division

Mrs. W. J. Daly,
105 East Fifteenth Street,
New York 3, New York.

S/S-CR ✓ CDC
SEP 6 1957 P.M.

FE:NA:GHenderson
P:SEVANS:PDC:cf 9/5/57

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E.O. 12356, Sec. 3.3
NND 867400
By lgm, NARA, Date 1/17/29

SEV/PCB

September 9 1957

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Sincerely yours,

Maurice S. Rice
Deputy Chief
Public Services Division

Mrs. W. J. Daly,
105 East Fifteenth Street,
New York 3, New York.

FE:HA:GHenderson
P:SEVREvans:PDC:cf 9/5/57

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E.O. 12356, Sec. 3.3
NND 867400
By lgd, NARA, Date 1/17/89

31 VII 57

Mr. Walter[illegible] Robertson
State Dept.
Washington, D.C.

Sir:

Frequently you are cited as a firm upholder of Chiang on Taiwan and Rhee in Korea. Both deserve and get billions if you can so arrange it.

I quote from a recent book and very definitely request and expect a comment from you on the truth of this statement. Previously I have heard and read that the penniless Rhees have become rich at the expense of the U.S.A. This seems to be concrete evidence. Just how did that little Austrian become possessed of a hotel and why the rules about American money ? I thought Rhee"suffered and bled" for his beloved people.

Yours truly

Mrs. W.J. Daly
105 East 15th St.
New York 3, N.Y.

September 9 1957
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ENCLOSURE

I stayed at the new Hotel Bando in Seoul, Korea, late in 1955. This hotel, which would do credit to any American city, will accept only American money in payment for bills and chits. It is owned by Mrs. Rhee, has eight floors which skip number four because the character for that number resembles the character for death, and it is very expensive. I have never seen a country so rife with corruption. It is evident from the moment you arrive in Korea, which I call the land of unlimited impossibilities, to the moment you leave. Nor have I ever seen greater hatred of a ruler than in that unhappy land of hatreds, including hatred of the Chinese and Japanese.

Page 146

Peddler in Paradise by Al Rubin

E.P. Dutton & Co. Inc.

New York 1956

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 4/24/29

SUGGESTED REPLY September 9 1957

Dear Mrs. Daly:

Mr. Robertson is presently on leave and I have been asked to reply to your letter forwarding certain comments about Korea.

We are aware that travellers passing briefly through Korea frequently make the kind of observations which you quote from Mr. Rubin. Usually, on longer acquaintance with the country, its people and government, these views become modified. The picture which we receive of Korea from those who have lived there over long periods differs substantially from that reported by Mr. Rubin.

The United States returned the Bando Hotel to the Korean Government and we have no evidence that its ownership has ever been transferred to any individual.

Sincerely yours,

Mrs. W. J. Daly,
105 East 15th Street,
New York 3, New York.

FE:NA:GHenderson:jhd
8/28/57

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NND 867400
By Lgd, NARA, Date 1/17/29

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Rec'd: FEBRUARY 14, 1957
4:55 AM

FROM: SEOUL

TO: Secretary of State

NO: 743, FEBRUARY 14, 5 PM

TRANSLATION DRAFT FOREIGN INVESTMENT LAW WITH PRELIMINARY EMBASSY COMMENTS AIR POUCHED FEBRUARY 12. FINANCE MINISTRY DEFERRING REFERRAL TO NATIONAL ASSEMBLY UNTIL EMBASSY AND OEC RPT OEC HAVE HAD OPPORTUNITY STUDY AND COMMENT. HAVE ASKED FOR OUR COMMENTS WITHIN NEXT FEW DAYS. BELIEVE WE CAN DELAY NO LONGER THAN END OF MONTH. REQUEST WASHINGTON COMMENTS BE TELEGRAPHED BY FEBRUARY 25, IF POSSIBLE.

CV

DOWLING

Action Assigned to RMD/W

Action Taken _____

Date of Action 2/25/57

Action Office Symbol FE/NA

Name of Officer PMDavenport

Direction to DC/R file

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1957 FEB 14 AM 9 13
BUREAU OF
FAR EASTERN AFFAIRS

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642

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Origin —

Info:

895b.05100
12-1457
XR
795b.34

Your 743.

Agencies concerned now studying Foreign Investment Bill and hope cable comments by March 1.

DULLES

Dist. Desired (Offices Only)

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DC/R
Ass. 68
Rev.
Cat.

Drafted by: FE:NA/PMDavenport:aoa 2/25/57 loco

Telegraphic transmission and classification approved by: NA - Howard L. Parsons

Clearances:

ED - Mr. Becker (by telephone)

S/S-CR

FEB 25 1957 P.M.

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NND 867400
By lgm, NARA, Date 1/17/79

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Control: 4836
Rec'd: MARCH 8, 1957 4:45 AM

FROM: SEOUL

TO: Secretary of State

NO: 790, MARCH 8, 4 P.M.

REF DEPTEL 642

GOVERNMENT PRESSING US FOR WRITTEN COMMENTS FOREIGN INVESTMENT BILL. WHEN MAY WE EXPECT DEPARTMENT'S VIEWS?

DOWLING

State Department Guide to Japan RMR Central Files
895B.05100/3-857 HBS

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BUREAU OF FAR EASTERN AFFAIRS

FILED MAR 22 1957 DEPARTMENT OF STATE

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By lgd NARA, Date 11/21/97

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RM/R Central Files

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SENT TO: AMEMBASSY SEOUL 675

Origin —

Info:

895.05100
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Your 790
~~Ref-Embtel-642~~.

Delay in comments foreign investment bill regretted.

Will endeavor reply by end of week.

HERTER

ACTING

Dist. Desired (Offices Only)

DC/R
Ans 68
Rev
Cat

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Drafted by: FE:NA/PMDaveyPorter:aos 3/11/57

Telegraphic transmission and classification approved by: NA - Howard L. Parsons

Clearances:

S/S-CF

MAR 11 1957 P.M.

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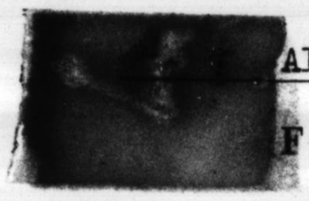
By lgm, NARA, Date 1/17/29



AIR POUCH
PRIORITY

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(Security Classification)

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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL

270
DESP. NO

TO : THE DEPARTMENT OF STATE, WASHINGTON.

Action Taken

February 27, 1956
DATE

REF :

FEB 28 1956 noted

For Dept. Use Only	ACTION	DEPT.
	REC'D 3/3	INFO OTHER Cin-5 Com-12

Date of Action
Action Office Symbol
Name of Officer
Direction to DC/R

SUBJECT: Directory of Foreign Firms - Korea

Forwarded herewith are twenty (20) copies of a "Directory of Foreign Firms - Korea" which has been compiled by the Economic Section of the Embassy. The goal in compiling the data included in this Directory was to produce a list which would include all of the foreign firms doing business in the Republic of Korea as of January 1956. While there are probably some omissions, the list is believed to be reasonably complete.

For the Charge d'Affaires ad interim:

Edwin M. Cronk
First Secretary of Embassy

Enclosures: as stated.

This Document Must Be Returned to RM/R Central Files
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DEPARTMENT OF STATE
1956 MAR 6 PM 5 12 FILED
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MAR 8 1956
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The action office must return this permanent record copy to DC/R files with an endorsement of action taken.

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E.O. 12356, Sec. 3.5
NND 867400
By [illegible], NARA, Date 11/17/89

VIA AIR POUCH
PRIORITY

UNCLASSIFIED
(Security Classification)

DO NOT TYPE IN THIS SPACE
895 B.053/1-2157
XR 800.05195B

FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL

275
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

January 21, 1957
DATE

REF :

Action Assigned to AMB/E

Action Taken No action required

For Dept. Use Only	ACTION	DEPT.
	REC'D 1/25	INFO RM/R-2 REP-2 OLI-8 E-5 ICA-10
		OTHER CIA-13 COM-10 TR-3 FRB-2

Date of Action

SUBJECT: Directory of Foreign Firms - Korea

Action Office S

Name of Officer

Direction to DC/R

Forwarded herewith are five copies of the Directory of Foreign Firms - Korea, which is current through January 1957. Forty-five additional copies of this Directory are being forwarded by sea pouch. It is believed that the additional forty-five copies of the Directory could be most usefully employed in the various field offices of the Bureau of Foreign Commerce, as well as in the Department of Commerce, Washington.

For the Ambassador:

Edwin M. Cronk
First Secretary of Embassy

This Document Must Be Returned to FM/R Central Files
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1957 JAN 29 PM 4 40
BUREAU OF FAR EASTERN AFFAIRS
HBS
Enclosure to be forwarded when received in DC/R
1957

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REPORTER

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ACTION COPY — DEPARTMENT OF STATE

The action office must return this permanent record copy to DC/R files with an endorsement of action taken.

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FE
RM/R

DIRECTORY OF FOREIGN FIRMS, KOREA

JANUARY

1957

ECONOMIC SECTION

AMERICAN EMBASSY

SEOUL, KOREA

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NND 867400
By [illegible], NARA, Date [illegible]

THE AMERICAN EMBASSY
Seoul, Korea

Economic Section

DIRECTORY OF FOREIGN FIRMS, KOREA

January, 1957

No.	Name Address Type & Nationality of Firm Home Office Address Principal Activities	Main Personnel Resident Manager Korean Manager Others / Title	Seoul Tel. Nos. P. O. Box CABLE ADD.
1.	A. I. Melnick & Co. Rm 341, Bando Bldg., 1/ Sole-proprietorship - American 712 Fukoku Bldg., Chiyoda-ku, Tokyo	Alvin I. Melnick SHYN, Dong-Ki 3/	2-5854 KWM 311 MELNICO
	Functions Undertaken : Importer, exporter, manufacturer's agent. SAgt - Chemicals, pharmaceuticals, machinery & equipment, bristles. Principal Agencies (Exclusive) - Alsop Engineering Corp.; American Machine & Metals Inc.; Amertrade, Inc.; Cling-Surface Co.; Frederick H. Cone & Co.; Fallek Products Co., Inc.; Johns-Manville International Corp., (Celite filter aids); David H. Sutherland & Co.. Non-Exclusive Agencies Handling - Linoleum, rubber tiles, yarns, papers, machinery, chemicals, grains, etc..		
2.	American International Underwriter Corp. (AIU) 372-3, Shindang-dong, Sungdong-ku, Seoul Corporation - American 102 Maiden Lane, New York 5, N. Y.	Allen Barnes PAIK, Nam-Doo	5-3164 KWM 304 AMINTKOREA
	Functions Undertaken : Insurance (Direct writing non-Korean business; reinsuring Korean businesses). SAgt - Fire, marine, casualty, fidelity insurance. Korean Firms Represented - Eastern Marine Insurance Co., Ltd.. Non-Exclusive Agencies Handling - General trading; UN Forces Club & Class VI supplies; travel service.		
3.	American Investors - King Merritt & Co., Inc. Rm 222, Bando Bldg., Corporation - American 391 Grand Avenue, Englewood, N. J.	William B. Johnson nil Clar Sager, Rep.	2-4209 Int'l - 1205 AMVES
	Functions Undertaken : Mutual fund investment service to the Armed Forces. SAgt - Mutual fund investments. Principal Agencies (Exclusive) - Founders Mutual Fund.		
4.	American Trading Company, Inc. Rm 518, Bando Bldg., Corporation - American 96 Wall Street, New York 5, N. Y.	W. Von Spiegefeld nil	2-4869/- 2-3073 KWM 103 & Int'l 1103 AMTRACO
	Functions Undertaken : Import, export, sales agent. SAgt - Plant equipment, machinery, chemicals, industrial goods. Principal Agencies (Exclusive) - Baker Perkins (Export) Ltd., England; Bucyrus-Erie Co.; Carthage Machine Co.; Columbian Steel Tank Co.; D. B. Smith & Co.; Dings Magnetic Separator Co.; E. I. du Pont de Memours & Co., Inc.; E. J. Longyear; Galion Iron Works & Mfg. Co.; General Radio Co.; Gillespie & Co. of New York, Inc.; G & M Equipment Co. Inc.; H. W. Butterworth & Sons Co.; Ingersoll-Rand C.; International Harvestor Export Co.; International Standard Electric Corp., & affilitates; International General Electric Co.; Koehring Overseas Co.; Kwik-Mix Co.; LaCross Trailer Corp.; Marlow Pumps; May & Baker Ltd.; Saco-Lowell Shops Inc.; Soule' Steel Co.; Terminal Radio Corp.; The A. P. V. Corp.; The Eimco Corp.; The Gregg Co., Ltd.; The James Leffel & Co.; The Yale & Towne Mfg. Co.; Towa Mfg. Co.; United Aircraft; Universal Winding Co.; Warren Steam Pumps Co., Inc.; Western Machinery Co. (WEMCO).		

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5. Amkor Corporation
Rm 510, Bando Bldg.,
Corporation - American
52 Wall Street, New York 5, N. Y.

Irving Wise 2-4921
nil KWM 284
R. L. Winter, Asst. Mgr. AMKOR

Functions Undertaken : Sales agent.
SAgt - Machinery, chemicals, paper & metal products, dyestuffs, etc.
Principal Agencies (Exclusive) - Atlas Powder Co.; Butler Afg. Co.; Chilewick Sons & Co.; Diamond Alkali Co.; Francolor, dyestuffs, Paris; Gardner-Denver Corp.; Standard Steel Corp.; Towmotor Corp.; Tuteur & Co., Inc.; Tuteur Biochemicals Co., Inc.; Youngstown Sheet & Rube Co..

6. Atlas Shipping Agencies Ltd.
Rm 318, Bando Bldg.,
Corporation - British
201, Mercantile Bank Bldg., Hong Kong

Einar V. Olsson 2-0943/-5434
SUHR, Jinha KWM 28
ATLASHIP

Functions Undertaken : Shipping agents.
Principal Agencies (Exclusive) - Isbrandtsen Co., Inc.; Overseas Navigation Corp.; Tradeships Ltd.; Wah Sheung Hong, HK; Todos Mares, Paris.

- B -

7. Barclay & Co., Inc.
Rm 600, Bando Bldg.,
Corporation - American
812 Northern Life Tower, Seattle, Wash.

Leslie John Bray 2-4358/-
SHIN, Yung-shik, Trade 2-5661 &
M. L. Belman, UN Sales 5-1994
KWM 37 &
Seoul 1062

Functions Undertaken : Import, export, sales agent, UN Forces suppliers.
SAgt - Autoss & parts, tires, trucks, beverages (UN), equipment, general commodities. Korean Firms Represented (Non-Exclusive) - Chosun Brewery; Sam Yung Industrial Co.. Principal Agencies (Exclusive) - Acushnet Process Co.; Aero Sanitation Co.; Air Dri Associates; Alhambra Cigar Co.; All-Power Mfg. Co.; The Ault & Wiborg Co.; Bell, Arthur & Sons, Ltd.; Blanchaud Mushrooms, France; Brodie National; Brooklyn Products Sales Corp.; Brown Co.; Cedergreen Frozen Pack Corp.; Century Enterprises, Inc.; Columbia Machine; Contina, Vadux, (Principality of Liechtenstein); The American Hardware Corp., P & F Corbin Div.; Coronet Toy Mfg. Co.; Crescent Mfg. Co.; Dictaphone Corp.; The Distillers Agency Ltd., England; Dunlop Sports Co., England; Durabilt Luggage Mfg. Co.; Drayer-Hanson, Inc.; George Dobie & Son, Ltd., England; East Asiatic Co., Ltd., Japan; Electric Parts Corp.; Firestone International Co.; Fisher Research Laboratory, Inc., M-scope & detecting equip.; Fletcher Works; Fromm & Sichel, Inc.; GMC, trucks, stationary & propulsion units, Cadillac, Oldsmobile, Pontiac, Frigidaire; Glenmore Distilleries Co.; Glamour House Products; Hardy Bros. (Alnwick), Ltd.; Hawaiian Pineapple Co., Ltd.; Heublein, Inc.; Ben Hogan Co.; Henry Hotze & Sons; Interstate Precision Prod. Corp.; Jarman-Williamson; Kirsten Pipe Co.; Mannheimer Malzfabrik, Germany; Mercury Motors International; Merry Mfg. Co.; Nippon Breweries Co., Ltd., Japan; Norco Metal Products; Olympic Radio & TV, Inc.; Pedersen Mfg. Co.; Perk Dog Food Co.; Piaggio & C.S. p.a., Italy; Pittsburgh Plate Glass Co.; Playmore Knits of Calif., Inc.; Plumrose, Ltd.; R. J. Reynolds Tobacco Co.; Rourke Export; Royal Crown Derby Porcelain Co., England; Saxone Shoe Co., Ltd., Scotland; Ben Sayers, Scotland; Harold B. Scott, Inc.; Seagram-Distillers Co.; Simon H. Steiner, Germany; Snap-On Tools; Simpson Logging Co.; Toro Mfg. Corp.; Two Steeples, Ltd., England; U.S. Camera Corp.; U.S. Plywood Corp.; West Point Products Corp.; Julius Wile Sons & Co., Inc.; Whiting Paper Co.; Yosemite Beverages; A. Ziemann G.M.B.H., Germany. Non-Exclusive Agencies Handling - Industrial machinery, soybeans & by-products, auto parts & shop tools, general commodities.

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8. Beton Co., Inc., The — BANG, Han-Kyu — 2-0617
Rm 526, Bando Bldg., — LEE, B. I. — Int'l 1094
American - Corporation — BETON
579 Howard St., San Francisco 5, Calif.

Functions Undertaken : Import, export, sales agent.
SAgt - Textiles, machinery, industrial chemicals.
Principal Agencies (Exclusive) - Anchor Slide Fastener Corp.; Aquator Handels G. M. B. H., Germany; Dan River Mills, Inc.; D. W. Onan & Sons, Inc.; K. G.Z. Bakkerij-Machine-fabriek, Holland; Schreiber & Goldberg.
Non-Exclusive Agencies Handling - Textiles, chemicals, machinery.

9. Bond Street Enterprises, Ltd. — R. J. Campos — 2-4454
Rm 104, Bando Bldg., — nil — nil
Corporation - British — — BONDSTREET
418, Union Bldg., Hong Kong

Functions Undertaken : Mail order & import of Hong Kong clothing service to UN Forces.
SAgt - Haberdashery.
Principal Agencies (Exclusive) - British Textile Co., HK (Mail-order clothing).

10. Boswell International Corporation — CHUNG, Woon-Soo — 2-7664
52, 1-ka, Ulchi-ro, Choong-ku, Seoul — nil — KWM 70
Corporation - American — — BOSWECO
427 Sanshin Bldg., Tokyo, Japan

Functions Undertaken : Import, export, sales agent.
SAgt - machineries, general commodities.

- C -

11. Cathay Export Company (HK) Ltd. — Melvin C. Bok — 2-4443
Rm 508, Bando Bldg., — nil — nil
Limited Company - British — D. A. Weaver, Imp. — CATHEXCO
417/418, Union Bldg., Hong Kong — Jack Tropp

Functions Undertaken : Import, export.
SAgt - Minerals, steel, non-ferrous metals, textiles, consumer goods.
Principal Agencies (Exclusive) - Derby & Co., England; Derby & Co., Foreign Trade Corp.; Derby & Co., (Metals & Minerals) Ltd.; Derby & Co., (Australia) Pty., Ltd.; S. A. ETECO European Overseas Trading Co., Belgium; LIFE-LONG Battery Mfg. Corp.; B. K. Morton & Co., Ltd., England; Turner Halsey Co., Inc.; Thos. W. Ward Ltd., England; Union Commerciale de Siderurgie, S. A., Belgium.
Non-Exclusive Agencies Handling - Textiles, machinery, general commodities.

12. Central Trust of China — HSIEH, Chao-Fen — 2-3318
c/o Chinese Embassy, Seoul — nil — KWM 78
Government Agency - Chinese — CHEN, Po-Tsen, Tech. — nil
96 Po Ai Road, Taipei, Taiwan, China

Functions Undertaken : Import, export, government procurements, insurance, trust, transportation, warehousing.

13. C. F. Sharp & Company, S/A — O. Sledz — 2-4632/-4687
Rm 220, Bando Bldg., — nil — KWM 258
Limited Company - Panamanian — — SUGARCRAFT
5th Flr., Insular Life Bldg., Manila, P.I.

Functions Undertaken : Steamship and airline agency.
SAgt - Attending ships in ports, booking passengers.
Principal Agencies (Exclusive) - Waterman Steamship Corp.; Ivaran Lines.
Non-Exclusive Agencies Handling - NWA, PAA, CAT, AF, BOAC, KLM, SAS, QEA.

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14. Chang Fong Enterprise Co. (Korea) Ltd., Frank Y. H. Woo 2-5225
29, 1-ka, Namdaemun-ro, Choong-ku, Seoul LEE, Yun-Sup KWM 217
Corporation - Chinese CHANGFONG
(as above)

Functions Undertaken - Import, export, commission agent.
SAgt - Fibers, yarns, chemicals, aluminum ingots, sugar, iron ore, graphite, aluminous shale, marine products, general commodities.

15. Civil Air Transport Merrill E. Hulse 2-2122
Rm 226, Bando Bldg., PARK, Choo-Sun, Sales nil
Corporation - Chinese Carlos Marques, Tarffic CLAULT
46 Chung Sgan Rd., North - 2nd Section,
Taipei

Functions Undertaken - Scheduled commercial airline service.
Non-Exclusive Agencies Handling - All other airlines.

16. Claggett Nolan Company, Inc. Milan James Prior 2-4214/-4409
Rm 332, Bando Bldg., HAHN, Woo-Yong KWM 282
Corporation - American CLAGNOL
25 California St., San Francisco 11, Calif.

Functions Undertaken : Import, export, manufacturer's representatives.
SAgt - Electrical, mechanical & industrial machinery.
Principal Agencies (Exclusive) - Amertool Services, Inc., and affiliates; Austin Western Co.; Ampex Corp.; Automatique Electrique S. A., Belgium; Baldwin-Lima-Hamilton Corp.; Hartig Engine & Machine Co.; Hull-Standard Corp.; HICO, Switzerland; International Automatic Electric Corp.; A. B. Kemisk-Teknisk, Sweden; Krebs & Co., Germany; Lesjofors A. B., Sweden; James Mackie & Sons, Ltd., Ireland; Maier & Co., Austria; Phillips Electrical Co., Ltd., Canada; Regina S. A., Switzerland; United States Motors International, Ltd.; Westinghouse Electric International Co.; Zenith Radio Corp..
Non-Exclusive Agencies Handling - Industrial & plant equipment, tools, machinery, supplies, communications equipment.

17. Claude T. Lindsay, Inc. A. B. de Carvalho 2-5729
Rm 343, Bando Bldg., CHIN, Yuan-Pei, Sales Int'l 1287
Corporation - American REBOOK
291 Linfield Drive, Menlo Park, Calif.

Functions Undertaken : Sales agent.
SAgt - Fertilizers, chemicals, newsprint & paper products, cement, glass, machinery, pharmaceuticals, textiles & yarns, building materials, etc..
Principal Agencies (Exclusive) - Auto Procurement Service; Brekwoldt Co., Germany; Cutter Laboratories; Elof Hansson, Sweden; Farben Fabriken - Hansa-Hoeg, Germany; Galactina & Biomalt, Switzerland; G. Eltherington Co., England; Murztlaer Holzstoff, Austria.
Non-Exclusive Agencies Handling - as listed under SAgt.

18. Commodities Overseas Ltd. Robert M. Leckie 2-1171
116, Sokong-dong, Choong-ku, Seoul nil Int'l 1198
Corporation - Canadian BOBLECKIE
Canada

Functions Undertaken : Sales agent.
SAgt - Raw hides.

19. Compagnie Marchande De Tunisie Rene Mac Kisray 2-1417
Rm 531, Bando Bldg., H. S. Won KWM 271
Sole-proprietorship - French KISRAY
12 Rue Adolphe Yvon, Paris - 16th, France

Functions Undertaken : Import, export.
SAgt - Rayon yarns, cement, coal tar pitch, creosote, sugar.
Principal Agencies (Exclusive) - Comptoir des Textiles Artificiels, Paris; Papeberie de Lubecc, Paris.

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20. Connell Bros. Co., Ltd.
Rm 620, Bando Bldg.,
Corporation - American
320 California St., San Francisco 4, Calif.

Joseph M. Zimmerman 2-2121/-
nil 2-4054
Herb H. Brown, Engr. KWH 294
CONNELL

Functions Undertaken : Sales agent.
SAgt - Machinery, pharmaceuticals, chemicals, construction & building materials & equipment, textiles, textile machinery, petroleum products, abaca, etc..
Principal Agencies (Exclusive) - Acme Steel Overseas Co.; Asgrow Export Corp.; The Acorn Refining Co.; Alabama Pipe Co.; American Brake Shoe Co.; American Chain & Cable; Atlas Tack Corp.; Barclay Mfg. Co.; Bommer Spring Hinge Co.; Champion Sprayer Co.; Chemicals Export Co.; The Cookson Co.; Coprox Inc.; Corn Products Refining Co.; Crane Co.; Creative Metals Corp.; Dodge & Olcott Inc.; Dutch Boy Div., National Lead Co.; Enterprise Diesel & Machinery; Eveready Div., Union Carbide Int'l Co.; Galion Iron Works; General Motors Corp., Euclid Div.; R. W. Greef & Co., Inc.; Hercules (Chemicals); Hersey Mfg. Co.; Hewitt Robins; Hooker Electrochemical Co.; Hager Hinge Mfg. Co.; Jaeger Machine Co.; Johns-Manville International; L. O. Koven & Bros.; Kraft Foods Co.; Kraft Kase-Werke GMBH; Libbey-Owens-Ford Glass Co.; Libbey-McNeill & Libby; Lloyd A. Fry Co.; Miller Co.; Minneapolis Moline Co.; MJB Co.; Moloney Electric Co.; Monsanto Chemical Ltd. (Canada); Monsanto Chemical Co.; National Biscuit Co.; Niagara Chem. Div., Food Machine Corp.; Olin Industries; Pacific Pumping Co.; Pacific Tanks; Pass & Seymour, Inc.; Pfizer Overseas, Inc.; Phoenix Mfg. Co.; Pioneer Engineering Works, Inc.; Pioneer Soap Co., Inc.; Potlatch Forests; Rapids Standard Co., Inc.; Sapolio Products Inc.; Schlage Lock Co.; L. Sonneborn Sons, Inc.; SKF Industries, Inc.; Standard Brands Int'l.; Sunkist Growers Products; Talon, Inc.; Texileather Inc.; Tile-Tex, Pioneer Div., The Flintkote Co.; Thew Shovel Co.; Thor Power Tool Co.; Trailmobile, Inc.; Union Oil Co.; United Packers Inc.; Viber Co.; Virginia Tobacco Co., Inc.; Waldemar Sorensens Sonner A/S, Denmark.
Non-Exclusive Agencies Handling - Filter equipment, watches, food products, industrial and transportation signals & lighting, pharmaceutical equipment, paper products.

21. Cosa Export Co., Inc.
Rm 642, Bando Bldg.,
Corporation - American
Chrysler Bldg., East 161 E., 42nd St., N.Y. 17

Friedrich J. Pruefer 2-5643
CHO, Eil-Hyun, G. A. Int'l - 1091
OUTREMER

Functions Undertaken : Sales agent.
SAgt - Textile machinery, heavy machinery, machine tools.
Principal Agencies (Exclusive) - American Tool Works Co.; Ajax Mfg. Co.; Barden Corp.; W. F. & John Barnes Co.; Bridgeport Machines, Inc.; Bullard Co.; Bryant Chucking Grinder Co.; Chambersburg Engineering Co.; Danly Machine Specialties, Inc.; DeVlieg Machine Co.; Delll Co.; LaPointe Machine Tool Co.; Leland-Gifford Co.; Mattison Machine Works; National Broach & Machine Co.; Ohio Crankshaft Co.; Ohio Knife Co.; Thomson Knife Co.; Thomson Electric Welder Co.; Vascoloy-Ramet Corp.; Warner & Swasey Co.; American Ore Reclamation Co.; Bonnet Co.; DeLaval Separator Co.; Etna Machinery Co.; Kane & Roach, Inc.; M. W. Kellogg Co.; Accumeter Laboratories, Inc.; Dayton Rubber Export Corp.; Draper Corp.; Mawaco Machine Co.; Edward J. McBride Co.; Rodney-Hunt Co..
Non-Exclusive Agencies Handling - as listed under SAgt.

- D -

22. Dai Han Young Heng, Inc.
Rm 336, Bando Bldg.,
Corporation - American
1018 Dillingham Blvd., Honolulu, Hawaii

Mark S. Song 2-4794
nil nil
MASONG

Functions Undertaken : Import, export, sales agent.
SAgt - Automotive equipment.
Korean Firms Represented - Dhuk-say Young Heng, Inc., Seoul.
Principal Agencies (Exclusive) - American Motors Corp..
Non-Exclusive Agencies Handling - auto parts & supplies.

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23. Deutsche Maschinen Handellgesellschaft (Korea) Ltd.
Rm 634, Bando Bldg.,
Partnership - German
as above.

Heinrich Werner Henke — 2-1418, Central 167, DEMAHA

Functions Undertaken : Import, sales agent.
Sdgt - Factory equipment, general machinery & commodities.
Principal Agencies (Exclusive) - Alfred Eriksen Werkzeugmaschinenfabrik; Bernh May; de Vivanco & Co.; ELH; Gottlieb Eppinger KG Maschinenfabrik; Kieler Strickmaschinenfabrik Hertel & Richter GmbH und Co.; Klockner & Co.; Motoren-Werke-Mannheim AG.; OSRAM.

24. Dunham & Smith, Inc.
272, 1-ka, Hankang-ro, Yongsan-ku, Seoul
Corporation - Panamanian
Dunham & Smith Agencies, Inc., 711 3rd Ave.,
N. Y. 17, N. Y.

A. P. Kolonic — 2-1644
YOON, Bong-Hyun, — KWM 224
K. G. Williams — KODANDS

Functions Undertaken : Sales agent, insurance.
Sdgt - Club supplies to UN Forces, building materials.
Principal Agencies (Exclusive) - Anheuser-Busch, Inc.; Heineken's Brewery; Schenley Products; Belfast Beverages.
Non-Exclusive Agencies Handling - Refrigirators, glass.

- E -

25. Eisenberg & Company, Inc.
Rm 238, Bando Bldg.,
Corporation - American
52 Broadway, New York 4, N. Y.

M. Landau — 2-4024/-4476
nil — KWM 237
Z. A. Belokamen — EISENBERG
H. J. Wachtel

Functions Undertaken : Import, export, sales agent.
Sdgt - Automobiles, tires, sewing machines, industrial plant equipment, chemicals, pharmaceuticals, machinery, etc..
Principal Agencies (Exclusive) - Demag A. G., Germany; Goodyear Tire & Rubber Export Co.; Imperial Chemical Industries Ltd., England; Muller & Phipps (Asia) Ltd.; Modag Motorenfabrik GmbH, Germany; Singer Sewing Machine Co.; Siemens & Halske A. G., Germany; Willys-Overland Export Corp.; etc..
Non-Exclusive Agencies Handling - Yarns, textile & other industrial machinery, etc..

26. E. J. Griffith & Co., Inc.
Rm 338, Bando Bldg.,
Corporation - American
231 Sansome St., San Francisco 4, Calif.

Allen G. Leslie, Jr. — 2-0619
nil — KWM 100
John L. Rance — GRIFF
Stan B. Rance

Functions Undertaken : Sales agent.
Sdgt - Logs, pumps, electrical & radio equipment, machinery, tires.
Principal Agencies (Exclusive) - American Machine & Foundry Co.; Associated British Engineers, England; Lindeteves N. V., Holland; N. V. Philips Gloeilampenbrieken, Holland; Pabco Products Inc.; Rootes Ltd., England; Worthington Corp.; W. P. Fuller & Co..

27. Empire Export Co. (Korea)
Rm 308, Kyunghyang Press Bldg.,
74 Sokong-dong, Choong-ku, Seoul
Proprietorship - American
Rm 218, Prince Bldg., Hong Kong

Robert M. McMackin — 2-3181
CHOI, Ch'ang-Oh — Int'l 1059
EMPEX

Functions Undertaken : Import, export.
Sdgt - Vessels, machinery, fertilizer, steel products.

28. Enrico Bosetti M. D.
Rm 232, Bando Bldg.,
Sole-proprietorship - Italian
as above

Enrico Bosetti — Bando 162
nil — nil
nil

Functions Undertaken : Medical practice.

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29 European Korean Agency — Guido J. Benz — 2-3410
Rm 606, Bando Bldg., — JOE, Dong-Jo — Central 3
Corporation - Swiss — EUKORAG
PANCOMERCE S. A., P.O. Box 837,
St Gallen, Switzerland

Functions Undertaken : Sales agent.
SAgt - Dyestuffs, pharmaceuticals, chemicals, machinery, general commodities, etc..
Principal Agencies (Exclusive) - Albeko, Germany; Chemische Werke Heuls, Germany; CIBA Ltd., Switzerland; Continental Pharma S. A., Belgium; Edouard Dudied S. A., Switzerland; F. Hoffman, Switzerland; J. R. GEIGY Ltd., Switzerland; OMEGA, Switzerland; SANDOZ Ltd., Switzerland; Sachtleben, Germany; Schaublin, Switzerland; Turner, Germany.

30. Everett Steamship Corp., S/A — Ian G. Barbour — 2-2333/-2458
Taylor Bldg., 112-9 Sokong-dong, Choong-ku, Seoul — YOON, Rin-Suk — Int'l 1087 &
Corporation - Panamaian — HAHN, Yong-Whan — KWM 45
P. O. Box 300, Yokohama, Japan — EVERETT

Functions Undertaken : Shipowners, shipping brokers & agents, cargo inspection, travel service.
Korean Firms Represented - (Sug-agent for : Korea Service Co., Inc.)
Principal Agencies - American Mail Lines; Everett Orient Line; Everett Star Line; Everett Siam Line; Eon Corp.; South East Shipping Co.; United States Salvage Ass'n.; Local Agents For - American President Lines; A. L. Burbank & Co.; Bildberg & Rothschild Co., Inc.; Clifton Steamship Co.; Edison Steamship Co.; East Asiatic Co.; Firth Steamship Co.; Fearnley & Eager, Inc.; Grace Line; J. H. Winchester & Co.; Lykes Bros. Steamship Co., Inc.; Matson Line; Maersk Line; North Atlantic & Gulf SS Co.; Pacific Marine Corp.; Triton Shipping Co.; Stevenson Line; Barbour Wilhelmsen Line; Pacific Transport Line; States Steamship Co.; Messageries Maritimes; Marine Transport Line.

- F -

31. Far Eastern Continental Grain Co., Inc. — Dudley G. Singer — 2-2125
Rm 610, Bando Bldg., — nil — nil
Corporation - American — CONTIKO
220 Produce Exchange, New York 4, N.Y.

Functions Undertaken : Sales agent.
SAgt - Grain, flour, fats & oils, fertilizer, sugar, wool yarns.
Principal Agencies (Exclusive) - Continental Grain Co..

32. F. L. Smidth & Co., A. S. — Gunnar Fagerholt — Victor 51103
c/o UNKRA — nil — APO 301
Corporation - Danish — Henry Jensen, Engr. — FOLASMIDGH
Copenhagen, Denmark — Fritz Moller, Acc't.

Functions Undertaken : Manufacturer of cement equipment.
Proj.- Erection of Munkyung Cement Plant, Korea.

33. F. Micklautz & Co., Inc. — Ferdinand Micklautz — 2-2442/-
Rm 524, Bando Bldg., — KIM, Suk-Nam — 2-5749
Corporation - Panamaian — Paul Hyer, V-P — KWM 325
Apatado 850, Avineda Centrale 16-A, — Michael A. Braun — MICKO
Panama C.

Functions Undertaken : Sales agent.
SAgt - Plastic resins, plastics machinery, small textile machinery, iron & steel, chemicals.
Principal Agencies (Exclusive) - Interplastics Corp.; Eastman Chemical Products, Inc.; Lanes Mercantile, Ltd., England, HAHN & KOLB, Germany; B. F. Goodrich Chemical Co.; Mazzucchelli Celluloide, Italy; China Plastics Co., Hong Kong; Goodrich-Gulf Corp.; Mechanica Verkstad, Sweden; Camley International; Hyer Corp.; Southern Plastics Corp.; Samuel Law & Sons, England. Non-Exclusive Agencies Handling - as listed under SAgt.

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34. "FOHAG", Fern-Ost Handelsgesellschaft Ltd. — Geo. Neugebauer 2-5441
Rm 306, Bando Bldg., — RYU, Chan-U KWM 56
Corporation - Canadian — E. A. Kleemann FOHAG
56 Sparks Street, Ottawa, Canada — F. L. H. Bombach

Functions Undertaken : Import, export, sales agent.
SAgt - Dyes, chemicals, pharmaceuticals, iron, steel & other metal products, paper, machinery, tools, raw materials (tallow, waxes, rosin, etc.).
Principal Agencies (Exclusive) - Farbwerke Hoechst A. G., Germany; B. A. S. F. Handels & Export GmbH, Germany; Cassella Farbwerke Mainkur A. G., Germany; Carl Zeiss, Germany; Liebig Paper Export Co., Sweden; Votra Ltd., Switzerland; A. Jaekel & Co., Germany; Tradeship Ltd., San Francisco.
Non-Exclusive Agencies Handling - iron & steel products, etc.

35. Frazar & Co., Inc. — Constantine P. Berman 2-2172
Rm 624, Bando Bldg., — KIM, Chang-Sae, Asst. KWM 93
Corporation - American — FRAZAR
50 Church St., New York 7, New York

Functions Undertaken : Sales agent.
SAgt - Road building, construction, mining and other equipment.
Principal Agencies (Exclusive) - Alco Products, Inc.; Allen Mfg. Co.; All-State Welding Alloys Co., Inc.; Billings & Spencer Co.; E. W. Bliss Co.; Chrysler Corp., Chrysler & Plymouth cars, Fargo trucks; Clemson Bros. Inc.; Cummins Diesel Export Co.; Electric Steel Foundry Co.; Fairbanks, Morse & Co., Inc.; Food Machinery & Chemical Corp.; Harley-Davidson Motor Co.; R. Hoe & Co.; Huber-Warco Co.; Industrial Brownhoist Corp.; Joy Mfg. Co.; LeTourneau-Westinghouse Co.; Mine Safety Appliances Co.; W. H. Miner Co.; National Twist Drill & Tool Co.; Naugatuck Chemical International; Noble Co.; Northwest Engineering Co.; Smith Engineering Works; Smooth-On Mfg. Co.; True Gun-All Equipment Co.; U. S. Rubber International; U. S. Steel Export Co.; Wagner Litho Machinery Co.; John Waldron Corp.; White Motor Co.; Wisconsin Motor Corp..

36. Frinat International Ltd. — Leo Saphiere 2-8210
Rm 632, Bando Bldg., — M. Chung nil
Corporation - American — FRINATINT
50 Broadway, New York, N. Y.

Functions Undertaken : Import, export, sales agent.
SAgt - Philippine logs, theatre equipment, motion pictures.
Principal Agencies (Exclusive) - General Enterprise Inc., Manila; Westrex Inc..

- G -

37. Genaco International Company — Dwight Hill 2/Bando 154
Rm 222, Bando Bldg., — OH, Yoon-Soo Central 113
Corporation - American — GENACO
200 Jackson St., San Francisco 11, Calif.

Functions Undertaken : Sales agent.
SAgt - Agricultural & industrial chemicals, pharmaceuticals, fertilizer, auto parts, tires.
Principal Agencies (Exclusive) - E. B. Schwinger & Co.; Pacific Tire & Rubber Co..
Non-Exclusive Agencies Handling - Chemicals.

38. GETZ BROS. & CO. — Anthony J. Greco 2-2123
Rm 338, Bando Bldg., — nil KWM 245
Corporation - American — GETZDIR
231 Sansome St., San Francisco

Functions Undertaken : Sales agent.
SAgt - Tires, chemicals, paper products, pharmaceuticals, textiles, general merchandise. Principal Agencies (Exclusive) - Armstrong Cork Co.; The Borden Co.; Bausch & Lomb Optical Co.; Bendix International; Dunlop Rubber Co., England; Dow Chemical International Ltd.; Godfrey L. Cabot, Inc.; Harris-Seybold Co.; Illingworth Morris Co., England; Massey-Harris-Ferguson, England; N. V. Organon, Holland; Ray-O-Vac Co.; W. J. Bush & Co., Ltd., England.

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- H -

39. Hancock Corporation
Rm 542, Bando Bldg.,
Corporation - British
Alexandra House, Hong Kong

W. Gifford Cheesman 2-0616,8641,
KIYM, Jon-Suk -7483
Int'l 1113
CORHANK

Functions Undertaken : General agents.
Sigt - Mining & general machinery, refractories, chemicals, pharmaceuticals, automobiles, X-ray equipment, tires & tubes, yarns, paper, sugar, rubber.
Principal Agencies (Exclusive) - British Celanese (Overseas) Ltd., England; Cosmos Chemical Corp.; Dodwell & Co., Ltd., England; Essential Materials Corp.; B. F. Goodrich Co.; Harbison-Walker Refractories Co.; Joy Mfg. Co., mining & heavy industrial equipment; Kian Gwan Co. of America, Ltd.; Kian Gwan (Malaya) Ltd., Malaya; Malaya; Malayan Textile Mills, Ltd., Malaya; Picker International Corp.; Sanborn Co.; Schering Corp..

40. Henningsen and Company Limited
Rm 641, Bando Bldg.,
Corporation - British
31 St. George's Bldg., Chater Road,
Hong Kong

John H. Ricks 2-5449/-
nil 2-4209
Jack I. Dimon, Asst. KWM 200
H. C. Reynolds, Engr. HENNINGSEN

Functions Undertaken : Import, export.
Sigt - Yarns, pharmaceuticals, raw rubber, tin, woodpulp, wool tops, newsprint, oils, industrial controls, earth moving equipment.
Principal Agencies (Exclusive) - Braun-Knecht-Heimann Co.; Burlington Mills; Caterpillar Tractor Co.; John Deere C..; Export Sales Co., Ltd.; Fisher Flouring Mills Co.; Harbischfeger International Corp.; N. V. Internationale Crediet-en Handels-Vereeniging "Rotterdam", Netherlands; Italviscosa S.P.A., rayon yarns, Italy; Minneapolis-Honeywell Regulator Co.; Parke, Davis & Co., Ltd.; Sheaffer Pen Co..

41. Holme Ringer & Co., Ltd.
Rm 524, Bando Bldg.,
Corporation - British
P. O. Box : 1993, Hong Kong.

Anton Eivind Arntzen 2-2442/-
KIM, Ei-Chol -5749
KWM 235
RINGER

Functions Undertaken : Shipping & insurance agents.
Korean Firms Represented - Hyopsung Shipping Corp..
Principal Agencies (Exclusive) - Butterfield & Swire Co., Ltd., (Blue Funnel Line), Hong Kong; Dodwell & Co., Ltd., England; Fireman's Fund Insurance Co.; Llyod of London; Lyle Shipping Co., Ltd., Glasgow; Maritime Overseas Corp.; North America Companies; The Board of Underwriters of New York; The British Insurance Croup, Tokyo; The De Hong Kong & Eastern Shipping Co., Ltd., Hong Kong; The Glen Line Ltd., England.

42. Hongkong Transportation Co., Ltd.
Rm 506, Bando Bldg.,
Joint Stock Co. - British
Marina House, Queen's Rd. Central, Hong Kong

Allen Dudley Coppin 2-2024/-2173
nil KWM 138
LUMOSE

Functions Undertaken : Shipping & charterers.

43. Hopkins & Munfrey, Inc.
c/o Korean Construction Agency,
Office of the Engineer
Corporation - American
41 Sutter St., San Francisco, Calif.

David L. Carlson 50-687
Dr. Charles W. Choi APO 301
Robert Munfrey, V-P nil
Arthur W. Madden, Engr.
Vincent O'Kelly, Engr.

Functions Undertaken : Architectural, engineering & planning services.
Projects - Master planning for UN Forces engineering projects, and under contract to the United Nations Command, and the Korean Construction Agency.

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44. International Associates & Co., Ltd. — John Gray — 2-8739/-
22, 1-ka, Namdaemun-ro, Choong-ku, Seoul — KIM, Sang-Hway — 2-7993
Corporation - American — KWM 23
229 South State St., Dover, Delaware — IMCO

Functions Undertaken : Import, export, sales agent, manufacturers representatives.
SAgt - Plastics, chemicals, machinery, textiles, metals, hides, fertilizer, lumber, paper, pharmaceuticals, food stuffs, air conditioning & refrigeration equipment, precision tools, scientific instruments and supplies.
Korean Firms Represented - Po Song Rubber Co., Pusan; Shin Heung Rubber Industrial Co., Pusan; Keun Sul Chemical Industrial Co., Pusan; Silla Rubber Industrial Co., Seoul; Hung Ah Tire Co., Ltd., Pusan.
Principal Agencies (Exclusive) - Baird Chemical Corp.; Binney & Smith International, N. Y. & England; Barry T. Benson; Robert Dollar Lumber Co.; Fairmont Motors; General Hides and Skin Corp.; R. J. Mayer & Co., Inc.; Omni Products International; Omni (London) Ltd., England; Ernst Rogowski, Germany; The Tilley Lamp Co., Ltd., London; Henderson Trippe, Hong Kong, Manila, Australia; Sino British (Siam) Ltd., Thailand.
Non-Exclusive Agencies Handling - all types of machinery, commodities.

45. International Development Co. (NZ) Ltd., The — John Malcolm Geddes — Bando 167
Rm 602, Bando Bldg., — nil — KWM 240
Corporation - British — INTRADEV
AA Bldg., 37 Kelvin St., PO Box 134,
Invercargill, New Zealand

Functions Undertaken : Import, export, mfg., & specialized agents.
SAgt - Machine tools, diesel engines, electronic equipment, wool, etc..
Principal Agencies (Exclusive) - Marconi's Wireless Telegraph Co., Ltd., & all its subsidiaries; Beckman Diesel, Germany; Mannaers Trading Ltd., Hong Kong; Chloride Batteries Ltd., England.

46. International Inspection & Testing Corporation — Charles Chang — 2-2126
Rm 500, Bando Bldg., — nil — KWM 131
Corporation - American — INSPECTIONS
Rm 1176, 38 S. Dearborn St., Chicago, Ill.

Functions Undertaken : Marine & industrial surveyors & inspectors.
Principal Agencies - Associate for Robert W. Hunt Co..

47. Interore Korea Limited — B. Donald Cooper — 2-2417/-8410
Rm 541, Bando Bldg., — & Bando 127
Corporation - British — Int'l 1132
Alexandra House, Hong Kong — FERTILITAS

Functions Undertaken : Sales and buying agents.
SAgt - Fertilizer, chemicals, ores and metals.
Principal Agencies (Exclusive) - International Ore & Fertilizer Corp.; Continental Ore Corporation.

48. Italian Trading Office — Ugo Puntieri — 2-4263
Rm 612, Bando Bldg., — nil — KWM 65
Partnership - Italian — ITALTRADE
Via A. Gramsci 9, Roma, Italy

Functions Undertaken : Sales agent.
SAgt - Yarns, medicines, tires, chemicals, machinery, raw materials.
Principal Agencies (Exclusive) - Carlo Erbs S. p. A.; Cotonificio Vittorio Olcese S.p.A.; Frugoni S.p.A.; I.C.M.I.R. S.p.A.; Innocenti S.p.A.; Lane Rossi S.p.A.; Legnano S.p.A.; Pirelli S.p.A.; Sant'Andrea Novare S.p.A.; San Concordio S.p.A.; Snia Viscosa S.p.A; Solvay & Co.; all of Italy.

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- J -

49. Jakar International (Korea) Co.
Rm 512, Bando Bldg.,
Partnership - American
545 Fifth Ave., New York City, N.Y.

C. C. Kim — 2-5358
nil — Int'l 1072
Jack Tropp, Pres. — JAKAR

Functions Undertaken : Import, export, sales agent.
SAgt - Plant projects, machinery & equipment, spot commodities, laboratory supplies.

50. Jardine, Matheson & Co., Ltd.
Rm 618, Bando Bldg.,
Corporation - British
Alexandra House, Pedder St., Hong Kong

Frederick Jolly — 2-5494
nil — nil
JOLLY

Functions Undertaken : Sales agent.
SAgt - Textiles, yarns, general commodities. Ship builders, owners, charterers, general carriers, forwarding agents, contractors, stockbrokers, financiers, bankers, bullion brokers, concessionaries, trustees, airline operators, tea dealers, sugar refineries and manufacturer.
Principal Agencies (Exclusive) - Lustre Fibres Ltd.; Les Files de Calais; N. Heydemann & Co., Ltd.; English Electric Co., Ltd.; Vickers Armstrongs Ltd.; Chubb & Sons; Lock & Safe Co., Ltd.; Portals Ltd.; Gilbert & Barker Mfg. Co.; International Paints Ltd.; Stohert & Pitt Ltd.; Metropolitan Cammel Carriage & Wagon Co., Ltd.; J. Stone & Co. (Deptford) Ltd.; J. R. Geigy S.A.; Rohner Ltd.; Durand & Huguenin S. A..

- K -

51. KORAMAR CORPORATION
(Korean Raw Materials & Engineering Corp.)
Rm 536, Bando Bldg.,
Corporation - American
129 South State St., Dover, County of Kent, Delaware.

Theodore Norman, Pres. — 2-1767/-
YOUNG, Jae-Ho — 2-2753
KWM 302
KORAMAR

Functions Undertaken : Project engineers, manufacturers representatives.
SAgt - Tobacco processing & cigarette mfg. machinery, printing & graphic equipment, machine tools, paper, board & pulp.
Principal Agencies (Exclusive) - Adolf Mohr Hofheim/Taunus, Germany; A.D. Struver GmbH, Germany; Albert & Cie, Germany; BREHMER LTD., England; E.C.H. Will, Germany; Faber & Schleicher A.G., Germany; Hans Ehlermann K. G., Germany; H A U N I Maschinen Fabrik Korber & Co., Germany; Heinr. Borgwaldt, Germany; HOH & HAHNE, Germany; Intertype Corp.; Dr. - ING Rudolf Hell, Germany; MAILANDER, Germany; N. V. Lettergieterij "Amsterdam", Amsterdam; Schnellpressenfabrik A.G., Germany; Van Reekum Paper Inc.; Van Reekum Papier-Gepacy N.V., Holland.

52. Korean American Export & Import Co., Ltd.
187 Kwannong-dong, Chongno-ku, Seoul
Corporation - American
929 North King St., Honolulu, Hawaii

nil — 2-2720
RHEE, Moon-Whan — nil
nil

Functions Undertaken : Import, export, sales agent.
SAgt - Marine products, and general commodities.

53. Korean American Shipping Agency, Ltd.(KORAMSA)
Rm 208, Bando Bldg.,
Corporation - American
315 California St., 2nd Flr., San Francisco 4

A. N. Perez, V-P — 2-5493 &
nil — Bando 144
Jerome B. Curtis, -Inchon — KWM 297
John E. Kay, Jr., -Pusan — KORAMSA
Wayne D. Jones, Ops. Mgr.

Functions Undertaken : Steamship agent.
SAgt - Representation of steamship companies & interest.
Principal Agencies (Exclusive) - Pacific Far East Line, Inc.; United States Lines Co..

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54. Korean-American Trading Company — LEE, Won-Soon — 2-2120
Rm 206, Bando Bldg., — HONG, Chang-Ki — KWM 227
Partnership - Korean 5/ — KATCOLE
473 Second Ave., New York 16, N.Y.

Functions Undertaken : Import, export.
SAgt - Machinery, general commodities.
Principal Agencies (Exclusive) - Universal Motors Co.; Copeland Refrigeration; Simplex Company; Electric Auto-lite.
Non-Exclusive Agencies Handling - Typewriters, electronic & other equipment.

55. Korea Oil Storage Company (KOSCO) — Linnaeus Tyndall Savage — Victor 50-
112-20 Sokong-dong, Choong-ku, Seoul — nil — -066 &
Corporation - American — L. S. Howard — 2-8123/4
380 Madison Ave., New York 17, N. Y. — M. L. Ulrich — APO 301 &
KWI 422
KOSCO

Functions Undertaken : Delivery of POL to civil economy, under contract to ROK Government.

56. KORCAD Corporation — J. B. Miller — 2-5888,0846,
1, 1-ka, Namdaemun-ro, Choong-ku, Seoul — WHANG, Tai-Yung, Pres. — -7736
Corporation - Panamanian — Jasso CHI, G. M. — KWM 5
9 Rockfeller Place, New York 20, N. Y. — KORCAD

Functions Undertaken : Sales agent.
SAgt - Electric & electrical equipment.
Principal Agencies (exclusive) - Asoasvet, Sweden; Bell Aircraft Corp.; L. M. Ericsson, Sweden; Minnesota Mining & Mfg. Co.; Radio Corp. of America; Telefonbau Und Normalzeit, Germany.

57. McGraw-Hydrocarbon — Martin Edward McDonough — 5-1782/3
10-43 Hannam-dong, Yongsan-ku, Seoul — nil — Central 107
Joint Venture of 2 Corps. - American — W. Skrocki, Proj. Mgr. — GRAWHYDRO
51 East 42nd Street, New York 17, N.Y.

Functions Undertaken : Construction engineering.
Projects - Industrial plant - Chungju Fertilizer Plant, under contract to ROK Government.

58. McFadden's Protective Agency — Richard H. McFadden — 51-151 Ext.144
175, 2-ka, Uijoo-ro, Suhdaemun-ku, Seoul — nil — nil
Sole-proprietorship - Korean 5/ — Carlton H. Henge — MPDA
as above.

Functions Undertaken : Furnishing of security forces, to US Governmental agencies only.

59. Military Service Co., Inc. — Raymond C. Phillips — 2-8573/-
12, 1-ka, Namdaemun-ro, Choong-ku, Seoul — nil — 5573
Corporation - American — F. Micklautz, Sales Rep. — KWM 345
515 Market St., San Francisco, Calif. — nil

Functions Undertaken : Sales agent to UN Forces, exclusively.
SAgt - Dayroom & messhall (military) equipment.
Principal Agencies (Exclusive) - Military Service Publishing Co.; Vulcan Press.
Non-Exclusive Agencies Handling - Army-Navy-Airforce Register.

60. Morrison-Knudsen Industrial Co., Inc. — O. Newell Parker — 51-764
North Hannam-dong, Yongsan-ku, Seoul — nil — APO 301
Corporation - Panamanian — William F. O'Neil, EMKAYAN —
120 Montgomery St., San Francisco 4, Calif. — Asst.

Functions Undertaken : Construction Contractors.

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- N -

61. Northwest Airlines, Inc. — Ronald F. Bretall — 2-2129
Rm 204, Bando Bldg., — nil — nil
Corporation - American — — NWAIR
1885 University Ave., St. Paul, Minn.

Functions Undertaken : Airline business.
Agencies - All I.T.A. carriers.

- O -

62. Oriental Exporters, Inc. — Beorge H. Kramer — 2-5714/-3984
Rm 608, Bando Bldg., — CHOI, Chi-Young — Int'l 1003
Corporation - American — R. Boerstling, Asst. — ORIENTEX
Suite 7524, Empire State Bldg., N.Y. 1.

Functions Undertaken : Import, export, investments.
SAgt - Raw sugar, fertilizer, cement, yarns, wool tops, glass, industrial & agricultural chemicals, paper, iron & steel sheets, etc..
Principal Agencies (Exclusive) - Inter-Islands Exporters, Ltd., Hong Kong; Inter-Islands Exporters, Inc., N.Y. & Cuba; Hylos Trading Co.; Olin-Mathieson Chemical Co., International; Oriental Exporters Inc., N.Y., & Japan; P. Bredelius A. B., Sweden; SEIFA S.p.A., Italy.
Non-Exclusive Agencies Handling - Steel sheets, metal products, synthetic & staple fiber yarns, general merchandise.

- P -

63. Pacific Bechtel Corporation — E. Kranzfelder — 51-054
Tangin-ri, Mapo-ku, Seoul — nil — APO 301
Corporation - American — J. W. Fillman, Const. Mgr. — WATEKA
220 Bush St., San Francisco, Calif.

Functions Undertaken : Heavy industrial engineering & construction projects.
Projects - 3 Thermal power plants, under contract to ICA & the ROK Gov't.

64. Pacific Business Service — Donald W. Grant — Bando 130
Rm 331, Bando Bldg., — nil — nil
Sole-proprietorship - American — Donald J. Baker, Asst. — PACBUSER
3219, St. Paul Blvd., Rocehster 17, N.Y.

Functions Undertaken : Publishing Korean Economic news.

65. Pacific Export Co., of California — Lawrence Ivan Baker — 2-2128
Rm 509, Bando Bldg., — Walter S. Kang, Trade — KWM 22
Partnership - American — — PACIFEX
6058 Myosotis St., Los Angeles, Calif.

Functions Undertaken : Sales & insurance agents.
SAgt - Machinery, aluminium products, diatomaceous earth.
Principal Agencies (Exclusive) - The British Aluminium Co., Ltd..

66. Pennsalt International Corporation — CHUNG, Woon-Soo — 2-7664
52, 1-ka, Ulchi-ro, Choong-ku, Seoul — nil — Int'l 1073
Corporation - American — — PENNSALT
3 Penn Center Plaza, Philadelphia 2, Penna.

Functions Undertaken : Import, export, sales agent.
SAgt - Agricultural chemicals, general commodities.

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- R -

67. Rieckermann (Korea) Co. — Albert W. Haupt 2-4952/-
Rm 638, Bando Bldg., — YUN, Myong-Hwan 2-4206
- German — Wolfgang Seidel, G.M. nil
Moenckebergstr 10, Hamburg 1, West Germany — Helmut S. Schulze, Asst. RIKMAN

Functions Undertaken : Import, sales agent.
Sâgt - Industrial plants, machine tools, sugar refineries, starch plants, etc..
Principal Agencies (Exclusive) - Allgemeine Elektrische Gesellschaft; Braunschweigische Maschinenbauanstalt; Krupp, and others on pharmaceutical machinery, all of Germany.

68. R. J. Campos & Co. — R. J. Campos 2-4469
Rm 626, Bando Bldg., — nil nil
Sole-proprietorship - British — BONDSTREET
as above.

Functions Undertaken : Import, export.
Sâgt - General commodities.
Principal Agencies (Exclusive) - Bond Street Enterprises, Ltd., Hong Kong.

69. Rokenger Trading Co., Ltd. — T. J. Adkin 2-4951
Rm 636, Bando Bldg., — S. K. Hong nil
Limited Company - British — E. A. Harneik, G.M. ROKENGER
London. — H. Greve, Engr.

Functions Undertaken : Import, export, sales agent.
Sâgt - Machinery, industrial plants raw materials, etc..

- S -

70. Schwarzman International Trading Co. — Murray L. Schwarzman 2-4037
Rm 329, Bando Bldg., — nil Central 12
Sole-proprietorship - American — Raoul E.J. Guilleaume SCHWARZINT
424 Madison Avenue, Suite 303-4, N. Y.

Functions Undertaken : Import, export.
Sâgt - Pharmaceuticals, general merchandise.
Principal Agencies (Exclusive) - Paul B. Elder, Bryan, Ohio; Pharma Union, Belgium.

71. Shriro (Canada) Ltd. — H.A.J. van Hanswijk Pennink 2-5619
Rm 320, Bando Bldg., — RHEE, Kwang Central 19
Corporation - Canadian — SHRIROCO
400 Ontario St., West Room 803, Montreal, Canada.

Functions Undertaken : Sales agent, importers, etc.
Sâgt - Machinery, chemicals, cement, coal, etc.
Principal Agencies (Exclusive) - Miag A.G.; Messer A.G. Frankfurt; Haniel & Lueg A.G.; Festo A.G.; Menck A.G.; Carl Krafft, all of Germany; The Brush Group; Tweedales & Smalley, both of England; Montecatini; Aziende Golori Nazionali Affini, both of Italy; Herman Hollander, Inc., N.Y..
Non-Exclusive Agencies Handling - High-vacuum processing plants, compressors & drilling equipment, tobacco & cigarette making machinery, tanning equipment.

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72. Siemssen & Co. (Hongkong) Ltd. — Rolf Steinwehe — 2-2127
Rm 234, Bando Bldg., — nil — Int'l 1080
Partnership - German — SIEMSSEN
6 Queen's Road, Central, Hong Kong

Functions Undertaken : Import, export.
SAgt - Machinery, iron & steel, minerals & ores, general commodities.
Principal Agencies (Exclusive) - Gebr. Bellmer; Croon & Lucke GmbH; Delbag-Luftfilter GmbH; C.C. Egelhaaf Betzingen; Fischer Maschinenfabrik; Fortuna-Werke; Feld & Hahn K.G.; Gueldner Motoren Gesellschaft; Wilhelm Geidner; Heinrich Grunewald; Albert Haag; Haase & Kuhn GmbH; Eugen Hirschburger K.G.; Gebr. Heller; Ernst Heckel; Gebr. Heinemann A.G.; Industrie Werke Karlsruhe; Kolb & Co.; Liebers & Co.; Carl Merz Hechingen; Merklinger Maschinenfabrik; K. F. Naegele; Otra Ringlaufer; Hermann Pfauter; J. E. Reinecker; P. F. Reinshagen; Schiess Aktiengesellschaft; Heinrich Schneider; J. Schlenter & Cie; L. Schuler A.G.; H. Stoll & Co.; J. Sailer K. G.; Sahm G. Eschwege; Paul Troester; Vereinigte Armaturen Gesellschaft; Wanderer-Werke A.G.; Weise & Monski Weise & Soehne; Peter Wolters Mettman; Gottfried Wachtberger; Hofmann & Woellner K.G.; Kampnagel A.G.; Merklinger Maschinenfabrik GmbH; Alfred Schwalbach K.G.; Steinert-Elektromagnetbau.
Non-Exclusive Agencies Handling - Injection moulding machinery, textile machinery & supplies; industrial sewing machines, net-making machinery, etc..

73. Smith, Hinchman & Grylls, Inc. — Chester J. Clark — c/o 50-061
c/o Office of the Rehabilitation Engineer, OEC — APO 301
Corporation - American
243 West Congress, Detroit

Functions Undertaken : Architects & Engineers.
Projects - Architectural & engineering services, under contract to CEB & ROK Government.

74. States Marine Corporation of Delaware — James W. Tobin — 2-4704/-
Rm 222, Bando Bldg., — CHA, Man-Chul, Asst. M. — 2-4840
Corporation - American — Int'l 1086
90 Broad Street, New York 4, N. Y. — STATMARINE

Functions Undertaken : Shipping, ship owners & charterers.

75. Swanson Trading Co., Ltd. — C. H. Cooke — c/o 2-4558
Taylor Bldg., 112-9, Sokong-dong, — KIM, Hi-doo — KWM 84
Choong-ku, Seoul — BOKKEE
Corporation - American
2, 4-chome, Marunouchi, Chuo-ku, Tokyo, Japan.

Functions Undertaken : Class VI, supplies to UN Forces.
SAgt - Beer.
Principal Agencies (Exclusive) - San Francisco Brewing Corp. (Burgermeister Beer).

- T -

76. Tinduck Trading Co. — CHEANG, Kwei-mun — 2-5069
22, 2-ka, Taepyung-ro, Choong-ku, Seoul — nil — nil
Sole-proprietorship - Chinese — TINDUCKCO
as above.

Functions Undertaken : Import, export, sales agent.
SAgt - Chemicals, dyes, papers, cotton goods, tallow, iron materials, etc..
Principal Agencies - Transpacific Trading Co.; Norddeutsche Ueberseegesellschaft, Germany.

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77. Tradeship Ltd.
292-22 Shindang-dong, Sungdong-ku, Seoul
Corporation - Canadian
Ottawa, Canada

C. A. Barradas 5-2382/-
nil -1715
I. G. Bradley, Pusan M. KWM 56
W. C. Stagner, Sales M. TRADESHIP

Functions Undertaken : Sales agents, distribitors, insurance agents.
SAgt - Beverages.
Principal Agencies (Exclusive) - Hiram Walker & Co., Canada; Getz Bros. & Co. Inc.; Lucky Lager Brewery; Caldbeck McGregor & Co., Japan; San Miguel Brewery, P.I.; Hans Haenachel & Co., Japan; Asahi Brewery, Japan; Insurance Co. of N. America, Japan.

78. Tradewell Company
178-188, 1-ka, Uijoo-ro, Suhdaemun-ku, Seoul
Corporation - American
Rm 324, Gloucester Bldg., Hong Kong

William John Crum 2/-0072/-
nil -3848
KWM 204
TRADEWELL

Functions Undertaken : Sales Agent, Class VI & Club supplies to UN Forces.
SAgt - Beverages & [illegible] supplies.
Principal Agencies (Exclusive) - Wellington Trading Corp., Japan.

79. Transcontinental Transport, Inc.
162, 2-ka, Ulchi-ro, Choong-ku, Seoul
Corporation - American
112 Market St., San Francisco 11, Calif.

Charles Jin Bhark 2-2848
nil Central 138
BHARKJIN

Functions Undertaken : Sales Agent.
SAgt - Machinery, oils & meals, tobacco leaf, G.I. sheets, mountain paks, shotguns.
Principal Agencies (Exclusive) - Hail & Cotton Tobacco Leaf; Himalaya Pak Co.; Rocca-Cuvi, Inc.; Stoeger Arms Corp..

- U -

80. Uebersee Handel A. G. (UHAG)
Rm 604, Bando Bldg.,
Limited Stock Co. - Swiss
P.O. Box 763, Zurich 22, Switzerland

Alfred Kaufmann 2-2359/-7417
nil Int'l 1268
Hildebrand UHAG
Hinrichs

Functions Undertaken : Import, export.
SAgt - Chemicals, dyestuffs, pharmaceuticals, electrical & power equipment, textile machinery, machine tools, other machinery.
Principal Agencies (Exclusive) - Brown Boveri Cie.; Hasler Co.; Landis & Gyr.; Micafil; Swiss Locomotive works; Buhler Bros.; Reishauer A.G.; Rigid Ltd.; Societe Genevoise; Kellenberger & Co.; Buehrle; J.J. Rieter & Co., Ltd.; Benninger Bros. Eng. Works, Ltd.; Henry Baer Co.; Luwa Ltd.; Zellweger Ltd.; Vollenweider & Saladin Co.; - Switzerland. Daimler-Benz A.G.; KSB Export; Mannesmann Export; Marathon Export; Gutehoffnungshuette; Schloemann; Friedrick Zeckel; Matra - Works; Meyer, Roth & Pastor; Schenck; Waldrich; Wotan; Beche & Grohs; Bienatzki; Machinen Fabrik; MSO; Webo; Weipert; Obermaier & Co.; Achener Machinenbau A.G.; Farbenfabriken Bayer A.G.; G. Siegle & Co.; C.H. Boehringer Sohn Ingelheim; Chemischefabrik Stockhausen & Cie; Haarmann & Reimer; - Germany. Gaschuetz & Fischer Co., France; Union Special Machine Co., USA.

81. Underwriters Adjustment Co., Inc.
Taylor Bldg., 112-9, Sokong-dong,
Choong-ku, Seoul
Corporation - American
P.O. Box 152, Hamilton, Bermuda

S. Sollerborn 2-3950
CHI, Chai-chung KWM 304
ADJUSTCO

Functions Undertaken : Surveys and adjustments.
Korea Firms Represented : Korea Service Co., Inc., Seoul.

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82. U. S. Summit Corporation — Daniel C. Lee — 2-5383/-
Tongshin Bldg., 70, Sokong-dong, Chuong-ku, Seoul — nil — 2-4593
Corporation - American — Int'l 1078
120 Wall Street, New York 5, N.Y. — SUMMIT

Functions Undertaken : Sales Agent.
SAgt - Pharmaceuticals, machineries, etc.
Principal Agencies (Exclusive) - Allis-Chalmers Mfg. Co., Tractors; Brown & Sharpe Mfg. Co.; Construction Machinery Co.; Fisk Tires International; General Motors Corp., diesel engines & power units; Goodman Mfg. Co.; W. & L. E. Gurley; Johns-Manville Int'l Corp., asbestos products; Merck Sharp & Dome International; Metallizing Engineering Co., Inc.; Parsons & Whittemore Inc.; Schramm Inc.; Squibb Int'l Div. pharmaceuticals; U.S. Steel Export Co.; Wyeth International Ltd., Inc..

- V -

84. Vinnell International Corporation — Thomas Jones — 51-103/-109
c/o UNKRA — nil — Ext. 151
Corporation - American — Pike H. McCain, — APO 301
Alhambra, Calif. — - Inchon M, — nil
Torben Vej,
- Engineer

Functions Undertaken : General engineering contractors.
Projects - Inchon Flat Glass Plant; National Medical Center; US Army projects.

- W -

85. Wilcox and Company, Inc. — James J. Wilcox — 2-4230
Rm 302, Bando Bldg., — CHUNG, Kyun-sick — KWM 208
Corporation - Panamanian — Charles W. Taylor, V-P. — WILKAN
Apartado 850, Panama City, Panama

Functions Undertaken : Sales Agent.
SAgt - Pharmaceuticals, papers, chemicals, photo materials, non-ferrous metals.
Principal Agencies (Exclusive) - American Smelting & Refining Co.; Lepetit, S.P.A., Italy.

86. Williams International Incorporated — J. Laurance Topp — 2-4440
Rm 542, Bando Bldg., — LA, Sung-dong — Int'l 1113
Corporation - American — Harold L. Dean — WILLINC
760 Market St., San Francisco, Calif.

Functions Undertaken : Sales Agent.
SAGt - Insurance, printing machinery & equipment, pulp, paper & paper products, mining machinery & equipment, industrial waxes.
Principal Agencies (Exclusive) - Britannia Batteries Ltd.; British Ropeway Engineering Co., Ltd.; Clayton Equipment Co., Ltd.; Hugh Wood & Co., Ltd.; - England. Gestetner Ltd.; Charles Morgan & Co., Ltd.; Wiggins Teape & Alex Pirie (Export) Ltd.; - Hong Kong & England. Great American Insurance Co.; Japan & USA. The Swan Brewery Co., Ltd., Australia; S. C. Johnson & Son, Inc., USA.

87. Wilson & Company — Edward R. Hall — 5-2146;
Rm 302, Bando Bldg., — KANG, Tchoon-wern — 2-4230
Partnership - Korean 5/ — James J. Wilcox, pres. — KWM 208
as above. — ROBEWIL

Functions Undertaken : U.S. military service & supplier.
SAgt - Coin operated amusement devices, vending machines.

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88. Woodward & Dickerson, Inc. — Alfred W. Aspen, Jr. — 2-3486/-
Rm 328, Bando Bldg., — RIM, Kap-kyu — 2-2532
Corporation - American — George I, Purdy, — Int'l 1218
1400 South Penn Square, Philadelphia 2, pa. — - Asst V-P. — WOODWARD

Functions Undertaken : Import, export, sales agent.
Principal Agencies (Exclusive) - Kaiser Gypsum Co., Inc.,
Leo Pharmaceutical Products.

89. W. W. Taylor Co. of Korea — Ray W. Higgins — 2-2622
Taylor Bldg., 122-9, Sokong-dong, Choong-ku, Seoul — WOOH, Young-hi — KWM 111
Corporation - American — — TAYCO
Bank of America Bldg., Park St., Alameda, Calif.

Functions Undertaken : Distributors, sales agent, insurance.
SAgt - Automobiles, motorcycles, tires & tubes, auto parts, rayon yarns, tobacco, coal, cement, chemicals, power plants, diesel engines, machinery & equipment, etc.
Principal Agencies (Exclusive) - British Unicorn Ltd., England; Adolph Gleue, Germany; General Motors Corp., Chevrolet & Buick Divs.; Harley-Davidson Motor Co.; Kelly-Springfield Rubber Co.; The Rudolph Wurlitzer Co.; Goldsboro Tobacco Co., Inc.; King Electric Equip. Co.; MacKenzie-Bishop Co.; Electric Tamper & Equipment Co.; Kramer Body & Equip. Co.; - USA.
Tanrus Co., Ltd., India.
Non-Exclusive Agencies Handling - Machine tools, pharmaceuticals, furniture, asphalt, dental equipment, medical supplies, papers, etc..

- Y -

90. YuHan Korean Motors, Inc. — Ilhan H. New — 2-5025
6, 2-ka, Sinmun-ro, Chongno-ku, Seoul — nil — 4/ SDM 19
Corporation - Korean 5/ — — YUHAN
as above.

Functions Undertaken : Import, export, sales agent.
SAgt - Automobiles, outboard motors, pharmaceuticals, etc..
Principal Agencies (Exclusive) - Borg-Warner International Corp.; Chrysler Corp., Dodge; Outboard Marine Corp..

Footnotes:
1/ Bando Bldg. : 180, 1-ka, Ulchi-ro, Choong-ku, Seoul.
2/ Bando Telephone switchboard : 2-7150 to 2-7159.
3/ KWM : Kwangwhamun Postal District. The use of the initials alone suffice.
4/ SDM : Suhdaemun Postal District. - ditto -
5/ Firms of Korean registration, which have been listed by virtue of the nationalities of their founders.

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Data on each firm was compiled primarily from information furnished by the firms. Although every effort has been made to make the roster as comprehensive as possible, the list cannot be considered to be a complete coverage of the foreign firms that might be actively engaged in business in Korea. As listed, the following nationalities, with their corresponding number of firms, are noted :

	Nationality	No.:	Items
1.	American	50	1, 2, 3, 4, 5, 7, 8; 10, 16, 17; 20, 21, 22, 25, 26, 27; 31, 35, 36, 37, 38; 43, 44, 46, 49; 51, 52, 53, 55, 57, 59; 61, 62, 63, 64, 65, 66; 70, 73, 74, 75, 78, 79; 82, 83, 84, 86, 88, 89.
2.	British	12	6, 9, 11, 39, 40, 41, 42, 45, 47, 50, 68, 69.
3.	Canadian	4	18, 34, 71, 77.
4.	Chinese	4	12, 14, 15, 76.
5.	Danish	1	32.
6.	French	1	19.
7.	German	3	23, 67, 72.
8.	Italian	2	28, 48.
9.	Korean 5/	4	54, 58, 87, 90.
10.	Panamaian	7	13, 24, 30, 33, 56, 60, 85.
11.	Swiss	2	29, 80.
	Total	90	

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NND #67400
By [illegible] NARA, Date [illegible]

FIRMS IN THE BANDO BLDG. (CLASSIFIED UNDER ROOM NO.)

Room	Item	Room	Item
104	9	500	46
		506	42
204	61	508	11
206	54	509	65
208	53	510	5
220	13	512	49
222	2, 37, 74	518	4
226	15	524	33, 41
232	28	526	8
234	72	531	19
238	25	536	51
		541	47
302	85, 87	542	39, 86
306	34		
308	27	600	7
318	6	602	45
320	71	604	80
328	88	606	29
329	70	608	62
331	64	610	31
332	16	612	48
336	22	618	50
338	26, 38	620	20
341	1	624	35
343	17	626	68
		632	36
		634	23
		636	69
		638	67
		641	40
		642	21

American Chamber of Commerce in Korea, Ground Floor, Bando Bldg., Seoul.
President : Mr. Henry Renfro. Tel. : 2-0816 Ext. 136

Chamber of Commerce of Korea, 111 Sokong-dong, Choong-ku, Seoul.
President : Mr. RHEE, Sei-hyun. Advisor : Mr. Walter Jhung, Tel.: 2-5528/ - 5529

Korean Traders Association, Metropolitan Dept. Store Bldg., Namdaemun-ro, Seoul.
President : Mr. KANG, Sung-tae. Tel. : 2-0819;-2603;-5547.

Bureau of Commerce & Foreign Trade, Ministry of Commerce & Industry, ROK
Director : Mr. KANG, Yong-ok. Tel. : 2-0301.

Bureau of Economic Affairs, Ministry of Foreign Affairs, ROK
Director : Mr. Chai-Hang EA. Tel. : 2-0951.

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NND 867460
By [illegible], NARA, Date 11/1/96

Names of individuals appearing in the list. Although attempt has been made to include only foreign personnel, a few Korean nationals are listed, in connection with such entities where no foreign staff is in office.

Name	Item
A.	
1. Adkin, T. J.	69
2. Arntzen, Anton Eivind	41
3. Aspen Jr., Alfred W.	88
B.	
1. Baker, Donald J.	64
2. Baker, Lawrence Ivan	65
3. Barnour, Ian G.	30
4. Barnes, Allen	2
5. Barradas, C. A.	77
6. Belman, M. L.	7
7. Belokaman, Z. A.	25
8. Benz, Guido J.	29
9. Berman, Constantine P.	35
10. Bhark, Charles Jin	79
11. Boerstling, R.	62
12. Bok, Melvin C.	11
13. Bombach, F. L. H.	34
14. Bosetti, Enrico	28
15. Bradley, I. G.	77
16. Braun, Michael A.	33
17. Bray, Leslie John	7
18. Bretall, Ronald F.	61
19. Brown, Herb H.	20
C.	
1. Campos, R. J.	9, 68
2. Carlson, David L.	43
3. Carvalho, A. B. de	17
4. Chang, Charles	46
5. Cheang, Kwei-mun	76
6. Cheesman, W. Gifford	39
7. Chen, Po-tsen	12
8. Chung, Woon-soo	66
9. Clark, Chester J.	73
10. Cooke, C. M.	75
11. Cooper, B. Donald	47
12. Coppin, Alen Dudley	42
13. Crum, William John	78
D.	
1. Dean, Harold L.	86
2. Dimon, Jack I.	40
F.	
1. Fagerholt, Gunnar	32
G.	
1. Geddes, John Malcolm	45
2. Grant, Donald W.	64
3. Gray, John	44
4. Greco, Anthony J.	38
5. Greve, H.	69
6. Guilleaume, Raoul E. J.	70

Name	Item
H.	
1. Hall Edward R.	87
2. Harneik, E. A.	69
3. Haupt, Albert W.	67
4. Henke, Heinrich Werner	23
5. Higgins, Ray W.	89
6. Hildebrand	80
7. Hill, Dwight	37
8. Hillman, J. W.	63
9. Hinrichs	80
10. Howard, A. S.	55
11. Hsieh, Chao-fen	12
12. Hulse, Merrill E.	15
13. Hyer, Paul	33
J.	
1. Jensen, Henry	32
2. Johnson, William B.	3
3. Jolly, Frederick	50
4. Jones, Thomas	84
K.	
1. Kaufmann, Alfred	80
2. Kendall, Arthur	83
3. Kisray, Rene Mac	19
4. Kleemann, E. A.	34
5. Kolonie, A. P.	24
6. Kramer, George H.	62
7. Kranzfelder, E.	63
L.	
1. Landau, M.	25
2. Leckie, Robert M.	18
3. Lee, Daniel C.	82
4. Lee, Won-soon	54
5. Leslie Jr., Allen G.	26
M.	
1. Madden, Arthur W.	43
2. Marques, Carlos	15
3. McCain, Pike H.	84
4. McDonough, Martin Edward	57
5. McFadden, Richard H.	58
6. McMackin, Robert H.	27
7. Melnick, Alvin I.	1
8. Menge, Carlton H.	58
9. Michlautz, Ferdinand	33, 59
10. Miller, J. B.	56
11. Moller, Fritz	32
12. Munfrey, Robert	43
N.	
1. Neugebauer, Geo	34
2. New, Ilhan H.	90
3. Norman, Theodore	51

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O.

1. O'Kelly, Vincent 43
2. Olsson, Einar V. 6
3. O'Neil, William F. 60

P.

1. Parker, O. Newell 60
2. Pennink, H.J.J. Van Hanswijk 71
3. Phillips, Raymond C. 59
4. Prior, Milan James 16
5. Pruefer, Friedrich, J. 21
6. Puntieri, Ugo 48
7. Purdy, George I. 88

R.

1. Rance, John L. 26
2. Rance, Stan B. 26
3. Reynolds, H. C. 40
4. Ricks, John H. 40

S.

1. Sager, Clar 3
2. Saphiere, Leo 36
3. Savage, Linnaeus Tyndall 55
4. Schulze, Helmut 67
5. Schwarzman, Murray L. 70
6. Seidel, Wolfang 67
7. Singer, Dudley G. 31
8. Skrock, W. 57
9. Sledz, O. 13
10. Sollerborn, S. 81
11. Song, Mark S. 22
12. Stagner, W. C. 77
13. Steinwehe, Rolf 72

T.

1. Taylor, Charles W. 85
2. Tobin, James W. 74
3. Topp, J. Laurance 86
4. Tropp, Jack 11, 49

U.

1. Ulrich, H. L. 55

V.

1. Von Spiegefeld, W. 4
2. Vej, Torben 84

W.

1. Wachtel, H. J. 25
2. Weaver, D. A. 11
3. Wilcox, James J. 85, 87
4. Williams, K. G. 24
5. Winter, R. L. 5
6. Wise, Irving 5
7. Woo, Frank Y. H. 14

Z.

1. Zimmerman, Joseph M. 20

Spot Entries :

NOTES :

It will be appreciated if any errors, omissions or additions to this list, when noted, be brought to the attention of the Economic Section, American Embassy. Your assistance and cooperation in helping to keep this list complete and up-to-date, will, it is felt, serve to make this Directory more useful and helpful to you and all those who may have need to refer to it. Thank you.

0503

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By NARA, Date 1/16/24

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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL — 415 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — June 21, 1956 DATE

REF : CERP, March 20, 1953, B -12, 14, 15; C-2b; D-10,11.

JUN 22 1956

15 For Dept. Use Only	ACTION ~~P-2~~ P-3 ~~E-3~~	DEPT. INFO RM/R-2 OLI-6 ICA-10 ~~#~~ IO-4
	REC'D 6/26	OTHER CIA-6 LAB-4 COM-6 ARMY-2 NAVY-3

SUBJECT: Labor Reporting

Mr. Joseph E. O'Mahony has been assigned the responsibility for labor reporting under the CERP in addition to his other duties. It should be realized that statistical information relating to labor matters in the ROK is extremely meager and highly unreliable. The only labor organization is the Federation of Korean Trade Unions, an organ of the Liberal Party and of minor importance in the economic affairs of the country. Reporting in this area, therefore, must be limited largely to major developments and cannot hope to be as complete as in more highly developed countries or in places where organized labor plays a larger role in national affairs.

For the Charge d'Affaires ad interim

Edwin M. Cronk
Chief of Economic Section

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Action Assigned to 2nd GMS/185
Action Taken None required
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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL

344
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

November 26, 1957
DATE

REF : Vol. I ⊛-wkg mc'd.
1957 CERP, Section B, Item IV-D.

NOV 27 1957

15 For Dept. Use Only	ACTION ⊛ REP-3	DEPT. INFO ⊛ RM/R-2 IRC-8 LR-1 ⊛ FE-4 ⊛ ICA-10 ⊛ E-4 ⊛ PER-2 ⊛ IO-4
	REC'D 12/4	OTHER ⊛ CIA-15 LAB-5 ⊛ COM-6 ⊛ HEW-5 ⊛ OSIA-10 NAVY-3 ARMY-2

SUBJECT: Transmittal of a Statistical Report on the Labor Force in the ROK

Enclosed are nine copies of The Sixth Statistics of Labor Status Survey (as of March 31, 1957), a 679 page report published by the ROK Bureau of Labor, Ministry of Public Health and Social Affairs. Column headings in the tables are in Korean and English. The lists of industries surveyed appearing in the left margins are in Korean only, with English translations included at the end of the report referenced by code number.

The Statistical Section of the Labor Bureau has compiled data on a range of subjects relating to labor affairs, such as numbers of employees and enterprises in various fields of activity, employment turnover, on-the-job accidents, inmates of welfare institutions, membership in labor unions, management-employee disputes, the age structure of the working population, geographic distribution of workers and the educational levels of employed persons. Much of the information lacks precision and in some cases margins of error are probably quite large, the Labor Bureau being extremely limited in its ability to perform research projects. Useful generalizations regarding the labor force in south Korea, nevertheless, may be arrived at partially on the basis of the figures presented.

For the Charge d'Affaires ad interim:

Edwin M. Cronk
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

FROM: Amembassy, SEOUL
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TO: THE DEPARTMENT OF STATE, WASHINGTON.

REF: Embassy Despatch 415, June 21, 1956

DEC 6 1957

For Dept. Use Only	ACTION	DEPT.
	FE-3	RMR-2 REP-2 IRC-8 ICA-10 IO-4 G-1 E-4
	REC'D 12-10	INFO OTHER CIA-12 LAB-5 COM-6 ARMY-2 NAVY-3

SUBJECT: Labor Reporting

to DC/R file

Mr. Joseph O'Mahony is leaving this post on or about December 13, 1957 for home leave and reassignment. His duties in the Economic Section, including labor reporting, are being assigned to Mr. Leo John Ryan who will arrive in Seoul early in January.

For the Charge d'Affaires ad interim:

Edwin M. Cronk
Edwin M. Cronk
First Secretary of Embassy

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DEPARTMENT OF STATE INSTRUCTION

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NO.: [redacted] A - 183, April 28, 1958

SUBJECT: Jobs for American-trained Korean Students.

895B.06

TO: The American Embassy, SEOUL
The Office of the Economic Coordinator, SEOUL
The Commander in Chief of the United Nations Command, SEOUL

This is a joint State-ICA-Defense Instruction.

Reference is made to Embassy Despatch 580, TOICA A-2424 and TOICA A-2713.

United States Government Agencies, the Korean Government and the Korean Embassy in Washington have all been greatly concerned with the failure of large numbers of Korean students studying in the United States to return to aid the reconstruction of Korea following the completion of their studies. The total number of Korean students currently in this country is believed to be upwards of 4,000 and those who have completed their studies but have not yet returned may number 600 or more, although exact figures are not available. (Since the contact between Korean Government agencies and Korean students is far from being comprehensive, it is doubtful whether the figure of 2,100 Korean students cited in TOICA A-2713 is much more than a very rough estimate.) It is understood, of course, that the students in question are non-United States Government financed. The Korean Embassy has consented to provide systematic information on the specific qualifications of students ready to return. Its findings, when available, will be communicated to you.

The chief reason articulated by Korean students in explaining their non-return is the lack of job opportunities in Korea. While realizing that students cannot reasonably expect to be hired without returning and personally presenting themselves, the desire of Korean students to return would be greatly stimulated if existing job opportunities in Korea were better known to them. Therefore, general or specific information regarding job opportunities in United States agencies, American firms in Korea, or elsewhere in the Korean economy would be very useful in answering questions received here regarding job availability and in assisting, to the extent possible, the process of fitting applicants to jobs and stimulating students to return and assist their country.

895B.06/4-2858

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DRAFTED BY: FE:NA:GHenderson/ICA/Korea:IWalker:mhw 4-25-58

APPROVED BY: NA - Howard L. Parsons

CLEARANCES: ICA (M/PERS) - M. Weinger (in draft) ICA (S/TDS) - J. Victory (in draft)
ICA (FE/E) - K. Robinson (in draft) ICA (Korea) - J. Williams (in draft)
USIA/IAF (Japan-Korea) - B. Battey (by phone) DOD (OSD/ISA/FE) - H. Sandri (by phone)

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Any assistance you can render in forwarding information on job opportunities for Koreans in Korea will be appreciated, along with your comments.

DULLES

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FOREIGN SERVICE DESPATCH

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110
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TO : THE DEPARTMENT OF STATE, WASHINGTON.

August 28, 1958
DATE

REF : CERP, Section C, Item 4

SEP 8 1958

9/12/58-2

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67	FE-4	INFO RMR-2 Rep-1 IRC-8 G-1 ICA-10 ID-4 PER-2 FE Con-10, LAB-5, HEW-5 USIA-10 ARMY-4 H. Soft NAVY-3
	REC'D 9/11	OTHER

SUBJECT: Semi-Annual Labor Report AIR-1 CIA-15

noted HS

SUMMARY

It is estimated that the population of Korea at the end of October 1957 was 22.17 million of which 9.1 million were included in the "labor force". Although the number of unemployed are officially placed at 165 thousand, it is believed that an estimate of one million jobless would be more accurate and even conservative.

There are no standard wage scales in Korea. Wages are set by the individual employer and may, or may not, reflect the current prosperity of the company, the degree of skill of the worker, the employee's length of service with the company, his family status, and other considerations.

A recent ROK Government survey of 12 industries shows that in almost every industry the average income of the head of household was insufficient to cover average expenditures. However, a comparison of average earnings with price index averages indicates that the average worker's real income for the period of this report, October 1957-March 1958, was higher than for the same period a year earlier.

The Labor Standard Act of 1953 contains provisions on wages, hours, holidays and vacations, health and accidents, hirings and dismissals, and the protection of women and minors, but the law is poorly enforced and for the most part simply ignored.

Labor unions, which were first established in Korea in 1945, have grown to a present estimated strength of 300,000 workers in 538 unions. The growth of unions in Korea is hampered by the opposition of management and the failure of the unions to prove their value to the worker. The union movement is further weakened by the lack of labor solidarity, self-seeking and venal labor leaders, the high rate of unemployment, and the Government's attitude toward labor. Because of these and other factors labor cannot bargain effectively with management.

Organized labor in Korea is viewed with suspicion by the Government and is subject to official control. Although the Federation of Korean Trade Unions, which represents all organized labor in Korea, is a unit of the ruling Liberal Party, labor has no real political influence either within or outside of the Party. Conscientious union leaders stress political independence as one of the most important goals to be achieved by Korean labor.

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NND 867400
By [illegible], NARA, Date 1/17/89

Both Korean participation in international labor activities and the activities of international labor groups in Korea have been very limited and both must contend with Government interferrence.

Labor leaders who have visited the United States have returned inspired by the achievements of American labor. Their aroused enthusiasm for a vigorous independent labor movement, while popular with the workers, has not proven contagious in influential circles, and they have all suffered demotions in labor organizations.

MANPOWER UTILIZATION

The estimated population of the Republic of Korea at the end of October 1957 was 22,170,000. The labor force, defined as males and females between the ages of 14 and 70 who are able to work and are desirous of employment, numbered 9,131,000 of which 8,966,000 were classified as gainfully employed 1/ and 165,000 as unemployed. Those individuals classified as "non-labor" (household workers, students over 14, the aged, etc.) amounted to 4,783,000, and there were 8,256,000 children under the age of 14. (For classification of population see Tables 1, 2 and 3).

Classification of the gainfully employed by industry reveals that over 7 million (approximately 80%) were engaged in farming, 644 thousand (approximately 7%) in service businesses, and 619 thousand (approximately 6%) in retail, wholesale, banking, insurance and real estate businesses. By occupation there were over 7 million farmers, woodmen and fishermen, and 657 thousand sales people. (Classifications by industry and occupation are shown in Tables 4 and 5.)

Total population figures include the estimated 700,000 men in the military services. They are included in the number of "employed" and are distributed according to civilian occupation in the classifications of employment by industry and occupation as shown in Tables 4 and 5.

There are no reliable figures on unemployment. As a government official explained, even if accurate statistics were available they would not be released as they might be used for propaganda purposes by enemies of the Administration or of the ROK. Government officials were recently angered and embarrassed by an article in the local press which placed the number of unemployed at over 2 million and which cited the Government as the source of this figure.

It is believed that an estimate of 1 million unemployed would be conservative and much more accurate than the Ministry's estimate of 165,000. The Bureau of Labor, when queried by the Embassy, estimated 500,000 persons were unemployed. Other sources place the total at over 1 million. CHONG Tae-Ch'on (0002/1129/1131) Supreme Committeeman of the Federation of Korean Trade Unions, and a member of the National Assembly, recently told Embassy officers that the unemployment total would probably stand as high as 1.5 million and that if the underemployed were

1/ The term "gainfully employed" means persons who are actually engaged in earning an income. Family members engaged in work for more than one hour during the survey period, even if without income, are classed by the Ministry of Home Affairs as gainfully employed.

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included, the number might rise as high as 3 million. (It is estimated that 50 per cent of the farm labor force is gainfully employed less than 6 months out of the year and that the majority of fishermen are employed for only 6 to 8 months.)

WAGES AND WORKING CONDITIONS

Earnings of workers in Korea are made up of basic wages, overtime and bonus production payments, and various allowances such as wartime, family, danger, night work, technician's, and others. For the most part there are no established levels based on occupation, degree of skill, or any other factor, of these elements of earnings. In some industries where the unions are well organized, such as the railroads, some general standards may exist. As a rule, however, each company sets its own wage scales and applies them on an individualistic or personal basis.

Wages offered may depend on the current prosperity of the hiring company. Workers of equal skill performing the same tasks may be offered different wages. New employees of a company, regardless of their skills or the work to which they are assigned, are usually started at low wage levels. In industries that do not pay family allowances, basic wages may, or may not, reflect the family status of the individual worker. Thus, the amount of earnings, the levels of the component parts and the relative importance of the parts may vary from company to company, from industry to industry, and from worker to worker.

In a recent government survey "electricians" (no degrees of skill indicated) in six industries showed a range of monthly income from a low of 18,060 Hwan for a 28-day-528 hour month to 61,220 Hwan for a 25 day-200 hour month. Computation of hourly rates from the survey statistics shows that the highest hourly rates for electricians ranges from 111 to 306 Hwan and the lowest from 34 to 170 Hwan. Also, within the six industries the percentage of total earnings represented by basic wages ranges from less than 4 to over 85 per cent.

Table 6 shows the average wages paid in twelve industries, the highest and lowest wage earners in each industry, their occupation, basic income, allowances and hours worked. These figures cover the month of September 1957 and show actual hours worked and wages received. Average wages in each industry were arrived at by dividing the total payrolls of the companies surveyed by the total number of workers employed during the month. The highest and lowest wage earners were selected from employees who worked more than 20 days during the month. In this table there can be seen the variation from industry to industry in the importance of allowances as compared to basic income. While the occupation classifications are quite general and some of the figures seem questionable, such as the 512 hour month worked by a female coal-selector, the Bureau of Labor of the Ministry of Health and Social Affairs, which conducted the survey, was unable to offer any additional information in answer to the Embassy's queries.

The income and expenditure figures shown in Tables 7 (a) and (b) are taken from the September survey of employees who worked every working day of the month and who supported families. These figures reveal that in almost every case the income of the householder was insufficient to cover expenditures. Table 7 (b) ignores the male-female subdivisions of Table 7 (a) and shows average expenditures

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for five cost-of-living items by the workers in each industry. A total of the itemized average expenditures, which were computed by the Embassy, may not agree with the overall average expenditures shown in the Ministry figures but all discrepancies are too small to be of any concern. Variations in the amounts spent by the different industrial groups on various cost of living items may be due, to some degree, to the types of allowances received, such as food, fuel and housing.

The average monthly earning of employees in twelve selected industries for the period October 1957 through March 1958, as compiled by the Bank of Korea, are shown in Table 8. Because of the methods by which the averages were computed, fluctuations may be due not only to changes in the rates of remuneration but also to changes in the employee structure and to changes in the number of days or hours worked. The figures therefore may be of little value in trying to establish wage trends or, by comparison with price indexes, trends in real earnings during the six month period covered by this report. If, however, the averages of earnings and price indexes for six months periods are compared, trends of some significance may be discerned.

The following figures show changes in the 6 months average of the Seoul Consumer Price Index and overall average earnings in manufacturing and mining for the three periods October 1956-March 1957, April 1957-September 1957, and October 1957-March 1958. Although the industries included in earnings surveys are located throughout the country, there is no country-wide price index that could be used for comparison. The average earnings figures include the earnings of wage earners, clerical and managerial workers and directors.

	1	2	3	4 Change	5 Change	6 Change
	10/56-3/57	4/57-9/57	10/57-3/58	1-2	2-3	1-3
Seoul Consumer Price Index	142.8	156.3	140.3	+ 9 %	- 9%	- 1.8%
Overall Average Earnings Manufacturing (thousands of Hwan)	21.03	22.3	23.1	+ 6 %	+3.5%	+ 9.8%
Overall Average Earnings Mining (thousands of Hwan)	26.93	32.2	34.8	+19.5%	+8.0%	+29.0%

As can be seen in the above chart the Seoul Consumer Price Index rose from 142.8 during October 1956-March 1957 to 156.3 during April 1957-September 1957, an increase of 9 per cent. During this period the real income of workers in manufacturing suffered a slight drop as earnings rose only 6 per cent but mining workers with an increase of 19.5 per cent in wages enjoyed increased real income.

During the period October 1957-March 1958 both manufacturing and mining workers enjoyed increased real income as their earnings increased 3.5 and 8.0 per cent respectively while the price index dropped by 9 per cent.

Comparing the October 1956-March 1957 averages with those for October 1957-March 1958 we find that the price index dropped by 1.8 per cent as wages in manufacturing rose by 9.8 per cent and in mining by 29 per cent.

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In tables 9 (a), (b) and (c) the average earnings in twelve selected industries have been compared with price index averages for the three periods discussed above. In these figures only the earnings of "production workers" have been included, i.e., earnings of clerical and managerial workers and directors have been excluded from the averages.

Table 9 (a) shows that while the price index rose by 9 per cent from October 1956-March 1957 to April 1957-September 1957 workers in five industries (coal mining, beverage production, wood and cork products, chemical and chemical products, and metal products) received increased earnings of from 10.3 to 33 per cent. In the other seven industries (metal mining, food, textiles, paper and paper products, printing and publishing, rubber products, and basic metals) real income dropped as changes in earnings ranged from a decrease of 5.7 per cent to increases of 7.9 per cent.

During the period October 1957-March 1958 all workers enjoyed increased real income over the preceding six month period due to a 9 per cent drop in the price index and earnings changes of from 18.9 to -5.5 per cent (Table 9 (b)).

The real income of workers in all industries increased from the October 1956-March 1957 period to the October 1957-March 1958 period. Table 9 (c) shows a drop in the price index of 1.8 per cent and earnings changes of from -0.4 to 38.0 per cent.

In Table 10 there are shown the results of a 6-month survey of the daily wages of ten classes of "day laborers" in ten cities which was conducted by the Bank of Korea. BOK officials explained to the Embassy that "day laborers" are hired on a job basis rather than on an hourly rate basis. The number of hours worked per day by the laborers might vary with the weather, the workers' health and other factors but the average work day would amount to at least 10 hours. Table 10 shows that the highest average daily pay over the 6-month period in the ten cities combined was 2,757 hwan received by stonemasons, and the lowest 925 hwan for coolies. The highest rate paid on any given day in the ten cities during the survey period was 4,000 hwan for scaffold erectors, and the lowest 800 hwan for coolies. The high and low city average daily wage for each of the ten classes of workers is also given in the table.

In Table 11 there are shown the earnings of railroad workers for the month of January 1958. These figures were prepared by the Alliance of Railroad Workers Unions at the request of the Embassy and are the most detailed statistics on earnings in any industry that the Embassy has been able to obtain.

Chapters III through VIII of the Labor Standard Act of 1953 cover wages, hours, holidays and vacations, health and accidents, hiring and dismissals, and the protection of women and minors but many of the articles contained in these chapters are ignored with impunity by employers.

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The Act provides that the Ministry of Health and Social Affairs, with the concurrence of the Central Labor Committee 1/ may, if necessary, fix a minimum wage. The Ministry has never found this necessary so that to date there is no established minimum wage in Korea.

Under the Act the standard work period is set at 8 hours a day, 48 hours per week, excluding the hours of rest. The hours of work can be extended to 60 a week by mutual agreement, and can be further extended with the permission of the Ministry. In the case of certain harmful or dangerous work the standard period of labor is 6 hours per day, 36 hours per week. This can be extended by 2 hours a day or 12 hours a week.

A minimum overtime rate of 50 per cent must be paid for work in excess of the fixed standard periods, for night work between the hours of 10:00 p.m. and 6:00 a.m. and for work on holidays. The employer should allow a rest period of 30 minutes for every 4 hours of work and not less than 1 hour rest for every 8 hours during the course of work.

The worker must be granted one work-free day each week and one wage-paid holiday each month. For one full year's work without absence the worker is to be granted 8 holidays with pay, for 90 per cent job attendance during the year 3 holidays with pay. In case the total number of paid holidays in a year exceeds 20, the employer should pay overtime rates for the days in excess of 20 instead of allowing the holiday.

When an employer discharges a worker, he should pay the worker the average wage for a period of not less than 30 days. If the worker has continuously served for two years or more he should be paid 30 days average wage for every year worked, and in case a worker has continuously served for more than ten years he should be paid an additional 30 days average wage for every year beyond 10 years in service.

The average wage is defined as the total wages paid during an established three-month period divided by the number of days in that period. Total wages, however, do not include allowances or payments in kind except as designated by the Minister of Health and Social Affairs. (In some industries temporary wages, allowances and payments in kind may represent over 90 per cent of total earnings.)

Article 38 of the Act requires that "in case of the closing of work caused by such a reason as may be ascribable to the employer, the employer shall pay the worker an allowance of not less than 60 per cent of his average wage for the period of the closing".

1/ The Central Labor Committee consists of representatives of business, labor and public appointed by the President to arbitrate and mediate labor disputes. From the summer of 1957 to February of 1958 there was no Committee due to the expiration of the terms of office of the members of the previous Committee and the President's failure to appoint new members.

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Minors under the age of 13 may not be employed unless they are in possession of an employment certificate issued by the Ministry of Health and Social Affairs. The work for minors between the ages of 13 and 16 years is set at 7 hours per day, 42 hours per week but this may be extended by authority of the Ministry.

No female or minor is permitted to engage in any work detrimental to morality or harmful to health. The law prohibits any female, or any minor under the age of 18, from working in pits or between the hours of 10:00 p.m. and 6:00 a.m.

Female workers must be granted a period of 60 days leave with pay both before and after childbirth. If a female worker is the mother of a child under 1 year of age, the mother must be granted two nursing periods a day of not less than 30 minutes each.

An employer who employs more than 30 persons below the age of 18 must provide at his expense at least 4 hours general education a week for his minor employees.

Chapter VI of the Labor Standard Act requires the employer to "work out necessary measures for prevention of danger and maintenance of health, morality and protection of life with respect to installations dangerous for work or harmful to health". Machines and aparatus used in especially dangerous work cannot be changed or installed unless approved by the Ministry of Health and Social Affairs and cannot be used until they have been inspected by the Ministry.

Workers are not to be assigned dangerous tasks if they have had no previous training in such work. When a worker is hired, the employer must provide training in safety and health measures necessitated by the type of work to be performed. For certain types of work the employer must assign safety and health supervisors.

Work-connected accidents or illnesses are to be treated at the employer's expense. During the time of such treatment the worker should receive compensation equivalent to 60 per cent of his average wage. If the occupational disease or injury is due to the employee's own negligence, the employer may be exempted from payment of compensation. If, after one year from the date medical treatment began, the employee has not recovered, the employer may escape further liability by the payment of 1,000 days average wages.

In the case of death due to an occupational accident or illness, the employer must pay the equivalent of 90 days average wages for funeral expenses and 1,000 days average wages as compensation to the surviving family members.

The Enforcement Decree of the Labor Standard Act provides compensation payments of from 50 to 1,000 days average wages for various physical handicaps resulting from occupational accidents or diseases.

There are no provisions in Korean law for social security, unemployment or old-age benefits. One of the electric power companies has cooperated with the employees to establish a retirement fund, contributions to which are made on a 50-50 basis by the company and the employees.

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Since the labor laws are poorly enforced, and the punishment provided for violators of the laws is in no case severe, management rarely hesitates to disregard the provisions of the Labor Standard Act.

TRADE UNIONS

Labor unions have just recently come into existence in Korea. During the Japanese occupation of the country the only organization which existed among the Korean workers was a primitive type of guild of coolies working at sea and river ports. In the 1920's and early 1930's there were some attempts at collective action by Korean labor but these were discouraged by the Japanese.

Immediately after the liberation of Korea in 1945 the General Council of Labor (GCL) was formed. An internal struggle for power soon developed between the Communists, who dominated the GCL, and anti-communist elements. In March 1946 the latter group broke with the GCL and formed a separate organization, the Federation of Korean Trade Unions (FKTU), with Dr. Syngman Rhee as President.

The two organizations subsequently engaged in numerous bloody battles in which, reportedly, many lives were lost. A nation-wide strike called by the GCL in October 1946 was bitterly opposed by the FKTU andwas finally broken. Again in 1947 the GCL ordered a general strike. This proved a complete failure and the GCL soon went out of existence. With the demise of the GCL, the FKTU became and has remained the supervisory organization for all labor unions in Korea.

After defeating the GCL, the FKTU concentrated on increasing its membership and reorganizing its structure. The reorganization effort soon developed into a fight between YU, Ki-t'ae (killed during the Communist invasion of S. K.) and CHON, Chin-han (6929/6966/3352) for leadership of the Federation. In 1949 the YU faction demanded that CHON, who was Minister of Social Affairs, resign his ministership or withdraw from the FKTU. This CHON refused to do. The YU faction then withdrew from the Federation and abstained from any participation in Federation affairs.

With the Communist invasion of South Korea the FKTU organization and activities suffered a great deal. Many of the ablest labor leaders were kidnapped or murdered by the invaders. Local observers state that organized labor in Korea has never since been represented by such capable men.

Late in 1951 an attempted reconsolidation of FKTU units, which had been scattered and weakened by the Communist invasion, was frustrated by factional troubles stemming from a labor dispute at the Choson Textile Factory in Pusan. It was alleged that some labor leaders had betrayed the workers by collaborating with the factory management during the dispute.

At the convention in 1952 the FKTU replaced the single Chairman of the Federation with three Supreme Committeemen. Passage of the Korean labor laws in 1953 contributed to the strength of the FKTU.

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In 1955 the Federation again suffered from internal dissension. Liberal Party pressure was brought to bear in favor of KIM, Chu-hong and YI, Chun-su who had been defeated for election to the three-man Supreme Committee at the April convention. Another election was held in September in which CHONG, Tae-ch'on (0002/1129/1131), also elected at the April convention, KIM and YI were elected to the Supreme Committee.

At the convention of October 1957 CHONG attempted to oust KIM from the Supreme Committee. Despite CHONG's efforts KIM was reelected and CHONG defeated. This time Liberal support was extended to CHONG, KIM apparently having lost favor in party circles, and another convention was scheduled.

At the second 1957 convention, held in December, the number of Supreme Committeemen was increased from three to five. Not only was Chong elected and Kim defeated but KIM, Yong-hak (6855/7893/7729), a member of the Seoul Area Railroad Workers Union and a rival of KIM, Chu-hong, also was elected to the Supreme Committee. After the convention KIM, Chu-hong was successful in having the Bureau of Labor nullify KIM, Yong-hak's election on the grounds that the latter had not been eligible to enter the election.

Since the December convention there has been little activity on the part of the Federation. Labor considered it wise to avoid any possible disturbances prior to the national elections which were held in May. In the post-election period the Federation has, on the surface, remained dormant, but, with the annual convention scheduled for some time this Fall, a bitter internal struggle for power is being waged between Kim, Chu-hong and Chong, Tae-ch'on.

Membership in the FKTU, which stood at 130,000 in 1950, was, due to the disruptions of the Korean war, down to 112,000 in 1953. In September 1957 the Bureau of Labor estimated Federation membership at 234,000 workers in 538 unions, as compared to FKTU claims of 400,000 members. Government and labor officials now compromise at a figure of approximately 300,000.

The FKTU is organized into 6 industrial alliances, 2 occupational alliances, 15 district alliances, and 4 independent unions directly affiliated with the Federation. There is a considerable overlap between the industrial and district alliances as member unions of a district alliance may also be members of one of the industrial alliances.

There are no complete figures on the strength of unions by industry, however, the industrial alliances and their membership are as follows:

Alliance of Maritime Workers Unions	22,243
Alliance of Electric Workers Unions	10,105
Alliance of Mine Workers Unions	14,847
Alliance of Textile Workers Unions and United Textile Unions (not a member of Alliance)	38,979 4,216
Alliance of Railroad Workers Unions	27,300
Alliance of Free Workers Unions (coolies, stevedores, dock workers, etc.)	77,631
Total	195,321

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The main obstacle to be overcome in forming a trade union in Korea is the opposition of management. Management combats labor by firing labor organizers, forming company unions or by simply "buying off" union leaders.

Organizing a union under Korean law is an easy matter. Since the law does not require any particular number of participants to form a union, labor organizations may be formed from as few as four or five people. Any number of such unions may exist within one industrial establishment although only one may be recognized as the workers' bargaining agent by the Bureau of Labor. The ease in forming these units makes the formation of rival unions a favorite tactic in factional fights within labor circles. The report on the formation of such a union will speak of welcoming speeches, opening speeches, nominations, elections, congratulatory speeches, etc., although the entire convention consisted of perhaps 4 people sitting at a table in one of the participant's homes.

A primary problem in maintaining unions is the failure of the unions to perform any useful service for the members. The members simply cannot see any benefits to be derived from union membership. As an example of this problem there is the case of the failure of certain companies to pay the workers' wages for months at a time. The worker feels that if the union cannot even force the employee to pay the worker his wages when they are due, there is little chance that the union will be able to enforce any effective demands to management.

Then, too, the workers are very cynical towards the Government and towards their own leaders. They do not believe that the Government or labor leaders as a whole are in the least concerned with the welfare of the worker or with the development of labor unions except as organized labor can be utilized for personal advancement. It is estimated that perhaps 20 per cent of union members actively support the unions; approximately 30 per cent are rather lukewarm in their support; about 35 per cent are completely indifferent and the remaining 15 per cent have been forced to join the union movement by threats of economic or physical harm.

Labor unions in Korea are not a very cohesive group. Different unions in the same trade may offer mutual support but if in different trades, they more or less tend to ignore each other. There are few, if any, inter-union disputes but frequent struggles between union leaders. These are usually personal battles, however, in which the average worker plays no active role.

Organized labor has little influence beyond its own membership but usually receives the sympathy of the public and even that of the National Assembly in any labor-management dispute. It is recognized that labor is too weak to bargain on equal terms with management no matter how justified labor's demands may be. Therefore, it is felt that when labor does arise it must have been goaded into doing so by excessively bad treatment from management.

Any communist influence in Korean labor would have to be carefully concealed and very subtly exercised. The key members of the labor movement are veterans who demonstrated their opposition to the communists in the pitched battles that took place between the FKTU and the GCL. Any recognized attempt at communist infiltration of labor would be quickly stamped out.

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On broad political or economic issues labor is in no position to make effective demands and usually remains quiescent unless perhaps when encouraged by the Government to stage a "spontaneous" demonstration. Labor is generally ignored unless it is considered politically expedient to throw a sop to the unions or to particular union leaders.

There is no regular press support of labor but when disputes arise the newspapers usually express sympathy with the workers. Labor's own press is limited to 4 individual union publications which have little circulation outside of union circles.

The Korean labor movement's participation in international activities is extremely limited although the FKTU has been a member of the International Confederation of Free Trade Unions (ICFTU) since 1948 and four of the FKTU's Alliances claim affiliation with international groups. Labor leaders complain that they cannot attend international conferences because they cannot purchase from the Government the necessary foreign exchange for travel and living expenses abroad. They may also experience difficulty in obtaining the passports and exit permits required to leave the country.

As do most Koreans, Korean labor looks upon the U. S. as a dream land and the savior of Korea. Most union members have had little direct contact with the U. S. or with U. S. labor unions and have only a limited knowledge of the United States. Nevertheless, they envy the American worker and consider the achievements of American unions as the ultimate goal of Korean labor.

LABOR-MANAGEMENT RELATIONS

Labor in Korea is at a tremendous disadvantage in dealing with management. This is due to many and varied causes: the overabundance of the labor supply, the youth and inexperience of organized labor movement in Korea, the self-seeking and venality of labor leaders, the lack of education of most of the workers, and the official attitude toward labor.

Because of the size of the labor supply and chronic unemployment, it is usually only in desperation that the workers will make any demands of management. Illustrative of this is the frequent delay in the payment of wages. The employee will work for months without payment, other than perhaps some allowances of food, before threatening to take collective action. In a government controlled mine in which 13 workers were recently killed in an accident, the miners have made no complaint about safety conditions because they fear that the government would use the complaint as an excuse to shut down the mine which is operating at a loss.

Due to the weaknesses of labor and personal financial considerations, labor leaders find it much easier andcertainly more economically rewarding to cooperate with management. In a distressingly large number of cases union leaders are simply "bought" by management. Having found the leaders of organized labor easier to handle than some trouble-making employess, many plant managers are grateful for the existence of unions and treat union officials with great consideration.

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Even with honest and dedicated leaders the labor unions would be at a disadvantage in labor disputes. Both the rank and file of labor have only a limited concept of the role which organized labor should play and the tactics which should be used in labor-management struggles. The unions are too weak financially to carry on any protracted fight and are not influential enough to resist government interference which usually is in support of management.

Because of the lack of labor solidarity, ignorance and apathy on the part of the workers, and corrupt leaders, the potential political power of organized labor goes unrealized.

Of over 500 unions only 41 have negotiated collective agreements. About half of these agreements are found in industries either owned or controlled by the government.

Almost without exception labor disputes are settled by the exercise of influence, open or hidden, of the national government, the Liberal Party, or the police.

United States firms and agencies in Korea try to meet the existing labor standards in this country. There have been no serious disputes between U. S. organizations andlocal labor but differences in attitudes and customs sometimes create annoying problems. There is a general feeling of resentment on the part of the Koreans at the superior attitude adopted by some Americans. This resentment is heightened by the Koreans' own feeling of national superiority.

LABOR AND GOVERNMENT

The Government, while paying some lip service to the welfare of the workers, seems basically suspicious of organized labor. Existing economic conditions in the Republic of Korea, the military impasse between the ROK andcommunist North Korea and the potential value of labor disputes for use in propaganda attacks against the ROKG and the governments concerned with the rehabilitation of Korea, are all cited as justifications for restraining labor activities. Granted that there is validity in these arguments, still, at times it appears that the authorities are predisposed to curb organized labor.

The ROKG has made a minimum effort to properly enforce the Korean labor laws which were passed in 1953. Although these laws provide for the appointment of inspectors to assure compliance with the labor laws, and the national budget for the last three years has included funds for this purpose, no such appointments have ever been made.

The Ministry of Public Health andWelfare treats its Labor Bureau as the lowest ranking Bureau in the Ministry. Bureau officials recognize the need for a more effective labor policy and talk of the desirability of unemployment compensation and social security legislation but do not appear to be very vigorous in carrying out their present duties.

The Liberal Party, which controls the ROK Government, professes great concern for labor but most of the party leaders belong to the management group and

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little is done for the benefit of labor. President Rhee has always seemed to be considerate of the workers' welfare but strongly opposes strikes as a means of collective bargaining. Police intervention in labor disputes, justified as necessary for the "maintenance of public security", almost invariably supports management.

Although the Federation of Korean Trade Unions is a unit of the Liberal Party, labor, with the exception of some union leaders acting in their own self interest, does not support the Party. In the last national election the Liberal Party won because of the rural vote, as the larger cities, in which organized labor is concentrated, supported the opposition.

Many labor leaders, especially the more conscientious ones, stress the need for political, as well as financial, independence if organized labor is to make any progress in Korea. They admit that such existing political parties which have a genuine consideration for labor are too weak to contend effectively in national elections but that labor can at least divorce itself from the two major parties and offer its support to the candidates who will do the most to help labor. Such a declaration of independence is made difficult by the political pressures applied to the unions, the political ambitions of some union officials and the general lack of labor solidarity.

Under the present conditions labor in Korea is in no position to make demands upon the government. However, as a matter of political expediency, or in support of labor officials who are good party men, the government does, from time to time, make conciliatory gestures toward labor. In the 1958 elections three labor leaders ran for the National Assembly on the Liberal Party ticket. Of the three only CHONG, Tae-Ch'on, Supreme Committeeman of the FKTU, now serving his second term in the Assembly, was successful.

INTERNATIONAL ORGANIZATION

There has been no real activity in Korea on the part of any international labor groups and it is highly doubtful that such activities would be welcomed by the Korean Government. An ICFTU representative, who visited Korea in 1955, was expelled from the country after a brief stay.

As mentioned in an earlier part of this report Korean labor has taken little part in international labor activities. If allowed to leave Korea in order to attend international labor events, it is extremely unlikely that local labor leaders would do or say anything that might be frowned on by official circles at home.

EXCHANGE PROGRAM

At present there is one Korean labor leader in the United States under the Foreign Specialists Trade Union Project of the International Educational Exchange Program of the Department of State. The experience of three earlier grantees might lead subsequent candidates to look upon participation in the exchange

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program as the kiss of death. KIM, Chu-hong, mentioned earlier, is reported to have returned from the United States fired with enthusiasm for a truly free, independent labor movement and to have expressed his feelings on this subject in a series of speeches which he delivered in various parts of the country. It is believed that these speeches cost KIM his Liberal Party support and brought against him the political pressures that resulted in the nullification of the first 1957 FKTU convention and KIM's defeat in the elections at the second convention held that year.

KIM, Im-su, another recently returned grantee, is now completely out of the labor movement, the victim of factional plotting.

The third grantee, YI, Chong-song, was defeated in the elections of the Alliance of Textile Workers Unions as soon as he returned from the United States. He has, however, formed a new textile workers group, the United Textile Unions, and organized some 5,000 workers in small size textile industries throughout the nation.

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

Enclosure:

Tables 1 through 11.

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TABLE 1 TOTAL ESTIMATED POPULATION OF REPUBLIC OF KOREA 1/

Labor Force	(males and females between the ages of 14 and 70 who are able to work and are desirous of employment	9,131,000
Non-Labor	(household workers, students over 14, individuals over 70, sick crippled, and persons who do not want work)	4,783,000
Under 14		8,256,000
Total Population		22,170,000

TABLE 2 CLASSIFICATION OF LABOR FORCE 1/

Employed		8,966,000
Male	: 5,388,000	
Female	: 3,743,000	
Unemployed		165,000
Male	: 74,000	
Female	: 91,000	
Total Labor Force		9,131,000

TABLE 3 CLASSIFICATION OF NON-LABOR FORCE 1/

Domestic		3,190,000
Male	: 276,000	
Female	: 2,914,000	
Students over 14		895,000
Male	: 572,000	
Female	: 323,000	
Others		698,000
Male	: 268,000	
Female	: 430,000	
Total Non-Labor Force		4,783,000

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TABLE 4 THE GAINFULLY EMPLOYED BY INDUSTRY 1/

Farming	7,203,000
Electrical, water and sanitation	19,000
Mining	41,000
Manufacturing	305,000
Retail, wholesale, banking, insurance, real estate	619,000
Transportation, communications and other public enterprises	76,000
Service businesses	644,000
Construction	57,000
Other	2,000
Total	8,966,000

TABLE 5 THE GAINFULLY EMPLOYED BY OCCUPATION 1/

Professional and technical	136,000
Managerial	121,000
Clerical	192,000
Sales	657,000
Farmers, woodmen, fishermen	7,180,000
Miners	19,000
Motorment engineers, other transportation workers	50,000
Skilled workers and laborers	488,000
Service personnel	123,000
Total	8,966,000

1/ The figures in Tables 1-5 are taken from the results of a survey conducted by the Ministry of Home Affairs in October 1957.

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TABLE 6 1/ HIGHEST AND LOWEST WAGES PAID IN TWELVE INDUSTRIES DURING SEPTEMBER 1957

Industry	No.of enter-prices	Class. by Sex	No.of em-ployees	Average Wages	Highest Wage Earners: Occupation	Total Wages	Basic Income	Allowances	Hrs. Work
Coal Mining	9	M	8,202	34,089	Miner	84,566	46,460	38,106	207
		F	300	28,454	Coal Selector	30,775	10,500	20,275	512
Metal Mining	5	M	1,918	33,380	Laborer	94,928	3,500	91,428	256
		F	175	12,200	Laborer	40,140	26,040	14,100	200
Food Manf.Ind.	10	M	1,381	33,289	Soy sauce producer	79,400	35,000	44,400	224
		F	454	17,534	Laborer	36,575	22,320	14,255	210
Beverage Ind.	6	M	405	40,259	Wood worker	156,180	138,000	18,180	192
		F	47	34,782	Wine producer	36,585	26,400	10,185	242
Textile	19	M	3,308	26,381	Cotton & Silk Producer	72,500	17,000	55,500	220
		F	13,337	16,694	" "	53,797	23,200	30,577	297
Wood & Cork Prod.	4	M	458	27,000	Technician	57,900	31,500	26,400	267
		F	105	14,262	Laborer	17,030	9,300	7,730	256
Paper Prod.	6	M	590	36,828	Technician	79,760	2,770	76,990	285
		F	90	15,674	Laborer	27,853	5,376	22,477	240
Printing & Publ.	3	M	144	26,528	Type founding worker	66,000	62,000	4,000	258
		F	61	12,368	Type selector	27,300	18,000	9,300	360
Rubber Prod.	7	M	480	25,154	Machine man	52,700	47,600	5,100	240
		F	1,066	15,041	Rubber prod.	42,755	42,755	—	208
Chemical Ind.	7	M	311	28,072	Pharmacist	70,000	70,000	—	204
		F	384	9,495	"	35,000	35,000	—	204
Basic Metal Ind.	4	M	517	46,671	Can maker	77,608	3,686	73,922	279
Metal Prod.	1	M	110	19,194	Iron casting worker	40,000	28,000	12,000	254

1/ Source: Bureau of Labor, Ministry of Health & Social Affairs

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TABLE 6 (Cont'd)

	Lowest Wage Earners				
	Occupation	Total Wages	Basic Income	Allowances	Hrs. Work
(Coal mining)	Laborer	12,775	9,100	3,675	246
(Metal mining)	Laborer	9,920	7,680	2,240	168
(Metal mining)	Metal Selection Workers	7,000	7,000	—	160
	" "	5,000	5,000	—	160
(Food manf. ind.)	Laborer	9,570	9,570	—	112
	Laborer	8,600	8,000	600	216
(Beverage ind.)	Laborer	5,832	5,832	—	216
	Wine Producer	11,595	8,940	2,655	350
(Textile)	Cotton & Silk Producer	8,425	5,400	3,025	270
	Laborer	3,000	3,000	—	160
(Wood & cork prod.)	Laborer	18,700	12,000	6,700	196
	Laborer	13,260	8,400	4,860	171
(Paper prod.)	Laborer	8,160	300	7,860	208
	Laborer	8,160	8,160	—	208
(Printing & publ.)	Printer	6,200	5,400	800	216
	Laborer	7,000	7,000	—	248
(Rubber prod.)	Rubber producer	4,548	3,500	1,048	200
	Laborer	3,530	3,000	530	174
(Chemical ind.)	Laborer	6,750	6,750	—	220
	Chemical worker	2,800	1,800	1,000	144
(Basic metal ind.)	Iron casting worker	14,400	8,000	6,400	262
(Metal prod.)	Iron casting worker	10,000	7,000	3,000	254

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TABLE 7 (a) INCOME AND EXPENDITURES OF SELECTED WORKERS IN TWELVE INDUSTRIES DURING SEPTEMBER 1957

Industry	No. of enter-prises	Class. by Sex	Sample size worker	Family* members supported	Average* number supported family members	Average house-hold living costs	Average Income of house-holder	Excess or Deficit
Coal Mining	5	Total	242	1,189	4.9	34,417	33,910	- 507
		M	240	1,178	4.9	34,436	33,990	- 446
		F	2	11	5.5	32,108	24,278	- 7,830
Metal Mining	4	Total	150	732	4.8	24,530	24,481	- 49
		M	149	730	4.9	24,624	24,552	- 72
		F	1	2	2.0	10,552	13,820	+ 3,268
Food Manuf. Ind.	9	Total	326	1,623	4.9	39,899	34,921	- 4,978
		M	321	1,608	5.0	40,086	35,093	- 4,993
		F	5	15	3.0	27,880	23,900	- 3,980
Beverage	4	Total	121	544	4.4	38,246	28,021	-10,225
		M	119	540	4.5	38,669	28,299	-10,370
		F	2	4	2.0	13,050	11,500	- 1,550
Textile	19	Total	[illegible]	3,062	5.3	40,000	28,344	-11,656
		M	509	2,861	5.6	41,151	29,339	-11,812
		F	59	201	3.4	30,070	20,289	- 9,781
Wood & Corn Prod.	5	Total	85	396	4.4	38,403	29,981	- 8,422
		M	85	396	4.4	38,403	29,981	- 8,422
		F						
Paper & Paper Prod.	6	Total	333	1,929	5.7	47,663	38,552	- 9,111
		M	330	1,919	5.8	47,856	38,794	- 9,062
		F	3	10	3.3	23,033	11,893	-11,140
Printing & Publ.	4	Total	47	274	5.9	45,531	36,244	- 9,287
		M	47	274	5.9	45,531	36,244	- 9,287
		F						
Rubber Prod.	7	Total	395	1,756	4.4	31,419	25,082	- 6,337
		M	377	1,706	4.5	31,703	28,393	- 3,310
		F	18	50	2.7	25,466	18,788	- 6,678

* Does not include worker.

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TABLE 7 (a) (Cont'd)

Industry	No. of enter-prises	Class. by Sex	Sample size worker	Family* members supported	Average * number supported family members	Average house-hold living costs	Average Income of house-holder	Excess or Deficit
Chemicals	7	Total	165	555	3.3	29,433	32,123	+ 2,690
		M	134	515	3.8	33,449	36,290	+ 2,841
		F	31	40	1,2	12,074	14,112	+ 2,038
Basic Metal	3	Total	40	171	4.2	51,027	42,875	- 8,152
		M	40	171	4.2	51,027	42,875	- 8,152
		F						
Metal Prod.	4	Total	120	640	5.3	44,063	35,553	- 8,510
		M	118	632	5.3	44,525	36,075	- 8,450
		F	2	8	4.0	16,825	4,750	-12,075

Source: Bureau of Labor, Ministry of Health and Social Affairs.

* Does not include worker.

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TABLE 7 (b) ITEMIZED AVERAGE EXPENDITURES OF WORKERS SHOWN IN TABLE 7 (a)

Industry	Food	Rent	Fuel	Education	Various Taxes & Assesments	Others
Coal Mining	22,378	349	2,941	2,038	2,163	4,552
Metal Mining	18,039	108	2,860	768	802	1,952
Food	23,464	1,651	4,641	2,592	2,333	5,216
Beverage Ind.	23,189	281	5,169	3,307	1,841	4,466
Textile	24,126	1,001	4,454	2,984	2,049	5,385
Wood & Cork Prod.	26,134	2,222	2,200	2,381	1,636	3,830
Paper & Paper Prod.	29,138	660	5,117	2,727	3,258	6,730
Printing & Publishing	29,534	2,553	4,951	2,712	2,025	3,755
Rubber Prod.	19,657	880	4,057	1,562	1,276	3,986
Chemical & Chemical Prod.	16,759	1,147	3,517	1,112	1,064	5,834
Basic Metal Ind.	31,882	942	5,302	2,542	3,132	7,225
Metal Prod.	25,551	585	6,117	2,572	2,563	6,677

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TABLE 8 MONTHLY EARNINGS OF REGULAR EMPLOYEES IN MINING AND MANUFACTURING OCTOBER 1957 - MARCH 1958 (thousands of hwan)

	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Coal Mining						
Male Production Worker: Underground	38.5	39.8	38.4	33.9	33.1	29.1
Male Production Worker: Surface	30.2	29.3	27.9	29.7	27.6	27.9
Female Production Worker	21.8	20.4	13.0	20.9	20.0	19.6
Metal Mining						
Male Production Worker: Underground	33.3	32.5	32.9	37.2	36.9	37.0
Male Production Worker: Surface	30.4	29.6	30.0	33.7	34.2	34.7
Female Production Worker	11.2	10.7	10.9	10.6	10.0	10.3
Food Manufacturing Ind.						
Male Production Workers	27.7	28.3	31.0	27.2	27.3	26.4
Female Production Workers	14.7	13.5	12.8	12.4	13.2	12.0
Beverage						
Male	34.9	33.1	34.9	35.3	37.0	32.2
Female	13.8	13.4	13.8	14.1	13.3	12.6
Textile						
Male	24.7	23.4	22.4	25.7	26.0	23.6
Female	14.4	15.2	14.5	15.3	14.9	12.8
Wood & Cork Products						
Male	25.7	27.6	33.1	29.6	26.0	25.9
Female	15.5	13.6	13.6	14.3	12.0	11.9
Paper & Paper Products						
Male	23.5	23.4	27.1	25.4	22.5	23.4
Female	10.1	9.7	11.6	10.4	10.0	10.6
Printing & Publishing						
Male	32.1	31.4	39.1	36.8	41.1	39.7
Female	16.9	17.7	21.6	17.6	25.2	19.8
Rubber Products						
Male	25.1	24.2	25.1	26.9	27.4	23.5
Female	17.0	18.0	17.4	17.7	20.2	17.4
Chemicals & Chemical Products						
Male	27.6	27.9	24.2	27.1	28.8	27.3
Female	9.5	8.8	7.6	8.2	8.9	8.9

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TABLE 8 (Cont'd)

	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Basic Metal Industries						
Male	34.7	33.1	37.4	31.4	31.9	34.3
Metal Products						
Male	24.9	23.5	27.8	27.9	26.1	25.3
Female	11.6	10.7	9.9	10.5	10.5	11.4
Seoul Consumer Price Index (1955=100)	141.9	137.8	137.3	139.6	143.4	141.8

Source: Bank of Korea.

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TABLE 9(a). COMPARISON OF CHANGES IN AVERAGE SEOUL CONSUMER PRICE INDEX AND AVERAGE WAGES IN TWELVE INDUSTRIES FROM SIX-MONTH PERIOD OCTOBER 1956-MARCH 1957 TO SIX-MONTH PERIOD APRIL 1957-SEPTEMBER 1957.

Industry	Average Seoul Consumer Price Index 10/56-3/57	Average Wage (1000 Hw) 10/56-3/57	Average Seoul Consumer Price Index 4/57-9/57	Average Wage (1000 Hw) 4/57-9/57	Change in Average Consumer Price Index 10/56-3/57 to 4/57-9/57	Change in Average Wage 10/56-3/57 to 4/57-9/57
Coal Mining	142.8	27.6	156.3	36.7	+ 9%	+33.0%
Metal Mining		27.7		29.6		+ 6.8%
Food		26.3		24.8		- 5.7%
Beverage		31.2		35.2		+12.8%
Textile		16.5		17.4		+ 5.4%
Wood & Cork Prod.		23.3		25.7		+10.3%
Paper & Paper Prod.		21.0		21.7		+ 3.3%
Printing & Publishing		32.5		33.8		+ 4.0%
Rubber Products		18.8		20.3		+ 7.9%
Chemicals & Chem. Prod.		18.6		21.8		+17.2%
Basic Metal Ind.		37.2		39.1		+ 5.1%
Metal Products		24.7		27.5		+11.3%

TABLE 9(b). COMPARISON OF CHANGES IN AVERAGE SEOUL CONSUMER PRICE INDEX AND AVERAGE WAGES IN TWELVE INDUSTRIES FROM SIX-MONTH PERIOD APRIL 1957 - SEPTEMBER 1957 TO SIX-MONTH PERIOD OCTOBER 1957-MARCH 1958.

Industry	Average Seoul Consumer Price Index 4/57-9/57	Average Wage (1000 Hw) 4/57-9/57	Average Seoul Consumer Price Index 10/57-3/58	Average Wage (1000 Hw) 10/57-3/58	Change in Average Consumer Price Index 4/57-9/57 to 10/57-3/58	Change in Average Wage 4/57-9/57 to 10/57-3/58
Coal Mining	156.3	36.7	140.3	38.2	- 9.0%	+ 4.0%
Metal Mining		29.6		35.2		+18.9%
Food		24.8		26.2		+ 5.6%
Beverage		35.2		35.7		+ 1.4%
Textile		17.4		17.6		+ 1.1%
Wood & Cork Prod.		25.7		29.0		+12.8%
Paper & Paper Prod.		21.7		22.9		+ 5.5%
Printing & Publishing		33.8		34.7		+ 2.6%
Rubber Products		20.3		21.7		+ 6.9%
Chemicals & Chem.Prod.		21.8		22.0		+ 0.9%
Basic Metal Ind.		39.1		38.3		- 2.1%
Metal Products		27.5		26.0		- 5.5%

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TABLE 9(c). COMPARISON OF CHANGES IN AVERAGE SEOUL CONSUMER PRICE INDEX AND AVERAGE WAGES IN TWELVE INDUSTRIES FOR SIX-MONTH PERIODS OCTOBER 1956-MARCH 1957 AND OCTOBER 1957-MARCH 1958.

Industry	Average Seoul Consumer Price Index 10/56-3/57	Average Wage (1000 Hw) 10/56-3/57	Average Seoul Consumer Price Index 10/57-3/58	Average Wage (1000 Hw) 10/57-3/58	Change in Average Consumer Price Index 10/56-3/57 to 10/57-3/58	Change In Average Wage 10/56-3/57 to 10/57-3/58
	142.8		140.3		- 1.8%	
Coal Mining		27.6		38.2		+38.0%
Metal Mining		27.7		35.2		+27.0%
Food		26.3		26.2		- 0.4%
Beverages		31.2		35.7		+14.4%
Textile		16.5		17.6		+ 6.6%
Wood & Cork Prod.		23.3		29.0		+24.4%
Paper & Paper Prod.		21.0		22.9		+ 9.0%
Printing & Publishing		32.5		34.7		+ 6.7%
Rubber Products		18.8		21.7		+15.4%
Chemicals & Chem. Prod.		18.6		22.0		+18.2%
Basic Metal Ind.		37.2		38.3		+ 2.9%
Metal Products		24.7		26.0		+ 5.2%

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TABLE 10 SURVEY OF AVERAGE DAILY WAGES OF "DAY LABORERS" IN TEN CITIES FOR THE SIX MONTH PERIOD OCTOBER 1957 THROUGH MARCH 1958 (in hwan)

Category	Av. Daily Wage in Ten Cities Combined	Range of Daily Averages in the Ten Cities		Highest and Lowest Rates Paid in the Ten Cities on Any Given Day During the Survey Period	
		High	Low	High	Low
Carpenter	2,255	2,598	1,988	3,000	1,930
Plasterer	2,338	2,711	2,000	3,500	2,000
Stone Mason	2,757	3,196	2,146	3,700	1,870
Roof Tilelayer	2,618	3,316	2,000	3,500	2,000
Concrete Mixer	1,782	2,700	1,000	2,700	1,000
Brick Layer	2,367	2,770	2,000	3,000	2,000
Painter	2,269	3,000	1,583	3,500	1,500
Heqvy-duty Coolie	1,854	2,716	1,000	3,000	1,000
Coolie	925	1,196	800	1,380	800
Scaffold Erector	2,246	3,500	1,300	4,000	1,260

Source: Bank of Korea.

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TABLE 11. WAGES PAID RAILROAD WORKERS DURING JANUARY 1958.

Job Classification		A Basic Wages	B Wartime Allow.	C Overtime Allow.	D Night Work Allow.	E Technicians' Allow.	F Cash Handlers Allow.	G High Tension Wire Hand. Allow
Locomotive Crews	Max	333	19,700	13,248	5,760	2,003		
	Min	189	16,240	872	4,680	1,642		
	Ave	243	17,360	1,450	4,870	1,761		
Train Crews	Max	333	19,700	13,248	5,760			
	Min	175.30	16,290	824	4,080			
	Ave	249	17,500	1,766	4,010			
Train Inspectors on Train	Max	333	19,700	13,248	5,760	2,003		
	Min	220.50	16,920	856	4,200	1,624		
	Ave	249	17,500	1,100	4,500	1,761		
Station Workers (Cargo handlers signalmen,etc)	Max	333	19,700	13,248	5,760			
	Min	195.30	16,920	856	4,200			
	Ave	243	17,360	1,176	4,870			
Track Maintenance Workers	Max	333	19,700	11,800	5,760	2,003		
	Min	224.10	17,010	856	4,200	1,624		
	Ave	285	18,340	4,750	4,360	1,801		
Electricians	Max	333	19,700	13,248	5,760	2,003		900
	Min	227.10	17,100	864	4,320	1,624		900
	Ave	245	17,640	3,700	4,760	1,780		900
Electricians on Trains	Max	333	19,700	13,248	5,760	2,003		
	Min	216.90	16,830	848	4,200	1,624		
	Ave	248	17,300	4,750	4,860	1,782		
Telephone Operators	Max	228	17,020	11,408	4,920			
	Min	206.10		824	4,320			
	Ave	200.25	16,500	11,010	4,780			
Technicians in Backshops	Max	333	19,700	13,248	6,760	2,003		
	Min	195.30	16,380	824	4,080	1,624		
	Ave	221	17,200	910	4,920	1,750		
White Collar Workers	Max	333	19,700	13,248	5,760		900	
	Min	180	16,060	312	2,680		900	
	Ave	260	18,900	1,100	3,100		900	

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NND 867400
By lgw, NARA, Date 4/07/09

H	I	J	K	L	M	N	O
Tunnel Workers Allow.	Track Inspection Allowance	Danger Allowance	Night Keeping Allow.	Train Switching Allowance	Travel Expense	Travel Expense for Train crew	Bonus
		30				17,690	
		30				8,200	
		30				11,800	
		24				19,000	
		24				10,000	
		24				13,800	
		30				22,590	
		24				11,650	
		26				13,700	
		30	2,250	2,700			
		24	1,500	1,840			
		25	895	2,050			
		24	2,250		4,500		
		15	1,500		1,500		
2,170	740	18	1,875		2,700		
		30	2,250				
		24	1,500				
		26	1,875				
		24					
		24					
		24					
		30					14,000
		24					1,400
		27					8,950
			2,250		1,500		5,600
			1,500		800		560
			1,875		1,150		3,580

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E.O. 12356, Sec. 3.3
NND 867400
By lgd, NARA, Date 4/17/24

Individual Variation	Actual Amount Received (1)	(2)	(3)	(4)	Average
(1) A+B+C+E+J+N	53,004	41,074	35,314		43,136
(2) A+B+C+D+E+J	27,173	23,653	18,973		23,266
(3) A+B+C+E+J	32,644	25,714	20,844		26,406
(1) A+B+C+D	39,041	39,057	33,281		37,126
(2) A+B+J+N	21,369	26,489	17,289		21,703
(3) A+B+C	23,525	31,573	19,515		24,979
(1) A+B+C+D+E+J	41,074	44,656	33,281		39,673
(2) A+B+E+J+N	23,844	30,438	17,996		24,093
(3) A+B+C	25,136	33,236	18,849		25,740
(1) A+B+C+D+J+L	41,771	41,321	26,011		36,367
(2) A+B+C+D+J+K	24,035	23,695	19,835		22,522
(3) A+B+C+J+L	26,308	26,133	21,438		24,593
(1) A+B+C+E+H+I+J	36,770	44,120	39,620		40,170
(2) A+B+C+D+E+J+M	22,639	25,429	23,929		23,999
(3) A+B+C+D+E+J	28,104	32,254	29,554		29,970
(1) A+B+C+D+E+G+J	41,974	37,564	35,314		38,284
(2) A+B+C+E+J+K	25,059	21,339	19,839		22,079
(3) A+B+C+E+J	29,051	25,266	23,191		25,856
(1) A+B+C+D+E+J	41,068	35,308			38,188
(2) A+B+C+E+J	23,742	19,542			21,643
	28,964	24,104			26,534
(1) A+B+C+D	33,576	28,656			31,116
(2) A+B+C	22,370	18,050			20,210
	22,490	27,710			25,100
(1) A+B+C+D+E+J	41,074	36,066			38,570
(2) A+B+E+J+O	23,127	19,623			21,375
	25,058	28,178			26,618
(1) A+B+C+D+F	38,881	43,941	34,781	35,531	38,283
(2) A+B+C+M	17,112	20,132	17,352	18,052	18,162
(3) A+B+C+O	24,260	21,410	23,840	22,135	22,916
(4) A+B+C+K					

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E.O. 12356, Sec. 3.3
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By lgd, NARA, Date 4/17/09

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FOREIGN SERVICE DESPATCH

FROM : AmEmbassy, Seoul

277
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

November 18, 1958
Date of DATE

REF : A-183, April 28, 1958 14-2858 FE

Action Office Symbol FE/P

15 For Dept. Use Only	ACTION	DEPT.
	FE-4	INFO RM/R-2 REP-1 IRC-8 ICA-10 P-5 OEC-5 FE-4 AB-5
	REC'D 11/24	OTHER CIA-12 OSD-4 USIA-15

Direction to DC/R AG-12

SUBJECT: (2) Jobs for American-trained Korean Students

Joint State-USIS-ICA-Defense Message.

The Cultural Affairs Office has just been informed by Mr. Moon Hui KIM, Managing Director of the Chungju Fertilizer Plant Management Corporation, a U. S. government GARIOA grantee in 1949, that the Korean government, at the instigation of the Ministry of Commerce and Industry, has issued an announcement through the Korean Embassy and Korean Consulates General in the United States asking that Koreans who have majored in and have experience in chemical, electrical and mechanical engineering apply for jobs in the new Chungju Fertilizer Plant. Mr. Kim observed that 13 Korean students in the United States had replied to this announcement and, after screening, seven of the 13 had been offered jobs. The Chungju Management Corporation is still on the lookout for highly qualified Koreans in the engineering, industrial management, labor relations, statistics, cost accounting, and other such fields connected with the operation of the great Chungju fertitizer enterprise.

The Embassy believes that this approach constitutes one of the most encouraging, and tangible developments in the field of obtaining the services in Korea of America-trained Koreans. In cooperation with OEC, it has been encouraging just such an approach on the part of the Chungju Fertilizer Plant Management Corporation.

For the Ambassador:

Henry F. Arnold

Henry F. Arnold .
Public Affairs Officer

GHenderson:kbj
REPORTER

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DEC 15 1958

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FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL

573
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Action Taken noted

TO : THE DEPARTMENT OF STATE, WASHINGTON.

April 7, 1959
DATE

REF : CERP - Korea, C,4.

For Dept. Use Only	ACTION	DEPT.
	* FE-4	INFO R/M/R. 2 REP-1 * IRC-8 * IC A-10
	REC'D 4/14	OTHER LAB-5 CIA-10 Com-6 Army-2 Navy-3 Hew-2

SUBJECT: Semi-Annual Labor Report - Korea; July-December 1958.

USIA
DC/R 2 File

Summary

For the first time in the history of the labor movement in Korea, organized labor was able during the latter half of 1958 to resist successfully Government and Liberal Party interference in labor's internal affairs. This opportunity arose as a result of the Liberal Party's anxiety over its rather narrow margin of victory in the last elections and the party's bid for increased support from labor.

Taking advantage of its freedom of action the Federation of Korean Trade Unions, after a bitter factional battle, voted in its annual convention to reorganize and elect new officers. These changes appear to have fired the Federation leadership with a feeling of enthusiasm and determination, and has given new life and unity to the labor movement.

Since the convention, the Federation has abandoned its old quiescence and has acted with initiative and vigor. By its tactics and continued utilization of the political situation, the Federation has managed to avoid official or party pressure and even to shift some of this pressure to management. Management has shown some concern over these developments while the public and the press are paying more attention to labor matters and the organized labor movement.

The last six months of 1958 may prove to be one of the most significant periods in the history of the labor movement in Korea. The long term growth of the labor movement will continue to be dependent on the development of the Korean economy. In the immediate future, however, the success of the labor movement will rest on labor's newly found, and still limited, strength and independence; unity of Federation leadership; and, solidarity of the rank and file.

Manpower Utilization

There have been no significant changes in the information submitted under this section in the Embassy's preceding report.

Wage and Working Conditions

The Embassy has submitted through publications all available statistics o

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NND 867400
By lgd, NARA, Date 4/17/99

wages in the ROK. A recent wage survey conducted by the Ministry of Health and Social Affairs is still in the raw material stage and there appears to be some doubt that the Ministry will even prepare the material for publication.

As shown in the table below, average monthly earnings of regular employees in mining and manufacturing were higher during the last six months of 1958 than in the first half of the year and the latter half of 1957. Real wages were also higher in the last half of 1958 than in the two preceding six-month periods for employees in manufacturing. In the mining industry, however, real wages were .6 percent lower than in the first six months of the year but continued higher than in the latter half of 1957.

Average Monthly Earnings of Regular Employees [1]/ (thousands of hwan)

	A July-Dec. 1957	B Jan.-June 1958	C July-Dec. 1958	% Change C/A	% Change C/B
Mining	33.9	35.4	36.1	+ 6.5	+ 2.0
Manufacturing	23.0	23.2	25.1	+ 9.0	+ 8.0
Consumer Price Index	145.6	144.8	148.6	+ 2.0	+ 3.0
Average Real Wages [2]/					
Mining	33.9	35.6	35.4	+ 4.0	+ 0.6
Manufacturing	23.0	23.3	24.6	+ 7.0	+ 5.5

Failure of management to pay wages when due has continued to be a problem but the Federation of Korean Trade Unions has moved with success against some of the worst offenders.

Trade Unions

The most important development in the Korean union movement during the second half of 1958 was the reorganization of the Federation of Korean Trade Unions (FKTU) at the Federation's annual convention in October. The reorganization plan replaced the five member Supreme Committee with a single chairman and provided that vice chairmanships would be allocated to the most important alliances in the Federation. The reorganization was designed to eliminate factionalism in the top echelon of the Federation and to provide unified leadership. It was also aimed at reducing the influence in the Federation of the CHONG Tae-ch'on (0002/1129/1131) faction which, through reliance on Government and Liberal Party intervention, had enjoyed power out of all proportion to the size of the group. Approval of the reorganization plan reflected the dissatisfaction of the rank and file in the labor movement with the internal bickering of labor leaders seeking personal advantages, and certain leaders' dependence on and appeal to political intervention for the maintenance of their power.

The significance of the convention's reorganization of the Federation lies in the fact that this event marked the first time that organized labor in Korea proceeded on its own without outside intervention. CHONG's appeal to the Government

1/ Source: Bank of Korea

2/ Derived from Bank of Korea data; based on July-Dec. 1957

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By [illegible], NARA, Date 1/17/24

and to the Liberal Party to blockthe convention itself or, at least, the reorganization plan was either ignored or rejected. This may have been due to reflection on the results of the last national election inwhich the Liberal Party was defeated in the urban areas where organized labor is concentrated, and to the warnings of the anti-CHONG faction that outside interference would antagonize the vast majority of the labor movement.

There are indications that the results of the 1958 convention could bring great improvements in the FKTU. Where previously the five Supreme Committeemen spoke with equal authority, and often in conflict with one another, the Chairman now acts as the elected leader and with the authority of the entire Federation. It is reported that this has enabled the Chairman to reduce internal strife; exercise greater control over subordinate labor leaders, especially those who prove corrupt and dishonest; and has strengthened labor in its dealings with the Government, the Liberal Party and management. At present the threat posed by the defeated CHONG faction also encourages Federation officials to be active, honest, and unified.

The lack of Government and Liberal Party intervention not only made possible the reorganization of the FKTU but has continuing advantages for the new Federation leaders. By pointing out Chong's dependence on political intervention and his failure to receive it, FKTU leaders are seeking to win the support of members of the Chong group. The lack of outside interference has also shifted the burden of union leaders from that of pleasing the Government or Liberal Party to that of pleasing the workers who elected them and thus enhancing the possibilities of honesty and achievement. Finally, the feeling of independence apparently has given the entire labor movement new life and spirit.

The Federation's new leaders seem enthusiastic and determined. They have told an Embassy representative that, when reorganized, they would utilize the Liberal Party's fears of defeat in the next elections to advance the interests of labor. The Federation has, in fact, become much more aggressive in its demands of government and management since the convention, and appears to have enjoyed some success.

At the same time organized labor realizes that its recent show of solidarity and independence and its growing activities have resulted in increased opposition from management. While reiterating their desire for political independence, Federation officials explain that they have been forced to use whatever strength they have in the Liberal Party to counter management's demands for Party assistance.

Since the convention the Federation has established a committee to investigate observance of the labor laws. As much attention as can be generated by the Federation is directed at any violations found. These tactics are designed to embarrass the Government and bring official pressure on management; expose management to public disapproval; put local union leaders who may be in the pay of management on the spot; obtain national publicity which a local union action would not receive; and show employees in both organized and unorganized industries that the labor movement is trying to help the worker.

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By [illegible], NARA, Date 1/17/19

When the Federation feels that action against violators of the labor laws should be taken, it urges officers of subordinate units to take the initiative and assures them that they will receive Federation support and all credit for any gains made. If local union leaders ignore the Federation's urgings, the Federation warns that it will take direct action and let the unit officers face the judgment of the workers.

The Federation has also begun a move to have labor negotiations conducted by the Alliances with Federation support, or even by the Federation itself, rather than by local unions. The Federation feels that this will strengthen labor's bargaining power, increase the feeling of labor solidarity and make it more difficult for corrupt labor leaders to sell out to management.

Recent developments in the labor movement have led to a noticeable improvement in labor's press relations. In the past the press looked on the FKTU as merely a political unit and gave it little attention. Of the labor articles that did appear, many were written for political purposes by certain segments of the press. At the time of the 1958 FKTU convention the majority of press comment condemned the internal strife in the labor movement, self-seeking labor leaders and the failure of union leaders to perform their primary task - protection of the workers' interests.

While no newspaper has yet campaigned in favor of the labor movement and labor coverage is still limited, articles criticizing Government and Liberal Party interference in union affairs and violations of the labor laws by management have appeared. Since the FKTU's 1958 convention the press apparently is beginning to recognize that the Federation is not just a political organization. Not only do the Federation's increased activities make it a more fruitful source of news but the issues which it raises are often of continuing news value. For the first time reporters are calling regularly at FKTU headquarters. The Federation, in turn, is trying to encourage the attention of the press by preparing news handouts on important labor developments.

Further evidence of the increased prestige of labor is the reported interest of bank employees and university professors in forming unions. The unionization of these groups would add tremendously to the standing of organized labor in the local community.

The FKTU has expressed its desire to strengthen its ties with the international labor organizations of which the Federation, or its units, are affiliates. To achieve this goal the Federation plans and, it is believed, is carrying on increased correspondence with these international bodies.

While the labor movement in Korea appears to have made some significant progress in recent months, it is still threatened by strife within the Federation. The Chong group, which has made vague threats of founding a new labor movement, has already launched an attack on the new Federation officials and their supporters. In some industries Chong, reportedly, is receiving the support and encouragement of management.

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Lead by CH'A Kuk-ch'an, (6508/0948/3605) reputed ROK CIC agent, Chong's offensive is directed primarily against KIM Ki-ok, (6855/3825/3768) Chairman of the FKTU and Chairman of the Alliance of Free Workers Unions; KIM Chu-hong, (6855/0719/3163) Chairman of the Alliance of Railroad Workers Unions; and YI Chu-gi, (2621/0719/1015) General Secretary of the FKTU and Chairman of the Alliance of Miners Unions.

Kim Ki-ok, because of the size and voting power of the alliance which he heads, is a key figure in the Federation and was elected chairman of the Federation at the October 1958 meeting. Having survived several underhanded attempts by Chong in the past to split his alliance, Kim should be able to successfully defend himself in the present struggle.

Kim Chu-hong, an old enemy of Chong's, is a fairly vulnerable target, having earned the wrath of the Liberal Party and the tag of "anti-Liberal" by his outspoken demands for an independent labor movement. Months ago Kim expressed to the Embassy his feeling that, having been in power so long and having made so many enemies, he should step aside in favor of younger leaders who will, perhaps, be more effective. At the Federation convention, Kim, who was subsequently named a permanent adviser to the FKTU, refused to run for Federation office and successfully pushed the candidacy of KANG Tae-bom, his second in command in the Railroad Alliance, for a Federation vice chairmanship. It is now reported that Kim thinks he can retain his power in the Alliance of Railroad Unions until the annual convention at which time he will again step aside and will support Kang for chairman of the Alliance.

Yi Chu-gi has had rather limited experience in the field of labor but has advanced rapidly in the Korean union movement. He is a vigorous person; reportedly has an outstanding war record, and speaks as an enthusiastic supporter of the Liberal Party. Earlier Yi estimated his chances of retaining the chairmanship of the Alliance of Miners Unions at about 50-50. It now appears that Yi will follow the strategy of Kim Chu-hong by stepping aside as a candidate for chairman of the Alliance and backing one of his supporters for that post. His position of Chairman of the Tungsten Miners Unions is thought to be safe.

The continued progress of the labor movement in Korea in the immediate future appears to hinge on the following:

1. The maintenance of unity among the FKTU leaders.
2. The prevention of any split in the FKTU.
3. The consolidation of recent gains.
4. The movement's ability to remain free of political pressures.

The last factor is the most important one and the one that will greatly influence the first three.

Labor and Government

During the latter part of 1958, especially after the FKTU convention in October, the Government showed labor a surprising degree of attention. A

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By NARA, Date 11/17/99

"Labor Protection Week" was observed during which awards were presented by the Government to model workers and to employers who had promoted good labor-management relations. A death and injury compensation system for railroad workers was finally established. A mine safety bill and measures to reduce unemployment were drafted by the Liberal Party. President Rhee urged better treatment of workers and called for prompt payment of wages, an unemployment insurance system, better housing and the construction of labor halls. Labor leaders who had an audience with the president said that he was genuinely concerned about the welfare of the workers.

Despite the attention shown labor and the President's concern for the workers, there appears to have been no basic change in the Government's attitude toward labor. Union leaders say they cannot recall a single case in which the Bureau of Labor on its own initiative investigated violations of the labor laws and took corrective or punitive action. When questioned, Bureau officials seem to know and care little about specific labor issues and complaints. Not only does the Government make little, if any, effort to enforce the labor laws unless embarrassed by union agitation, but also violates and appears to ignore the labor statutes in its treatment of government employees.

Though the Government's attitude toward labor has not changed, fortunately for labor the Liberal Party's has. Alarmed at the opposition strength in the last national elections, the Party is striving to assure itself of victory in the 1960 elections.

Labor quickly recognized the opportunity provided by the Liberal Party's fears. At the 1958 FKTU convention, Federation leaders blocked Party intervention in the convention by warning that such action would estrange organized labor. By presenting to the Party and publicizing labor grievances the Federation has placed the Liberals in an exposed position and challenged them to demonstrate their regard for labor. As a result Party influence has been brought to bear on management to ameliorate labor conditions.

Federation leaders state that any party overtures for labor support will be met by demands for a quid pro quo. In such an exchange labor has two points in its favor:

1. The FKTU, established as a component part of the Liberal Party, is the only constituent unit of the party with any substantial organization.

2. Organized labor is concentrated in urban centers, an area in which the Liberals were soundly defeated in the 1958 elections.

Labor-Management Relations

For the most part, management considers organized labor a political group which is led by men who are largely dishonest, self-interested, and indifferent to the welfare of the workers. There is some (but decreasing) justification for this attitude.

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Labor regards management as a selfish group which seeks the largest and fastest profits, cares little about long term economic development and is pitiless in its treatment of the workers. There is also some justification for this attitude.

Management has recently shown more attention to labor. For the first time a management group recently visited FKTU headquarters to discuss a labor complaint. Reportedly, a number of business officials have met to discuss a campaign for less stringent labor laws, although, considering the Government's failure to enforce existing laws, it is difficult to see why management is particularly concerned.

Management's alarm may be due to labor's growing activities and display of greater strength. Local observers state that individual businessmen are quite sensitive to labor's publicizing worker grievances. Such publicity is said to cause "loss of face" affecting the businessmen's relations with banks, the Government and his community. The conducting of labor negotiations by the Alliances or the Federation should give labor a stronger bargaining position and make it more difficult for management to "buy off" local union leaders. Finally, the Liberal Party's wooing of labor has reduced to some degree the support in labor disputes received by management from political sources.

For the Ambassador:

R W Tucker

Robert W. Tucker
First Secretary of Embassy

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NND 867400
By [illegible], NARA, Date 11/7/24

STANDARD FORM NO. 64

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Office Memorandum • UNITED STATES GOVERNMENT

TO : FE - Mr. Robertson

DATE: MAY 20 1959

FROM : NA - Mr. Bane

SUBJECT: Recent Labor Developments in the Republic of Korea.

This Document must be Returned to the RM/R Central Files

RM/R file

Following is a summary of the semi-annual labor report by Embassy Seoul, which we believe you will find of interest.

Rapid strides were taken during the latter half of 1958 toward a truly free and independent labor movement in the ROK. For the first time in its history, organized labor in Korea was able to successfully resist government and Liberal Party interference in its internal affairs and win greater recognition of its status in Korean society.

The most important development was the reorganization of the Federation of Korean Trade Unions /FKTU/ at its annual convention in October. The reorganization plan replaced the five-member supreme committee with a single chairman and provided that vice chairmanships be allocated to the most important alliances in the Federation. This reorganization was designed to eliminate factionalism in the top echelons of the Federation and to provide unified leadership. Despite appeals for the government and the Liberal Party to block the convention, or at least the reorganization plan, by the faction which had previously enjoyed dominant power in the organization, the administration and Liberal Party refused to intervene. The Embassy comments that this may have been due to the reflection on the results of the last national elections in which the Liberal Party was defeated in urban areas where organized labor is concentrated, and to warnings by labor groups that outside interference would antagonize the vast majority of the labor movement. This lack of government intervention gave the Federation a feeling of independence which has given the entire labor movement a new life and spirit.

Since the Convention, the Federation has established a Committee to investigate infractions of labor laws. As much attention as possible is directed by the Federation to any violation found. These tactics are designed to embarrass the Government and bring official pressure on management, obtain national publicity which a local union action would not receive, and show employees in both organized and unorganized industries that the labor movement is genuinely trying to help the worker. The Federation has also begun to have labor negotiations conducted by the alliances with Federation support, or even by the Federation itself, rather than by local unions.

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These recent developments in the labor movement have led to a noticeable improvement in labor's press relations. The press is beginning to recognize that the Federation is not just a political organization. For the first time reporters are calling regularly at FKTU headquarters. The Federation in turn is trying to encourage the attention of the press by preparing news handouts on important labor developments. The FKTU has also expressed its desire to strengthen its ties with the international labor organizations under which the Federation or its units are affiliated.

The Government is also showing a surprising degree of attention to the FKTU since its convention. A mine safety bill and measures to reduce unemployment have been drafted by the Liberal Party. A death and injury compensation system for railroad workers was finally established and President Rhee has called for other pro-labor measures. However, the administration still makes little, if any, effort to enforce the labor laws unless pressed by union agitation. The Embassy reports that the Bureau of Labor has never on its own initiative investigated violence of the labor laws or taken corrective or punitive action.

Despite its recent successes the long term growth of the labor movement in Korea will continue to be dependent on the further development of the Korean economy. In the immediate future, however, the success of the labor movement will hinge on the maintenance of unity among the FKTU leaders, prevention of any split within the Federation, consolidation of recent gains and finally, but most important, the ability to remain free from political pressures.

FE-Mr. Schubert

FE:NA:JAKlemstine:cmm
5/18/59

cc: FE - Mr. Parsons

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E.O. 12356, Sec. 3.3
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TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : CERP - Section C, Item 4

Action Assigned to

Action Taken
August 14, 1959
DATE

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	FE-4	RMR-2 IES-5 P-5
	REC'D 8/22	INFO REP-1 IRC-8 PER-2 ICA-11 AIR-4 IN-7 OCB-1 CIA-10 LAB-5 COM-8 ARMY-2 NAVY-3 TOSA-10

Date of Action 8/14/59

Action Office Symbol FE

SUBJECT: Semi-Annual Labor Report - Korea; January-June 1959

Name of Officer HS

Direction to DC/R File

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Summary

After an enthusiastic and promising start in the early part of the year, the Federation of Korean Trade Unions (FKTU) found itself hamstrung by organizational weaknesses and a bitter factional struggle for control of the Federation. Both of these problems may have been settled or alleviated on July 31 at a meeting of the Central Standing Committee at which KIM Ki-ok, Chairman of the FKTU, scored an overwhelming victory over his rival, CHONG Tae-chon, and new rules of organization for the Federation and affiliated groups were adopted.

Apparently recognizing labor resentment of outside interference in union affairs, the Liberal Party (LP) and the ROKG have continued their policy of nonintervention in the Federation. Eager to gain the support of labor in the approaching elections, the LP has offered the Federation, a component unit of the LP, freedom within the party in return for labor support. The Federation, which cannot openly defy the LP, has taken the attitude that labor support will be given to those who show a genuine concern for labor's interests. The political situation should continue to contribute to the increased influence of the labor movement.

Wages and Working Conditions

All available statistics on wages have been submitted by the Embassy under the CERP publications program. These statistics are of limited value as they represent general averages and vary with, but do not indicate, the makeup of the labor force, the number of days worked, the number of hours worked, the date on which wages are actually paid rather than earned (in the ROK this time element often amounts to months) and other factors. Subject to these limitations and the further qualification that the earnings of office and management personnel are included, the following table may be of some interest with regard to wage developments during the six month period covered by this report.

Average Monthly Earnings of Regular Employees 1/ (thousands of hwan)

	A Jan-June 1958	B July-Dec. 1958	C Jan.-June 1959	% Change C/A	% Change C/B
Mining	35.4	36.1	36.9	↑ 4.2	↑ 2.2
Manufacturing	23.2	25.1	26.0	↑ 12.0	↑ 3.6
Consumer Price Index	144.8	148.6	150.0	↑ 3.6	↑ 0.9

1/ Source: Bank of Korea.

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Average Real Wages 2/	A Jan-June 1958	B July-Dec. 1958	C Jan.-June 1959	% Change C/A	 C/B
Mining =	35.4	35.2	35.6	+ 0.6	+ 1.1
Manufacturing	23.2	24.4	25.1	+ 8.1	+ 2.9

As shown in the above table both average monthly earnings and average real wages were higher in the January-June 1959 period than in the two preceding six month periods in both mining and manufacturing.

The Ministry of Health and Social Affairs reports that it is now conducting a wage survey. The Embassy hopes that the findings of the survey will be available in the near future.

Consideration is being given by the ROKG to the establishment of an unemployment insurance system and a pension system for government employees -- something for everyone as elections near.

Trade Unions

Immediately after the Federation of Korean Trade Unions' (FKTU) annual convention in October 1958, at which the Federation's top posts were reorganized and new officers elected, the ousted CHONG Tae-chon faction began its expected attack on the group in power, particularly KIM Ki-ok the newly elected Chairman. Chong's tactics included an attempt to have the 1958 convention declared invalid, charges of embezzlement at Inchon and Pusan against Kim, encouragement of the opposition in labor organizations led by Kim supporters, and, it is believed, charges in political circles that Kim was anti-Liberal Party.

During Kim's trip to the U. S. (see Exchange Program) allegiances began to shift and the anti-Kim group confidently boasted that they would defeat Kim in the 1959 FKTU convention at which they would force an unscheduled election of officers. Upon his return to Korea, however, Kim displayed complete assurance of defeating his opponents.

The first real test of power between Kim and Chong was expected to take place on July 31 at a meeting of the Central Standing Committee of the FKTU. The week before the meeting all parties seemed to be struck with doubts, the Chong group showing none of their previous confidence, Kim's supporters offering widely varying predictions of victory or defeat, and reports that many labor figures, previously considered committed to one or the other group, were scrambling to establish neutral positions.

The meeting of the Central Standing Committee proved to be an overwhelming victory for Kim as few anti-Kim delegates actually entered the meeting. There are two versions of how this occurred. The Chong group reports that the meeting was surrounded by police who barred entry to the Chong delegates. Neutral and pro-Kim sources state that, other than the normal complement of police assigned to such gatherings, all guards and inspectors were members of Taegu unions; and, that only

2/ Derived from Bank of Korea data; based on Jan.-June 1958.

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a few Chong supporters were denied entry to the meeting, the others refusing to participate when they saw the hopelessness of their cause. Those denied entry were primarily the active participants in the attempted convention nullification. Additionally, these sources report that those delegates, representing a large majority of the authorized total, who did participate in the meeting were overwhelmingly in favor of Kim.

The Committee passed on the affiliation of newly formed unions with the Federation, the official number of members in these unions, and, on the basis of size, the number of delegates these unions could place on the Committee and send to the annual conventiom. This should give Kim additional strength at the convention as leaders of the newly affiliated unions are all known as supporters of Kim.

The Committee expelled from the Federation two unions led by Chong supporters who had led the convention nullification attempt and PAK Chong-san, Chief of the FKTU Publicity Department, who had worked against Kim. The Committee also voted to suspend YI Chu-gi, General Secretary of the FKTU, who had worked against Kim and, reportedly, had sold out to management in the transportation workers dispute. After this vote, Yi voluntarily submitted his resignation from the Federation. Although details are not yet known to the reporting officer, a new plan of organization for the FKTU and affiliated unions adopted by the Committee may prove to be the most important achievement of this meeting of the Central Standing Committee.

The Chong group apparently now realizes that its power in the FKTU is broken and that, by present indications, there is no hope of overthrowing Kim before the next election of officers which will take place at the 1960 convention. Instead, they plan to desert the Federation and establish a new labor movement if the Liberal Party (LP) will so permit. Since the FKTU is a unit of the LP and the Liberals are eager to obtain the support of labor, leaders of the Chong group are not optimistic about non-intervention by the LP, especially with a presidential election approaching.

Kim's victory is attributed to many and varied factors. One of his greatest assets appears to be his reputation for limited intelligence. Local observers state that Kim has the support of a large majority of union leaders who believe that Kim has neither the ambition nor the ability to use the Federation for personal advancement. His limitations prevent Kim from dominating the Federation and permit subordinate officials a greater influence in Federation affairs. Kim's lack of ability and his popularity with, or acceptability to, the majority of the labor movement have attracted capable men who, perhaps for personal reasons, perhaps because of dedication to the labor movement, have given Kim support and intelligent guidance. Kim is described as "too simple to be devious". He is not a source of clever ideas but when the Federation has decided on a policy, Kim charges ahead on the most direct course without fear of personal consequences. This appeals to the members of the labor movement who have been satiated by the self-seeking machinations of previous Federation leaders.

Despite the oppositions charges of embezzlement, Kim is still generally considered an honest man. At least, if compared with the opposition and certain other labor leaders,. Kim need not fear accusations of dishonesty.

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Kim has enjoyed the support of influential persons in the Liberal Party and LP disapproval of some of Chong's tactics. (See Labor and Government).

One of the first steps taken by the FKTU after its annual convention in October 1958 was the formation of a team to investigate labor-management relations and observance of the labor laws. Federation officials report that in many small companies where labor grievances existed, a word of warning to the management was sufficient to effect improvements. The team's visits also created closer feeling between the FKTU and small local unions, many of whose members had only the vaguest knowledge of the Federation.

The major labor disputes considered by the Federation were those with the transportation companies and with the textile mills. Although limited achievement was reported in the transportation dispute, both of these cases have been dormant for some time. Federation officials say that the disputes have not been dropped and attribute the lack of action to the disruptive effects of the internal labor struggle, Yi Chu-gi's treachery in the transportation workers dispute, and, most importantly, organizational weaknesses in the Federation and the Alliances. Federation leaders discovered that they had little if any control over the alliances and that alliance chairmen occupied basically honorary posts with no authority over member unions. Since the transportation unions are all "company unions" and many textile union leaders are in the pay of management, the Federation found itself powerless to exercise any substantial influence in these disputes. After this rather bitter and disappointing experience Federation officers assured the Embassy that the Federation, the alliances and even the individual unions would be reorganized to give real authority to the alliances and to the Federation. Reportedly, the organization of the new unions and alliances provides this authority and, it is believed, that the new plan of organization adopted by the Central Standing Committee, as reported above, was designed to do the same in the older organizations.

During the period covered by this report three new, potentially important, labor groups were founded: the Alliance of Chemical Workers Unions, the United Construction Workers Union and the Printers Union. The latter two are national unions with the present membership concentrated in Seoul. Estimates of the membership of these unions have varied greatly. Pending report of the Standing Committee's decision on this point, conservative estimates give the Alliance 10,000 members, the Construction Workers Union 2,200, and the Printers 4,000.

There continues to be no discernible communist influence in the Korean labor movement. As with any organization, including the national government, the possibility of communist infiltrators exists. However, there are no signs of communist inspired activities.

The press showed increased, and encouraging, interest in labor affairs during the first few months of the year. However, as the factional labor struggle grew bitterer and Federation activities stagnated, attention from the press decreased and editorial comment became critical. While there is certainly just cause for criticism of many labor leaders and unions, the newspapers which preach in the most moralistic tones the duty of labor leaders to protect the workers and insure

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observance of the labor laws, do not trouble to point out the continuous ignoring and violation of the labor laws throughout the country, even by the national government. According to one Federation official, the labor movement lost its kindest and most attentive commentator in press circles when the ROKG suspended publication of the Kyonghyang Sinmun.

Labor-Management Relations

There has been no significant change in labor-management relations. With more active leadership, and some increased influence, the labor movement feels greater confidence in its dealings with management. (See Labor and Government). There are no indications that management's opinion of the unions and their leaders has improved, however, management regards the influence of the labor movement with a bit more respect.

Labor and Government

The attitude of the Government and of the Liberal Party, of which the FKTU is a component unit, to the labor movement is determined by political considerations. In view of the approaching elections and its defeat in the urban areas in the last elections, the Liberal Party has for some time been making greater effort to gain the support of labor. Apparently, the LP realized that although it could intervene in labor affairs and control the Federation, this would not secure but rather alienate the labor vote. The LP, offering non-intervention in Federation affairs in exchange for Federation loyalty to the Party, declared its neutrality in the factional labor struggle. As the Kim-Chong showdown approached, the LP stated that the union members alone should decide who their leaders would be.

Chong not only failed to obtain LP intervention on his behalf but, reportedly, incurred Liberal disfavor by some of his anti-Kim actions which were considered detrimental to the LP. As a member of the National Assembly sub-committee investigating charges of embezzlement in the Inchon and Pusan unions, Chong is said to have allowed his enmity for Kim to make him a tool of the Democratic sub-committee members who were seeking to embarrass the Liberal Party.

Chong attempted to organize in the unions units of the Anti-Communist Fighting Committee (ACFC) which, under Chong's influence, would oppose Kim. The ACFC was originally established by the Liberal Party to support passage of the National Security Act but has since thrown off Liberal control and is now considered a quasi political party. Thus, Chong's action was considered damaging to the interests of the Liberal Party.

The Liberals plan to survey the political convictions of union leaders throughout the country before the approaching elections. Party spokesmen say that there will be no attempt to liquidate neutral or pro-Democratic union leaders but that a real attempt will be made to convert them into good Liberals.

The Federation's strategy remains the same -- the offering of labor support in exchange for demonstrated concern for the interests of labor. Despite Kim's apparent closeness with elements of the Liberal Party, there are numerous reports

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of dissatisfaction in some Liberal circles with Kim's independent attitude. This, however, should add to labor's bargaining power as long as the Liberals observe their announced policy of non-intervention.

International Organization

During the past six months the FKTU has attempted to interest the ROKG in Korean participation in the International Labor Organization (ILO). It is reported that the official response has been disapproval because of the expenses involved and participation by communist countries in the ILO.

Exchange Program

In March the FKTU sent two delegates, Yi Chu-gi, General Secretary, and, an adviser, a professor of labor economics, to the Economic Conference of the I.C.F.T.U. in Geneva. Yi was very impressed by the scenery.

Five representatives of the FKTU travelled on a UNESCO sponsored "Workers Study Tour" to Southeast Asian nations during April and May. The leader of the group, although hampered by lack of experience in the labor movement, seems to have made a real effort to utilize this opportunity. He is preparing a report of his observations for the Embassy. The other members of the group were hardly qualified to profit from the trip.

Federation Chairman Kim Ki-ok and Vice Chairman KANG T'ae-bon and CHOI Yong-su have just returned from a two month visit to the U. S. under Foreign Leader grants. Faced with the factional labor struggle they have had time for only short courtesy calls at the Embassy. They reported that they were most impressed by social security provisions in the U. S. Their only criticism of the tour was that there was too much to observe in too little time.

RHEE Kwang-cho, former deputy chief of the International Affairs Department of the FKTU, is now in the U. S. on a Foreign Specialist grant.

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

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JOINT EMBASSY/USOM MESSAGE

SUBJECT: REPORT ON PROGRESS IN DEVELOPMENT OF HIGH LEVEL MANPOWER

REFERENCE: ICATO CIRCULAR A-114

XR
110.402-ICA

1. EMBASSY/USOM BELIEVE INTENSIFICATION EFFORTS DEVELOP HIGH LEVEL MANPOWER ROK HIGHLY DESIRABLE IN INTEREST ACHIEVING U.S. POLITICAL AND ECONOMIC OBJECTIVE IN KOREA. SEVERAL KEY OFFICIALS HAVE INDICATED THEIR CONCERN LACK HIGHLY TRAINED MANPOWER IN GOVERNMENT, BUSINESS, EDUCATION AND OTHER FIELDS AND WOULD PROBABLY SUPPORT PROGRAM FOCUSED ON THIS PARTICULAR PROBLEM. OFFICIAL ROKG REACTION, HOWEVER, UNCERTAIN AND USOM REQUESTS CLEARANCE TO BROACH SUBJECT TO RESPONSIBLE OFFICIALS AT EARLIEST POSSIBLE DATE. OBVIOUSLY, WITHOUT THEIR COMPLETE CONSENT AND SUPPORT, PROGRAM COULD NOT BE CARRIED OUT EFFECTIVELY.

2. ASSUMING ROKG REACTION FAVORABLE, MISSION REQUESTS EARLIEST ARRIVAL OF CONSULTANT FOR DETERMINING DIMENSION MANPOWER DEVELOPMENT PROBLEM, OUTLINED IN REFERENCE. THIS ASSIGNMENT MOST APPROPRIATE AT THIS TIME IN ASSISTING TRAINING DIVISION WHICH IS DIRECTING SPECIAL EFFORT TOWARD BETTER UTILIZATION OF TRAINED MANPOWER. ESTIMATED TIME OF ASSIGNMENT IS 3-4 MONTHS.

3. WILL INITIATE COUNTRY CLEARANCE UPON RECEIPT OF NOMINATION, BIO-DATA AND PERMISSION DISCUSS SUBJECT WITH ROK.

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NA letter file. NA - Mr. Hemmendinger

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THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

American Embassy,
Seoul, Korea,
April 19, 1956.

OFFICIAL - INFORMAL
CONFIDENTIAL

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Dear Noel:

Our recent despatches and telegrams have apprized you of developments in the Army's wage problem with its 20,000 Korean employees. Since George Barbis covered labor all the time he was here, he can refresh your memory on more remote aspects.

I have had fears concerning the Army's labor relations ever since I arrived. However, until very recently, the Army has refused to admit that its labor was underpaid in spite of a large body of evidence that its wages were substandard. For almost a year and a half they have been making surveys while prices have been rising and their wage levels have been falling farther and farther behind. During this time we have passed a number of minor crises brought on by threats of strike.

Matters seemed to be approaching a major crisis this week. It has been staved off by AFFE/8th Army's advising the Union that it has completed a wage survey and that it is studying means of improving working conditions. However, we have only gained a breathing spell. The only thing that will improve the situation over a long period is a substantial wage increase.

AFFE/8th Army has finally been pushed into making a recommendation for increases which is now in OEC for comment. It will go from OEC to CINCUNC and, assuming CINCUNC has no major difficulties with it, will probably reach Defense in about a month. OEC will give the recommendation vigorous support and I judge CINCUNC will do the same. The wage survey shows that for various categories of labor increases of 120 to 160 per cent are needed to bring the Army wage scales into line with going rates in industry and that a 50 per cent increase is needed on the whole to bring Army rates up to what the ROK Government pays. The Government's wages are admittedly substandard. AFFE/8th Army's recommendation is for increases averaging 80 per cent. I am told that OEC and CINCUNC will recommend somewhat higher increases, averaging 86 per cent. The Unions are asking for 100 per cent.

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Noel Hemmendinger, Esquire,
Acting Director,
Office of Northeast Asian Affairs,
Department of State.

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Carl W. Strom
Chargé d'Affaires a.i.

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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL

185
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

Action Taken December 7, 1955
DATE

895B.00/3-1555 DEC 8 1955

REF : CERP March 20, 1953: Section D, Item 11; Embassy Despatch 211, March 15, 1955, pp. 16-20.

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RM/R Central Files

SUBJECT: Federation of Korean Trade Unions.

(5)

The struggle for leadership of the Federation of Korean Trade Unions (FKTU), which began early in 1955, was finally resolved in September 1955 as a result of Liberal Party (LP) mediation. Thus the LP objective of uniting and strengthening one of its largest affiliated social organizations, in preparation for the 1956 Presidential-Vice Presidential election, was achieved.

The factional struggle for leadership of the FKTU broke out in the open at the Federation's annual convention which was held on April 1-3, 1955. The faction headed by CHONG Tae-ch'on walked out of the convention when the group headed by YI Chun-su gained a majority of the new central headquarters positions. Subsequently CHONG Tae-ch'on and his supporters challenged the validity of the April convention and called for a new convention. They were backed by the Minister of Health and Social Affairs in their contention the April convention was invalid and in their demand for a new convention.

The YI Chun-su faction announced it would not attend any other convention since the April convention, at which it gained predominance, was valid and legal under the FKTU charter. The courts tentatively confirmed this position when a suit brought against the Minister of Health and Social Affairs by YI Chun-su, for the Minister's action in supporting CHONG Tae-chon, was considered.

From the beginning the Liberal Party took an active, though quiet, interest in this controversy and worked behind the scenes to resolve the differences between the rival factions in order to unite the labor movement. In May 1955 YI Chun-su and CHONG Tae-ch'on attended the ICFTU biennial Congress in Vienna on President Rhee's instructions, accompanied by Liberal Party Assemblyman WHANG Sung-soo, and it appeared later that the LP was making some progress in reconciling the division in the FKTU. Finally, after persistent efforts on the part of LP leader YI Ki-pung and the LP organization a "compromise" convention was held on September 15. The convention was attended by both the CHONG Tae-ch'on and YI Chun-su factions and the FKTU became united. CHONG and YI were again elected as Supreme Committeemen, together with KIM Chu-hong (who was on the Supreme Committee with CHONG Tae-ch'on before the April convention and was Chong's supporter).

The Liberal Party utilizes the FKTU by movilizing the workers to participate in "spontaneous" demonstrations and meetings in support of Government and Liberal Party policies. During 1955, FKTU unions have participated in the anti-Japan, anti-NNSC and pro-self sufficiency campaigns. Unity in the leadership of the FKTU was thus

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essential to LP purposes, especially in view of the forthcoming election for President and Vice President. As a result of the September convention the leadership of the Federation is now united, at least on the surface, probably due primarily to Liberal Party pressure on the individuals concerned. The FKTU's charter was amended at the convention so that officials of the central headquarters will now hold office for two years rather than one. Thus, any factional differences which may continue to exist can be postponed from coming out in the open until after next year's elections.

The FKTU continues to be held closely under the guidance and control of the Liberal Party. This issue was never brought out openly by either faction as a reason for the factional struggle, although there is reason to believe some union leaders would like to see the FKTU divorced from the Liberal Party. The Chief of the Liberal Party Social Affairs Department (in charge of the FKTU for the party) has told an Embassy officer he would like to see the FKTU operate as a truly free and independent movement. He added, however, that under present conditions this was not now possible. It can therefore be expected that there will be little change in the relationships between the Liberal Party and the FKTU during 1956 and that the LP will use the labor movement in whatever way it wishes to further its objectives in future political activities.

For the Charge d'Affaires ad interim:

Willard O. Brown
Willard O. Brown
First Secretary of Embassy

Enclosure: List of Officers
of the FKTU

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G-2, AFFE/8th Army
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Page 1 of
Encl. No. 1
Desp. No. 185
From Seoul

OFFICERS OF THE FEDERATION OF KOREAN TRADE UNIONS (FKTU)
Elected September 15, 1955

POSITION	NAME	REFERENCE
Supreme Committeeman	CHONG Tae-ch'ōn	Chairman, Seoul Electric Co. Worker's Union (LP National Assemblyman)
" "	KIM Chu-hong	Chairman, Alliance of Rail-Road Worker's Unions
" "	YI Chun-su	Chairman, Alliance of Miner's Unions
General Secretary	YI Kang-yōn*	Vice-Chairman, Alliance of Rail Road Worker's Unions
Chief, Administration Dept.	YI Sang-chin	Vice-Chairman, Seoul Electric Co. Worker's Union
" Planing Dept.	HA Kwang-ch'un	Chairman, Alliance of Unions in Tongtaemun Region
" Organization Dept.	YU Ki-nam	Chief of Propagander Dept. Alliance of R.R. Worker's Unions
" Propagander Dept.	CH'A Kuk-ch'an	Vice-Chairman, Seoul Electric Co. Worker's Union
" Investigation and Statistics Dept.	KIM Mun-kyu	Korean Electric Co. Worker's Union
" International Dept.	CHŪNG In-hwa	Chairman, Oriental Textile Mill Worker's Union
" Social Relation Dept.	KIM In-su	Oriental Textile Mill Worker's Union
" Cultural Dept.	YU Kap-chōn	Chairman, Seoul (Yongsan District) Union's Alliance
" Laws & Regulation Dept.	KIM Yōng-hwan	Vice-Chairman, Alliance of Miner's Unions (Talsong Mine)
" Labor Dispute Dept.	KIM Chōng-won	Chairman, Taehan Coal Cooperation Worker's Union
" Welfare Dept.	O Yōng	Chief, Financial Dept., Alliance of Miner's Unions
" Women's Dept.	KANG Yōn-ok	Chief, Women's Dept., Alliance of Textile Worker's Unions
Auditing Committee	CH'OE Yu-sik	Chairman, Ch'lla Namdo Regional Alliance
" "	KIM Ki-ok	Chairman, Free Worker's Union
" "	YUN Byong-kang	Vice-Chairman, Alliance of Rail Road Worker's Unions
" "	YI Hūng-kyu	Chairman, Alliance of Cook's Unions
" "	SŌNG Chu-kap	Chairman, Pusan Regional Alliance

* Died in November and replaced by YI Sang-chin

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POSITION	NAME	REFERENCE
Auditing Committee	CH'OE Yong-su	Chairman, Korean Electric Co. Worker's Union
" "	YI Chu-ki	
" "	KIM Sam-mun	Chief, Investigation Dept. Korean Electric Worker's Union
" "	KIM Ch'ŏl	Chairman, Ch'ungch'ong Pukto Alliance
" "	CHO Tok-yun	Chairman, Ch'ungch'ong Namdo Alliance
" "	KIM Mal-yong	Chairman, Taegu Regional Alliance
" "	SIN Sang-ok	Chairman, Mokpo Regional Free Worker's Union

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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL — 276 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — Embassy informally advised March 5, 1956 DATE

REF : CERP, Section D-11 — Consulted with AFFE/8A

MAR 6 tid 1956 3/23/56

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SUBJECT: AFFE/8A Labor Difficulties

By letter of February 9, 1956, the Korean Federation of Free Labor Union Association, (KFTU), Ascom and Inchon, transmitted to the Embassy a copy of the Association's letter of February 8, 1956, to the Commanding General, AFFE/8A, concerning certain alleged labor problems of indigenous employees of AFFE and requested the Embassy's consideration of the matter. Reproducible copies of these letters are attached as enclosures Nos. 1 and 2, respectively.

Upon discussing with AFFE/8A the demands raised by the Association, which involve (1) a 100 percent general wage and salary increase, (2) the establishment of a permanent joint committee for the continuous consideration of grievances, and (3) the maintenance of the 48 hour work week, the Embassy learned that AFFE/8A was currently engaged in an overall wage and salary survey which would be completed in the near future. It was also learned that AFFE/8A did not believe it necessary to establish a joint grievance committee because it considered the present system for handling labor grievances to be functioning satisfactorily from the viewpoint of both AFFE/8A and the Association. (Under the present system, the Association provides the Chief of Staff, AFFE/8A with written statements of specific grievances, as they arise, which serve as a basis for AFFE/8A investigation and action, if justified.) The Embassy understands that AFFE/8A replied to the Association's letter of February 8, 1956, accordingly.

In view of the foregoing, the Embassy replied to the Association's letter of February 9, 1956, in a non-committal manner. A reproducible copy of the Embassy's reply, dated February 24, 1956, is attached as enclosure No. 3.

The Embassy subsequently learned of a resolution passed January 25, 1956, by the Army Employee's Union of the KFTU resolving that, if by January 30, 1956, AFFE/8A had not met with the Union to resolve outstanding issues, the Union would not bear the responsibility for whatever actions might be taken subsequent to that date. It would appear, however, that, for the moment at least, the Union has decided to delay further action as a result of the aforementioned exchange of letters between AFFE/8A and the KFTU. A reproducible copy of the Union's resolution in question is attached as enclosure No. 4.

The outcome of the wage dispute, which is the principal issue, depends on the results of the AFFE/8A wage and salary survey and the extent to which AFFE/8A is able financially to raise wages if the survey results indicate such action is

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By Lgd, NARA, Date 1/17/89

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called for. It is believed that the KFTU will take no further steps pending the conclusion of the survey and AFFE/8A's subsequent action. The Embassy will follow the matter and inform the Department as important developments occur. In the Embassy's opinion there is little question but that the situation is highly explosive and potentially dangerous to ROK-US relations, particularly as AFFE/8A is by far the largest single employer in Korea.

For the Charge d'Affaires a.i.

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

Enclosures:
1. Ltr to AmEmbassy from KFTU dtd 9 Feb 56
2. Ltr to AFFE/8A from KFTU dtd 8 Feb 56
3. Ltr to KFTU from AmEmbassy dtd 24 Feb 56
4. Resolution (trans) by KFTU dtd 25 Jan 56

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From_____

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(Classification)

Page 1 of 1
Encl. No. 1
Desp. No. 276
From Seoul

COPY

KOREAN FEDERATION OF
FREE LABOR UNION ASSOCIATION
ASCOM AND INCHON

9 February 1956

SUBJECT: Proposal Letter

TO: American Ambassador
In Seoul Korea

Your Excellency:

This is to inform that we have been submitted a proposal letter to the Commanding General, Hq. 8th United States Army in Korea on 8 Feb 1956. About our labor problems of the Indigenous Employees, which they are working for the U.S. Army in Korea.

1. We request honor to consult deepist consideration to cooperate and assistance to our people for the Better living conditions in the Free World.

2. The letter we submit is showing in the inclose attached back of this letter shows detailly appealing of our circumstances for living condition.

Truly Yours,

(Sd) Kim Kill Yong
Union Committee

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Desp. No. ____
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Page 1 of 1
Encl. No. 2
Desp. No. 276
From Seoul

COPY

KOREAN FEDERATION OF FREE
LABOR UNION ASSOCIATION
ASCOM AND INCHON

8 February 1956

SUBJECT: The proposal for the Better Treatment of Indigenous Employees

TO: Commanding General,
Headquarters, AFFE/8Army,
ATTN: Personnel Officer

Dear General:

First, we wish to express our thanks for your struggle against Communist aggressors to achieve our common goal of democratic and peaceful world. At the same time, we are very much regretful in submitting this proposing letter, taking your precious time, however, this letter we submit to you on behalf of the free laborer in this area.

The representative meeting of Korean Federation of Free Labor Union in this area have been held and it has been decided that the proposal will be submitted to proper authorities in connection with the Better Treatment of Indigenous Employees in order to provide the workers, with security of employment and better living conditions. The following has been adopted and hereby proposed to your authority:

1. Request 100% Increase in the Wages of Indigenous Employees. Due to the inflation of economy and depression of business affairs, and further, the wages has never been increased since the time of 180 to 1 rate exchange, the living condition of Indigenous Employees is miserable and beyond description.

2. Request means of close contact or, of possible, some kind of Committee be established between American military side and Korean federation of Free Labor Union, Inchon Area Union in connection with Labor problems and other affairs, incidents in order to eliminate possible misunderstanding and to promote good-will between us. The Committee will be Established so that any side can advice each other in the labor problems.

3. Further, we hereby declare that we will dispute against the consideration of 40 Basic working hours each week for Indigenous Employees by the American Military side, for this new policy if decided means the endanger to their living condition.

These proposal were decided at the representatives' meeting, and hereby request your sincere understanding and cooperation in our efforts to achieve our principle settlement. Further we expect your earlier reply as to the result of this letter, not later than period of 20 February 1956. Again we are thanking for your struggle to the cause of the Free World. We remain,

(Sd) Kim Kill yong, Union Committee Federation of Free Labor Association Republic of Korea

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From_____

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Page 1 of
Encl. No. 3
Desp. No. 276
From Seoul

American Embassy,
Seoul, Korea,
February 24, 1956

Mr. Kim Kill Yong,
Union Committee,
Korean Federation of Free Labor
Association Ascom and Inchon,
Inchon.

Dear Mr. Kim:

Reference is made to your letter of February 9, 1956, addressed to the American Ambassador, Seoul, transmitting a copy of your letter of February 8, 1956, to the Commanding General, AFFE/8A, concerning certain alleged labor problems of indigenous employees of AFFE/8A, and requesting the Embassy's consideration of the matter.

The Embassy has discussed with the Chief of Staff, AFFE/8A, the various issues raised in your letter of February 8. I am informed that a reply was forwarded to you on February 24, 1956, by the Chief of Staff.

Very truly yours,

Carl W. Strom
Charge d'Affaires ad interim

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By [illegible], NARA, Date 1/10/24

TRANSLATION

RESOLUTION

The negotiations for the dispute that arose between the Army and the Labor Union in December 1953 have proceded without progress in settling basic problems and we, with united strength, went on strike several times.

Our efforts in trying to secure basic rights, which we may enjoy under the democracy and which are also protected by international and domestic laws, are recognized by the public. Our basic rights, however, are completely disregarded and it is an undeniable fact that we are working under conditions which are lower than one of minimum standard.

The dispute, which completed its cooling period on March 20, 1955, in accordance with the resolution adopted at the annual convention of the Union held in July 1954, remained dormant until the next annual convention in July 1955. At the 1955 convention, we re-emphasized the conditions which we had been asking. The requests, however, were flatly rejected by the employer, the Army.

A temporary convention was held on January 13, 1956 and a resolution was adopted to settle the principal problems by January 15, 1956.

At the Seoul conference held on January 13, 1956, in the presence of Government officials, both employer and employee agreed to settle the principal problems. The 8th Army promised to hold a meeting, at one p.m. on January 21, 1956, with delegates from both sides, including Mr. McCanol (phonetic), the 8th Army spokesman, in order to mediate the dispute.

Upon being ready for the mediation conference, refraining from going on strike, we were informed that the 8th Army representatives had to leave for Japan on the Army business and expected to return on the 23rd and that meeting should be held after they returned. Upon receiving the message, on January 18, we sent a reply through the Pusan Military Post requesting the meeting at one p.m. on January 25, 1956. The Army, however, neither appeared at the meeting nor paid attention to it.

/The attitude .....

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The attitude of the Army, as a consequence, taught us (sic) that it was their freedom whether or not to keep a promise and that it was also our freedom whether or not to work under such conditions, and gave us a hint that our combined power is the only key in materializing our requests.

The Union hereby requests that reconsideration for the settlement of the dispute be given by the Army and that they tell us, by January 30, 1956, the date on which they can hold a meeting with us. For anything that might occur after that date -January 30-, the Union will not bear responsibility.

January 25, 1956

YI Kun-ch'il
Chairman

The 3rd temporary convention
Army Employee's Union
KFTU

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Control: 6142
Rec'd: APRIL 12, 1956
5:35 AM

FROM: SEOUL

TO: Secretary of State

NO: 1041, APRIL 12, 5 PM

PRIORITY

SENT DEPARTMENT 1041, REPEATED INFORMATION TOKYO 517

TOKYO PASS CINCUNC AND CAG.

REF EMB DESPATCHES 276, MAR 5, AND 299, MAR 23.

LOCAL PRESS APRIL 10 CARRIED STORY LABOR UNION ASSOCIATION THREATENS STRIKE APRIL 16 AGAINST AFFE/8A IF UNION'S 100 PERCENT WAGE INCREASE DEMAND NOT MET. UNION OFFICIALS AWARE FACT AFFE/8A HAS UNDERTAKEN WAGE SURVEY DETERMINE GOING WAGE AND SURVEY RESULTS UNDER STUDY. EMB UNDERSTANDS SURVEY REVEALS INDUSTRY AND ROKG WAGE RATES 120-160 PERCENT AND APPROX 50 PERCENT, RESPECTIVELY, ABOVE COMPARABLE 8TH ARMY WAGES.

I DISCUSSED THIS MATTER YESTERDAY WITH AMERICAN MILITARY AUTHORITIES SEOUL. THEIR ASSESSMENT, WITH WHICH I AGREE, IS THAT STRIKE UNLIKELY. ROK MILITARY DEPENDENT 8TH ARMY LOGISTICS SUPPORT FOR POL AND OTHER ESSENTIAL ITEMS AND WILL PROBABLY INTERCEDE AND SUCCEED IN DISCOURAGING STRIKE IN ORDER AVOID DISRUPTION THEIR SUPPLY LINES. FACT UNION CLOSELY TIED IN WITH LIBERAL PARTY MAKES IT LIKELY BE RESPONSIVE SUCH PRESSURE. TODAY'S PRESS REPORTS STATEMENT MINISTRY OF PUBLIC HEALTH (WHICH HANDLES LABOR AFFAIRS) TO EFFECT "UNION WILL NOT GO ON STRIKE". WHILE STRIKE WOULD BE SERIOUSLY DAMAGING OUR POSITION HERE, THREAT SEEMS AVERTED FOR TIME BEING. WILL KEEP DEPARTMENT INFORMED.

STROM

BUREAU OF FAR EASTERN AFFAIRS
APR 12 1956
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1956 APR 12 AM 11 30

BUREAU OF FAR EASTERN AFFAIRS

LABOR ADVISER

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Action Taken noted see below
Date of Action 4/16/56
Action Office Symbol FE
Name of Officer P.B. Sullivan
Direction to DC/R File

FROM: SEOUL

TO: Secretary of State

NO: 1042, APRIL 12, 6 PM

PRIORITY

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REFERENCE: EMBTEL 1041.

WHILE, AS INDICATED REFTEL, STRIKE AGAINST AFFE/8A ON APRIL 16 OR IMMEDIATE FUTURE UNLIKELY, POSSIBILITY STILL EXISTS AND IF IT OCCURRED WOULD BE HIGHLY DAMAGING OUR POLITICAL POSITION HERE AND PROVIDE GRIST FOR COMMUNIST PROPAGANDA MILL. STRIKE THREAT WILL CONTINUE SO LONG AS WAGE QUESTION UNRESOLVED. I RECOMMEND DEPT DISCUSS SITUATION WITH DEFENSE (AND IF POSSIBLE WITH GENERAL LEMNITZER) AND URGE EARLIEST POSSIBLE ACTION RAISE WAGES. IF STRIKE WERE TO OCCUR PRIOR TAKING SUCH ACTION, WOULD BE DIFFICULT 8TH ARMY THEN ANNOUNCE WAGE INCREASE SINCE WOULD APPEAR DONE UNDER DURESS, WOULD STRENGTHEN UNION'S POSITION AND INCREASE LIKELIHOOD STRIKES IN FUTURE.

STROM

RNS

895B.062/4-1256

matter discussed in St. State-JCS meeting April 13, 1956 followed up for Robertson by letter to Gray from Scott dated April 16

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APR 1956
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By [illegible], NARA, Date 1/17/01

STANDARD FORM NO. 64

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Office Memorandum • UNITED STATES GOVERNMENT

TO : FE - Mr. ~~Robertson~~ Sebald

THRU : FE - Mr. Jones HJT

FROM : NA - Mr. Hemmendinger

895B.062/4-1856

DATE: APR 20 1956

Central Files

SUBJECT: Wage Increase for Korean Employees of United States Army

The threatened strike of the Korean employees of the United States Army has been averted for the time being. In Telegram 1058 (Tab B) Embassy Seoul states that the danger of a strike still exists, that AFFE/8A is aware of the need for wage adjustment, but funds are not available. The Embassy recommends that the United States Army should announce soon that a wage increase will be effective July 1, at the latest.

The problem apparently needs to be brought to the attention of the Pentagon again by you if effective action is to be taken. Lacking that, probably the Comptroller's view that funds are lacking will be decisive.

Recommendation:

That you sign the attached letter (Tab A) to Assistant Secretary Gray, and, if you have an opportunity, telephone him on the same subject. NA, in the interim, will call Defense Comptroller and Office of Civil Affairs Military Government.

Attachments:

To Assistant Secretary Gray (Tab A)
Embassy Seoul's Telegram 1058 (Tab B)

Sent to S/S CR 4/24

Bureau of FAR EASTERN AFFAIRS
APR 23 1956
ASSISTANT SECRETARY
Department of State

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Action FE
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Control: 9383
Rec'd: APRIL 18, 1956 4:18 AM

Action Assigned to: FE
Action Taken: Ltr to Asst Sec'y
Date of Action: Apr 24
Action Office Symbol: WA
Name of Officer: HS
Direction to DC/R: File

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FROM: SEOUL

TO: Secretary of State

NO: 1058, APRIL 18, 2 PM

PRIORITY

SENT DEPARTMENT 1058, REPEATED INFORMATION TOKYO 523

TOKYO PASS CINCUNC.

REFERENCE EMBTEL 1041.

AFFE/8A LABOR SITUATION BASICALLY SAME AS REPORTED REFTEL. STRIKE DID NOT OCCUR ON 16TH AS SCHEDULED. HOWEVER, UNION ON 16TH AGAIN DISCUSSED THEIR DESIRE STRIKE IMMEDIATELY WITH MINISTRY HEALTH AND WELFARE WHICH AGAIN "STRONGLY ADVISED" AGAINST STRIKE. SOME ADDITIONAL POSTPONEMENT LIKELY.

STRIKE WOULD AFFECT ROK ARMY AT LEAST AS SERIOUSLY AS OUR OWN. AFFE/8A PLANS PLACE THIS PHASE OF SITUATION BEFORE PRES RHEE BOTH DIRECTLY AND THROUGH ADM SOHN IN ORDER OBTAIN HIS ASSISTANCE, IF POSSIBLE, TO PREVENT STRIKE. HOWEVER, DANGER OF STRIKE WILL NOT BE ELIMINATED UNTIL REMEDIAL MEASURES ARE TAKEN IN FORM HIGHER WAGES. STRIKE, WHICH MIGHT WELL BE ACCOMPANIED BY DEMONSTRATIONS REMINISCENT OF NNSC PROBLEM, WOULD BE EXTREMELY UNFORTUNATE AS FAR AS OUR POLITICAL INTERESTS ARE CONCERNED AND SHOULD BE AVOIDED AT ALL COSTS.

AFFE/8A INFORMS US IT IS FULLY COGNIZANT WAGE LEVELS NEED ADJUSTMENT AND, AS A RESULT COMPREHENSIVE WAGE SURVEY, IT HAS PREPARED RECOMMENDATION FOR INCREASES FOR PRESENTATION TO CINCUNC. THESE RECOMMENDATIONS HAVE BEEN REFERRED TO OEC FOR COMMENT. HOWEVER, AFFE/8A HAS NO FUNDS TO IMPLEMENT ANY INCREASE THIS FY. ANY SIGNIFICANT WAGE INCREASE WITHOUT ADDITIONAL FUNDS BEING PROVIDED WOULD HAVE TO BE MADE AT EXPENSE OF REDUCTION IN FORCE. IMPLICATION FOR FY 57 BUDGET IS OBVIOUS.

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-2- 1058, APRIL 18, 2 PM FROM SEOUL

I HAVE SERIOUS DOUBT UNION MEMBERSHIP WILL HOLD OFF STRIKE UNTIL JULY 1 UNLESS GIVEN FIRM ASSURANCES THIS INCREASE FORTHCOMING. I BELIEVE, THEREFORE, EARLY ACTION NECESSARY IN VIEW US POLITICAL INTERESTS HERE, US FORCES SHOULD BE ABLE ANNOUNCE AT EARLY DATE THAT PROVISION WILL BE MADE FOR SUBSTANTIAL INCREASE EFFECTIVE JULY 1 AT LATEST WITHOUT SUBSTANTIAL REDUCTION LABOR FORCE.

STROM

DT

1956 APR 18 AM 9 33

BUREAU OF
FAR EASTERN AFFAIRS

BUREAU OF
FAR EASTERN AFFAIRS
APR 18 1956
LABOR ADVISER

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APR 26 1956

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Control: 2047
Rec'd: JULY 5, 1956
9:10 A.M.

FROM: SEOUL

TO: Secretary of State

NO: 18, JULY 5, 5 P.M.

REFERENCE: TOICA 20

EMB STRONGLY CONCURS RECOMMENDATION REF MSG DECISION CANCEL TRAINING PROJECT ROK LABOR UNION OFFICIALS SHOULD BE REVERSED. WASHINGTON OBJECTION THIS PROGRAM UNCLEAR. WHILE EMB REALIZES EXPECTED RETURN FROM PROJECT SMALL, BELIEVE IT IMPORTANT GIVE ENCOURAGEMENT EMBRYONIC LABOR MOVEMENT IN SPITE POLITICAL DOMINATION FKTU.

SELECTEES ARE PREPARED TO LEAVE FOR US AND HAVE STUDIED ENGLISH FOR MONTHS. RESULT OF CANCELLATION WOULD CAUSE CONSIDERABLE EMBARRASSMENT TO THEM AND US. IF DISAPPROVAL NOT REVERSED, EMB-OEC MIGHT AS WELL GIVE UP TRYING ACCOMPLISH ANYTHING IN LABOR FIELD.

STROM

GSB

DEPARTMENT OF STATE
DIVISION OF COMMUNICATIONS SERVICES
ASSISTANT CHIEF FOR LIAISON
JUL 5 1956
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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL

46
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

August 10, 1956
DATE

REF : CERP, March 30, 1953, D-11

Action Assigned to FE AUG 14 1956
Action Taken
Date of Action
Action Office Symbol
Name of Officer
Disposition to DC/R

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	REC'D 8/18	OTHER C IA-6 LAB-5 COM-6 OCB-1 USIA-10

SUBJECT: (3) Employees of the Korea Forwarding Company Organized as Part of Free Workers Union

UNCLASSIFIED

Some three thousand previously unorganized office and manual workers of the Korea Forwarding Company (KFC)* recently became eligible for membership in the Federation of Free Workers' Unions (FFWU), a subsidiary of the Federation of Korea Trade Unions (FKTU). It is expected that all regular employees (exclusive of workers hired by the day) of theKFC will become members. Stevedores employed by the company already belonged to the FFWU. Their union branch will remain separate from the newly-formed organization.

During the latter part of June of this year a committee was formed under the leadership of the Chairman of the FFWU, KIM Ki-ok, and the Chairman of the FKTU Seoul District Federation, YU Kap-ch'on (concurrently Chief of the Cultural Department of the FKTU) to organize the KFC workers. They sent letters to the managers of the KFC branch offices (except those at the docks where the workers were already FFWU members) requesting them to select representatives from among their non-supervisory employees in a ratio of one per 200 workers - to attend an organizational convention. The selected delegates met in Seoul on July 5, 1956 and voted unanimously to join the FFWU. The minutes of this meeting are attached as enclosure 1 to this despatch. The delegates were instructed to return to their branches and obtain an application for membership from each employee. Apparently, this activity is still in progress. Officials of the FFWU state that application forms are still arriving at their headquarters.

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The July 5 organizational convention was hurriedly called when KIM Ki-ok and YU Kap-ch'on -- both on the payroll of the KFC but without any known jobs in the company (the Korean Trade Union Law requires all officers of union organizations to be "workers") -- as well as certain other officials of the FKTU and of the head office of the KFC learned that an attempt was being made by two Seoul branch KFC employees to organize the KFC workers into a union within the Railroad Workers' Union (RWU -- also a subsidiary of the FKTU, as are all unions in the ROK). These two organizers, who later resigned when ordered to transfer to remotely located KFC

*See Enclosure 3 for a brief general description of this company.

A.E.P.
JEO'Mahony/JDPetry:la
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BUREAU OF FAR EASTERN AFFAIRS
AUG 20 1956
DEPARTMENT OF STATE
LABOR ADVISER

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NND 867400
By lgm, NARA, Date 4/17/99

branches, were supported in their activities by the RWU, especially by the RWU's chairman, KIM Chu-hong (currently a Supreme Committeeman of the FKTU, but of a different faction within the organization than the representatives of the FFWU) and the Chief of the Organization Department of the FKTU, YU Ki-nam (part of the KIM Chu-hong faction within the FKTU). Both KFC and FFWU officials became extremely apprehensive when the two KFC employees who were trying to organize the KFC workers, and KIM Chu-hong and YU Ki-nam "secretly" went to Taejon in early June on a recruiting mission. The FFWU objected to the activities of the RWU in a field they considered reserved to themselves. The KFC preferred to have the FFWU represent their employees, since they already had fairly effective control over that group.

The method by which the new union was formed is typical of the organizing methods of most trade unions in the Republic of Korea. The FKTU is under the direct control of the Liberal Party, and is used more for political purposes than to promote the welfare of the organization's members. Unions such as this one in the KFC are utilized to keep the workers under control and to give the appearance of the existence of a free labor movement in south Korea.

For the Ambassador:

Samuel O. Lane

Samuel O. Lane
First Secretary of Embassy

0574

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NND 867400
By ____, NARA, Date 1/17/29

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From_____

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Page 1 of
Encl. No. 1
Desp. No. 46
From_____

REPORT ON THE ORGANIZING CONVENTION OF THE KFC EMPLOYEES' UNION BY A KOREAN EMPLOYEE OF THE EMBASSY

Forty-six delegates representing approximately 3,000 heretofor unorganized employees of the Korea Forwarding Company (KFC) met at the Seoul District offices of the Federation of Korean Trade Unions (FKTU) on July 5, 1956 and brought into existence the Korea Forwarding Company (KFC) Employees' Union.

The convention opened at 11:55 a.m. with CHON Yong-gon, an employee of the Pusan branch of the KFC, presiding.

The agenda of the convention was as follows:

I. National Service (National Anthem, prayer, salute to flag).
II. Opening Address.
III. Report on the preparations for the formation of the Union.
IV. Election of Officers for the convention.
V. Congratulatory Speech.
VI. Deliberation of the Union Declaration and Platform.
VII. Deliberation of the Union Regulations.
VIII. Ratification of the Budget.
IX. Discussion of collective agreement policy.
X. Discussion on other matters.
XI. Meeting closed with three cheers for the Republic.

The opening address and report of activities for the formation of the Union, was made by YU Kap-ch'on, Chairman of the Seoul District Federation. YU stated briefly that the preparatory committee had been organized to form a union among the employees of the KFC in order to improve their working conditions and increase their wages. Persons in the KFC have not yet benefited from the labor laws of the Republic according to YU. He also described the strong unity of the workers of the KFC, and indicated that unity is the only weapon that can protect the interests of the working people.

At the election of the officers for this convention, YI In-ho, an office worker employed at the central KFC office in Seoul, nominated the following persons: KIM Ki-ok, Chairman of the Federation of Free Worker's Union (employed in Pusan branch office of the KFC); YU Kap-ch'on, Chairman of the Seoul District Federation (employed in the Seoul branch office of the KFC); and CHON Yong-gon, Vice Chairman of Pusan District Union of the Free Workers Union (employed in the Pusan branch office of the KFC). The nominations were passed by votes of 45-0 with one invalid vote. (46 voting delegates present).

/Congratulatory

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NND 867400
By Lgd, NARA, Date 1/10/29

Congratulatory speeches were given by the Secretary General of the FKTU and the Director of the General Affairs Bureau of the KFC who read a prepared speech on behalf of the president of the Company.

Mr. YI Sang-jin, Secretary General of the KFC, congratulated the delegates upon the inauguration of the union and appealed to the union to protect the rights of the workers. Mr. PAK Chong-won of the KFC asked the union members to cooperate with the company saying that cooperation can bring good for the workers and also the company. He pointed out that the company was operating as a government agency for the transportation of grain, fertilizer and other reconstruction materials.

The union declaration and platform were passed without discussion. The proposals were introduced by the Presiding Officer and the delegates applauded to express their consent. (See enclosure# 2 for translations of the declaration and platform).

The regulations were also read by the Presiding Officer and were adopted without discussion. A vote of 44-0 reflected the sentiment of the delegates present.

At the election of the union, YI In-ho, delegate of the workers employed at the main office of the KFC, moved to form a five-member nominating committee with KIM Ki-ok, CHON Yong-gon, KIM In-su, KIM Kum-su and YI In-yong. The motion passed by a voice vote. The convention then took a 10-minute recess.

After the recess, the convention resumed and the Presiding Officer gave the report of the 5-man nominating committee. The persons nominated as officers for the Union were as follows:

Chairman - KIM Ki-ok
Vice-Chairman - YU Kap-ch'on, KIM Kum-su and KIM Song-ch'il
Secretary General - KIM In-su
Members of Standing Committee - YI Mun-po, KIM Yong-hu, YI Ch'ang-gun HONG Hak-sop, YI In-ho and YI Sun-hak
Chairman of Investigation Committee - KIM Han-jo
Vice-Chairman of Investigation Committee - CHONG Hyong-nae, PAK Sung-won, HAN In-dok
Members of Investigation Committee - YI Chong-sok, HONG Won-yong, PAK Chang-ch'ul, YI Tae-sik, KIM Song-jin and PAK Pyong-ch'ae

A vote was then taken and the nominated officers were elected by a vote of 43-0.

/The union

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By lgm, NARA, Date 1/29/99

The union budget was then presented for the convention and was quickly passed by a voice vote. The budget indicated that the Union was expecting to collect 800,000 hwan (780,000 hwan to be collected in union dues and 20,000 hwan to be collected in the form of contributions from both union members and certain unidentified non-members). Most of the hwan will be spent for the salaries of full time workers at the KFC Union Headquarters and branch offices.

By the motion of a delegate and unanimous support of the delegates, matters pertaining to the agreement between the employees and the Company were entrusted to the Standing Committee of the Union.

Toward the end of the convention a delegate of the workers at the Chongyangni branch office of the KFC took the floor and requested that the KFC Union move to outlaw the KFC Office Workers and Labor's Union which was illegally organized by four people at Taejon during the last month. A delegate from Pusan move to have the officers of the Standing Committee take steps to disband a committee organized at Chonju, North Cholla province, which had organized with the intention of establishing the KFC worker's union. A delegate from the Seoul branch office of the KFC made a motion in which the officers of the Union would prepare a plan to disorganize some 20 existing KFC labor unions (Sic).

All three motions were carried and the Standing Committee was charged with the responsibility of taking measures.

The convention adjourned at 2:00 p.m. with three cheers for the Republic and the newly-organized Union.

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By ____ NARA, Date 11/07/29

Page_____of
Desp. No._____
From_____

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Page 1 of
Encl. No. 2
Desp. No. 46
From_____

DECLARATION AND PLATFORM OF THE KOREA FORWARDING COMPANY EMPLOYEE'S UNION

Declaration

Inheriting from our forefathers the great principle of national independence, we, the healthy and vigorous laborers, freed from the fetters and yokes of the past and fervently desiring co-existence and equal rights as the liberated mono-racial people, have roused ourselves and have now completed the great task of achieving national independence to our great joy and exultation.

And we hereby solemnly declare that we have formed the Korea Forwarding Company Employee's Union and will push straight forward with the objectives of doing away with all complicated theories and of constructing an equal democratic society, which all the people long for and to which the Union has been dedicated.

Platform

1) We struggle for the improvement and welfare of the social status of the working masses.

2) We will reconstruct the national economy and establish an equal society under which all people will live happily together.

3) We, as the people of a democratic independent nation, will contribute to world peace.

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BRIEF DESCRIPTION OF THE KOREA FORWARDING COMPANY

The Korea Forwarding Company (KFC) (Chosun Unsoo Wheisa) a forwarding, stevedoring, warehousing, marine forwarding, trucking and marine insurance company, was established in April 1930 under the direction of the Japanese Maruboshi Forwarding Company through the amalgamation of more than one thousand small, independent Korean transportation and delivery firms. By the end of 1939, this Japanese firm had almost every delivery firm which operated in the vicinity of the railroad stations in Korea under its control. The Government facilitated the company's growth in numerous ways, including refusing to licence independent firms which the company desired to acquire.

At the end of World War II, the Company was vested along with all other Japanese assets. It was later placed under the direction of the ROK Ministry of Transportation. Currently, 60 percent of the shares in the KFC are vested, 30 percent are owned by Koreans and 10 percent are held by the Ministry of Transportation. The company claims a present valuation of 385 million hwan ($770 thousand at the official rate of exchange of 500:1).

Most of the KFC's facilities and equipment were destroyed during the Korean hostilities. The company obtained assistance from the ROK Government and from ICA for reconstruction, including the importation of heavy loading and unloading equipment.

Prior to March 1956, the KFC handled roughly 50 percent of Korea's imports, mostly aid goods. In March it took over fertilizer distribution from the Federation of Financial Associations and the percentage increased to roughly sixty. In addition, the company handles the distribution within Korea of most of the country's domestic coal, cement, grains, lumber and other bulk commodities.

Some three thousand employees are hired by the KFC on a regular basis. A large but varying number of workers are also employed by the day. Some 80-90 percent of the freight is handled manually. Losses due to poor handling and pilferage are high.

Officers of the company include IM Bong-sun, who as a Government appointee has been President of the KFC since 1951, and AHN Mo-kyung, who is Managing Director. There are ten other directors. The head office is at 12, Tongja-dong, Choong-ku, Seoul. Branch offices are located in Seoul, Pusan, Inchon, Masan, Yosu, Mokpo, Kunsan, Mukho, Cheju, Kongnung, Suwon, Taejon, Taegu and in 17 other locations.

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By [illegible], NARA, Date 11/7/24

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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL

84
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

September 12, 1956
DATE

REF : CERP, Section D-11.

Action Assigned to SEP 13 1956

Action Taken

For Dept. Use Only	ACTION	DEPT.
	FE-4	REP-2 Rm/R-2 OLI-6 P-1 IO-4
	REC'D 9/17	INFO OTHER CIA-6 LAB-5 USIA-10 OSD-4 Army-4 NAVY-3 AIR-3

Date of Action

Action Office Symbol

SUBJECT: Status of AFFE/8A Major Labor Problems

At the request of AFFE/8A, Embassy and Eighth Army officials recently met with the Minister of Health and Social Welfare (the competent Minister for labor matters) to discuss the latest labor dispute which the Korean Federation of Free Labor Unions, Inchon-Ascom Area, had lodged with AFFE/8A (see the Embassy's despatch no. 10, dated July 9, 1956). The principal points of issue which the Federation had raised in its letter to the Army were: (1) the May 1, 1956, pay increase, which averaged 86 percent, was allegedly discriminatory in favor of white-collar workers who received a larger percentage wage increase than manual laborers; and (2) the reduction in AFFE/8A's labor force which had taken place since May 1 was alleged to have been a direct result of the pay increase and to have been proportionate to the increase. Based on these allegations, the Federation requested: (1) the establishment of a joint Federation-AFFE/8A grievance committee to consider mutual problems; (2) that no group discharges be effected and that individuals be discharged only upon "finding charges"; and (3) that the new pay scales established as of May 1 be amended so as to revise upwards the rates being paid to manual workers. The Federation's letter contained veiled threats of strike in the event its demands were not met.

The Eighth Army's reaction was to refuse to acknowledge the Federation's letter and, instead, to address a communication to Minister of Health and Social Welfare Chong reciting the Federation's allegations and setting forth a refutation of each of them. Although AFFE/8A, in view of the veiled strike threat, had specifically requested the Minister to inform it as to whether the Federation's letter ". . . constitutes a threat of strike or in any way announces the intention, or the right, of the union to strike at a future date, so that appropriate action can be taken by this headquarters," more than two weeks had elapsed with no reply having been received. At this point, AFFE/8A requested the Embassy's assistance in eliciting a reply from Minister Chong.

At the joint meeting, AFFE/8A representatives explained to the Minister that statutory requirements precluded AFFE/8A from retaining on its payrolls any individuals who either strike or assert the right to strike against the US Government. It was evident that the Minister and his labor-bureau chiefs previously had not been aware of this provision of U.S. law. Each of the Federation's aforementioned allegations was reviewed and properly refuted. There followed a general discussion of Eighth Army labor policy, from which emerged two principal points of contention on the part of Minister Chong: (1) that the establishment by AFFE/8A of accident and

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LABOR ADVISER

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By [illegible], NARA, Date 4/7/21

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death benefits should long since have been effected; and (2) that some kind of a standing and joint Federation-Army committee should be formed to resolve disputes as they arise. The AFFE/8A representatives agreed with point (1) and stated that steps were being taken with a view to instituting accident and death benefits as quickly as possible, although positive action could not be guaranteed since the matter had yet to be approved in Washington. Regarding point (2), however, it was stated that the Army could not agree to the establishment of such a joint committee as this would constitute "collective bargaining"; it was further stated that existing procedures whereby individual workers could lodge complaints or grievances with the AFFE/8A labor office and be assured of expeditious and equitable treatment were believed to be adequate. It was additionally stated that AFFE/8A must retain the right to employ workers in numbers to be determined solely by itself. In concluding the meeting, AFFE/8A requested that, if true, either the Ministry reply to the Army's inquiry by stating that the Federation's letter did not constitute a threat to strike or an assertion of the right to strike, or the Federation withdraw in writing those portions of its letter which could be so interpreted, otherwise AFFE/8A had no alternative but to discharge all known members of unions affiliated with the Federation. Minister Chong agreed to study the matter further, discuss it with the head of the Federation, and to see that some action was taken to clarify the situation.

Subsequent to this meeting, Minister Chong discussed this matter with the head of the Korean Federation of Free Labor Unions, Inchon-Ascom Area, and reported to AFFE/8A that the latter had stated that his letter did not constitute a threat of strike or an assertion of the right of the Federation to strike against the US Government. The Minister also stated that the chief of the Federation had agreed to withdraw in writing the portions of his original letter which could be so interpreted.

According to AFFE/8A, the Federation leader later visited the Army's labor officer but, although agreeing that the Federation would not strike against AFFE/8A or assert the right to engage in such a strike, refused to give such a statement in writing unless the Army would agree to the establishment of a joint grievance committee. This AFFE/8A refused to do, although it orally informed the Federation representative that its doors would always be open to him to discuss problems of mutual interest.

A subsequent letter from the Federation -- although couched in face-saving language -- was interpreted by AFFE/8A as assurance that the Federation would not strike against the US Government. On this basis, AFFE/8A replied in writing that its Civilian Personnel Officer would be glad to confer with representatives of the Federation on matters pertaining to the welfare of employees of AFFE/8A at any time the Federation requested a conference.

AFFE/8A believes that, for the time being at any rate, a strike by the Korean Federation of Free Labor Unions is unlikely. While AFFE/8A recognizes that the situation is still potentially explosive, it believes that it is now in a position to meet its labor problems on a case-by-case basis as they arise.

Embassy comment:

1. It is believed that the frank atmosphere which prevailed at the meeting of the Embassy and AFFE/8A with the Minister of Health and Social Welfare served a

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useful purpose in clearing the air and in laying a foundation for a better understanding between AFFE/8A, the Ministry and the Federation.

2. The Embassy believes that the Federation's assurance that it would not strike against the US Government and AFFE/8A's written expression of its willingness to confer with the Federation on matters pertaining to the welfare of AFFE/8A employees, while not ushering in an era of sweetness and light on the labor scene, do at least constitute positive steps forward in establishing more amicable labor relations.

3. Recently, The Korea Times factually reported a strike at Tokyo of Japanese laborers against the "UN-FEC" and described the picketing of Pershing Heights. There was no mention of worker discharges as a result of the strike. While to date this has occasioned no apparent reaction on the part of the Korean Federation of Trade Unions, it can be assumed that the Federation wonders on what grounds it is denied the right to strike, or to assert the right to strike against the US Government, on penalty of worker discharge, whereas Japanese workers seem to possess these prerogatives. Although the Embassy has been told that the answer rests in the fact that the US Military in Japan contract for labor with an instrumentality of the Japanese Government and that, therefore, such a strike is against the Japanese Government rather than the US Government, the Embassy would appreciate the Department's comments on this point in view of the underlying unrest which characterizes Korea-US Military labor relations.

For the Ambassador:

Samuel O. Lane

Samuel O. Lane
First Secretary of Embassy

Copy to:
Mr. Cleveland McConnell,
Civilian Personnel Officer,
AFFE/8A, Seoul.

N.F.D.

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NND 867400
By ____, NARA, Date 1/17/19

VIA AIR POUCH
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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL

108
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : CERP - D-11.

Vol I when read

Action Assigned to RBS

Action Taken

October 8, 1956
DATE

noted

OCT 10 1956

Date of Action 10/19/56

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Direction to DC/R

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	FE-3	REP-2 Rm/R-2 OLI-6 LR-1 ICA-10 IP-4 FE
	REC'D 10/16	INFO OTHER LAB-5 CIA-6 Com-6 Army-2 NAVY

SUBJECT: Transmittal of trade union publications

Transmitted as enclosures to this despatch are three copies each of the following recent mimeographed publications of the Federation of Korean Trade Unions:

Encl. 1 - (A Brief History of the) Federation of Korean Trade Unions,

Encl. 2 - Constitution of Federation of Korean Trade Unions,

Encl. 3 - Collective Agreement Between the Seoul Electric Workers' Unions, F.K.T.U., and Seoul Electric Co., Ltd., Seoul.

The history gives an interesting account of the development of trade union activities in Korea from the early period of Japanese occupation to the present from the viewpoint of FKTU officials. It is, of course, incomplete and would be looked at considerably differently by disinterested reporters. One major gap in the story is the relationship between the Federation and the Liberal Party.

The Constitution was originally adopted on April 1, 1954 at the seventh FKTU Congress and was revised at the eight Congress on September 15, 1955. The ninth Congress will be held on October 10, 1956.

The Seoul Electric - FKTU Agreement is an interesting example of a formal trade union agreement in this country. Difficulties that have existed between these two parties are described from the union viewpoint in the history.

Six additional copies of each publication are being transmitted by seapouch.

FOR THE AMBASSADOR:

Edwin M. Cronk
First Secretary of Embassy

BUREAU OF FAR EASTERN AFFAIRS DEC 1 0 1956 LABOR ADVISER

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JEO'Mahony/rks
REPORTER

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FROM: SEOUL

TO: **Secretary of State**

NO: 439, NOVEMBER 8, 4 PM

ACCORDING TO SECRETARY GENERAL OF FKTU RPT FKTU, ON NOVEMBER 9 KOREAN LABOR ORGANIZATION PLANS TO JOIN IN FIVE MINUTE FREE-WORLDWIDE WORK STOPPAGE CALLED BY ICFTU RPT ICFTU TO "PROTEST AGAINST SOVIET DESTRUCTION OF HUNGARIAN FREEDOM AND MILITARY ACTION IN MIDDLE EAST".

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~~DAF, CA, GA~~

~~(1) FE - Mr. Sullivan~~

~~(2) Bdes. NAVE~~

~~SW~~

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

American Embassy,
Seoul, Korea,
December 3, 1956.

OFFICIAL - INFORMAL
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Dear Thelma:

In the "Weekly Notes" of October 26, 1956, we were requested to look into a local news report that AFFE/8A in the near future would adopt a "new program" for the improvement of its Korean labor relations.

This matter has been discussed in some detail with the Chief of Civilian Personnel for AFFE/8A. According to him, the press release to which the "Weekly Notes" referred was issued merely in connection with a training program being instituted for personnel technicians and in no sense did the plan as outlined constitute a "new" labor code or program. Rather, he maintains, the points listed were merely a slight refinement of AFFE/8A's existing personnel program, in line with the "Army's continuing efforts to put into effect as many enlightened U.S. labor policies as possible which are consistent with the local situation here in Korea". According to our source, the press people permitted themselves to be carried away in dressing up the release, giving rise to the erroneous impression that AFFE/8A was about to adopt a new labor program or code.

In summary and FYI, it is our opinion that AFFE/8A has consciously endeavored to develop a labor program which would keep the average worker happy but which simultaneously would avoid the necessity of the Army coming to grips with what it considers to be the inherent problems of organized labor. For example, even the subjects of collective bargaining and strike are utterly anathema to them. While not necessarily in agreement, one can nevertheless understand the Army's desire to remain on top of the labor situation and that it tends to resist any move which would dissipate the control it believes it should have. As a result of this desire to retain tight control, AFFE/8A undoubtedly will wish to continue its basic policy of dealing with individual laborers as such and of refusing to deal with them as union leaders or representatives seeking to bargain on behalf of organized groups. Unless directed to do so or until the labor movement in Korea has developed a great deal more steam and genuine responsibility than it has to date, it is not to be expected that AFFE/8A will adopt a different basic policy. It is entirely possible, however, that a more benevolent policy toward individual workers as such will continue to evolve.

Sincerely yours,

Edwin M. Cronk,
First Secretary of Embassy.

Miss Thelma Vettel,
Acting Chief of Economic Affairs,
Office of Northeast Asian Affairs,
Department of State.

Seoul from Cronk 12-3-56

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BUREAU OF FAR EASTERN AFFAIRS

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FOREIGN SERVICE DESPATCH

DEC 26 1956

FROM : AMEMBASSY, SEOUL

209
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.
LABOR ADVISER

Action Assigned to
December 12, 1956
Action Taken
DEC 17 1956 noted

REF : CERP, March 20, 1953, D-11

For Dept. Use Only	ACTION	DEPT.
	FE-4	INFO Rm/R-2 G-1 Ops-8 Rep-2 ICA-10 IO-4 1/10/57
	RECD 12/20	OTHER LAB-5 Civ-15 Com-6 Army-2 Navy-3 USIA-10 FE

SUBJECT: Annual Labor Union Convention

The ninth annual general congress of the Federation of Korean Trade Unions (FKTU) was held in Seoul on October 10, 1956. The only development of importance took place outside the convention hall. It consisted of an abortive attempt by certain union officials to dissociate the FKTU from the Liberal Party.

There was little in the way of official business to be conducted at this year's convention. Amendments to the organization's constitution last year made this an off-election year. There were, however, three by-elections for posts left vacant since the previous congress. The results of these by-elections are described in the narrative report of the convention submitted as Enclosure No. 2 to this despatch (also in WEEKA 41).

The convention itself left the reporting officers (who attended the affa along with an Embassy local employee) with three principal impressions: (1) FKTU leadership group had things under close and fairly efficient control, (2) the lower elements in the organization are dissatisfied with, and distrustful of, the FKTU leadership, and (3) the FKTU leadership group is only incidentally concerned with labor matters.

The delegates to the convention could be divided into two categories: those who sat, watched, kept quiet and apparently had only an inkling of what was going on, and those who demonstrated moderate to strong antagonism toward the leadership group. The latter amounted to somewhere around a third (or somewhat less) of the total delegates. They demonstrated their disgruntlement by word and action. The chief issue they raised was the matter of the apportionment of delegates from the FKTU's sub-organs, regarding which they made strong objections and inferred that the system had been manipulated. The reporting officers gained the impression that there was a great deal more these delegates would have liked to object to, but that the presence of numerous plainclothesmen from several ROK police organizations injected a restraining influence. One delegate admitted this in private and then added that if he were free to do so, he would take his union out of the FKTU, since "it does nothing for us, is a tool of the party bosses and is more concerned with controlling the workers than helping them".

The FKTU is one of five auxiliary organizations of the Liberal Party (LP)*.

*The other four are the National Society, Women's Association, Farmers' Association, and Fishermen's Association.

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NND 867400
By [illegible], NARA, Date 4/29/99

It was organized in 1946 by right-wing political forces to combat the Communist-dominated labor organization, Chon-Pyong (now non-existent in the ROK). This, the only labor federation in the Republic of Korea, is under the control of YI-Ki-bung, Chairman of the Liberal Party, who passes his orders, as best can be determined, through CHONG Tae-ch'on, one of three FKTU Supreme Committeemen and LP National Assemblyman, who in turn usually has CH'A Kuk-chan, Chief of the FKTU's Propaganda Section, relay them to the appropriate FKTU officials*. According to YI Chong-song (Chairman of the Textile Workers' Alliance), YI Ki-bung has placed YI Chun-su, another Supreme Committeeman and Chairman of the Mine Workers' Alliance, in the FKTU to keep watch over CHONG Tae-ch'on and on the way LP orders are carried out.

In the latter part of September, YI Chong-nam, who was then Chairman of the Seaman's Union and Vice-Chairman of the Marine Worker's Union, organizations which together claim a membership of 8,000 workers, approached Yi Chong-song (textile-workers) with a plan to withdraw the FKTU from LP control. (YI Chong-song was once a strong LP worker **, but has been known for some time to harbor anti-LP sympathies, perhaps because the LP never came through with a good job for him.) He states frankly that he readily joined seamen's-union YI in the plan to withdraw the FKTU from the LP. It is interesting to note in this regard that YI Chong-nam is a member of the Democratic Party, the only union leader in the FKTU known to have been a member of an opposition party at that time. He has recently resigned from both unions he was connected with due to police pressure, an informant advises.

It is not clear at what point other FKTU union leaders were brought into the "bolt-the-LP" plan, but immediately prior to the FKTU convention in October, two other influential union leaders had pledged that their delegates would support a motion to be made at the coming convention by textile-workers YI to dissociate the FKTU from the LP. They were KIM Ki-ok, Chairman of the Free Workers Union, and KIM Chu-hong, Chairman of the Railroad Workers Union. It is also understood that the plan received support from persons outside the FKTU. National Assemblyman CHON Chin-han, one of the founders of the FKTU and now in involuntary retirement, and KIM Tu-han -- National Assemblyman, present head of the Seoul branch of CHON's unimportant Labor and Farmer Party, and former head of the Disciplinary Committee of the FKTU -- pledged their support to the move. Neither person, as best can be judged, wields very great power in the FKTU at present ***, but their support was considered by seamen's union YI and textile-workers YI to be helpful, and any help was welcome at the time.

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* It is also understood that CH'A Kuk-chan used to report directly on FKTU matters to the recently assassinated ROK CIC Chief, General KIM Ch'ang-yong.

** Together with CHIN Sung-kuk he fought the Racial Youth Corps faction within the FKTU for the YI Ki-bung group.

*** One informant in the FKTU, however, has inferred that KIM Tu-han retains a small following in the labor organization, especially among the "strong arm types" who were originally brought into the FKTU by KIM when he was Chief of the Disciplinary Committee of the FKTU. KIM is in evidence at nearly all FKTU functions. FKTU officials say that he is asked to attend "just for old time's sake".

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The subject of withdrawal was a topic of open discussion among the three FKTU Supreme Committeemen, KIM Chu-hong, CHONG Tae-ch'on, and YI Chun-su. Railroad workers KIM, a member of the Central Committee of the LP, had "pledged" the support of all delegates from his organization to the plan. CHONG Tae-ch'on, who besides being a YI Ki-bung lieutenant, is also Chairman of the Alliance of Electrical Worker's Unions, told the proponents of withdrawal that he opposed the move on the grounds that the time was "not propitious". YI Chun-su professed to hold a "neutral" position.

The four principals -- YI Chong-nam, YI Chong-song, KIM Ki-ok and KIM Chu-hong -- agreed that, once the FKTU convention got underway, YI Chong-song would present a motion from the floor to dissociate the FKTU from the influence and control of any political party. Delegates from KIM Chu-hong's Railroad Workers' Union were then to second the motion. The combined votes of the unions of these would-be bolters would have been sufficient to guarantee passage of the motion.

To help the campaign, National Assemblyman KIM Tu-han arranged to have an article published on October 9 in the opposition press, setting forth the argument that the FKTU must free itself of political control in order to perform the functions of a genuine and free labor organization. (See Enclosure No. 12 for a translation of this article.) KIM Tu-han was also supposed to make an unscheduled speech at the convention urging the representatives to support the motion of YI Chong-song.

During the three days preceding the convention, police officials visited each union leader who had pledged to support the withdrawal motion "urging" each to "change his mind". On the evening of October 9th (one day prior to the convention), Railroad workers KIM approached YI Chong-song and obtained YI's agreement to the idea that he (KIM), and not YI, should make the withdrawal motion before the convention.

Reports of the events immediately preceding the opening of the convention are somewhat conflicting, but it apparently soon became clear to YI Chong-nam and YI Chong-song that their plan was losing support and doomed to failure. It is said that KIM Chu-hong at the last moment "changed his mind" about bolting on the grounds that if the FKTU separated from LP domination the Federation would certainly split into two or more factions. This, he insisted, would injure the cause of labor more than continued LP domination. KIM has continued to pay lip-service to "eventual" withdrawal.

In the opinion of the reporting officers, based on conversations with the union leaders involved, the withdrawal plan was brought to ground -- if, indeed, it can be said to have gotten into the air -- largely through the connivance of KIM Chu-hong. KIM is a member of the Central Committee of the LP and a person who has enjoyed a certain amount of success due to his affiliations with that party. Although on several occasions he has voiced the sentiment that labor unions should be free of political domination, it is doubtful whether these expressions authentically express his position. In the past, KIM has always been found on the side of the LP in any struggle within the FKTU. KIM,

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in the reporting officers' opinion, joined the rebellious union leaders for two principal reasons: to maintain his popularity with the FKTU rank and file (he enjoys the reputation of being an "idealistic" unionist and has great personal ambitions), and he quite likely acted as an LP spy and saboteur. Through police pressure, and possibly through subterfuge, therefore, the plan to introduce the withdrawal motion at the convention was not realized.

As to what would happen to the FKTU after withdrawal, had it succeeded, YI Chong-song as much as admitted in a private conversation that he and YI Chong-nam were out to lay the foundation for future association with the Democratic Party (DP). YI made it clear that his sympathies lay with the DP, especially with Vice- President CHANG Myong, and that he believed the labor policies of the DP to be vastly preferable to those of the LP. He says that he is a "realist" and knows that a union organization in Korea cannot be effective unless supported by a strong political group.

Prior to this convention, the LP had the FKTU firmly under its control. It still has. The campaign to bolt the party revealed that, while the political climate in the Republic of Korea has changed to such an extent that a couple of dissidents could go as far as YI Chong-song and YI Chong-nam did, the top leadership in the FKTU still lines up under the LP banner and intends to stay there until the mast becomes much more wobbly than it now appears to them to be. That is not to say that the FKTU leadership group has any inward feeling of loyalty to the LP. It has not. The FKTU officials, nearly without exception, are opportunists and will switch loyalties without a qualm whenever it seems personally advantageous for them to do so.

The rightist political groups in post-Liberation Korea, and later the LP, staffed the FKTU with persons who are without strong convictions or loyalties toward a cause so as to use the Federation for their own political purposes. The trouble, of course, with creating such a support for one's political temple is that it is there in good weather but gone in bad.

For the Ambassador:

Edwin M. Cronk

Edwin M. Cronk,
First Secretary of Embassy

List of Enclosures:
1. Program of the Ninth Congress of the FKTU
2. Narrative of the Proceedings of the Ninth Annual Congress of the FKTU
3. Report by the General Secretary on the Major Activities of FKTU During Past Yr
4. Number of Delegates from District & Industrial Federations Attending Ninth Congress of FKTU
5. Manifesto of Ninth Congress of FKTU
6. Platform Adopted by the FKTU at Its Ninth Annual Congress
7. FKTU Budgets for (FKTU) FY 1956 & 57 and Actual Income & Expend for 1956
8. Message from the FKTU to President Rhee
9. International Confederation of Free Trade Unions (ltr, 29 Sep 56)
10. International Confederation of Free Trade Unions (ltr, 1 Oct 56)
11. Msg from FKTU to International Confederation of Free Trade Unions
12. Translation of Msg by Labor & Farmer Party, Hankuk Ilbo, Oct 9, 1956
13. Officers of FKTU, Dec 11, 1956.

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Program of the Ninth Congress of the Federation of Korean Trade Unions

1. Call to order.
2. Music by Seoul Electric Company Band.
3. Salute to the flag of the Republic of Korea, playing of the National Anthem, and a silent prayer for all honored deceased labor comrades.
4. Entry and march down the aisle of members carrying the FKTU flag.
5. Report of attendance and announcement of a quorum present.
6. Opening address by CHONG Tae-ch'on, a Supreme Commissioner.
7. Adoption of a manifesto of the congress (see Enclosure No. 5).
8. Report on the year's activities of the FKTU by YI Sang-jin, (then) Acting General Secretary (see Enclosure No. 3).
9. Congratulatory speeches by (see Enclosure No. 2):
   a. CHONG Chun-mo, Minister of Health and Social Affairs.
   b. YI Ki-bung, Chairman of the Liberal Party and Speaker of the National Assembly (read by YI Hwal, Chief of Social Affairs Department of the Liberal Party).
   c. CHO Kyong-gyu, Vice-speaker of the National Assembly and ex-Supreme Commissioner of the FKTU (read by his secretary).
   d. PAEK Chong-dok, a representative of the National Society (another sub-organization of the Liberal Party).
10. Reports on local union activities and problems encountered by delegates from:
    a. Harbor Workers' Union at Inchon (sub-organization of the Free Workers Alliance),
    b. Taegu District Alliance,
    c. Seamen's Union,
    d. U. S. Army Employees Union,
    e. Mine Workers' Alliance,
    f. Yongdongpo District Alliance.
11. By-elections conducted for:
    a. General Secretary,
    b. Chief of General Affairs Department,
    c. Chief of Welfare Department.
12. Approval of financial statements (see Enclosure No. 7):
    a. Balance sheet for (FKTU)FY 1956,
    b. Budget for (FKTU)FY 1957.
13. Discussion of proposed activities, including:
    a. Advocation of a government-sponsored laborers' medical dispensary,
    b. Proposed amendments to the Korean labor law,
    c. Obtainment of recognition of a union representing Korean civilian employees of the U.S. Army.
14. Adoption of messages to:
    a. President Rhee (see Enclosure No. 8),
    b. ICFTU (see Enclosure No. 4).
15. Adoption of a platform (see Enclosure No. 6).
16. Singing of FKTU March and giving three cheers.
17. Adjournment.

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Narrative of the Proceedings of the Ninth Annual Congress of the Federation of Korean Trade Unions

The ninth annual congress of the Federation of Korean Trade Unions was held on October 10, 1956, in the auditorium of the Agricultural Bank, Seoul, Korea. It opened at 10:50 a.m. and closed at 4:50 p.m.

A total of 419 delegates were present, along with around 15 persons from various ROK police organizations, about an equal number of local press reporters, some 10 honored guests and approximately 50 unidentified spectators. Principal guests in attendance included CHONG Chun-mo, Minister of Public Health and Welfare; YI Hwal, Chief of the Social Affairs Department of the Liberal Party; KIM Song-do, Chairman of the Disciplinary and Qualifications Committees of the Liberal Party and the National Assembly; PAEK Chong-dok, a member of the National Society (one of five key sub-organizers of the Liberal Party -- the FKTU is another); and HAN Mong-yon, Director of the Labor Bureau, Ministry of Public Health and Welfare. KIM Tu-han, a former FKTU Supreme Committeeman, member of the National Assembly and Chairman of the Seoul branch of the Laborers' and Farmers' Party, was present at the rear of the assembly hall for about thirty minutes toward the end of the congress.

Following the opening ceremony, music by the Seoul Electric Company's brass band, and a silent prayer for all deceased union members, YU Ki-nam, Chairman of the Organization Department of the Federation, reported that the Standing Committee had selected 423 delegates for this congress from among 218 thousand south Korean unionists. Since all but four of the selected delegates were present, according to the official count, he announced that a quorum was reached.

CHONG Tae-ch'on, a Supreme Committeeman (there are three) and member of the National Assembly (Liberal Party), delivered the opening address. He did not speak from a prepared text or from notes, but a local employee recorded his remarks as follows:

" It makes me happy that this annual Congress of our FKTU is being held and attended by the many leaders of Korea's labor unions who are the backbone of the Federation. I am grateful for the fact that we have passed through the year without encountering serious troubles.

" Once we were blamed for having a split within our organization. Last year at the October congress, however, we became united with patriotic desire and determination to place the welfare and interests of the working class before those of the individual labor leaders.

" Although we have played an important role in the fight against Communism and have devoted ourselves to the reconstruction of our war-devastated nation, a proper system for protecting the basic rights of workers has not been established yet. We have been exploited frequently by vicious enterprisers, and some

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"wicked labor unionists have shamelessly collaborated with these employers. There is even a tendency for the legislative and executive branches of the Government to support these enterprisers. There are few problems caused by the failures of the workers.

" I believe that the only way to protect our rights and to stand against the exploitation of these enterprisers is through our strong unity.

" I consider the Korean labor movement as a patriotic one, since the nation will be prosperous when the workers are well off and when the labor movement is able to improve the welfare of the laborers. We must renew our determination at this congress to fight for and protect our rights and to promote the workers' welfare through even stronger unity.

" I sincerely plead to all who are present to render their cooperation toward democratic and orderly proceedings during this Congress for the special reason that there are many honored guests present, including foreigners."

Following Mr. CHON's speech, the Chief of the FKTU's Cultural Affairs Department introduced the proposed manifesto for the congress. It was declared to be unanimously approved "on the basis of the thunderous applause". (Refer to Enclosure No. 5 for the translated text of the manifesto.)

A report was delivered on the activities of the Federation since the last Congress (September 15, 1955) by YI Sang-jin, a Vice-chairman of the Alliance of Electrical Workers' Unions and the then Acting FKTU General Secretary (refer to Enclosure No. 3). A delegate interrupted Mr. YI to challenge the authenticity of the figures YI quoted regarding the number of disputes that were settled during the year and insisted on knowing how they were settled. The obtruder was ignored by the speaker and someone in the audience quieted him down with a whisper in the ear.

The Minister of Public Health and Welfare, CHONG Chun-mo, was introduced, but before he could rise to speak, a delegate (apparently from Ch'ungch'ong Pukto, according to where his seat was located) began a small commotion over the number of delegates allocated to his regional alliance. He shouted that the Executive Committee knew "full well" that his organization had more members than had been credited to it (the basis for determining the number of delegates from each unit) and insisted on being told the reason for this "discrimination". KIM Chu-hong, a Supreme Committeeman, began a perfunctory explanation, but was interrupted by some six to eight delegates who shouted similar complaints. KIM Chu-hong asked the delegates to postpone their interruptions until after the guests had spoken. Several delegates continued to demand that the matter be taken up immediately. Minister CHONG approached the microphone and began his speech and the noise subsided. His address, in summary, was recorded as follows:

" The members of the FKTU well deserve great praise for,

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"and can take pride in, their contributions and sacrifices in working for the building of democratic, free trade unionism in Korea by blocking the plot of the communists' controlled unions under the so-called General Council of Labor.

" The FKTU is a patriotic organization which was organized for, and has devoted itself to, the promotion of the welfare of working masses of Korea. The Federation's leaders, therefore, are entitled to a great honor. At the same time, though, they have great responsibilities as the representatives of those workers.

" I personally will do all I can to assist labor and to fulfill the requests of our workers if these requests are justified and are helpful to the national economy.

" Our deepest regrets go out to the workers behind the iron curtain, who have been forced to be slaves of Kremlin. We must accomplish our great desire to unify our fatherland and to rescue our brethren in north Korea.

"Although many difficulties remain, and although we are still far from the goal of establishing an equal society, we should continue our efforts to carry out our mission. We should place the interests of the Federation before those of the individual, and those of the nation before the Federation. We must solve our labor disputes through peaceful means, realizing that laborers are an indispensable element in the rehabilitation of the national economy. With the improvement of workers skill to produce better commodities, both company and workers shall be benefited."

YI Hwal followed without incident and read a prepared statement on behalf of YI Ki-bung, Speaker of the National Assembly and Chairman of the Central Committee of the Liberal Party:

" On this glorious day Korean democracy is moving more one step forward, and the Korean labor movement is undergoing another significant improvement through this Congress.

" The Korean labor movement, though it has been able to practice democracy for only ten years, has improved so rapidly that it now can be compared with those of England, France and America, though these have had the experience of 500 years of 250 years.

" While numerous national organizations have been organized and disbanded in Korea, the FKTU has been so well managed and has so firmly stood up to share its fate with that of the nation, that it is today the strongest and most important organization in our country.

" Wishing the best for the success of this Congress, I ask the members of the FKTU to continue their efforts to fulfill the expectations of the people. They hold the future of Korea."

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CHO Kyong-gyu's speech was read by his secretary:

" The FKTU is the only labor federation in our country to have grown big and strong by undergoing many difficulties and by fighting hard against the Communists.

" The workers must be patriots and they should be strongly united to protect their rights. Unity, as President Rhee has constantly emphasized, is the most vital element for workers.

" I am very happy to see that the FKTU is holding this Congress in such a peaceful atmosphere. I am aware of the fact that it was once split into many factions.

" Our labor laws are democratic ones. They protect workers from unwarranted dismissals and favorably support the principle of collective bargaining.

" It is remarkable, and it is a fact to take pride in before the world, that Korean workers are working so hard despite many difficulties, and especially for such low wages.

" Cooperation between employers and employees is extremely important, since it is the best way to rebuild our economy, thereby providing more factories and more and better products, and to save our brothers in the north by means of unification under the Republic.

" I emphasize that the workers must elect those leaders who will work only for the benefit of the Federation. In this way the FKTU will be a democratic organization. The FKTU must not be used as a political machine by wicked politicians."

The final congratulatory speech was made by PAEK Chong-dok:

" I congratulate the leaders of the FKTU for their successful achievement in managing this organization for the last ten years despite the many difficulties it has encountered.

" You have fought against the communists and I know you will continue in your efforts for the unification of the country. You have also contributed greatly to the rehabilitation of our war devastated country and have improved your living conditions by strong unity among yourselves.

"I pray that you will contimue to have success in your program to promote the welfare of the workers and that you will contimue your contribution as frontier fighters in reconstructing the nation and unifying the fatherland."

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The speeches over, the arguments from the floor regarding the numbers of delegates apportioned among various groups broke out again. KIM Chu-hong announced that the issue was open for discussion and recognized a delegate who asked to be informed on what basis the Executive Committee had decided the numbers of delegates. Mr. KIM said that each organization was assigned an allotment according to the size of its membership and that this method had the approval of the FKTU, but that any errors that may have been made could be corrected.

Thereupon, other delegates entered similar objections. Most made it clear by word or attitude that they suspected that the representation pattern had been manipulated. Mr. KIM kept insisting that the number of delegates could be readjusted. He then remonstrated that if the Executive Committee were to fully check into the qualifications of all the delegates present, less than 30 could remain since the othershad never paid their dues. He said that the Committee had decided to hold the convention despite the illegal presence of some delegates in order to dispose of current problems. The volume of objections declined for a while.

YI Chong-song, Chairman of the Alliance of Textile Workers' Unions and a delegate of influence, however, took the floor and challenged both the apportioning procedure and the date of the convention. He then proceeded to attack the Supreme Committeemen for the "lack of ability they have shown" in failing to settle a dispute at the Dai Han Textile Company in Taegu. He suggested that "something must be going on behind the scenes". (Later in the day, YI Chong-song and some 20 other textile union delegates demonstrated their disgruntlement by conspicuously walking out of the auditorium in a group.)

KIM Chu-hong announced that every complaint would be properly attended to if "concrete proof" were submitted in support. A delegate from the U.S. Army Employee's Union in Inchon stated that his union had a membership of 9,072 persons but that the Executive Committee had credited them with only 3,570.

A delegate, said to be friendly with the FKTU leadership group, then asked to have the discussion of this subject ended, saying that it was a waste of time to argue about the issue of representation since the individual unions, not the FKTU, were to blame for any difficulties that exist inasmuch as the unions fail to report to the FKTU on matters requested of them. He then moved that any delegate with a complaint of this sort should submit proof of their charges. The motion was put to a vote. The Chairman announced that 80 percent of the delegates had supported the motion. Those with representational complaints were instructed to submit their evidence. About an hour later the Chairman announced that no adjustments of the numbers of delegates would be made since no one had produced any "concrete proof".

Reports were then heard on problems facing individual unions and alliances. A representative of the Inchon Harbor Workers' Union claimed that a "phony" company union was being organized with the help of certain leading officials of the FKTU and the Government to destroy his "legitimate" union. The Alliance of Free Workers' Unions, to which his union belongs, he said,

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has filed an administrative suit against the Government to revoke the "illegal" registration of the competing union. He requested the support of, rather than the opposition of, the FKTU.

A textile union delegate described a bitter dispute taking place at the Dai Han Textile Company in Taegu (the same dispute YI Chong-song had mentioned earlier). He attacked the company and the Government. A spokesman for the Yongdong-po District Alliance maintained that the police were interfering with organizing activities at the Oriental Brewery and the Sinhung Paper Mill. He said that the FKTU had refused to help them.

The Seamens' Union asked for cooperation from the other unions in getting the Government to enact a law relating to the safety and security of the nation's seamen. Such a law should already exist, he contended, and said the Government was at fault for there not being one.

The representative of the U.S. Army Employee's Union stated that his organization was working hard to obtain a collective bargaining agreement with the U.S. Army. The union's goal, he said, was to get as much for their workers as similarly employed Japanese workers are receiving. Information on the Japanese situation, he claimed, was coming to their union from the ICFTU Tokyo office. He gave the union credit for obtaining an 86 percent wage increase for its members and agreement to a 48-hour work week. He requested the FKTU to support his union in making the Army take action to cease incidents of "inhuman treatment" of Korean workers and to discontinue dismissing Korean employees without "adequate" reason.

A delegate from the Alliance of Mine Workers' Unions charged that the manager of the Taeryong Gold Mine (Kyongsang Pukto) had organized a company union to destroy the existing union and that members of the latter had been fired on the grounds of a reduction-in-force. The delegate claimed that for each discharged worker a new one has been taken on, and that all employees were forced to sign a statement that they would work under whatever conditions the company imposed.

A Barbers' Union representative asked for support in his unions' request for higher barber service charges. He said that the Government refused to allow barbers to bring their prices in line with those of other services and commodities.

Once again the question of delegate apportionment arose following the above reports when a member of the Automobile Workers' Union in Pusan attacked the FKTU officials in an angry voice. He maintained that his union had 5,788 workers but that the Executive Committee had them listed as having only 3,676. He wound up, "there is no use in our pleading our difficulties here. Nothing is being done by the FKTU. There is nobody here worthy of being trusted". Some dozen or more delegates left the hall at this point.

Lunch boxes were then distributed.

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Shortly thereafter, the congress was resumed and the by-elections were begun. The first was for the post of General Secretary, which had been vacant since the mysterious death of YI Kang-yon in [redacted] 1955. YI Sang-jin had been Acting Secretary General in the interim.

The Chairman recognized a delegate who moved that the three Supreme Committeemen be empowered to nominate a single candidate for approval or disapproval by the congress. Despite considerable objection, the motion was declared carried by a voice vote.

The Supreme Committeemen went into a huddle for about a minute and then announced that they had nominated YI Sang-jin. Ballots were distributed and the delegates were instructed to write "yes" or "no" on them according to whether or not they approved of Mr. YI for the post. The official vote counter (appointed by the Chairman) announced that out of 389 votes cast, 304 were marked "yes", 72 "no", and 9 were unmarked. YI was announced to be elected.

The delegate who proposed the procedure for electing the Secretary General, again moved to follow a similar procedure for electing the Chiefs of the General Affairs and Welfare Departments. By this means, KANG Tae-bom and SO Tong-gu were elected to these two offices, respectively. KANG is Vice-chairman of the Federation of Railroad Workers' Unions. SO is Chairman of the Inchon District Union of the Free Workers' Alliance.

The victors made brief acceptance speeches.

The FKTU's financial statement for (FKTU)FY 1956 was presented by YI Sang-jin and approved by the delegates. One delegate commented that it was "shameful" that the organization has to operate on outside contributions and that the members do not pay their dues.

The coming fiscal year's budget was then presented by YI Sang-jin. It also passed by a voice vote.

CHONG Tae-ch'on asked the delegates to submit any grievances they had to him by the following morning in writing. He said that he would discuss them with President Rhee in the afternoon.

A delegate then asked the Chairman why the FKTU was no longer on the Standing Committee of the ICFTU. He inferred that the FKTU officials were somehow responsible due to some failure on their part. He concluded, "It is an incontroversial fact that the Republic of Korea is not getting any assistance from the ICFTU."

The Chairman replied that the FKTU was no longer on this Standing Committee because it had voluntarily given up its seat, not because any FKTU leader had done anything wrong. The Chairman added that a number of American labor officials plan to visit Korea to lend assistance to the FKTU, though none of these visits has as yet been realized.

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Delegates then introduced resolutions and each was voted on and approved. In a speech supporting the resolution regarding the Dai Han Textile Company dispute, a delegate stated that unless the three Supreme Committeemen brought the difficultiesto a successful and speedy conclusion they should resign. The Committeemen did not comment on this.

Messages to President Rhee and to the General Secretary of the ICFTU were then read and approved. Congratulatory messages from the ICFTU Brussels and Tokyo offices were read. The Congress' platform was read by CH'A Kuk-chan, Chief of the FKTU's Propaganda Department.

Following the FKTU song and three cheers, the Congress adjourned.

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From Seoul, 12/12/56

Report by the General Secretary on the Major Activities of the FKTU During the Past Year
(translation *)

1. The FKTU sponsored the funeral for the late YI Kang-yon, General Secretary of the Federation on October 30, 1955.

2. The Standing Executive Committee appointed Mr. YI Sang-jin, Chief of General Affairs Department of the FKTU and Vice-Chairman of the Seoul Electric Workers Union, as acting General Secretary of the FKTU on November 1, 1955.

3. The National Executive Committee passed the following resolutions on December 19, 1955:

a) To take legal action against the South Korean Electric Power Company. (The FKTU had accused the company of hindering the formation of a union at that firm.)

b) To request the Government to mediate the current labor dispute between the FKTU and the P'ung-guk Candy Manufacturing Company (Seoul). (These difficulties began in early 1955 over a union demand for higher wages. The company dismissed the union officials in its employ and organized a new company union which the FKTU does not recognize.)

c) To request an investigationof the cause of the death of the late YI Kang-yong (former FKTU General Secretary) and publicize the findings. (YI's body was found in a park in Seoul early one morning. The cause of death has not been revealed, if known.)

d) To express dissatisfaction over a local court's decision in the Osan railroad accident case. (In the winter of 1954 a Korean train collided with a Korean Army truck near Osan, with considerable loss of life. Three of the train's engineers and the Chief of theRailroad Section of the Ministry of Transportation were found guilty of negligence and sentenced to lengthy prison terms. A higher court reversed the guilty verdict in January 1956.)

e) To expedite conclusion of a collective agreement between the union and the American engineering company constructing an electric power plant at Masan. (The company rejected the union's request for an agreement on the grounds that its contract with the ROK Government specified that it did not have to abide by Korean labor laws.)

f) To hold an anti-NNSC demonstration.

4. A meeting was held of the representatives of the district and industrial federations on January 1, 1956 to discuss current problems. The representatives visited President Rhee at the Kyongmudae. (Nothing of importance is known to have occurred.)

* Embassy's remarks in parentheses.

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5. A demonstration was carried out on March 6, 1956 to urge President Rhee to run for reelection.

6. A ceremony was held on March 19, 1956 celebrating the 10th anniversary of the FKTU.

7. The Policy Committee of the FKTU met for the first time on April 9, 1956, and adopted a resolution to support the Liberal Party candidates for President and Vice-President in the 1956 elections.

8. A 1956 May Day demonstration was held in Seoul.

9. A meeting of the representatives of district and industrial federations was held on July 14, 1956 to select the FKTU candidates for the August 1956 local elections. (Some 50 were nominated, none was elected.)

10. KIM Chu-hong, Supreme Committeeman of the FKTU, represented the Federation at the Anti-Communist Asian People's League meeting held in Manila in June, 1956.

11. A letter was received from the ICFTU requesting the cooperation of the FKTU in settling the ROK-Japanese dispute over the Korean "peace-line" and the detained Japanese fishermen. A reply was sent to the ICFTU to the effect that the Japanese protest was unfair and inaccurate.

12. A congratulatory message was sent to the AFL/CIO upon the merger of the two major American labor organizations.

13. Invitations were received to send FKTU delegates to the ICFTU Asian Regional Conference to be held in Singapore in March 1957 and the general convention of the ICFTU in July 1957.

14. The number of labor disputes during UFY 1956 involving FKTU organizations were as follows:

Disputes	Number
Total	24
Solved	9
Unsolved	15

They included the following major disputes:

a) Dai Han Textile Company over wage increases (unsettled).
b) The South Korean Power Company over the formation of a union (settled).
c) Korean Forwarding Company, which transferred four workers who organized a union, to remote places (unsettled).
d) Dai Han Coal Corporation over wage increases and delayed payment of wages (settled).
e) Ministry of National Defense over wages paid for loading and unloading military supplies (settled).

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f) The Wasan Coal Mine for dismissing three union leaders when they organized labor union in June 1953. (They were rehired this summer in accordance with a court ruling against the company.)

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Number of Delegates from District and Industrial Federations Attending Ninth Congress of the FKTU

District Federations	Number of delegates
Seoul	11
Tongdaemun (Seoul)	7
Yongdongp'o	4
Inch'on	8
Sihung	1
Suwon	1
North Ch'ungch'ong	4
South Ch'ungch'ong	10
North Cholla	5
South Cholla	17
North Kyongsang	6
Pusan	42
Masan	4
Samch'onp'o	1
T'ongyong	1
Kangwon	5
Sub-total	127

Industrial Unions and Federations	
Seoul Leather Workers'	2
Seoul Cart Drivers'	2
Seoul Barbers'	2
National Monopoly Bureau Factory & Field Workers'	10
Free Workers'	113
Railroad Workers'	58
Electric Workers'	20
Mine Workers'	27
Textile Workers'	57
Cooks'	5
Sub-total	296

GRAND TOTAL	423

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Manifesto of the Ninth Congress of the Federation of Korean Trade Unions (translation)

"In the glorious name of one million Korean workers, this Congress of the Federation of Korean Trade Unions, in order to win the battle against enterprisers who infringe on the dignity of labor and who exploit workers, hereby pronounces its determination to march forward, together with the people who are striving for the reconstruction of our war-devastated country and for the unification of our Fatherland, by ceasing competition among workers and disputes among union leaders."

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Platform Adopted by the FKTU at Its Ninth Annual Congress

The Ninth Annual Congress of the Federation of Korean Trade Union's meeting at Seoul, Korea on 10th of October 1956, adopts as its platform the following:

1. A minimum wage system should be adopted and enforced based on changes in the price index.
2. The government should practice fairly the existing labor relations laws.
3. Labor inspectors must be dispatched immediately.
4. An 8-hour day must be implemented.
5. Wage increases must be given according to the price index.
6. Employers' unjustifiable actions toward labor must be stopped and democratic trade union freedom must be guaranteed.
7. Sacrificed trade unionists shall be assisted by the FKTU.
8. Every organizational friction must be excluded from our movement.
9. Every effort shall be made to produce closer relations and cooperation with the ICFTU.

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Federation of Korean Trade Unions Budgets for (FKTU)FY 1956 and 1957 and Actual Income and Expenditures for (FKTU)FY 1956 a/

	Budget (FKTU)FY 1956	Actual income & expenditures as announced by FKTU for (FKTU)FY 1956	Budget (FKTU)FY 1957
I. INCOME			
A. Membership dues	5,850,000 b/	202,538	7,200,000 c/
B. Contributions	650,000	7,410,000	1,200,000
C. Rentals (and special contributions to pay expenses of delegates to ICFU Convention, May 1955)	1,300,000	4,940,000	4,800,000
TOTAL INCOME	7,800,000	12,552,538	13,200,000
II. EXPENDITURES			
A. Office expenses			
1. Wages and salaries	845,000	1,345,000	2,160,000
2. Depreciation	195,000	72,350	240,000
3. Communications & transportation	130,000	194,880	360,000
4. Printing	65,000	87,600	120,000
Sub-total	1,235,000	1,699,830	2,880,000
B. Conference expenses			
1. Annual congress	600,000	85,100	1,500,000
2. National Executive Committee	300,000	280,610	500,000
3. Central Standing Committee	60,000	105,350	120,000
4. Industrial & district alliances	20,000	485,585	300,000
5. Political Committee	20,000	20,720	40,000
6. Auditing Committee	20,000	0	40,000
Sub-total	1,040,000 d/	977,365	2,500,000
C. Ceremonies & other functions			
1. May Day	500,000	2,151,935	1,000,000
2. Other	150,000	1,888,940	500,000
Sub-total	650,000	4,040,875	1,500,000

a/ (FKTU)FY 1956 was originally scheduled to extend from September 1, 1955 through September 30, 1956 (13 months). It was decided late in the fiscal year to end (FKTU)FY 1956 on August 31, 1956. (FKTU)FY 1957 is scheduled to extend from September 1, 1956 through August 31, 1957.

b/ Based on membership dues of 3 hwan per month from each of 150,000 members for 13 months.

c/ Based on membership dues of 3 hwan per month from each of 200,000 members for 12 months.

d/ Subtotal is sic. FKTU recognizes error but is not making official correction.

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	Budget (FKTU) FY 1956	Actual income & expenditures as announced by FKTU for (FKTU FY 1956	Budget (FKTU) FY 1957
II. EXPENDITURES (Cont'd)			
D. Publications & cultural expenses			
1. Newspaper & book purchases	65,000	168,500	180,000
2. Propaganda	0	283,260	120,000
3. Lecture meetings	130,000	0	120,000
4. Printing	195,000	0	120,000
Sub-total	390,000	451,760	540,000
E. Organizing expenses	390,000	488,200	480,000
F. Labor disputes	390,000	276,450	480,000
G. FKTU departmental expenses	1,950,000	109,450	720,000
H. Dues to international organizations	0	76,250	170,000
I. Miscellaneous			
1. Funds available to be spent at discretion of 4 ranking officers	130,000	0	480,000
2. Entertainment	130,000	1,073,010	600,000
3. Travel, n.i.e.	520,000	64,000	480,000
4. Fuel	130,000	114,500	170,000
5. Congratulations and condolences	0	0	240,000
6. Furniture	130,000	475,230	240,000
7. Repair of FKTU building	0	0	400,000
8. Repair of furniture	0	0	120,000
9. Other	65,000	2,285,720	600,000
Sub-total	1,105,000	4,012,360	3,330,000
J. Reserve for contingencies	650,000	260,000	600,000
K. Balance carried forward	0	159,793	0
TOTAL EXPENDITURES	7,800,000	12,552,583	13,200,000

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Message from the FKTU to President Rhee

Your Excellency President Syngman Rhee:

It is our honor to extend our cordial greeting to you on the occasion of the Annual Congress of the FKTU.

As you are well aware, we of FKTU (which represents entire working class of Korea) have, for ten years, sacrificially worked for the independence and democratization of our land. Our sacrificial contribution to our land was produced from our working class' ardent patriotic spirit, and has been encouraged by your warm considerations for the working people.

Nevertheless, it is presently true that our workers are not guaranteed the ability to maintain even a minimum livelihood as human beings. Our present wage is too poor to maintain our living. Employers are known to drive their employees out of work unjustifiably and to oppress the democratic free trade union movement and its freedom. The unemployed are increasing day after day.

Considering the above situation, the Annual Congress of the FKTU cordially requests you to take immediate measures to realize the following 5 points:

1) Enforcement of a minimum wage system based on changes in the price index,

2) Fair enforcement of the present labor relations laws by the Government,

3) Labor inspectors must be dispatched throughout the country immediately,

4) Adoption of measures to alleviate unemployment and the establishment of a social security system,

5) Employer's unjustifiable actions towards labor must be stopped and the freedom of democratic trade unionism must be guaranteed.

Your Excellency President Rhee, we hope you will have deep understanding of, and warm consideration for, the working people who are working hard day and night for the economic rehabilitation and unification of our land, and we expect your support of the free trade union movement that is the backbone of democracy in Korea.

The Ninth Congress of the FKTU

10th of October, 1956

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C O P Y

INTERNATIONAL CONFEDERATION OF FREE TRADE UNIONS
TOKYO OFFICE

Tokyo No. 29

29 September 1956

Mr. LEE Sang Chin
General Secretary
Federation of Korean Trade Unions
20, Sokong Dong, Chung Ku
Seoul, Korea

Dear Brother Lee,

Thank you very much for your letter dated 8 September 1956 informing me of the Annual Congress of your Federation.

May I take the liberty, on this occasion, of requesting you, on behalf of the two million Japanese trade unionists affiliated with the International Confederation of Free Trade Unions, to convey to the delegates assembled at the Congress their hearty congratulations and wish every success to you all.

Please also convey to your delegates that the Japanese free trade union movement is firmly determined to use its strength to the utmost against any possible threat coming from both reactionary sides, left and right totalitarianism, in defense of the workers' fundamental right and trade union freedom and that they are prepared to join hands with the free trade unionists organized in your Federation of Korean Trade Unions.

With every sincere and fraternal greetings,

Sincerely yours,

/s/ Asagi Okura

Acting Secretary
ICFTU Tokyo Office

cc- Mr. Oldenbroek
Mr. Vapara

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INTERNATIONAL CONFEDERATION OF FREE TRADE UNIONS

24, rue du Lombard
Brussels, Belgium

1 October, 1956

Federation of Korean Trade Unions
20th So Kong Dong
Chungku, Seoul, Korea

Dear Friends:

We have been informed of your Congress by our Tokyo office. In the absence of the General Secretary, I therefore take pleasure in conveying to your delegates fraternal greetings and best wishes on behalf of the ICFTU and its 54 million members in 117 organizations in 83 countries.

We are proud to count your Federation amongst the free trade unions of the world rallied to the banner of the ICFTU with its motto of Bread, Peace, and Freedom for all workers. The fight to which the ICFTU is dedicated against poverty, ignorance, slavery, reactionary forces and for a fuller and better life for all, depends on the efforts of each individual union. I am certain that your organization will pursue these aims and I wish you every success in your deliberations.

Yours fraternally,

/s/ Hans Gottfurcht
Assistant General Secretary

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From Seoul, 12/12/56

Message from the FKTU to the International Confederation of Free Trade Unions

Dear General Secretary Oldenbroek:

On the occasion of the 9th Annual Congress of the Federation of Korean Trade Unions, we in behalf of the entire working people of Korea cordially extend our best wishes and submit this sincere message to you.

The Federation of Korean Trade Unions is now 10 years old. During the past 10 years, we have gone through a bitter struggle to achieve trade union freedom and democracy in Korea, and on the other hand we have strived construtively for national economic rehabilitation. The free trade union movement in Korea made a great stride in joining hands with brothers of free trade union movements throughout the world. However, such progress was not gained in an easy and simple way. There lay and still lies in our way of free trade union movement many obstacles and difficulties caused from poverty and ignorance due to economic undevelopment, division of the country and the communists' aggression. Under these bad conditions, we have desperately struggled for our freedom and better life. Our tragedy had reached its peak when the Reds invaded our country in 1950 and we once had to take bayonets to safeguard our freedom and democracy.

With this knowledge and understanding of the character of conditions of Korea, you can see our situation and the grounds we stand on. We also frankly recognize that our trade union movement is considerably backward compared with advanced countries.

Dear Brother Oldenbroek:

This congress set up our goals for coming one year for fuller and better life of workers:

1. Achievement of minimum wage system,
2. Dispatchment of labor inspectors,
3. Complete implementation of an 8-hour day,
4. Wage increases,
5. Closer cooperation and relations with the ICFTU.

We believe that the ICFTU will fully support and assist us in accomplishing the above goals. We heartily thank you for your advice and assistance in the past years and expect more advice and assistance in the future.

All workers of Korea again pledge to unite under the flag of the ICFTU in its fighting for Bread, Freedom and Peace. Please deliver our sincere greeting and best wishes to our 4.5 million brothers of free trade union movement under the ICFTU.

The Ninth Annual Congress of the Federation of
Korean Trade Unions, Seoul, Korea
10th of October, 1956.

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From Seoul, 12/12/56

(Translation of a message by the Farmers and Laborers Party appearing in the Hankuk Ilbo on October 9, 1956)

"To the FKTU Annual Convention.

"Dear Delegates:

"The normal development of an organized labor movement in our country is not only an essential factor in improving the welfare of the working masses, but it also exercises great influence over the development of the Republic of Korea as a democratic state.

"Totalitarian labor movements, whether red or white, are always attached to a political power and part of a political machine. They compel their workers to serve the machine and assist in denying them their rights, their freedom to choose their place of work and their legal privileges.

"The Communists, in particular, urge the workingmen in their own countries to fulfill their duties and to disregard their rights, while at the same time in other countries they agitate the people to demand their rights, neglect their duties and make the place at hot-bed for Communism.

"On the other hand, under democratic labor movements the workers both fulfill their duties and have their rights as human beings. They (the democratic labor movements) make their own decisions, without the influence of outside power. They choose to support the political parties and political policies that best serve labor's interests.

"In a country like England, labor has its own political party. In other democratic countries where there is no labor party, labor unions make their decisions regarding which political party they will support at any one time on the basis of the platform and current policies being followed by the various parties. It changes its support when advantageous to do so. It never attaches itself to one political party permanently.

"The FKTU has a glorious history as a pioneer in the struggle for democracy in our country. It overthrew the Red-totalitarian Chon-P'yong (General Council of Labor). The FKTU is the only labor organization in Korea affiliated with the International Confederation of Free Trade Unions. But the FKTU has recently lost the support of the people and has failed to receive the assistance of the free workers of the world because it gives the impression of being a part of a political machine. It has lost face as a free labor organization as a result of a rumor that the FKTU is a subordinate organization of the Liberal Party. This should not, and cannot be the truth. We know the true facts about the FKTU. Have you ever voted at any convention on a resolution to become a subordinate organization of the Liberal Party? Such a resolution could not be enacted since it violates the very concept upon which the FKTU was founded and exists. Of course, each union member, individually is free to join any political party he chooses.

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"Dear Delegates! We sincerely hope that you will overcome the crisis facing your labor movement and restore your dignity by reclaiming at the coming convention the principle of a free, independent labor organization."

Farmers and Laborers Party

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OFFICERS OF THE FEDERATION OF KOREAN TRADE UNION(FKTU)
As of December 11, 1956

POSITION (UNCLASSIFIED)	NAME (UNCLASSIFIED)	UNION AFFILIATION (UNCLASSIFIED)	REMARKS (CONFIDENTIAL)
Supreme Committeeman	CHONG Tae-ch'ŏn (0002/1129/1131)	Chairman, Seoul Electric Co. Workers' Union	National Assemblyman(LP). YI Ki-bung lieutenant. Leader of one faction in FKTU.
Supreme Committeeman	KIM Chu-hong (6855/0719/3163)	Chairman, Alliance of Railroad Workers' Unions	Member, Central and Policy Making Committees, LP. Supporter of none-leadership faction in LP. Leader of the other faction in the FKTU.
Supreme Committeeman	YI Chun-su (2621/0193/3178)	Chairman, Alliance of Tungsten Mine Workers' Unions	LP member. YI Ki-bung lieutenant.
General Secretary	YI Sang-jin (2621/4161/6966)	Vice-chairman, Seoul Electric Company Workers' Union	Strictly CHONG Tae-ch'on's orderly.
Chief, Administration Dept.	KANG T'ae-bŏm (1203/3141/4636)	Vice-chairman, Alliance of Railroad Workers' Unions	Close follower of KIM Chu-hong.
Chief, Planning Dept.	HA Kwang-ch'un (3109/0342/2504)	Chairman, T'aech'ang Textile Co. Workers' Union	Close follower of CHONG Tae-ch'on.
Chief, Organization Dept.	YU Ki-nam (2692/1015/0589)	General Secretary, Alliance of Railroad Workers' Unions	KIM Chu-hong lieutenant.

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POSITION (UNCLASSIFIED)	NAME (UNCLASSIFIED)	UNION AFFILIATION (UNCLASSIFIED)	REMARKS (CONFIDENTIAL)
Chief, Propaganda Dept.	CH'A Kuk-ch'an (6508/0948/3605)	Vice-chairman, Seoul Electric Co. Workers' Union	Director, Labor Research Institute. CHONG Tae-ch'on lieutenant.
Chief, Investigation and Statistics Dept.	KIM Mun-kyu (6855/2429/0964)	Vice-chairman, Korean Electric Co. Workers' Union	Ex-member of Racial Youth Corps.
Chief, International Dept.	CHUNG In-hwa (6774/0088/0735)	Chairman, Oriental Textile Company Workers' Union	Officer in Oriental Textile Co. Union for 10 years.
Chief, Social Relations Dept.	KIM In-su (6855/0088/1108)	General Secretary, Alliance of Free Workers' Unions	KIM Ki-ok lieutenant.
Chief, Cultural Dept.	YU Kap-ch'ōn (2692/3947/0578)	Chairman, Seoul District Alliance*	Ex-police officer, ex-Racial Youth Corps member. College graduate.
Chief, Internal Regulations Dept.	CHON Yōng-hwan (0356/3057/3562)	Vice-chairman, Alliance of Mine Workers' Unions	Rather insignificant figure. CHONG Tae-ch'on follower.
Chief, Labor Disputes Dept.	KIM Chōng-won (6755/2973/0337)	Chairman, Taehan Coal Corporation Workers' Union	Close follower of CHONG Tae-ch'on.
Chief, Welfare Dept.	SO Tong-gu (1776/2639/0046)	Vice-chairman, Pusan District Free Workers' Unions	Close KIM Ki-ok follower. Ex-Racial Youth Corps member.

*Covers Seoul area, excluding Yongdong-po and Tongdaemun areas.

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POSITION	NAME	UNION AFFILIATION	REMARKS
(UNCLASSIFIED)	(UNCLASSIFIED)	(UNCLASSIFIED)	(CONFIDENTIAL)
Chief, Women's Dept.	KANG Yŏng-ok (1203/5571/3768)	Chief, Women's Dept., Alliance of Textile Workers' Unions	Ex-Racial Youth Corps member.
Auditing Committee	CH'OE Yu-sik (1508/2589/2784)	Chairman, South Ch'olla District Alliance	Chief, Social Affairs' Dept., South Cholla Provincial Branch of LP.
Auditing Committee	KIM Ki-ok (6855/3925/3768)	Chairman, Alliance of Free Workers' Unions	Korean Forwarding Co. employee(laborer) for last 18 years. LP supporter.
Auditing Committee	YUN Byŏng-gang (1438/4426/4854)	Chief, Disciplinary Dept., Alliance of Railroad Workers' Unions	KIM Chu-hong lieutenant.
Auditing Committee	YI Hŭng-gyu (2621/5281/3802)	Chairman, Alliance of Cooks' Unions	CHONG Tae-ch'on supporter.
Auditing Committee	SŌNG Chu-gap (2052/0719/3947)	Chairman, Pusan District Alliance	Chief Social Affairs' Dept., South Kyongsang Provincial Branch of LP. Ex-Racial Youth Corps member.
Auditing Committee	CH'OE Yong-su (1508/7893/3178)	Chairman, Korean Electric Co. Workers' Union	Ex-Chief of Labor Dept. of LP.
Auditing Committee	YI Chu-gi (2621/0719/1015)	Chairman, Alliance of Mine Workers' Unions	Member, Kangwon Provincial Council (LP).

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POSITION	NAME	UNION AFFILIATION	REMARKS
(UNCLASSIFIED)	(UNCLASSIFIED)	(UNCLASSIFIED)	(CONFIDENTIAL)
Auditing Committee	KIM Sam-mun (6855/0005/2429)	Chief, Disciplinary Dept., Korean Electric Co. Workers' Union	Close CHONG Tae-ch'on follower. "Strong-arm character".
Auditing Committee	KIM Ch'ŏl (6855/6933)	Chairman, North Ch'ungch'ong District Alliance	Former CHON Chin-han supporter.
Auditing Committee	CHO Tok-yun (6392/1795/0336)	Chairman, South Ch'ungch'ong District Alliance	Ex-primary school teacher. LP member.
Auditing Committee	KIM Mal-yong (6855/2608/7893)	Chairman, Taegu District Alliance	Ex-CHONG Tae-ch'on follower. Now considered independent.
Auditing Committee	SIN Sang-ok (3847/4161/3768)	Chairman, Free Workers' Union, Mokpo District	Chief, Social Affairs Dept., Mokpo branch of LP.

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Other Persons Important in Korean Trade Unions Who Are Not Officers of the FKTU

POSITION	NAME	UNION AFFILIATION	REMARKS
(UNCLASSIFIED)	(UNCLASSIFIED)	(UNCLASSIFIED)	(CONFIDENTIAL)
	YI Chong-sŏng (2621/6945/5115)	Chairman, Alliance, Textile Workers' Unions	Ex-Chief Social Affairs' Dept., FKTU.
	YI Chong-nam (2621/6945/0589)	Recently resigned from Seamen's Union	Chairman "D" District, Pusan City Branch, D.P. Ex-Gov't. official (Ministry Foreign Affairs). Ex-Chairman Marine Workers' Union. Ex-Vice-chairman Seamen's Alliance.

* * * * * * *

Persons Formerly With the FKTU Who Still Play a Role in Korean Labor Activities

POSITION	NAME	UNION AFFILIATION	REMARKS
	CHŎN Chin-han (6929/6966/3352)		A founder of the FKTU. National Assemblyman. Chairman, Labor and Farmer Party.
	KIM Tu-han (6588/2435/3352)		National Assemblyman. Chairman Seoul City Branch, Labor and Farmer Party. Ex-Supreme Committeeman of FKTU.
	CHO Kyŏng-gyu (6392/3890/1145)		Vice Speaker of National Assembly (LP). Medical doctor. Ex-Supreme Committeeman of FKTU.

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TO: Secretary of State

NO: 742, FEBRUARY 15

DEPARTMENT PASS RECEPTION CENTERS HONOLULU SAN FRANCISCO.

PLEASE MEET MAKE HOTEL RESERVATIONS THREE FY57 LABOR LEADERS KIM JOO-HONG, SUPREME COMMITTEEMAN FEDERATION OF KOREAN TRADE UNIONS, CHAIRMAN ALLIANCE RAILROAD WORKERS' UNIONS AND MEMBER POLICY-MAKING COMMITTEE LIBERAL PARTY; KIM IN-SOO, GENERAL SECRETARY ALLIANCE OF FREE WORKERS' UNIONS; LEERHONG-SONG, CHAIRMAN ALLIANCE OF TEXTILE WORKERS UNIONS WHO DEPART SEOUL 2/16 AT 1500 HOURS CAT 101; DEPART TOKYO 2/17 AT 1900 HOURS PAA 854; DEPART HONOLULU 2/18 AT 1930 HOURS PAA 6; DEPART SAN FRANCIUCO 2/19 AT 2340 HOURS UAL 720 ARRIVING WASHINGTON DC 2/20 AT 1105 HOURS. INTERPRETER DESIRABLE. KOREAN FOREIGN MINISTRY NOTIFYING ITS MISSIONS ALSO. WILL ADVISE IF SCHEDULE CHANGED.

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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL — 392 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — April 8, 1957 DATE

REF : 1957 CERP, Section D, Item I-B-1; Item VI-A-2

For Dept. Use Only	ACTION FE-4	DEPT. REP-2 RMR-2 OLI-8 G-1
	REC'D 4-16	INFO OTHER LAB-5 CIA-15 ARMY-2 NAVY-3

Action Assigned APR 11 1957
Action Taken 4/17
Date of Action
Action Office Symbol
Officer

SUBJECT: FKTU reply to ITWF regarding offer of "comfort goods" for detained Japanese seamen

Transmitted as an enclosure to this despatch is a copy of a letter sent by the Federation of Korean Trade Unions (FKTU) to the International Transport Workers' Federation (ITWF) Asian Office in Tokyo in reply to the latter's letter of March 5, 1957 (D-378, March 26, 1957) in which the ITWF offered to send various "comfort goods" (food, clothing, medicines, drugs and toiletries), accompanied by J. F. Soares, to Japanese seamen detained by Korea in Pusan. The FKTU letter rejects the proposal.

The FKTU's reply was originally drafted by William A. Glenn, American adviser to the Government-controlled Korean Republic, and given to the union by PAK Ch'an-il, a Secretary in the Office of the President, for signature by YI Sang-jin, FKTU General Secretary to whom the ITWF letter was addressed, and for mailing. YI Kwang-jo, Deputy Chief of the International Affairs Department of the FKTU, a young earnest unionist, and one of very few in the Federation who can read and write English, considered Glenn's letter to be "too inflammatory and belligerent", and persuaded KANG Tae-bom, Chief of the General Affairs Department of the FKTU, (YI Sang-jin was in New Delhi attending the ICFTU Asian Regional Conference) to allow him to tone it down.

The final letter as drafted by YI Kwang-jo -- the copy enclosed -- utilizes much of Glenn's text with the exception of certain phrases and sentences. The reporting officer was permitted to read the Glenn letter, but not to make a copy of it. Glenn accused the ITWF of "being used by the Japanese", and included remarks about the proposal being purely propaganda, an insult to Korea, and an obvious attempt to create the impression that the Japanese detainees are not well treated.

The problem facing YI Kwang-jo now is whether to submit a copy of the letter he drafted to the Ministry of Foreign Affairs, the required procedure. He fears the Ministry may have a copy of the Glenn letter and will want to know who "authorized" the changes. To prepare the ground for such an eventuality, YI Kwang-jo called PAK Ch'an-il before mailing the letter to Tokyo and said that the Glenn letter had been mislaid and requested a copy. PAK told YI that he would have to await the return of Glenn, who was out of the country. If called on to explain his actions, YI intends to refer to this conversation with PAK and say that he thought an answer should be sent quickly and so prepared the final letter

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APR 17 1957

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By tgm, NARA, Date 4/17/29

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from what he could remember of Glenn's statements.

The enclosure has been marked "OFFICIAL USE ONLY" to avoid possible embarrassment to the FKTU official who supplied it to the Embassy.

For the Ambassador:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

Enclosure
Ltr to Director, ITF Asian Office from FKTU, Apr 2, 1957

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NND 867400
By [illegible], NARA, Date 4/10/89

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From_____

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Page 1 of
Encl. No. 1
Desp. No. 392
From Amembassy, Seoul

F. K. T. U.
FEDERATION OF KOREAN TRADE UNIONS
20, Sokong Dong, Chung Ku,
Seoul, Korea.

2 April 1957

Mr. J. F. Soares
Director, ITF Asian Office
Dokutestsu Rodo Kaikan
1, 2-Chome, Marunouchi,
Chiyoda-ku, Tokyo, Japan

Dear Brother Soares:

I am terribly sorry for my delay in replying to your letter, dated 5th March 1956, concerning the proposal of dispatch of comfort parcels to Japanese detainees in Pusan.

The Federation of Korean Trade Unions understands and sympathizes with your humanitarian motives in suggesting dispatch of comfort parcels to the detainees at Pusan.

However, you undoubtedly have read the Japanese charges that comfort parcels addressed to the detainees have been stolen or confiscated. These charges are a complete fabrication. All legitimate parcels have been delivered to the addressees. There have been neither theft nor extortion.

The Japanese have been making much of parcels in an attempt to imply that conditions are deplorably bad. This also is untrue. The International Red Cross found Pusan treatment far better than that accorded Korean detainees at the Omura Camp in Japan.

Japanese detainees' needs for food, medicines and the like are being met. But if it still is the desire of their families to send comfort goods, the international mails remain fully open to them.

We hope deeply that your optimism about the early realization of Pusan and Omura releases is justified, and urge that you use your good offices to persuade the Japanese authorities to keep their word. Korea and Japan agreed to mutual releases almost a year ago, only to have the Japanese authorities break solemn obligations entered into by their Foreign Minister. If Japan is now prepared to respect its promises, mutual releases should be possible in the near future.

/Meanwhile,

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Meanwhile, we assure you that the Pusan detainees continue to be well treated, and that if your affiliates desires to send comfort parcels to them, they will receive all comfort parcels dispatched to them through the ordinary international channels.

For your reference, I herewith enclose a copy of "The Korean Republic", March 27 issue, and you will find how the Pusan detainees are treated.

Yours fraternally,

/s/ Tai Bum, Kang
for General Secretary

cc-O. Becu, ITF, London
J. H. Oldenbroek, ICFTU, Brussels

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FOREIGN SERVICE DESPATCH

FROM : Amembassy, SEOUL

401
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

April 11, 1957
DATE

REF : CA-8019, April 1, 1957 *890.062 ka 12-2857 LAB REP FE OU EG ICA IO O/O O/MP CA*

APR 12 1957

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13	LAB-5	INFO AEP-2 OLI-8 FE-4 G-1 E-4 ICA-10 IO-4
	REC'D 4-12	OTHER CIA-15

SUBJECT: PTT Unions

There are no labor unions in Korea in the fields of postal, telegraph, telephone or other communications services.

The Postal, Telegraph and Telephone International (PTTI) has recently made the same inquiry as contained in CA-8019 of the Federation of Korean Trade Unions for the same purpose.

For the Charge d'Affaires, ad interim:

Edwin M Cronk

Edwin M. Cronk
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL — 139 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : 1957 CERP, Section D, Item VI-A-2.

Action Assigned August 28 1957 DATE
Action Taken AUG 29 1957

15 For Dept. Use Only	ACTION	DEPT.
	FE-4	INFO Rm/R-2 REP-2 OCI-8 G-1 P-1 O/OP-1 O/O-1 ICA-10
	REC'D 9/3	OTHER CIA-15 LAB-5 OCB-1 USIA-5 Action 9/6 ARMY-4 NAVY-3

Action Office Symbol FE
Name of Officer Sullivan
Direction to DC/R File

SUBJECT: (4) Some Preconvention Activities of FKTU Officials.

Introduction

The annual convention of the Federation of Korean Trade Unions (FKTU) is scheduled to take place sometime during the month of October. Elections of officers in the nation's only labor federation 1/ -- conducted biannually -- will be held this year. As the time preceding the assemblage grows shorter, electioneering and jockeying-for-position by the likely principals and lesser-lights intensifies. Personal and group alliances and enmities are showing themselves in many cases to be highly perishable, readily negotiable and easily reassignable.

Struggle for control of, and power in, the organization is underway. A number of persons have ambition to become the effective leader of the federation and to this end are employing every tactic available to them. At present the two principal contenders are CHONG Tae-ch'on and KIM Chu-hong. The Liberal Party, of which the FKTU is an auxiliary organ, has a definite interest in these developments and will have a hand in the outcome.

CHONG Tae-ch'on (0002/1129/1131)

Organizationally, the FKTU is presided over by three Supreme Committeemen. 2/ CHONG Tae-ch'on, who is also a Liberal Party National Assemblyman and Chairman of the Alliance of Electrical Workers Unions, as well as of the Seoul Electric Power Company Union, is the most influential. He is reputed to be YI Ki-bung's lieutenant in the FKTU and the person through whom the Liberal Party passes instructions to the labor organization.

It is solely because of CHONG's relationship with the Liberal Party that he maintains influence in the FKTU. He has never been popular with most of the chairmen of the other labor alliances and unions. To prevent his power in the federation from collapsing, it was necessary for "outsiders" to break up the April 1955 FKTU convention when it appeared that his faction might

1/ The FKTU is divided into trade and geographic alliances. The alliances are made up of company unions.

2/ Administration is handled by a General Secretary.

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REPORTER

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loose control. By September of that year, he (or elements in the Liberal Party) managed to obtain a compromise with the opposing factions in the labor movement and, in a new convention, he was elected to the Supreme Committee along with KIM Chu-hong and YI Chun-su. YI Kang-yon (2621/1660/3348), a KIM Chu-hong supporter, was chosen as General Secretary. However, he died a few months later and CHONG managed to have YI Sang-chin, a CHONG yes-man, appointed as Acting General Secretary, and elected to the position the following year.

In an attempt to strengthen his position in the FKTU and to create a split in the largest alliance, that of the Free Workers Unions (AFWU), CHONG instigated organizing drives in companies, principally in Inchon and Pusan, generally considered to be under the jurisdiction of the AFWU. He also reportedly planted trouble makers in several AFWU locals. The planning and implementation of these moves in all likelihood were conducted for CHONG by CHA Kuk-chan, Chief of the FKTU's Propaganda Department and Vice Chairman of the Seoul Electric Power Company Union; that is, until CHA left for the United States in the latter part of 1956. In CHA's absence, most of these responsibilities appear to have fallen on YI Sang-chin, General Secretary of the FKTU and Vice-Chairman of the Alliance of Electrical Workers Unions, as well as of the Seoul Electric Power Company Union.

As a result of this intervention, CHONG and KIM Ki-ok, Chairman of the AFWU, became engaged in a bitter personal feud. KIM's hatred of CHONG during the past couple of years has been quite evident from conversations with him.

Faced with lack of success in his incursions into the AFWU and the certainty of KIM Ki-ok's opposition at the October convention, CHONG changed his tactics. During the past month or so he has apparently withdrawn his support from his former agents who were interfering with the AFWU. In Inchon, for instance, O Yong-jae, a CHONG organizer, was physically beaten on the street by AFWU members in sight of police officials but without intervention, which would be unlikely to happen so openly if CHONG were still behind O.

Early this month, CHONG took another step. He offered to support KIM Ki-ok for one of the FKTU Supreme Committeemanships. As of the writing of this report, CHONG and KIM Ki-ok appear on better terms, but it is obvious that neither intends to expose his back to his newly acquired friend.

According to a police official who keeps informed on FKTU activities, CHONG is attempting to undercut KIM Chu-hong, whose increasing popular support has CHONG worried. CHONG, according to this source, has informed important officials of the Liberal Party that KIM Chu-hong is attempting to gain control of the FKTU in order to separate the Union from the Liberal Party. CHONG can make use of many of KIM's recent speeches to support this allegation and might point to KIM Chu-hong's relationships with some members of the Opposition, such as YU Chin-san (2692/3791/1473), a Democratic Party National Assemblyman, and CHON Chin-han (6929/6966/3352), Chairman of the Laborers

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and Farmers Party.

KIM Chu-hong (6855/0719/3163)

KIM Chu-hong, another of the present FKTU Supreme Committeemen, is Chairman of the most unionlike labor alliance in the federation, the Alliance of Railroad Workers Unions (ARWU). He is a member of the Central Committee of the Liberal Party by virtue of his position in the FKTU. He is not considered to be closely connected with the party, though, and apparently is not classified as an enthusiastic member by the Liberal Party's hierarchy.

KIM Chu-hong has been Chairman of the ARWU since 1954. He has been faced with strong internal factionalism, however, and has been in almost continuous conflict with YI Ch'an-hyok (2621/6363/6378), Chairman of the largest union in the Railroad Alliance, the Seoul District Railroad Workers Union. It is rumored that CHONG Tae-ch'on has offered YI a position in the FKTU if KIM Chu-hong is defeated in October.

KIM spent three months in the United States this year under the State Department's leader exchange program. He returned to Korea with what appeared to be missionary zeal. He has spoken throughout the country on the need for a genuine labor union organization, for dedicated labor union leadership, and for the independence of the FKTU from political control.

KIM Chu-hong's popularity among union officials seemed to increase considerably following his return from the United States. Encouraged by this, he began discussing various plans among a select group of union leaders for reorganizing the top structure of the FKTU in such a way as, in effect, to place himself in control and greatly diminish the authority and power of CHONG Tae-ch'on. For instance, he is promoting a plan to increase the number of Supreme Committeemen from three to five. Under this scheme the five would not be elected officials, but would be made up of the Chairmen of the five most influential industrial alliances: railroad, free workers, mining, textile and electric. In such a group CHONG's influence would be greatly diluted. CHONG, as a result, has become even more determined that KIM Chu-hong must be pushed aside.

It appears as if policy-making members of the Liberal Party also desire to see KIM Chu-hong replaced. KIM In-su, General Secretary of the AFWU, who acts as KIM Ki-ok's representative in Seoul -- KIM Ki-ok lives in Pusan -- revealed in a private conversation that he was recently summoned to the office of KIM Ki-hong (6855/1015/1738), a member of the Organization Committee of the Liberal Party, and told by him that while the Liberal Party does not intend to intervene directly in the forthcoming FKTU elections, since intervention in the past has had "certain negative results", it has an interest in what happens at the FKTU convention. He indicated that the Liberal Party was extremely desirous of seeing the FKTU elect officers that can work harmoniously together. KIM Ki-hong did not mention KIM Chu-hong by name, but KIM In-su says that he got the distinct impression that the Liberal Party does not consider the railroad union leader to be cooperative.

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In a recent Liberal Party directive, according to newspaper reports, it was stated that a number of "reforms" are necessary in the FKTU. The directive maintained that the struggle for power within the labor organization is harmful to the labor movement and the party. It called for the filling of all of the FKTU's offices with "good" party members.

A few Liberal Party members have suggested that the Supreme Committeemen system be replaced by a single President, who would be a loyal party man. The top officials of the party, however, seem to favor no change in the FKTU's organizational structure this year.

KIM Chu-hong is worried about the opposition that is developing against him. He has recently changed the content of his speeches from a call for independence from political control to independence within a party. He is spending much of his time attempting to convince other officials that there is really no conflict between him and CHONG Tae-ch'on. He has announced that the Railroad Alliance will begin a training course for its members and has invited a number of Liberal Party officials to speak to the group.

YI Chun-su (2621/0193/3178)

YI Chun-su was settled on as a compromise candidate for the third Supreme Committeemanship in September 1955. He is generally regarded as a "do-nothing" official. He had some support in the FKTU and in the Liberal Party, but principally as a result of his money raising ability. With the death of AHN Pong-ik (1344/7685/4135), late President of the government-owned Korean Tungsten Mining Company -- YI is also Chairman of that firm's labor union local -- many in the FKTU believe that YI's source of funds has also passed away. None of the important officials of the labor federation expect YI to be reelected.

KIM Ki-ok (6855/3825/3768)

The Alliance of Free Workers Unions, of which KIM Ki-ok has been chairman for about the last five years, is the largest unit in the FKTU. The union is made up of stevedoring and A-frame workers.1/ KIM Ki-ok, prior to becoming a staff member of the AFWU, was a labor foreman of an A-frame group in Pusan, and before that, an A-frame worker himself. He is generally regarded as an individual with a great deal of brawn but few brains. In looks and actions he reminds one of "Li'l Abner" of the comic strips.

For a long time he showed no interest in getting deeply into FKTU politics, but since, under the direction of CHONG Tae-ch'on, the FKTU has continuously invaded what KIM considers to be his domain, he has taken a more active interest in the activities of the federation. He states that it is

1/ An A-frame is a carrying device that is strapped to the worker's back. Everything from small weights to items weighing several hundred pounds is transported this way.

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necessary for him to get someone friendly to the AFWU in the top ranks of the FKTU to bring an end to these "invasions".

As gullible as KIM Ki-ok often appears to be, it is doubtful if he now has any more trust for CHONG Tae-ch'on than in the past, but is willing to ally himself with CHONG in exchange for a place on the Supreme Committee for himself or for SONG Chu-gap (2052/0719/3946), presently Chairman of the South Kyongsang Provincial Alliance of the FKTU. Liberal Party leaders would probably prefer to see KIM Ki-ok promoted in the FKTU, rather than SONG, since it is believed that SONG is "needed" in South Kyongsang to promote party activities.1/

YI Chu-gi (2621/0719/1015)

YI Chu-gi is Chairman of the Alliance of Mine Workers Unionm. He first demonstrated his strength in the alliance in late 1955 when he defeated YI Chun-su for the alliance's top office. At the time, YI Chun-su was a FKTU Supreme Committeeman, a position which he still retains, but will probably lose in October.

Officials of the FKTU have for some time expressed the expectation that YI Chu-gi will be selected to replace YI Chun-su at the October 1957 convention. YI Chu-gi, though a Liberal Party member, has been careful not to become closely identified with any faction in the FKTU. He apparently is acceptable to CHONG Tae-ch'on from the standpoints of the unlikeliness of causing trouble for CHONG, of his popularity in his alliance and his administrative competence. He says that he may be a candidate for the National Assembly in the 1958 elections.

YI Sang-chin (2621/4161/6966)

YI Sang-chin, General Secretary of the FKTU, remains a very loyal follower and supporter of CHONG Tae-ch'on. He is acting as CHONG's principal agent in the campaign to defeat KIM Chu-hong. His interest in this objective is heightened by his probably well-founded suspicion that if KIM Chu-hong is reelected, KIM will fight to have the Vice-Chairman of the Railroad Alliance, KANG T'ae-bom, selected ("elected") as General Secretary.

CHA Kuk-chan (6508/0948/3605)

Chief of the Propaganda Department of the FKTU and Vice-Chairman of the Seoul Electric Power Company Union, CHA Kuk-chan used to be CHONG Tae-ch'on's chief intriguer before going to the United States in late 1956. CHA has only in the past two weeks returned ffom this trip and has not become settled in FKTU business as yet.

1/ A report was received as this despatch was being completed of a move in Pusan to replace SONG with KIM Ki-ok as district chairman, which might be a step to free SONG for a Supreme Committeemanship.

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CHA is understood to have been an informer for Major General KIM Ch'ang-yong (6855/2490/7893), former Chief of ROKA/CIC, who was assassinated in 1956.

While in the United States, CHA, according to letters received by friends of his in Korea, claims to have undergone a complete change of personality. Since returning to Korea he professes "extreme sorrow" for his past misdeeds and says he is going to act much differently in the future. Time will tell.

YI Chong-song (2621/6945/5116)

At the present time YI Chong-song is occupied primarily with organizational problems in his newly formed textile union. YI was defeated in his bid for reelection in mid-1957 for Chairmanship of the Alliance of Textile Workers Unions (ATWU) as a consequence of his unpopularity and of organized opposition brought about by KIM Chu-hong and CHONG Tae-ch'on.

Following his defeat he began organizing a new textile union among small producers. He also claims to have secretly invaded many of the ATWU locals and that sometime in the future he will be able to withdraw a large portion of the ATWU membership into his own organization.

As far as the coming FKTU convention is concerned, YI is concentrating on getting as many members as possible into his local in order to entitle him to enough delegates to make himself heard at the convention. He has not given his support to any candidate for the Supreme Committee, but has confined himself to denouncing all of them. In all likelihood no candidate would welcome YI's support at this time.

Conclusions

As of the moment, it appears as if the trend toward the support of KIM Chu-hong by important officials in the FKTU at the expense of CHONG Tae-ch'on has been reversed. CHONG's maneuvering and the words put into the ears of FKTU leaders by Liberal Party members appear to have checked the possible veering away of the labor organization from its position as an auxiliary organ of the Liberal Party, at least for the time being.

More and more displeasure is being expressed by some officials of the FKTU about the impotency of the Korean labor movement and the subservient position of the labor organization to the Liberal Party. They acknowledge, however, that they have found that the party maintains strong enough controls to prevent this dissatisfaction from bringing about any changes not in the interest of the party.

As far as the outcome of the election is concerned, a clear-cut CHONG Tae-ch'on victory would definitely mean a continuation of Liberal Party control in its present form. A KIM Chu-hong victory would probably mean a continuation of Liberal Party control for the time being, but it would likely open the way for some gradual withdrawal from Liberal Party control

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over a period of time. Reelection of both men would probably result in a continuation of Liberal Party control of the labor organization and, within the FKTU, continued factionalism and struggle for supremacy.

For the Ambassador:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL — 158 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — September 4, 1957 DATE

REF : CA-1258, August 7, 1957 890.062 Se-1-6216FTU 800.062 WFTU

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13	LAB-5	REP-2 OLI-8 FE-4 ICA-10
	REC'D 9-9	INFO OTHER CIA-15 COM-6 USIA-10 ARMY-2 NAVY-3

SUBJECT: Metalworkers Unions in the ROK

According to information supplied by the Labor Bureau of the Ministry of Public Health and Social Affairs, there are four metalworkers unions in the Republic of Korea organized on a trade basis within different geographic areas. They are:

Name of Labor Union	Address	Membership *	Chairman
Kwangju District Metalworkers Union	48, Hwanggum-dong, Kwangju, South Cholla Province	121	KIM Myong-am
Mokp'o District Metalworkers Union	8, 1st St. Yonghae-dong, Mokp'o, South Cholla Province	65	SIN T'ae-uk
Kunsan District Metalworkers Union	274, Kumam-dong, Kunsan, North Cholla Province	46	PAK Ch'un-song
Pusan District Metalworkers Union	529, Pujon-dong, Pusan	2,559	YOM Ch'a-su

The Labor Bureau also includes in the category of metalworkers unions twenty company type unions, the membership of which is "largely" made up of metalworkers. The Bureau defines metalworkers as those engaged in steel production, foundry work, welding, lathe operation, metal analysis, alloying, blacksmithing, tool making, machine manufacturing, metal cutting and shaping, metal plate working, metal construction work and closely related occupations. Metalworkers belonging to a company type labor union do not also belong to the trade type labor unions listed above. The company type labor unions classified as consisting of metalworkers are:

Name of Union	Address	Membership *	Chairman
Seoul Railroad Backshop Workers Union	3rd St. Hangang-no, Seoul	486	O Ch'a-jin

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Name of Union	Address	Membership*	Chairman
Yongdongp'o Railroad Backshop Workers Union	Yongdongp'o, Seoul	1,488	KIM Chae-song
Samgang Steel Manufacturing Company Workers Union	Kuro-dong, Yongdongp'o, Seoul	220	MIN Kyong-yon
Tongguk Steel Manufacturing Company Workers Union	334, Yangp'yong-dong, Yongdongp'o, Seoul	24	CHO Hui-in
Chosen File Manufacturing Company Workers Union	366, Yangp'yong-dong, Yongdongp'o, Seoul	25	HAN Yun-t'aek
Chosen Heavy Industry Company Workers Union	446, Kuro-dong, Yongdongp'o, Seoul	125	KIM Chae-bom
Samgong Machine Shop Workers Union	266, Yongdongp'o-dong, Yongdongp'o, Seoul	62	KIM Sang-ch'ang
Kyongsong Spring Manufacturing Company Workers Union	Yongsan-ku, Seoul	132	YI Ch'ang-su
Samsong Machine Manufacturing Company Workers Union	153, Yongdongp'o-dong, Yongdongp'o, Seoul	37	PAK Chong-hyon
Inch'on Railroad Backshop Workers Union	66 Songhyon-dong, Inch'on	745	PAEK Hung-son
Taedong Steel Manufacturing Company Workers Union	9, Mansok-dong, Inch'on	27	HAN Chu-bong
Seoul Machinery Manufacturing Company Workers Union	158, Oryu-dong, Sosae-myon, Puch'on County, Kyonggi Province	35	YI Kyong-yong
Chosen Iron and Steel Company Workers Union	468, Hakik-dong, Inch'on	56	PAK Hyong-ch'il
Nankuk Steel Industrial Company Workers Union	1, Songhyon-dong, Inch'on	56	KIM Hyong-sop
Taehan Heavy Industrial Company Workers Union	1, Songhyon-dong, Inch'on	450	KIM Han-sik
Samsong Mining Company (Changhang Refinery) Workers Union	57, Changam-dong, Chanhang-eup, South Ch'ungch'ong Province	181	AN Pyong-il

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Name of Union	Address	Member-ship*	Chairman
Kia Industrial Company Workers Union	21, 3rd St. Manhang-dong, Pusan	177	SIN Ch'ol-ho
Taehan Shipping Corporation (Pusan Factory) Workers Union	29, 5th St. Pongnae-dong, Pusan	548	IM Han-sik
Pusan Railroad Backshop Workers Union	621, 1st St. Pomil-dong, Pusan	2,118	YI Chong-sok
Chosen Iron Manufacturing Company Workers Union	3, 2nd St., Poksong-no, Taegu	22	HONG Kap-dok

None of these organizations prepares publications on a regular basis. Names of Vice-Chairmen are not available. The Labor Bureau estimates that slightly less than 12 thousand persons are employed as metalworkers in the Republic of Korea.

The Federation of Korean Trade Unions, to which nearly all labor unions belong, is not able to provide any information in addition to the above.

* Figures for memberships are those claimed by the unions. Those for the company type unions are for total membership of each union, including metalworkers and non-metalworkers.

For the Ambassador:

Edwin M. Cronk
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

FROM AMEMBASSY, SEOUL
457
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.
January 16, 1958
DATE

REF : 795B.00/12-1357 FE
Despatch 384, Dec. 13; 1957 CERP - Section D VI A 2
Date of Action JAN 17 1958
Action Officer: Pol
Name of Officer:
Direction to Cys: File

35 For Dept. Use Only	ACTION	DEPT.
	FE-4	INFO RMR-2 REP-2 IRC-8 G-1 P-1 Yokota
	REC'D 1-22	OTHER CIA-12 USIA-10 ARMY-4 NAVY-3 LAB-5

SUBJECT: FKTU Convention, Dec. 19 - 20, 1957

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The Federation of Korean Trade Unions (FKTU) held another annual convention on December 19 and 20 at the Auditorium of the Kyonggi Provincial Government, Seoul, Korea, to elect its officers & conduct other business. (See reference despatch for a report on the abortive FKTU convention of Oct. 25, 1957).

SUMMARY

The first day of the two-day convention was taken up by the election of the Supreme Committee, enlarged from three to five members, and the selection of members of the Executive and Auditing Committees. KIM Chu-hong, who had received the greatest number of votes for Supreme Committeeman at the October convention, and SONG Chu-gap, also elected at the earlier convention, were defeated in the new elections. Liberal Party. National Assemblyman. CHONG Tae-ch'on, who had been unexpectedly defeated in October and is a known opponent of KIM Chu-hong, succeeded in regaining his supreme committeemanship. The five successful candidates were:

HA Kwang-ch'un
KIM Ki-ok
CHONG Tae-ch'on
YI Chu-gi
KIM Yong-hak

The second day's meetings were taken up by consideration of seven proposed resolutions concerning:

1) FKTU objectives for 1958;
2) Plans to elect FKTU members and others favorable to labor to the National Assembly;
3) Affiliation with the International Labor Organization (ILO);
4) Effect of the "productivity program" on labor;
5) Establishment of International Solidarity Day;
6) Establishment of a new labor day;
7) Establishment of a FKTU mobile health unit.

All of these resolutions were either adopted or referred to the Executive Committee for study and action.

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The meeting of December 19 started at 11:15 a.m. with the attendance of about 500 delegates, YI Chun-su (2621/0193/3178) presiding.

The Minister and Vice Minister of Public Health and Social Affairs; the Director of the Ministry's Labor Bureau; YI Sŏng-ju, Liberal Party member of the National Assembly; and the Governor of Kyonggi Province were present as honored guests. Also presented at the convention were about 15 local newspaper reporters and some 20 local police officials and CIC agents.

Bouquets were sent to the convention from the Liberal Party and from CHO Kyong-gyu, Vice Speaker of the National Assembly and former Supreme Committeeman of the FKTU.

According to the fixed agenda, the report on the number of the delegates authorized to attend the convention and the actual number in attendance should have been made immediately after the opening ceremony. However, this was deferred until the election of officers because of a dispute over the qualifications of certain delegates.

CHONG Tae-ch'on (0002/0719/1015), Supreme Committeeman, (who failed to be reelected at the Oct. 25 convention) delivered a five-minute opening address to the following effect:

"I am very sorry that another convention has to be held within two months of the last one and that it has been necessary for the local delegates to come to Seoul in the middle of winter. Some disagreement on the results of the last convention has created suspicion among the union members and the people that factional disputes exist among the FKTU leaders.

"The Ministry of Public Health and Social Affairs has tried to mediate the disagreement and to promote the solidarity of the Federation, and it was decided to convene this convention to settle the disagreement by ourselves.

"I have devoted myself for the improvement of the welfare of working masses in the last ten years and I have no intention of holding sole leadership of the FKTU.

"I regret the fact that there are still many unsettled labor disputes and I believe, therefore, greater effort by the union leaders must be made.

"I hope this convention will be a successful one, through which we can better our efforts to make the FKTU of service to the union members."

KIM Chu-hong (6855/0719/3163), Supreme Committeeman, spoke along the following lines: "It is greatly to be regretted that the convention is being held again. However, we found that the split in the unity of the union members could bring no profit but rather do great harm to the working masses.

"The differences of opinion among the members of the FKTU, after the Oct. 25 convention, came about because the leaders had failed to work out an agreeable

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plan for the election of officers before the convention took place.

"Although the justification for having another convention is yet vague, I agreed to hold it with the belief that we must seek to settle any disagreement over the FKTU by ourselves. Unity of the workers is most important of all.

"On November 25, 1957, a meeting was held among the representatives of the Federation, under the auspices of the Government and with the presence of the Chairman of Organization Committee of the Liberal Party, to settle the differences of opinion. At that occasion the Government and the Liberal Party strongly suggested that the troubles be settled by the holding of a new convention. Another meeting was held on December 2 at the office of Minister of Public Health and Social Affairs for the purpose of establishing a detailed plan for calling the new convention.

"It is hoped that the unity of the workers will be strengthened by avoiding repetition of the troubles that started after the October 25 convention. In order to do so, we must do away with personal feelings during the elections."

Congratulatory speeches were made by the Minister of Public Health and Social Affairs, Assemblyman YI Song-ju and Governor CH'OE Hun-gil of Kyonggi Province.

The Minister of Public Health and Social Affairs, SON Ch'ang-hwan, praised the FKTU for its anti-Communist activities and for its reconstruction work after the war. He said that unity is the most important thing for the FKTU and that the convention was being held in order to carry out that principle. He asked the delegates to continue their efforts in behalf of the laborers and the nation.

Assemblyman YI Song-ju spoke as the representative of the Liberal Party and said that he was very happy to witness the reunion of the FKTU leaders, whose split had been greatly lamented by him and the people. He also stated that the people admired the FKTU's devotion to the welfare of the nation and the willingness of the members to put interest of the nation before theirs.

Governor CH'OE welcomed the fact that the FKTU's convention was being held in his office building and asked the delegates to make the convention a success.

The proceedings were then suspended for about a half an hour while the committee empowered to examine the qualifications of the delegates finished its work.

After this interval, YI Sang-jin (2621/4161/6966), Secretary General of the FKTU, reported that the total number of delegates originally fixed for the convention was 551 and that 547 were present. However, 16 delegates allocated to the Seoul District Railroad Workers' Union had been cancelled, under the advice of the Minister of Public Health and Social Affairs, because the union had been split in two, one group (opposed to KIM Chu-hong) lead by YI Ch'an-hyok (2621/6363/6378) and the other (supporters of KIM) led by CHO Chin-ch'un (6392/6966/2504). Each group claimed representation at the convention. As a result of this

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confusion and conflict, neither group was permitted to seat its delegates and the total number of delegates was reduced to 531.

When this announcement was made, representatives of the YI Ch'an-hyok group demanded the right to speak. When this demand was ignored by the Presiding Officer, on the grounds that they had no right to speak before the convention, they yelled from the floor that the decision of the Qualifications Committee and the judgement of the Government on the issue were unjust. They argued that the new convention was being held because their delegates had been unjustly kept out of the October convention and that CHO Chin-ch'un's union was not registered with the Government.

KIM Won-jae (6855/0337/3444), Vice Chairman of the Alliance of Marine Workers Unions, and KIM Mal-yong (6855/2608/7839), Chairman of the Taegu Alliance of Labor Unions, contented that the Qualifications Committee was wrong in deciding to omit the YI Ch'an-hyok delegates who had full qualifications. On the other hand, KANG T'ae-bom (1203/3141/4636), Vice Chairman of the Alliance of Railroad Workers' Unions, stated that both groups were qualified to attend the convention and that representation at the convention should be based on the ratio of the membership of the two groups. "However", he said, "in view of the fact that delegate certificates had been issued only to the members of YI's union and since there was no time to decide which group should have how many delegates, it is better not to discuss the issue any further and accept the Qualifications Committee's recommendation." This suggestion was accepted, and neither group was seated.

The presiding officer announced the names of the five voting inspectors who represented each major faction in the FKTU.

The election of the Supreme Committee was then held. At first, the number of Supreme Committeemen was discussed. YI Sang-u, known to be a KIM Ki-ok follower, made the motion to elect five members without slated candidates on the grounds that the factional dispute could be avoided by increasing the number of committee members from three to five. A delegate from North Ch'ungch'ong Province moved to amend the motion by reducing the number of committeemen to three. KANG T'ae-bom moved to amend the original motion by providing for the election of five Supreme Committeemen from a slate of seven candidates, the seven candidates being the persons who had formed the seven-man committee in preparation of the convention; i.e. KIM Chu-hong, SONG Chu-gap, HAN Kwang-ch'un, YI Chun-su, CHONG Tae-ch'on, YI Chu-gi and KIM Ki-ok.

YI Chong-song (2621/6945/5116) and CH'AN Kuk-ch'an (6508/0948/3605) delivered speeches to support the original motion. YI Chong-gi (2621/6945/0967) spoke in favor of the second amendment. The motions were put to a vote. The two amendments were defeated and the original motion passed.

Just before the election, YI Ch'an-hyok took the floor to apologize the confusion created by persons who belonged to his union. YI, who had been denied a seat at the convention as an official delegate (see discussion above), attended as an observer and was permitted to make a brief statement.

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The election procedure was the same as that used at the October convention, although it appeared as if the secrecy of voting was not maintained as much as at the earlier convention. The voting inspectors called the list of the delegates one by one. Each delegate presented a certificate to the inspectors and received a ballot. The delegate then went into a closet, not one by one but several at the same time, to write down the names of five candidates.

The voting lasted about two hours, in which time 506 delegates cast votes. The following five candidates were elected on the first ballot. (A simple majority was required.):

HA Kwang-ch'un (Chairman, Alliance of Textile Workers Unions)	414 votes	3109/0342/2504
KIM Ki-ok (Chairman, Alliance of Free Workers Unions)	394 votes	6855/3828/3768
CHONG Tae-ch'on (Chairman, Electric Workers Unions)	334 votes	0002/0719/1015
YI Chu-gi (Chairman, Miners Unions)	333 votes	2621/0719/1015
KIM Yong-hak (Member of YI Ch'an-hyok's Seoul District Railroad Workers Union, which is not a member of the Alliance of Railroad Workers' Unions)	269 votes	6855/7893/7729

Besides the above five, KIM Chu-hong received 210 votes and SONG Chu-gap 222 votes. About twenty persons also received from one vote to some 15 votes. (KIM Chu-hong and SONG Chu-gap had received the highest number of votes for Supreme Committeeman -- 284 and 281 respectively -- at the October convention.)

After the results of the election were announced, KIM Chu-hong and YI Chun-su, former Supreme Committeemen, delivered short speeches to say that they recognized the election as legal and would support the FKTU even though they had lost the election. KIM Chu-hong stressed that the FKTU must maintain unity among its leaders and members in order to achieve its objects.

The selection of the Executive and Auditing Committees was entrusted to the newly elected members of the Supreme Committee. The Supreme Committee members met for about 45 minutes and announced the selected members as follows:

Executive Committee:

General Secretary	YI Sang-jin	2621/4161/6966
Chief General Affairs Dept.	YI Ch'un-hui	2621/2504/3556
Chief Organization Dept.	KIM Sa-uk	6855/0099/6735
Chief Planning Dept.	YI Ch'ang-hyok	2621/6363/6378
Chief Regulations Dept.	KIM Kwan-ho	6855/6034/3185

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Executive Committee: (Cont'd)

Chief International Dept.	CH'A Kuk-ch'an	6508/0948/3605
Chief Information Dept.	KIM Yong-t'ae	6855/3057/3141
Chief Labor Dispute Dept.	KIM Chong-won	6855/2973/0337
Chief Cultural Affairs Dept.	YU Kap-ch'on	2692/3946/0578
Chief Investigation & Statistics Dept.	KIM Mun-kyu	6855/2429/1145
Chief Women's Dept.	KANG Yong-ok	1203/5571/3768
Chief Welfare Dept.	KIM Kil-yong	6855/0678/6978
Chief Social Relations Dept.	KIM Won-je	6855/0337/3444

Members of Auditing Committee:

CH'OE Yu-sik	1508/2589/2784
O Ch'a-jin	0702/2945/7115
KIM Mal-yong	6855/2608/7839
YUN Sang-han	1438/4161/3466
KIM Ch'ol	6855/6993
YI Ch'ang-u	2621/2490/1342
YI Kyu-ch'ol	2621/1145/0811
KIM T'ae-yong	6855/3145/3057
CH'OE Yong-su	1508/7893/3178
NO Hyon-sop	4151/3736/3610
SIN Hyon-su	3947/6881/3178
KIM Sam-mun	6855/0005/2429
KIM Kwang-su	6855/0342/3178

The meeting adjourned at 7:20 p.m.

The second day of the convention started at 11:00 a.m. with about 280 delegates in attendance.

KIM Chu-hong and the delegates who had been known to be KIM followers did not attend the second day of the convention, except KANG T'ae-bom who had submitted a few resolutions and therefore was compelled to attend in order to explain them to the convention.

The resolutions which KANG T'ae-bom submitted were:

1. To establish specific objectives for the FKTU in 1958.
2. To work for the election of National Assemblymen who are members of the FKTU and others who are favorably disposed to labor.
3. To take the necessary steps to join the International Labor Organization.
4. To agree to take certain actions related to the Government's program to improve industrial productivity.
5. To agree to observe International Solidarity Day.
6. To establish a new labor day.

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Besides the above resolutions, YI Chong-song had submitted a resolution calling for the establishment of a mobile health unit in the FKTU.

The Convention proceeded with YI Chu-gi, one of the five newly elected Supreme Committeemen, presiding.

The resolutions were delivered one by one and adopted or entrusted to the Executive Committee without much discussion after hearing brief explanations by KANG T'ae-bom.

The summary of proceedings follows:

Item 1: KANG said that the FKTU had had no annual plan for its movement in the past and only temporized current issues and that the FKTU from 1958 on must establish current policies and plans to unite the activities and maintain the morale of the union members. As to the plans for 1958, KANG proposed to undertake nation wide movements:1) to make the government and employers observe labor laws, which at present are often violated with the excuse that the national economy is not yet stabilized; labor law observance would improve workers' welfare and the nation's prosperity; 2) to guide and support workers employed by small and medium enterprises whose efforts in organizing and operating unions are hindered by the enterprisers and whose understanding of labor unionism is lacking; 3) to have all unions in the country conclude collective bargaining agreements, which at present only a dozen unions out of some 500 have concluded; such agreements are of utmost importance in maintaining peace and cooperation between capital and labor; 4) to see to it that the rights of Korean workers employed by the United Nations Command are preserved; this is difficult at present because of the absence of a status of forces agreement. The resolution was referred to the newly formed Executive Committee for further study and action.

Item 2: KANG stated that the FKTU must seek to have many of its members and many FKTU supporters elected to the National Assembly in the 1958 elections in order that laws which would protect the interests of the working masses would be enacted. It was decided that this resolution would be entrusted to the Executive Committee and that the committee would organize an election measures committee to undertake necessary action.

Item 3: KANG said that affiliation with the International Labor Organization was approved by the April 1955 FKTU convention but that further action had been suspended because the Government had thought that the United States Government was against it. He then stressed the necessity of taking part in ILO activities and pointed out that the Republic of Korea is the only democratic nation that is not a member of the organization. CH'A Kuk-ch'an supported the motion saying that he had learned in the United States that the allegation that the United States Government objected to the ILO was groundless and that the Government, knowing this, was willing to take the necessary steps to join the ILO. The resolution was passed by a voice vote.

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Item 4: Pointing out that the Government was studying means of improving productivity, in connection with its long range economic development plan, KANG T'ae-bom urged that the FKTU participate in the program on the grounds that the workers would be hurt by the reduction of the number of workers in each enterprise in accordance with the productivity program unless improved wages and welfare plans for the worker were first established. The resolution was entrusted to the Executive Committee for further study and action.

Item 5: The resolution to establish the fourth day of November as International Solidarity Day, which had been proposed by the International Confederation of Free Trade Unions (ICFTU), was passed as proposed.

Item 6: The resolution to establish labor day on a day other than the first of May was explained by KANG T'ae-bom. KANG said the FKTU leaders had informally discussed the advisability of changing the date of labor day, because the first day of May was used by the Communists for propaganda purposes. He said the President of the Republic had also suggested that the date be changed and that the United States celebrated labor day on the first Monday of September. Several delegatessexpressed themselves in favor of the resolution. The Executive Committee was empowered to select a suitable date and to take necessary action to have the Government establish the day as a national holiday.

Item 7: YI Chong-song said that the FKTU should organize a mobile health unit to look after the health of workers as a preliminary step to the building of labor hospitals. The resolution was also referred to the Executive Committee for study and action.

The three cheers for the Republic and the FKTU were led by the Director of the Labor Bureau.

The Convention closed at 1:00 p.m., on December 20, 1957.

For the Charge d'Affaires ad interim:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

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FOREIGN SERVICE DESPATCH

FROM: AmEmbassy, SEOUL — 28 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

DATE: July 16, 1958

REF : CA-10145 May 20, 1958 800.062/5-2058 LAB

JUL 18 1958

For Dept. Use Only	ACTION	DEPT.
	LAB-5	REP-1 FE-4 IRC-8 IO-4
	REC'D 7/24	INFO OTHER CIA-15 Com 6 Army 2 Navy 3

SUBJECT: Unions and Associations of Public Employees

In the referenced instruction the Department requested information on the trade unions of public employees, the extent to which public employees are organized, and the trade union rights extended to public employees.

The following information applies only to employees of the national government as there are no known organizations of provincial or local government employees.

It is estimated that approximately 15 percent of the total public employees, or about 22 percent of those eligible to join unions, are organized in the Republic of Korea.

Government employees are divided into six classes from "Unclassified" through Grade 1. Unclassified employees and those in grades 5 and 4(b) may join unions. Employees of Grade 4(a)-Subsection Chief - and above are considered to be in the "managerial class" and are therefore not allowed to organize. In addition, military personnel on active service, key civilians employed by military services, and police, prison and fire-fighting officials may not organize or affiliate with a labor union.

Korean labor laws provide that parties to a labor dispute may not engage in strikes or "acts of dispute" unless the arbitration of the administrative authority or the mediation of the Labor Committee fails. In general, workers must allow a period of three weeks for negotiation efforts before declaring a strike but public utility workers must wait six weeks before taking such action. Public employee union leaders state that although they can, in theory, strike against the Government they do not, in practice, do so but might engage in "slow-downs".

The Alliance of Electrical Workers' Unions is not included in the revised list of unions of public employees as these workers are not paid from government funds and are not included in government employment figures. They, like the workers in various mining and other industries, are employed by electric power companies formerly owned by the Japanese. Control of these companies, which are supposed to be self-supporting, is now vested in the ROKG; however, the companies are to be gradually returned to private ownership.

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Likewise, the United States Army Employees' Union has not been included in the new list of unions as the members of this union are not employees of the ROKG.

~~Unions and Associations of public employees in the Republic of Korea are~~

1. Unions among the employees of the Government organizations
   1. Alliance of Railroad Workers' Unions
      Address: Hangang-no 1, Yongsang-ku, Seoul
      Membership: 27,300
      Numbers of Affiliated Unions: 10
      Officers: Chairman - KIM Chu-hong (6855/0719/3163)
      Vicechairmen: KANG T'ae-bom (1203/3141/4636)(also acting as temporary secretary)
      KIM Che-song (6855/3444/2052)
      SO Song-man(1776/6932/2519)
      Secretary: See above

      Affiliation: FKTU, since 1946
      International Transport Federation (ITF), since July 1957

      Publications: "Ch'olno" (Railroad) Semi-monthly bulletin, Circulation about 5,000 copies per issue.

   2. National Communication Workers' Union
      Address: 1 Chongno, Chongno-ku, Seoul
      Membership: 4,700
      Officers: Chairman - YU Chin-yong (0205/6966/3057)
      Vicechairmen - YI Tal-yun (2621/6671/3387)
      SONG Ki-t'aek(1345/1015/3419)
      Secretary - YUN Yong-je (1438/3057/3444)
      Date Organized: March 24, 1958
      Affiliation: None
      Publication: None

   3. Taegu District Monopoly Office Employees' Union
      Address: 7 T'aep'yong-no 3, Taegu, North Kyongsang Province
      Membership: 1,881
      Officers: Chairman - YI Won-kol(2621/3293/2638)
      Vice Chairman - SO T'a-son(1776/0100/0810)
      Affiliation: FKTU
      Publications: None

   4. Seoul District Monopoly Office Employees' Union
      Address: Uijuro, Sodaemun-ku, Seoul
      Membership: 1,039
      Officers: Chairman - CHO Song-ch'ol (6392/2052/0811)
      Vice Chairman - HWANG Pyong-gyu(7806/3521/0964)

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Affiliation: FKTU
Publications: None

5. Ch'ongju District Monopoly Office Employees' Union
Address: Ch'ongju City, North Ch'ungch'ong Province
Membership: 1,750
Officer: Chairman YI Ho-jong (2621/3185/6945)
Affiliation: FKTU
Alliance of Labor Unions in North Ch'ungch'ong Province
Publications: None

6. Chonju District Monopoly Office Employees' Union
Address: Chongju City, North Cholla Province
Membership: 2,075
Officer: Chairman KIM Tong-ho (6855/2639/3185)
Affiliation: FKTU
Alliance of Labor Unions in North Cholla Province
Publications: None

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

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NND 867400
By NARA, Date 4/7/24

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FOREIGN SERVICE DESPATCH

FROM : Amembassy, SEOUL

327

DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

Action Assigned to HS

Action Taken December 18, 1958

DATE

REF : CERP, Section D, Item VI-A-2

16 For Dept. Use Only	ACTION	DEPT.
	FE-4	INFO Rm/R-2 REP-1 IRc-8 IO-4 D-1 E-4/7/59
	REC'D 12/29	OTHER LAB-5 CIA-15 USIA-10

Date of Action

Action Officer Symbol EE

Name of Officer HS

Direction to DC/R File

SUBJECT: 1958 Convention of the Federation of Korean Trade Unions

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SUMMARY

At the annual convention of the Federation of Korean Trade Unions (FKTU), held at Pusan on October 29 and 30, 1958 the delegates voted to reorganize the Federation, replacing the ruling 5 member Supreme Committee with a single Chairman. After the election of new officers, in which KIM Ki-ok (6855/3825/3768), Chairman of the Alliance of Free Workers Unions, was elected Chairman of the Federation, the convention voted to declare March 10, founding day of the Federation, as the new Korean Labor Day.

The proposal to reorganize the FKTU under a single ruling officer was the cause of a bitter factional fight both before and during the convention. The faction of CHONG Tae-ch'on (0002/1129/1131), Supreme Committeeman of the FKTU and Chairman of the Alliance of Electrid Workers Unions, prior to the convention sought Liberal Party and Government support to block any reorganization. When these efforts failed, CHONG and two other Supreme Committeemen announced that the convention had been called off.

The KIM Ki-ok group felt that a single Chairman would provide more responsible rule than the 5 man committee which spent most of its time in internal political squabbles. They also wished to reduce the strength of CHONG in the Federation.

KIM Ki-ok, backed by KIM Chu-hong (6855/0719/3163), Chairman of the Alliance of Railroad Unions, and Supreme Committeeman YI Chu-gi (2621/0719/1015), Chairman of the Alliance of Miners Unions, warned that any Party or Government intervention on behalf of CHONG would antagonize the majority of organized labor in Korea. Perhaps due to the 1958 national elections in which the Liberal Party was defeated in urban areas, where organized labor is concentrated, there was no political intervention. With the support of most of the members of the Executive Board, KIM Ki-ok declared that the convention would be held as scheduled.

KIM Ki-ok was guided by KIM Pyong-gyun (6855/3521/0971), a behind the scenes figure who is perhaps the most influential person in Korean labor circles today.

The results of the convention indicate that organized labor in Korea has perhaps at last made some progress toward political independence.

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On October 29 and 30, 1958 the 11th Annual Convention of the Federation of Korean Trade Unions (FKTU) was held in Pusan. The convention was opened on the afternoon of the 29th with 509 delegates present out of 559 designated. Present as guests were the provincial Governor, the Mayor of Pusan, and officials from the Bureau of Labor of the Ministry of Health and Social Affairs.

After the opening ceremonies, KIM Sa-uk (6855/0099/6735), Chief of the Organization Department, reported that three newly organized unions of Korean employees of U. S. Army installations had applied for affiliation with the FKTU and that, after the Executive Board and an ad hoc investigating committee had failed to reach any conclusion on the actual number of members in the applying unions, the ad hoc committee had decided to refer the application for affiliation to the convention.

The presiding officer YI Chu-gi (2621/0719/1015), one of the five Supreme Committeemen and Chairman of the Alliance of Miners Unions, asked the delegates to express their opinions on the application for affiliation. KANG T'ae-bom (1203/3141/4636), Vice Chairman of the Alliance of Railroad Workers Unions, and KIM Kil-yong (6855/0678/6978), Chief of the Welfare Department of the FKTU and Chairman of the Inch'on U.S. Army Employees Union, opposed admission of the unions until the number of members in the unions had been accurately determined. KIM Kwan-ho (6855/6034/3185), Chief of the Law and Regulations Department, argued that the convention was qualified to decide on the unions' applications and that all who desired to join the FKTU should be welcomed. After KANG pointed out that by terms of the FKTU charter the question of admissions was to be handled by the Central Committee, his motion to close debate on the issue was carried by majority vote.

The debate on this issue marked the opening round of the battle between the rival groups of Supreme Committeeman CHONG Tae-ch'on, Chairman of the Alliance of Electric Workers Unions, and Supreme Committeeman KIM Ki-ok, Chairman of the Alliance of Free Workers Unions, which became overt prior to the convention and which can be traced back to old animosities within the Federation. The three unions applying for affiliation were supported by CHONG. Reportedly, the KIM group opposed admission of the unions not because of the number of added votes which delegates from the three unions would have given CHON but as a final test and advance demonstration of the power that KIM would command on more important issues.

The convention next moved to a discussion of the agenda. PAK Ch'ong-san (2613/7230/1472), sponsor of a bill to reorganize the Federation, moved to amend the agenda and insert the reorganization bill as the first item to be discussed.

The plan to reorganize the FKTU had brought about a public split between labor leaders prior to the convention, with Supreme Committeeman CHONG Tae-ch'on, KIM Yong-hak (6855/7893/7729), a member of the Seoul District Railroad Union, and HA Kwang-ch'un (3109/0342/2504), Chairman of the Alliance of Textile Unions, opposing reorganization and Supreme Committeemen KIM Ki-ok, YI Chu-gi, and former Supreme Committeeman KIM Chu-hong (6855/0719/3163), Chairman of the Alliance of Railroad Workers Unions, supporting the plan.

Before the convention those favoring reorganization explained to the Embassy that the leadership of the FKTU under the Supreme Committee system had been

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completely sterile because of the irresponsibility fostered by the division of authority and the factional quarrels which resulted from having five leaders with equal authority. KIM Ki-ok stated that as a result of his experiences at the Executive Committee Meeting of the Asian Regional Conference of the International Confederation of Free Trade Unions at Kuala Lumpur this year, he had finally realized the weaknesses of the Korean labor movement and the failures of its leadership. Consequently, he strongly supported the reorganization bill which would replace the five Supreme Committeemen with a single Chairman and which, it was hoped, would provide unified leadership, reduce factionalism, and promote greater labor solidarity.

KIM Ki-ok and his supporters also admitted their desire to reduce the power of CHONG Tae-ch'on in the FKTU. Despite the fact that CHONG heads only a rather small union, he is a Supreme Committeeman and two of his strongest supporters, YI Sang-jin (2621/4161/6966) and CH'A Kuk-ch'an (6508/0948/3605), hold the posts of General Secretary (the most important position in the FKTU after the five Supreme Committeemen) and Chief of International Affairs respectively. Although there does not appear to be any great personal dislike for him, CHONG, who is now serving his second term in the National Assembly as a Liberal Party member, has angered many in the labor movement by frequently soliciting Party interference in Federation affairs in order to maintain his position. YI and CHA, however, are generally disliked and ~~completely~~ distrusted by other labor figures.

YI does not convey an impression of being genuinely interested in labor and has a reputation of being a conniving self-seeker.

It is commonly accepted that CHA, probably one of the most controversial figures in the FKTU, is a ROK Counter Intelligence Corps agent. He is known as the archplotter in the Federation and, at one time or another, has moved against and antagonized almost every person of importance in the FKTU other than CHONG. In fact, he has created such dissension amongst labor leaders that some speculate whether he might be a communist agent but this seems to be an extreme reaction not seriously defended even by those who give voice to it. In view of the past interference of Party and Government in labor affairs, and the opposition to a strong, politically independent labor movement, CH'A's disruptive tactics might more justly be considered a part of his alleged role as CIC agent.

In preconvention comment to the Embassy, the CHONG group said that in principle they were in favor of reorganization but that the efforts of the KIM Ki-ok group were directed at personal advancement rather than the improvement of the Korean labor movement.

KIM Ki-ok is described as a sincere, well intentioned person with more muscle than mental power. Starting as an uneducated coolie laborer he has risen to leadership of the largest alliance of union members in the Korean labor movement. This self-made aspect, plus his other good qualities, has made him the object of particular affection and respect from the average union member. According to local observers, the rank and file of labor feel that KIM is the only presently prominent labor figure who cannot be reproached for some act of submission to outside pressure, collusion with management at the expense of the worker, or self advancement

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to the detriment of labor solidarity and strength. As a result, he appears to be the only union leader acceptable to the whole of organized labor in Korea.

KIM Chu-hong, former Supreme Committeeman and Chairman of the Alliance of Railroad Unions, is an old antagonist of CHONG's although at times in the past they have compromised their differences. KIM visited the U.S. in 1957 under the Foreign Specialist Trade Unions Project and returned fired with enthusiasm for a financially strong, politically independent labor movement. He expressed his feelings in a series of speeches which greatly increased his popularity and prestige with the workers but which, apparently, earned for him the displeasure of the Liberal Party. In the October 1957 convention elections for Supreme Committeeman KIM Chu-hong was elected to the Committee while CHONG was defeated. Under pressure KIM Chu-hong consented to a second convention in December at which he was defeated and CHONG elected to the Committee. KIM's submission to pressure is reputed to have cost him a great deal of the prestige and popularity which he had built up in the ranks of the workers. In his own defense KIM says that he thought that he would win again and that a second victory would be an unmistakeable indication of labor's repugnance for political intervention in the Federation's internal affairs.

The man behind the scenes in KIM Ki-ok's pre-convention maneuvers and subsequent convention victory was KIM Pyong-gyun, reputedly perhaps the most influential person in Korean labor circles. He is described as a man of limited education but of great intelligence, shrewdness and determination who has used common sense, logic and an understanding of people to make himself a force in the labor movement. Although there are insinuations that KIM has resorted at times to "strong arm" methods, local observers state that he leads a very simple life, will not compromise on principles, and has constantly fought any faction in the FKTU that invited Party or Government intervention in Federation affairs. He is not now a member of any union but is Adviser to the Alliance of Free Workers Union.

KIM has stated that while organized labor in Korea is operating under severe handicaps, any labor leader will accumulate a great deal of criticism because of the failures and shortcomings of the labor movement. During this period he will remain in the background trying to guide the development of organized labor. When circumstances are more favorable, perhaps in ten years, he will make his bid for leadership.

The KIM Ki-ok group worked to gain support for reorganization and as the convention date neared expressed complete confidence in the voting strength which they would have. CHONG, KIM Yong-hak, and HA Kwang-chun then announced that the convention had been cancelled but KIM Ki-ok, KIM Chu-hong, YI Chu-gi and 9 of the 13 members of the Executive Board declared that the convention would be held as scheduled. CHONG next appealed to the Liberal Party and the Ministry of Health and Social Affairs for assistance. KIM Ki-ok, in his discussions with the Embassy, stated that he and his supporters had sufficient influence to block CHONG's appeals and that he would warn Party and Government officials that interferrence in Federation affairs would antagonize the majority of organized labor in Korea. (In the May 1958 national elections the Liberals won only on the strength of their vote in the rural areas as the large cities, where organized labor is concentrated, supported the opposition.) Other than a reported hint from the Ministry of Health and Social Affairs that the reorganization plan not be brought up, there was no apparent intervention on CHONG's behalf and the convention began as scheduled.

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began as scheduled.

After PAK Ch'ong-san's move to insert the reorganization bill as the first item on the agenda, various delegates argued whether or not the convention could even consider such a bill. KIM Chu-hong, supporting the bill, appealed to the delegates not to be misled by some rumors that the Liberal Party was against the amendment, adding that he had been assured by Liberal leaders that the Party would support whatever the FKTU adopted as its rules and policies. Further arguments and attempts to put PAK Ch'ong san's motion to a vote followed with PAK, KIM Chong-bae (6855/6945/1014), KANG T'ae-bom, and CH'OE Yong-su (1508/7893/3178), Chairman of the Korean Electric Power Company Workers Union, favoring the bill and CHONG, KIM Mal-yong (6855/2608/7839) and CH'A Kuk-ch'an opposing.

When the presiding officer, YI Chu-gi, attempted to put the motion to a vote, CHONG, KIM Yong-hak and HA Kwang-ch'un, the three Supreme Committeemen opposing reorganization, tried to push YI off the rostrum. In spite of the confusion, a vote was taken in which 340 delegates out of 470 voted for PAK Ch'ung-san's motion. When the results of the voting were announced, YI Chu-gi was physically forced from the presiding officer's seat and HA Kwang-ch'un announced that the vote had been invalid. With the intervention of the Director of the Labor Bureau of the Ministry of Health and Social Affairs order was eventually restored and the convention recessed for about 15 minutes.

After the recess, the convention, HA Kwang-ch'un presiding, resumed with CHONG Tae-ch'on delivering his opening address. CHONG's speech stressed the reasons for his opposition to the proposed reorganization: 1) that the bill should have been drafted to be effective from the time of the 1959 convention as the term of office of the present officers would not expire until then; 2) that any bill should have first been sent to the Executive Board for consideration; and 3) that the bill was sponsored by members of the Free Workers Union who wished to oust him because he opposed the foreman system in the Union which enabled its leaders to make huge amounts of money illegally.1/ He then asked the delegates not to be swayed by emotional appeals but to judge the situation by its merits. (It appears to be true that officials of the Free Workers Union in Inchon have used the foreman system to personal financial advantage. KIM Ki-ok, as Chairman of the Alliance of Free Workers Unions, may be criticized for failing to correct the situation in Inchon; however, he is reported to have been forced to fight a defensive battle there because of CH'A Kuk-ch'an's efforts to infiltrate the Inchon union and destroy KIM's influence. It is reported that in KIM's own union in Pusan there has been no abuse of the foreman system and that reports of the income of the union and its officers are made to union members.)

Confusion again broke out when KANG T'ae-bom moved to demand apologies from the three Supreme Committeemen who had declared the convention cancelled. For a

1/ Under the foreman system the hiring of stevedores and dockyard workers is done by foremen controlled by the union. The stevedoring companies contract with and make wage payments directly to the union which passes the money to the foreman who, in turn, pay the workers. The union and the foremen are thus in a position to extract large sums for themselves. The workers dare not complain too vigorously or they allegedly will be unable to obtain further work.

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short period the convention devoted itself to demands that the three Supreme Committeemen apologize and counter demands that those attacking the Supreme Committeemen apologize. The confusion was heightened when YI Song-hak (2621/2052/1331) proposed a non-confidence vote against all the Supreme Committeemen and the election of new officers. There was no action on YI's proposal and some degree of order was restored when CHONG rose and said that his presence should be regarded as evidence that he and the others who had wanted the convention postponed had changed their minds. It was then agreed to change the agenda so that the guests of honor, who had been waiting so long, might deliver their congratulatory speeches.

The Director of the Bureau of Labor, speaking for the Minister of Health and Social Affairs SON Ch'ang-hwan, praised the rapid growth of organized labor in Korea but criticized the inefficiency of the FKTU administration. He particularly stressed that the FKTU had not done enough to improve the laborers' welfare.

Provincial Governor KIM Kyu-jin then gave a short speech thanking the Federation for holding the convention in Pusan. Mr. YI, Director of the Board of Stevedore Companies in Pusan, welcomed the delegates and stressed the importance of labor-management cooperation for the growth of the national economy.

Routine matters followed with presentation of the Convention Manifesto, the Summary of Activities and the Statement of Accounts.

After a motion for adjournment had been made, PAK Ch'ong-san asked for a few minutes in which to explain his reorganization bill. The convention voted to hear PAK before adjourning for the day.

PAK explained that a single chairman, elected for two years, would replace the five man Supreme Committee which lacked unity of leadership, mobility and flexibility. The bill provided that the Chairmen of all the industrial alliances with over ten thousand members, with the exception of the alliances of which the Federation Chairman and General Secretary might be members, would automatically become Vice Chairmen of the Federation. An Assistant General Secretary should be appointed from outside the ranks of labor. The present twelve departments of the Federation would be replaced by committees, each of which would include three members chosen from outside the Federation.

When PAK had completed his explanation, the presiding officer announced that the convention would adjourn until 10:00 the following morning.

When the convention opened the next morning a dispute immediately began over the screening of delegates entering the hall, the implication being made that the guards appointed by the anti-CHONG group were being over-zealous in checking the credentials of pro-CHONG delegates. No progress was made during the argument that followed and the issue was finally dropped.

The reorganization bill was then taken up.

KIM Yong-jo (6855/7893/4373) opposed the inclusion of non-union members in the committees on the grounds that individuals who had no direct interest in the

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Federation might get control of its administration. PAK Ch'ong-san replied that committee membership for non-unionists had been provided so that the Federation could invite the assistance of authorities in various fields who were not in the labor movement.

KIM Kwan-ho opposed the provision under which the chairmen of the major industrial alliances would automatically become vice chairmen of the Federation on the grpunds that small unions and large geographical alliances would have no representation in the top offices of the Federation. Another delegate objected to the large number of officers provided in the bill.

KIM Mal-yong rejected the entire bill on the grounds that replacement of the five committeemen with a single chairman would not guarantee the prevention of factional splits; that supporters of the bill had already decided who would be elected Chairman and that individual would not be an efficient one; that the bill was designed to give all power to the large industrial alliances; and, that the large number of officers called for in the bill was intended for "pay off" purposes.

PAK Ch'ong-san and CH'OE Yong-su answered the above objections as follows: CH'OE asserted that multiple leadership had been suggested by President Syngman Rhee in 1953 as a temporary means of settling a factional dispute and that the temporary measure should have been changed long ago. He explained that the planned appointment of the heads of the industrial alliances as Federation Vice Chairmen stemmed from the fact that the unions were organized on a trade, not a geographic, basis. CH'OE then asked the delegates not to anticipate who might be Chairman but to simply judge the bill on its merits.

PAK said that he thought single leadership would bring less factional trouble than multiple leadership and that he would accept any revisions which did not destroy the principles of his bill. He then suggested these revisions: 1) instead of automatic appointment of vice chairmen, these officers would be elected by the convention from candidates designated by the industrial alliances with over 10,000 members; 2) in order that the geographical alliances might be represented in the top posts, one vice chairmanship would be alloted to a candidate nominated by and from the unions which do not belong to any industrial alliance, and 3) the number of members on each committee of the executive board would be reduced.

After further discussion, which proceeded in an excited and disorderly manner, the convention voted to close the general debate and to consider only proposed revisions.

It was moved and voted to abolish the post of Assistant General Secretary, and to retain the departments with a chief and deputy rather than adopt the committee system.

The convention voted to adopt the first two of the revisions suggested earlier by PAK Ch'ong-san and then proceeded to voting on the entire bill.

The voting was conducted under the supervision of observers appointed by the presiding officer who gave equal representation to the pro and the anti-reorganization

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groups. Of 489 ballots distributed, 479 were cast. The results were 339 votes for reorganization, 124 against, and 16 votes that were ruled invalid.

The convention then voted to change the posted agenda and to move to the election of new officers in accordance with the reorganization bill.

With special permission, KIM Chu-hong took the floor to deliver a speech in which he stated that the FKTU was now moving toward more democratic administration. He called on the labor movement to strive more and more for political and economic independence and closed by saying that he had no desire to hold any high post in the FKTU.

Results of the voting for the post of Chairman, which was held without the nomination of candidates, were: KIM Ki-ok 321; CHONG Tae-ch'on 30; KIM Chu-hong 19; and YI Chu-gi 11. Six other people received one to two votes. There were 23 invalid votes cast and one abstention.

After a short recess for consultations, the industrial alliances and the geographic groups presented the following slate of candidates which was to be voted on as a whole:

For Vice Chairman -

CH'OE Yong-su (1508/7893/3178), Chairman of Korean Electric Power Company Workers Union, Chairman of Inspection Committee of the Alliance of Electric Workers Unions, as representative of the Alliance of Electric Workers Unions.

KANG T'ae-bom (1203/3141/4636), Vice Chairman of the Alliance of Railroad Workers Unions, as representative of that Alliance.

KIM Sa-uk (6855/0099/6735), Chairman of the Alliance of Marine Workers Unions, as the Alliance representative.

KIM Su-yong (6855/4840/3057), Chairman of the Samho Textile Mill Taegu Plant Workers Union, Vice Chairman of the Alliance of Textile Workers Unions, as the Textile Alliance representative.

SONG Chu-gap (2052/0719/3946), Chairman of the Alliance of Labor Unions in South Kyongsang Province, as representative of the geographic alliances.

For General Secretary -

YI Chu-gi (2621/0719/1015), Chairman of the Alliance of Mines Workers Unions.

The voting on the slate was: ballots distributed 369, votes for 341, against 15, invalid votes 8, abstentions 5.

The convention then named KIM Chu-hong and CHONG Tae-ch'on permanent advisers to the FKTU.

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While the newly elected officers prepared a list of candidates for chiefs of departments and members of the Board of Audit, the delegates considered and adopted the budget bill covering the period September 1, 1958 to August 31, 1959. It was also decided to entrust the convention resolutions to the newly elected officers for implementation.

With little debate the convention voted to declare March 10, the founding day of the FKTU, the new Korean Labor Day and to petition the Government to declare the date a national holiday.

At this time the following slate of candidates for department chiefs and members of the Board of Audit was presented:

Name of Department	Candidate	Remarks
General Affairs	YI Ch'un-hui (2621/2504/3556) Gen. Secretary Alliance of Free Workers Unions	for reelection
Organization	KIM Mun-gyu (6855/2429/1145), Vice Chairman of Korean Elect. Power Company Unions	
Planning	PYON Yong-sang (6708/7893/4161), A member of U. S. Army Employees Union, Pusan	
Publicity	PAK Ch'ong-san (2613/7230/1472)	
Research & Statistics	KO Il-ha (7559/0001/3109), Chairman Taedan Textile Company Workers Union	
International Affairs	YI Yong-hui (2621/7893/3556), Vice Chairman South Korean Electric Power Company Workers Union	State Department Grantee 1958
Social Relations	KIM Won-je (6855/0037/3444) Vice Chairman Marine Union	for reelection
Cultural Affairs	KIM Kil-yong (6855/0679/6078) Chairman, Inch'on U.S. Army Employees' Union	
Labor Disputes	YUN Sang-han (1438/4161/3466) Chairman, Yongwol Coal Mine Workers' Union	

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Name of Department	Candidate	Remarks
Welfare	YUN Pyong gang (1438/4426/4854) Chief, Inspection Committee Alliance of Railroad Workers' Unions	
Law & Regulations	YI Ch'an-hyok (2621/6363/6378) Chief, Inspection Committee Seoul District Railroad Workers' Union	
Political Affairs	YI Ch'ang-u (2621/2490/1342) Chairman, Inch'on Free Workers' Union	

Members of Board of Audit:

KIM Kwang-su	(6855/0342/3178)	Chairman, Kunsung Textile Co. Workers' Union; Vice Chairman, Alliance of Textile Unions.
YI Kyu-ch'ol	(2621/0964/0811)	Chairman, Taejon District Railroad Workers' Union; Chairman, Alliance of Unions in South Ch'ungch'ong Province.
PANG Hong-gyu	(2455/1738/1145)	Chairman, Sangdong Tungsten Mine Workers' Union.
SIN Hyon-su	(3947/6881/3178)	Chairman, South Korean Electric Power Company Workers' Union
KIM Chong-hyon	(6855/6945/6881)	Chairman, Sunch'on District Railroad Workers' Union; Chairman, Alliance of Unions in South Cholla Province.
YI Sang-jin	(2621/4161/6966)	Vice Chairman, Seoul Electric Power Company Workers' Union; Former General Secretary of FKTU.
YUN Chun-ki	(1438/3294/1015)	Chairman, Yosu Area Marine Workers' Union.
YI Ha-chong	(2621/3109/6945)	Chairman, Ch'ongju Monopoly Office Workers' Union; Chairman, Alliance of Unions in North Ch'ungch'ong Province.
YI Kun-ch'il	(2621/2704/0003)	Chairman, Pusan Area U. S. Army Korean Employees' Union.

The slate was approved by a vote of 266 for to 9 against.

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Messages which were to be sent to the President of the Republic of Korea and to the Secretary General of the International Confederation of Free Trade Unions (ICFTU) were adopted.

The delegates also approved a resolution expressing the labor movment's goals for the coming year. Included was a call for the early conclusion of a "status of forces" agreement.

The convention closed with cheers for the FKTU led by the Director of the Labor Bureau.

Local observers state that the 1958 convention is one of the most significant events in the history of organized labor in Korea in that for the first time labor acted completely on its own, without any interferrence from the Liberal Party or Government. This might be an overstatement but it does appear that organized labor has made some, quite possibly only temporary, progress towards greater political independence.

For the Ambassador:

Edwin M Cronk

Edwin M. Cronk
First Secretary of Embassy

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Action Taken DATE July 10, 1959

REF : CERP, Section D, Item VI-A-2.

9 For Dept. Use Only	ACTION	DEPT.
	FE-4	INFO RM/R-2 Ref-1 IRC-8 ICA-11 FO-4 7/23/59
	REC'D 7-17-59	OTHER LAB-5 CIA-10 Com-6 USIA-10 AR-4 FE

Date of Note
Action Office Symbol
Name of Officer HS NAVY-3
Direction to DC/R File

SUBJECT: Current Situation in Korean Labor Movement.

In a long conversation with an Embassy representative KIM Chu-hong (6855/0719/1163), one of the most prominent figures in the Korean labor movement (Permanent Adviser to the Federation of Korean Trade Unions (FKTU), Chairman of the Alliance of Railroad Workers Unions, former Supreme Committeeman of the FKTU) gave the following evaluation of the move to oust KIM Ki-ok (6855/3825/3768) as Chairman of the FKTU. (Embassy Despatch 746, June 26, 1959). (Kim Ki-ok was elected Chairman of the FKTU in the 1958 convention at which control of the labor movement by the CHONG Tae-ch'on (0002/1129/1131) faction was broken and the Federation reorganized. As reported in Embassy Despatch 746, the terms of office of the present Federation officers run until the 1960 convention but if the majority of the delegates so wish, they can force an election of officers at the 1959 convention.)

Kim Ki-ok is caught in a political battle between two elements in the Liberal Party. As his political friends triumphed in their intraparty battle, Kim, with their support, rose to the top position in the labor movement. Now, with his friends suffering reverses in their factional struggle, Kim must share their defeat. Kim was reportedly associated with a group which strongly resisted party nominees for certain provincial party posts. After bitter opposition and the receipt of some concessions, the rebel group capitulated.

The two Liberal Party elements mentioned above are also said to be contending for the privilege of handling the government-imported fertilizer program. One of these elements supports the Korean Rice Warehousing Company's bid for the handling contract while the other, with which Kim is associated, supports the Korean Forwarding Company (KFC) which has had a monopoly for some years on the handling of government fertilizer. Both firms are vested properties of the ROK Government. The fertilizer program, approximating $50 million annually, is said to be one of the most rewarding sources of political funds and personal profits.

Earlier the Embassy had been told that the charges of embezzlement of wages and fertilizer funds made against the Korean Forwarding Company and stevedore union leaders (Embassy Despatch 595, April 17, 1959) stemmed not only from internal strife in the labor movement but, more importantly, from the contention in the Liberal Party over who would be declared the successful bidder when the KFC is auctioned off to private interests by the ROKG.

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NND 867400
By [illegible], NARA, Date 1/17/94

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When he was elected Chairman of the FKTU in 1958, Kim was popular with the union members, was regarded as honest, and was acknowledged to be the only labor leader whom the majority of labor would accept. Now, due to unknown causes, Kim seems to have lost a great deal of his former popularity. At least with the former friends and supporters who are attacking Kim in his local union (Embassy Despatch 746), Kim's loss of popularity is not connected with the charges of embezzlement of workers' wages by union leaders in Kim's Alliance of Free Workers Unions (Embassy Despatch 734, June 19, 1959) because these former friends are alleged to be among the biggest embezzlers. The charges of embezzlement come as no surprise as the Free Workers Unions (stevedores, coolies) have always had a reputation of being corrupt. Although Kim profited financially from this corruption, he is still regarded as an honest man, but, because of his limited intelligence, he was used by many for their own gains.

It has been long and widely recognized that Kim is no mental giant. In 1958 he was the only possible candidate for Chairman acceptable to the majority of the union members. Even then, however, it was the opinion of other labor leaders that unless Kim showed more ability than he had previously displayed, his occupancy of the top Federation position would be short. Thus, with his political support greatly weakened and his personal popularity reduced, the time has come for Kim to go.

The move against Kim will be headed by Chong Tae-ch'on, a Liberal Party member of the National Assembly and former Supreme Committeeman of the FKTU, and will receive almost unanimous support at the convention. A sizeable proportion of Kim's own Alliance may oppose him. The present positions of some of the more prominent labor figures and source's opinions of some of them are:

YI Chu-gi (2621/0719/1015), General Secretary of the FKTU and Chairman of the Alliance of Miners Unions, - has no organization - an opportunist who will support the side which he thinks will win - already working with Chong.

CH'OE Yong-su (1508/7893/3178), Vice Chairman of the FKTU and Chairman of the Korean Electric Power Company Workers Union, - will not support Chong; will support Kim but not to the point of personal loss.

PAK Ch'ong-san (2613/7238/1472), Chief of Publicity Department FKTU, - shrewd, ambitious, an opportunist - already working with Chong.

SONG Chu-gap (2052/0719/3946), Vice Chairman of the FKTU and Chairman of the Alliance of Labor Unions in South Kyongsang Province, - Song and Kim are in opposing factions of the Liberal Party. Song will not support Kim but is not expected to offer any assistance to Chong.

CH'A Kuk-ch'an (6508/0948/3605), former Chief of the International Affairs Department FKTU, and YI Sang-jin (2621/4161/6966), former General Secretary of the FKTU, - both widely disliked in the labor movement, both loyal supporters of Chong.

1/ This is illustrative of the elastic moral standards in Korea.

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KIM Pyong-gyun (6855/3521/0971), Chairman of the Alliance of Chemical Workers Unions - a free lance brain who moves through all sectors of the labor movement - knows the Korean labor situation thoroughly - has no organized influence but can create influence with a word - has fought courageously for causes, some unpopular ones, in which he believed - has displayed no great personal ambitions in the labor movement and no apparent political ambitions. He will support Kim Ki-ok unless he sees that struggle is hopeless. He will not support Chong in any case.

As for himself, Kim Chu-hong will support Chong, his old enemy, under certain conditions. The FKTU is again to be reorganized with an Executive Board which will control Federation policies. Chong will be elected Chairman of the FKTU and Kim Chu-hong head of the Executive Board. Kim Chu-hong indicated that he did not wish to make a bid for the post of Chairman. He feared that such a move might give the impression that he had opposed Kim Ki-ok solely because of his own personal ambitions.

Kim Chu-hong felt that despite his past difficulties with the Liberal Party there would be no political objections even if he chose to run for Chairman. His feeling about economic and political independence for the labor movement has not changed but he has been forced to face reality. In Korea political independence will be a long time coming. By increasing union membership, developing good unions and the members enthusiasm for their unions, Kim hopes to make some progress toward economic independence. (The Federation still receives most of its financial support from the Liberal Party.) The achievement of economic independence would bring many immediate advantages and would contribute to the ultimate goal of political independence. For these reasons Kim no longer stresses political independence and for this reason the Liberal Party no longer frowns on Kim.

Kim said that the Liberal Party is now willing to trade nonintervention in purely Federation affairs for Federation loyalty to the party. The Liberal Party will accept any officer elected by the unions and the Federation unless the person is a known anti-Liberal Party man. In Kim's opinion this "freedom within the Party" is as much as can be achieved under existing conditions.

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

RW.

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FOREIGN SERVICE DESPATCH

Action Assigned to
Action Taken
Date of Action

FROM : Amembassy SEOUL

37
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

July 22, 1959
DATE

REF : CERP, Section D, Item No. A-2.

Action Office Symbol

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	FE-3	
	REC'D 7-28	INFO OTHER: REA-1 RMR-2 Ambr-8 JCS-11 IO-4 LAB-5 CIA-1 DCLR-1 Com-6 ARMY-2 NAVY-3

Name of Officer

Direction to DC/R

SUBJECT: Recent Developments in the Struggle for Power in the Korean Labor Movement

In Despatch 16, July 10, 1959, the Embassy reported an evaluation by KIM Chu-hong (6855/0719/1163), Permanent Adviser to the Federation of Korean Trade Unions (FKTU) and Chairman of the Alliance of Railroad Unions, of the movement against KIM Ki-ok (6855/3825/3768), Chairman of the Federation. Kim Chu-hong predicted that at the FKTU's annual convention in October the delegates would almost unanimously support the anti-Kim Ki-ok leaders. Recent developments indicate that wishful thinking may have greatly influenced Kim Chu-hong's opinions.

Kim Ki-ok states that Kim Chu-hong and CHONG Tae-ch'on (0002/1129/1131), National Assemblyman and Permanent Adviser to the FKTU, leaders of the anti-Kim Ki-ok group, have already broken up their alliance. It is reported that Kim Chu-hong's strategy called for Chong to lead the attack on Kim Ki-ok. Kim Chu-hong hoped that Chong and Kim Ki-ok would "kill each other off" and that he, Kim Chu-hong, could then step into the Federation chairmanship. If Chong and Kim Chu-hong have ended their short-lived alliance, Kim Chu-hong may not even be able to control his own alliance delegation at the convention. For some time Chong has encouraged and supported the anti-Kim Chu-hong element in the railroad alliance. Some sources now estimate that Chong may control close to half of the railroad delegation.

The Embassy has been informed that the Organization Committee of the Liberal Party announced that the Party is strictly neutral in the labor battle and that there is to be no political intervention in the Federation's internal affairs. This policy, if observed, is judged to be to Kim Ki-ok's advantage.

Even Kim Ki-ok's reputation for limited intelligence is said to be an asset in the present situation. Union leaders who have seen cleverer Federation officers than Kim use the Federation for their own personal gains feel that Kim does not have sufficient ability to turn the Federation into a vehicle for personal advancement. For this reason, if no other, they approve of him as Chairman.

Kim Ki-ok believes that at the convention he will have the solid support of his own alliance delegates and that of the chemical, construction and maritime workers. He expects to receive at least half of the votes of the geographical alliances' delegates and some, possibly significant, support from the textile workers and miners. If these estimates prove accurate, Kim should have enough votes to control the convention.

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Encl. No.
Desp. No. 37
From Seoul

On July 31 the Central Standing Committee of the Federation will meet to consider the eviction from the FKTU of Chong's union on the grounds that the Chong group's plotting and maneuvering for power have damaged the entire labor movement. Admitting that eviction of the union would be a rather drastic step, Federation sources say that the Committee may settle for the ouster from the labor movement of three minor Chong supporters who, after Kim Ki-ok's 1958 convention victory, sought to have the convention declared invalid.

At this moment, therefore, it appears that Kim Ki-ok has, at the least, a fighting chance to retain his position as Chairman of the FKTU.

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

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DESP. NO.

FOREIGN SERVICE DESPATCH

FROM : Amembassy SEOUL

TO : THE DEPARTMENT OF STATE, WASHINGTON. July 31, 1959
DATE

REF : Despatch 37, July 22, 1959

Date of Action 8/12/59

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	FE-4	INFO RM/R-2 Rep
	REC'D 8-8-59	OTHER LAB-5 CIA-10 USIA-10 Com-6 ARMY-2 NAVY-3

Name of Officer HS
Direction to DC/R File

SUBJECT: Situation Confused as Rival Labor Factions Prepare for Important Meeting

As delegates make their final preparations for the meeting of the Central Standing Committee of the Federation of Korean Trade Unions (FKTU) on July 31, the general feeling in labor circles is complete uncertainty as to the probable results of the meeting. This contrasts with the CHONG Tae-ch'on group's early gleeful confidence of defeating FKTU Chairman KIM Ki-ok and the latter's more recent quiet certainty of victory. Reasons for these changes of attitudes are obscure. On the eve of the meeting which is expected to foretell the course of the FKTU's annual convention in October the situation appears as follows:

Kim plans to move that the Committee evict from the Federation two small unions headed by Chong supporters who attempted to have the 1958 FKTU convention nullified. He will also seek the removal of YI Chu-gi, General Secretary of the FKTU, and PAK Ch'ong-san, Chief of the Publicity Department of the FKTU, who were reportedly working with Chong against Kim.

Yi Chu-gi, described as an opportunist with no organized support, has lost his positions as Chairman of the Korean Tungsten Miners Union and Chairman of the Alliance of Miners Unions, and, for some time, has engaged in little activity as general Secretary of the FKTU. Chong, who encouraged Yi's defeat, spurned Yi's offer of support. In addition, it is rumored that in the transportation companies dispute, which has been dormant for some time (Despatch 482, March 6, 1959), Yi offered to sell out to management and that Kim Ki-ok will bring this charge against Yi. Thus, it appears that Yi, lacking any bargaining power, might well be the first casualty of the Committee meeting.

Neutral and even pro-Kim Ki-ok sources are split in their opinions on Kim's chances of survival, which had looked quite favorable (see referenced despatch). Some observers still believe that Kim will score at worst a narrow victory while others foresee overwhelming defeat for him. The latter outlook reportedly is based on the continuing dissension in Kim's local union at Pusan which is split into anti-Kim, pro-Kim and neutral factions. However, no explanation is offered as to why even complete loss of the Pusan local's vote (an estimated 30 votes out of the approximately 160 which the Alliance of Free Workers will have at the FKTU convention) should be disastrous for Kim.

The Chong group appears somewhat subdued and says only that they do not know what will occur at the Committee meeting.

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KIM Chu-hong, Chairman of the Alliance of Railroad Unions, goes into the Committee meeting with unknown strength. He faces opposition in his own union, some of it controlled by Chong, but may receive some support from other sources. If the struggle between Chong and Kim Ki-ok is very even, Kim Chu-hong might trade even a limited, but vital, number of votes for significant compensation. Should Chong and Kim Ki-ok destroy each other, Kim Chu-hong might even become the leading contender for leadership of the FKTU. If either Kim Ki-ok or Chong independently scores a decisive victory, Kim Chu-hong, being an old enemy of Chong and having deserted Kim Ki-ok, might rapidly fade as a leading labor figure.

Should neither Kim Ki-ok, Chong or Kim Chu-hong gather sufficient strength to gain leadership of the FKTU, there appears to be no other labor leader with sufficient prestige to step into the breach. In such a case, some observers feel that a figurehead chairman will be elected and a vigorous, able, young leader such as CHOI Yong-su, Vice Chairman of the Federation, or KANG T'ae-bom, also a Vice Chairman of the FKTU, placed in the important position of General Secretary.

When the Central Standing Committee meets there may be bitter disputes over the number of members claimed by the various unions since representation on the Committee and voting strength at the convention is based on union membership. The settlement of this issue should presage rather accurately the composition of the convention in October. At the opening sessions the Committee is expected to rule on the applications for affiliation with the FKTU of new unions, the official size of their membership, and whether or not these unions should participate and vote in subsequent issues on the Committee agenda. These points will be quite important to Kim Ki-ok as the principal new unions (chemical, construction and printing) have been known as sources of support for Kim.

At the last minute, many labor figures have scurried to establish neutral positions until they can pick the winning side. Among these are many who earlier had appeared definite supporters of one or the other faction.

For the Ambassador:

Robert W. Tucker
Robert W. Tucker
First Secretary of the Embassy

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FOREIGN SERVICE DESPATCH

Action Assigned to JAN 1960

FROM : Amembassy SEOUL

315
DESP. NO.

Action Taken noted HL

TO : THE DEPARTMENT OF STATE, WASHINGTON.

December 30, 1959
DATE

REF : CERP

Date of Action 1/15/60

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	REC'D 1-11-60	INFO RMR-2 Rep-1 IRC-8 ICA-1 DO-7 OTHER LAB-6 CIA-10 Com-6 USIA-10 State-8 NR-7

Name of officer Symbol

SUBJECT: Labor Union Orientation Trip

Direction to DC/R File

The reporting Officer, newly assigned to the Embassy, recently completed a ten-day tour of South Korea by motor vehicle to become acquainted with the labor unions and their leaders. Departing from Seoul, the tour included, travelling southward, the cities of Taejon and Kwangju, eastward to Pusan, then north to Taegu, Munglyung, Chungju, and return to Seoul. Provincial and city alliances offices were visited in Taejon, Kwangju, Pusan and Taegu. Besides meeting officials of the geographic unions, the reporting Officer also met with a number of factory union leaders, representatives of the railroad unions, a newly-formed tailors' association, local industry directors, several provincial Government officials, two university professors, and one provincial court judge. In addition, visits were made to three cotton textile plants, a wollen textile plant, a flour mill, a combination sugar and flour mill, a cement factory, the newly-constructed chemical fertilizer plant in Chungju, and a copper and tungsten mine near Taegu. The following report is based on information obtained from the aforementioned sources, answers to questions recorded on a check list, and the reporting Officer's observations.

In all of the labor union offices visited, the reporting Officer received a friendly reception. Union officials expressed thanks for the interest shown in their organization and were frank in giving information. There were frequent expressions on their part for assistance and guidance from the U. S. Government to help build a stronger union organization.

Introduction and Summary:

Originally organized as an arm of the Liberal Party to offset Communist domination of the Korean Labor Movement prior to the Korean War, the Federation of Korean Trade Unions (FKTU) and its affiliated unions soon became strongly influenced by the party. In the intervening years, political influences have dominated the labor scene, and have been largely responsible for arresting the unions' progress in fulfilling traditional trade union functions. Aside from political party manipulation, other factors have combined to arrest union development. Among these are 1) traditional Oriental indifference to the working classes; 2) an underdeveloped industrial economy with its concomitant job scarcity coupled with severe unemployment and underemployment; 3) Government neglect in enforcing existing labor laws; 4) ineffective leadership; and 5) a simple lack of knowledge of trade union organization and functions on the part of union leaders. Against this background it is not surprising that trade unionism in Korea has made little headway.

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The structure of the FKTU is a line organization built from the top down permitting the flow of authority to reach from the national federation to the local factory union in a direct line either through the geographic alliances or through the Industrial Alliances. The geographic alliances and factory unions maintain elaborate formal organizations which incorporate a profusion of chiefs and committees and other empty offices. This serves mainly as window dressing since little of this elaborate apparatus appears to function in substance.

On the level of the provincial and city alliances and factory unions, the unions activities appear to be very limited: settling disputes, job protection, and negotiating contracts. This is not too surprising. The unions have but meagre resources. Provincial and city alliance offices are usually dismally housed and understaffed. Factory unions are located in someone's hat-band and work contracts exist in someone's mind. Nevertheless, the unions have a following. At the base there is considerable sentiment for trade unionism. In large part, this sentiment is currently being channeled into ineffective "company union" type organizations.

Description of Offices:

Apparently almost all of the union offices visited operate on a shoe string. Typically, the provincial (geographic) or city alliances are located in shabby one-room, scantily furnished, unheated quarters. All of the offices visited had telephones installed, but no other equipment was noted. Paid staffs are usually limited to one or two clerks, while all other officials receive no pay from the union. Presumably, full-time officials receive income from other sources. Several stated that they were on a company payroll. In the Pusan and Taegu City Alliances several local unions shared offices, although this was evident only through board signs hanging on the office fronts, since no local representatives were on the premises when visited. Records are generally maintained of membership, dues paid in and payments to the parent unions, as well as minutes of meetings, lists of officers, regulations and other miscellaneous matters. Monthly membership dues are usually 100 hwan, ($.20 U. S. at the official exchange rate or about $.08 U. S. at the export dollar transfer rate) although one union charged 200 hwan. Few of the unions issued membership cards to members although cards are issued to union officials. Claimed membership, probably somewhat exaggerated, is unexpectedly good: North Kyong Sang Province, 23,000; South Chung chong Province, 16,000; South Kyong Sang Province, 80,000.

The office of the Pusan Port Workers Union was the one notable exception to the generally deplorable appearance of the union offices. Occupying a new three story union-owned building on a main thoroughfare, the quarters are housed on the second floor. Only one floor is used for union offices, however, the first floor being rented out to a private business concern, while the third floor is used for a wedding hall, both providing the union with additional income. The paid staff totalled 18, suggesting that the union, with a dues paying membership of 22,000, is relatively well-financed.

The reporting Officer was told that new office buildings will be constructed next year in Taegu and Taejon, financed from municipal government funds. (This

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represents part of the quid pro quo for FKTU support of the Liberal Party in the forthcoming elections.) When completed these buildings will permit the unions to centralize their offices in respectable quarters.

Organization of Unions:

The provincial and city alliances and local unions are organized along similar lines. Headed by a chairman, other officers include several vice chairmen and a general secretary. The latter acts in an executive capacity. Provision is made for section chiefs, either elected or appointed by an executive board. Usually supported by a committee, there are a number of sections whose functions are identifiable by their titles: General Affairs, Organization, Publicity, Debating (Discussion), Sanitation (Safety and working condition), Education and Cultural Activitiees, Women, Auditing and Financial, and Research.

In the organization hierarchy, factory unions within the city are subordinate to the city alliance, while locals in the provinces (outside the main cities) are subordinate to the provincial alliances. City alliances come under the control of the provincial alliances. Besides belonging to the city or provincial alliance, the factory unions also belong to the National Industry (or trade) Alliance of their respective industries. Local unions pay per capita monthly dues ranging from 4 to 10 Hw to the city or provincial alliance as well as to the industrial alliance.

The local factory unions function autonomously, possessing authority to bargain with the employer, sign work contracts, or call strikes, besides negotiating ordinary disputes on the shop floor. Because of the peculiar political and economic circumstances in which the unions operate, the considerable autonomy exercized by the locals represents a weak link in the organizational structure. Korean Labor Law rules that the factory union leader must be an employee of the company, but, in practice it has developed that the leader is generally a technician or supervisor who organized the union with management's acquiescense. Further, it was noted that although the union leader frequently occupies himself solely with "union" affairs, he is, very often, carried on the company payroll as an employee. While this arrangement may have the advantage of freeing the factory union chief for full-time "union" work (and satisfy technical legal requirements), it tends to reduce his effectivenessas a labor representative and weakens the bargaining position of the union.

The election of union officers is generally conducted biennially, and usually by majority vote, although there are exceptions. In one factory, which appeared to have a "company union", the union chief said that officials are nominated by an executive board and approved by the majority vote of the membership.

Election of delegates to local conventions are conducted on a proportionate basis, generally one representative for every 100 or 200 members. The delegates to the FKTU national convention are elected on the basis of one delegate for each 500 members in the alliance represented.

Settlement of Disputes:

An elaborate system exists for the settlement of disputes providing a

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channel for handling them from the factory to the national level. Disputes which arise locally are initially handled on the factory level and are reviewed by the Debating Committees. If a satisfactory solution is not reached, the dispute can be referred to the city or provincial union where it is also discussed by the Debating Committee. If still not resolved, provincial Labor Committees, composed of nine members representing industry, labor, and public officials are resorted to. Finally the dispute can be brought to the Central Labor Committee.

In practice, disputes are infrequently carried beyond the provincial level. Lacking economic strength, the unions look upon Government agencies, such as the police or Provincial Government Social Affairs representatives, or the political party to pressure employers. Rarely, disputes are brought to the Civil Courts. Union experience is that the Courts decide labor cases unsympathetically because the judges are usually older men conservative in their outlook and untrained in labor law. Moreover, court cases are too costly and sometimes take years to settle.

Written Work Contracts and Collective Bargaining:

Written work contracts in factories are very uncommon. The work contracts are almost always oral agreements. Wages, hours of work, job requirements, fringe benefits, and other details are understood between the parties. The exceptions noted were in the electrical industry, which is relatively well-developed, and in certain newly-established modern plants. (Railroad workers, among the best organized, operate under ROK Government laws and regulations.) This entire field of written contracts has been almost completely neglected partly because oral contracts are traditional (a hangover from the Japanese occupation), partly through passive acquiescence on the part of the workers to management dictation, and partly because of the labor unions' misconception in the past of their role.

Violation of Labor Laws:

The National Labor Acts and presidential decrees regulating labor matters, of which there are many, are honored mainly in their breach. Common violations are: excessive working hours (over 48 per week), failure to meet the payroll, employment of minors (under 18), disregard of maternity leave (60 days before and after delivery), safety and health requirements, and activity to prevent union organization. Since there is no minimum wage standard, this item is not in dispute even though wages are generally shockingly low by international standards.

Despite an awareness on the part of provincial government officials that there is widespread disregard for the labor laws, the Social Affairs sections are unable to enforce the laws, principally because the shortage of personnel makes it physically impossible to conduct systematic investigations of all plants. In Taegu, Taejon, and Pusan, all important industrial centers, only two functionaries were assigned to the labor section of each provincial government office.

Trade Union Activity:

The labor unions have made little progress in assuming traditional trade union functions. (Other officers of the Embassy note that in recent months the

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unions have been considerably more active than in the past, but relate this change to the forthcoming political elections). Union activity has been mainly political: organize demonstrations when called upon and support the Liberal Party during elections. In the traditional trade union functions, the labor unions have mainly concerned themselves with job protection and seeking higher wages. Criticism levelled at the unions was that in the past they have acted to keep labor quiet, rather than actively pressing for improvements, and pursued a policy of minimum demands when pressure for wage hikes became too strong to be disregarded.

Confirming this criticism in part, it was noted that current business on hand was almost exclusively related to negotiations for wage increases. Very little was being done in the way of publicity, membership drives, education of the workers of their rights, and other traditional trade union functions. None of the unions visited publish a newspaper or other organ. The only national indigenous labor union publication available in these offices, in very limited quantities, was the FKTU bi-monthly newspaper. In Taegu, the executive secretary of the city union stated that the union receives just three copies of the FKTU bi-monthly, which are passed around the office. Aside from the newspaper, some unions receive copies of USIS publications, which are made available to visitors in the union office. At the port workers' union in Pusan there was a neatly kept file of USIS publications. (Several industrial alliances are known to have trade publications: Seoul Electric Company Workers, Railroad Workers Union and Communication Workers Union. In addition, the Korean Labor Research Institute (privately endowed) distributes labor materials.)

Occasional comments from union leaders implied that they are conscious of the vacuum in their activities, but either lack the technical knowledge or resources to do the job, or are restrained by political party influence to do so. This vacuum is very unfortunate since considerable sentiment does exist in the organization and among the workers for a genuine trade union movement. At the time the reporting Officer was visiting Taegu, tailors from fifty odd tailor shops were holding a meeting to form an association. (Incongruously, the meeting was being held in the Chamber of Commerce Building, since no other adequate meeting hall is available in the city.) Again, in a modern cement factory in Mungyang the workers recently formed a factory union because, the reporting Officer was told, "of the spontaneous desire on the part of the workers, especially a group of college-trained technicians", to have organized representation.

Factionalism:

FKTU influence over the unions appears firm. There was little evidence that the National Council of Trade Unions (NCTU), the recently-organized politically independent dissident labor group, has significant support from the grass roots. Only in Taegu, where a handful of barbers' and tailors' locals have joined the NCTU, did the labor unionists indicate that the NCTU has any support.

Relations with the Liberal Party:

Justifiably, the FKTU is criticized for being closely allied and manipulated by the Liberal Party. The link between party and union, however, appears to be

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By ____, NARA, Date 11/1/99

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mainly at the top union levels. At the provincial and lower levels, the relationship between the two is less obvious and direct. Among the union leaders questioned none indicated a direct connection with the party or holding of party office. To questions as to their relations with the political parties, the only answers forthcoming were that the union cooperated with the party in demonstrations and in political elections and that the unions looked to the party for financial support in the union building expansion program and support in an unsuccessful labor-management negotiation.

For the Ambassador:

Edwin M. Cronk

Edwin M. Cronk
Counselor of Embassy
for Economic Affairs

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By ____, NARA, Date 4/21/94

Central Files

In reply refer to
FE/Ex

July 28 1955

(1)

Dear Mr. Cumming:

I refer to your letter of March 12, 1955, requesting information concerning your wife and the interim reply from this office of March 28.

The Department has now received a reply from the American Embassy in Korea in which they report as follows:

"The Embassy has been unable to locate Mrs. Cumming (Lee Hun Young). However, in the course of the investigation it solicited the aid of the local branch of the American Red Cross, in view of the reference to that organization in Mr. Cumming's letter enclosed with the Department's Airgram 178. Subsequently, the representative of the American Red Cross detailed his Korean counterpart to investigate the whereabouts of Mrs. Cumming and to hold an interview with her. It was learned during this interview that she no longer desired to go to the United States inasmuch as she learned that she had tuberculosis and that this would preclude her from going to the United States. The Embassy regrets the lateness in its reply but the delay was unavoidable due to the difficulty in locating Mrs. Cumming."

I regret being unable to report more favorably to you on this matter. While I shall be happy to be of further assistance in the interest of expediting I would suggest that you correspond directly with the Embassy if you desire additional information. Your inquiry should be addressed to the American Embassy, APO 301, c/o Postmaster, San Francisco, California.

Sincerely yours,

Scott McLeod,
Executive Officer,
Bureau of Far Eastern Affairs

Mr. Jack L. Cumming,
20 Third Avenue,
Haines, Pennsylvania.

FE/Ex:JTTiedt:jgh - 7/27/55

NA-Cochran

S/S-CR
JUL 28 1955 P.M.

CC

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By [illegible], NARA, Date 11/29/99

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Control: 14902
Rec'd: SEPTEMBER 28, 1955
11:29 AM

Action Office Symbol
Name of Officer
Direction to DC/R

FROM: SEOUL

TO: **Secretary of State**

NO: 422, SEPTEMBER 28

SEPTEMBER 3 PRESS STATEMENT BY KOREAN CHARGE' HAN WHICH WAS PUBLISHED SEOUL SEPTEMBER 23 TRANSMITTED BELOW IN RESPONSE SEBALDS TELEGRAPHIC REQUEST TO SEOUL SEPTEMBER 28.

BEGIN VERBATIM TEXT:

"RECENT PRESS REPORTS FROM SEOUL REGARDING CHARGES MADE BY AMERICAN CHAMBER COMMERCE THERE, AND BY SEVERAL AMERICAN BUSINESSMEN HAVE CREATED SOME CONFUSION AND MUCH MISUNDERSTANDING. I THINK AMERICAN PEOPLE ARE ENTITLED TO KNOW SOME OF MORE IMPORTANT BACKGROUND FACTS ON CONTROVERSY.

"BEFORE GOING INTO DETAILS, HOWEVER, I WOULD LIKE TO POINT OUT THAT AS OF MOMENT, CONVERSATIONS LEADING TO JUST SOLUTION ARE NOW BEING HELD, AND I AM SURE PROGRESS BEING MADE STEADILY. NO USEFUL PURPOSE CAN BE SERVED BY OVERPLAYING POINTS OF DISAGREEMENT. CERTAINLY USE OF SUCH TERMINOLOGY AS 'HOSTAGES' CREATES DISTORTED PICTURE OF SITUATION AND HAMPERS ANY POSSIBILITY OF EQUITABLE ADJUSTMENT FOR ALL PARTIES.

"PUBLIC RECORD OF PRESIDENT RHEE'S PAST SEVEN YEARS ADMINISTRATION WILL REVEAL THAT HE AND REPUBLIC OF KOREA HAVE REPEATEDLY ENCOURAGED EXPANSION AMERICAN INVESTMENTS AND LEGITIMATE BUSINESS INTERESTS KOREA. AS MATTER FACT, DURING 1954, KOREAN PURCHASED NEARLY $17 MILLION WORTH COMMODITIES FROM UNITED STATES. ROK GOVERNMENT, FURTHERMORE, HAS REPEATEDLY MADE AVAILABLE KOREAN TRADERS SUBSTANTIAL AMOUNT GOVERNMENT-HELD DOLLARS FOR PURPOSE EXPANDING PRIVATE KOREAN-AMERICAN TRADING. UNDER THIS SPECIAL DOLLAR LOAN SYSTEM, BEGUN LATTER PART OF 1952, THREE MAJOR LOANS OF DOLLARS TO KOREAN TRADERS -- AMOUNTING $20,175,035.90, $3,752,594.34 AND $2,304,871.00 EACH CASE -- WERE MADE DURING 1954.

"THESE EVIDENCES

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By NARA, Date 11/27/01

"THESE EVIDENCES GOOD INTENT TOWARD EXPANDED KOREAN-AMERICAN PRIVATE, COMMERCIAL TRADING ARE SUPPLEMENTED BY PASSAGE ENCOURAGING LEGISLATION. FOR EXAMPLE, DECEMBER 20,1952, NEW "COMMERCE LAW" (LAW NO. 274) PROMULGATED, ITS GOAL BEING THAT OF IMPROVING AND DEVELOPING AND FORMALIZING CHAMBER OF COMMERCE AS NATIONAL INSTITUTION. ALSO, EARLY 1954, SERIES OF SWEEPING AMENDMENTS TO ROK CONSTITUTION (MODIFYING ARITCLES 85, 87, 88 AND 89) WAS ADVANCED BY ADMINISTRATION. THEY WERE DESIGNED TO MAKE ROK FREE ENTERPRISE COUNTRY AND ATTRACT FOREIGN CAPITAL INVESTORS.

"CURRENT DISPUTE, THEN, IS ONE OVER PARTICULARS OF TAXATION PROGRAM OF ROK, NOT ONE OF BASIC SUBSTANTIVE DIFFERENCES. ONLY NATURAL THAT THERE SHOULD BE SOME DISAGREEMENT OVER TAXATION PARTICULARS. BUSINESS CONCERNS IN EVERY COUNTRY OF WORLD ARE CHRONICALLY DISSATISFIED WITH THEIR TAX STATUS. WE URGE THAT POINTS DISAGREEMENT NOT BE MADE INTO SPRINGBOARD OF PUBLIC RECRIMINATION OR WEAPON OF UNFAIR PUBLICITY. WITH REASONABLENESS AND UNDERSTANDING, NASCENT ROK TAXATION PROGRAM CAN BE MADE WORK.

"ON ROK SIDE OF ISSUE, FACTS ARE AS FOLLOWS:

"A. IN U.S., AS IN KOREA, NO ALIEN RESIDENT IS PERMITTED TO LEAVE COUNTRY WITHOUT FIRST FULFILLING HIS TAX OBLIGATIONS. DOING BUSINESS IN FOREIGN COUNTRY IS PRIVILEGE, NOT RIGHT. BUSINESSMAN IN ANY FOREIGN SOVEREIGN STATE MUST ACCEDE TO RULES AND REGULATIONS OF HOST COUNTRY. TAXES MUST BE PAID IN FULL BEFORE DEPARTURE BECAUSE EX POST FACTO COLLECTION AFTER DEPARTURE WOULD REQUIRE EXTRADITION IN MOST CASES. EXTRADITION IS CUMBERSOME IN ALL CASES AND IMPOSSIBLE IN CASE OF ROK BECAUSE IT HAS NOT YET BEEN PROVIDED FOR BY TREATY.

"B. SINCE ESTABLISHMENT ROK IN 1948, FOREIGN TRADERS HAVE NEGLECTED TO PAY TAXES (WITH SINGLE EXCEPTION OF CUSTOMS AND IMPORT DUTIES.)

"C. SOME FOREIGN TRADERS HAVE REPEATEDLY ABUSED THEIR PRIVILEGES. ONE FIRM, HEADQUARTERED IN TOKYO, FOR EXAMPLE, WAS SUSPECTED OF HAVING USED APO CHANNELS TO FUNNEL LUXURY CLASS GOODS INTO BLACK MARKET IN

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By NARA, Date 1/12/11

MARKET IN KOREA. ALSO, NUMBER OF FIRMS HAVE USED EXTRA-PEGAL MEANS OF OBTAINING LOCAL CURRENCY FOR THEIR OPERATING AND LIVING EXPENSES. IN JULY THIS YEAR, MR. JOSEPH BERGER -- WHO FALSELY CLAIMED TO BE REPRESENTING 'WILLIAMS INTERNATIONAL, INC.' -- WAS ACCUSED BY ROK CUSTOMS OFFICE OF SMUGGLING $400,000 WORTH OF GOODS FROM JAPAN. BERGER BROUGHT IN 1,769 BOXES OF CIGARETTES, 6,000 TOOTHBRUSHES, AND 67 BAGS OF SUGAR IN EARLY JUNE. IT IS FOR PURPOSE OF ELIMINATING SUCH ABUSES THAT ROK REGULATIONS HAVE BEEN FORMULATED.

"D. FULL REGISTRATION AND TAX DECLARATIONS HAVE BEEN REPEATEDLY AVOIDED BY FOREIGN BUSINESS FIRMS. IN JUNE THIS YEAR, ROK FINANCE MINISTER ADMONISHED MEMBERS OF AMERICAN CHAMBER TO OBTAIN THEIR BUSINESS LICENSES AND TO COMPLY WITH TAX LAWS OF KOREA. THEN MINISTER OF FINANCE, LEE JOONG-JAI, SENT A NOTE TO AMERICAN CHAMBER WARNING THAT GOVERNMENT WOULD REFUSE EXIT VISAS TO FOREIGN BUSINESSMEN WHO FAILED TO MEET THEIR FULL TAX OBLIGATIONS. AN ENGLISH TRANSLATION OF ROK TAX CODE ACCOMPANIED NOTE. THIS WARNING WAS RECEIVED AND AMERICAN CHAMBER HELD MEETING ON JUNE 17TH, ACKNOWLEDGING RECEIPT.

"MINISTER LEE GRANTED AN EXTENDED DEADLINE OF JUNE 30TH TO THOSE WHO HAD EITHER FAILED TO OBTAIN BUSINESS LICENSES UNDER THE BUSINESS TAX LAW OR WHO HAD FAILED TO PAY TAXES. ANOTHER EXTENSION OF DEADLINE WAS GRANTED TO JULY 31ST. AND EVEN THEN, ONLY 27 OF 91 FOREIGN TRADEING FIRMS OPERATING KOREA COMPLETED REQUIRED REGISTRATION. SUCH A SITUATION WOULD BE UNTHINKABLE IN UNITED STATES; IT WAS COMMERCIAL ANARCHY IN KOREA. SUBSTANTIAL NUMBER OF FIRMS PURPORTING TO DO BUSINESS IN KOREA ARE UNKNOWN BY INTERNATIONAL REPUTATION TO US. SOME FOREIGN FIRMS HAVE BEEN REPORTED BEING ENGAGED IN BLACK MARKET OPERATIONS. IT IS TO PROTECT INNOCENT, LEGITIMATE TRADERS THAT ROK GOVERNMENT HAS DRAWN UP, AND SOUGHT TO INFORCE, BASIC REGULATIONS.

"IN CONCLUSION, ROK GOVERNMENT SOLICITS COOPERATION OF OUR FRIENDS IN ESTABLISHMENT OF ORDERLY, EQUITABLE COMMERCIAL AND TAXATION SYSTEM. WE SHALL ENDEAVOR TO DO OUR UTMOST. WE HOPE THAT OUR GOOD WILL SHALL BE MATCHED BY HONESTY AND COOPERATION ON PART OF FIRMS OPERATING KOREA." -END- VERBATIM TEXT.

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FOREIGN SERVICE DESPATCH

FROM: AMEMBASSY, SEOUL

221
DESP. NO.

Action Assigned to

TO: THE DEPARTMENT OF STATE, WASHINGTON.

March 23, 1955
DATE

Action Taken
MAR 25 1955

REF: Vol
Embassy's Despatch No. 113, January 20, 1954, and CERP for Korea, 895b.10 fe-
Item B-3-b.

For Dept. Use Only	ACTION	DEPT.
	FE* B	A/REP-2 RM/R-2 OLI-6 LR*- Date of Action Apr 19
	REC'D 3/28	INFO OTHER COM*-6 TR*-3 FRB*-2 FOA-10 [illegible] CIA DCR Graf FE

SUBJECT: ROK Budget and Balance of Payments. ARMY-4 NAVY-2 AIR-2

Direction to DC/R

There are attached six copies of two sets of tables summarizing the latest estimates now available on ROK Central Government Finances 1954-1956 and the ROK Balance of Payments 1949-1956. The tables have just been prepared by Henry J. Costanzo, U.S. Treasury Representative.

These tables are being used by OEC in planning proposals for the FY 56 economic aid program and in the management of the FY54 and FY55 funds already available.

For the Ambassador:

Horace H. Smith
Counselor of Embassy for Economic Affairs

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1955 MAR 28 PM 4 42
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Enclosures:
As stated above (not for publication)

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FROM : AMEMBASSY, SEOUL — 222 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : CERP for Korea, Item B-3-c

Action Assigned to MP SW
March 23, 1955
Action Taken
MAR 2
None required

For Dept. Use Only	ACTION	DEPT.
	FE-4	RMR-2 A/Rep-2 ali-6 E-5 IOP-4
	REC'D 3/29	INFO OTHER Com-6 TR-3 FRB-2 FOA-10 XMB-3 CAS-5 Army NA Navy-3 Attn: Officer FAE-2 SW

Date of Action 3/31/55
Action Office Symbol

SUBJECT: ROK Central Government Indebtedness

Direction to DC/R File

The following table showing ROK Central Government indebtedness as of December 31, 1953 and December 31, 1954, has been especially compiled by US Treasury Representative Henry J. Costanzo. It is of interest to note that the total debt rose from 31 billion hwan at the end of 1953 to 77 billion hwan in December 1954:

ROK Central Government Indebtedness
(millions of hwan)

		As of 31 December 1953	1954
A. Short Term Debt			
1. Budget Overdrafts at the Bank of Korea			
a. General Account, FY 1954/55		-	5,000
b. Special Accounts:			
i) FY 1950/51:	Grain Account	134	-
	Transportation Account	146	62
	Communications Account	28	22
ii) FY 1952/53:	Transportation Account	60	60
	National Theatre Account	2	2
iii) FY 1953/54:	War Account	14,400	20,200
	Monopoly Enterprises Account	600	-
	Grain Account	200	7,053
	Land Reform Account	530	-
	Transportation Account	512	644
	Economic Coordination Account (UN Funding)	7,200	2,542
	Counterpart Fund (ECA/SEC)	172	-
iv) FY 1954/55:	Monopoly Enterprises Account	-	400
	Grain Account	-	4,480
	Land Reform Account	-	800
	Economic Coordination Account (UN Funding)	-	2,381

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iv) FY 1954/55: (Cont'd)		1953	1954
Counterpart Fund Account:	FOA	-	819
	CRIK	-	9,552
	UNKRA	-	5,737
c. Total Budget Overdrafts at Bank of Korea		23,984	59,753
2. Payment to Post Office by Bank of Korea		30	169
3. Owed for North Korean Power Supplies		109	109
4. Total Short-Term Debt		24,123	60,031
B. Long-Term Debt			
1. National Bonds Outstanding			
a. Held by Ministry of Communications		1	1
b. Held by Bank of Korea		126	123
c. Held by Other Financial Institutions		628	1,129
d. Held by Private Persons		2,233	5,033
e. Total		2,988	6,285
2. Industrial Reconstruction Bonds Held by Bank of Korea		-	7,000
3. Foreign Liquidation Commission Loan ($20.95 million valued at the official rate of 180 hwan to the dollar)		3,771	3,771
4. Total Long-Term Debt		6,759	17,056
C. Total Debt		30,882	77,087
D. Other Obligations. Guarantees against Bank Loans to "Government Agencies"		4,705	4,575

For the Ambassador:

Horace H. Smith
Counselor of Embassy for Economic Affairs

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USIA

FROM: SEOUL

TO: Secretary of State

NO: 1424, JUNE 24, 6 P.M.

Control: 12389
Rec'd: JUNE 24, 1955
8:11 A.M.

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FE/CWD

Direction to DC/R File

PRIORITY

INFLATION IN ROK CONTINUES EXERT HEAVY PRESSURE ON LOCAL EMPLOYEES. FOOD, CLOTHING COSTS INCREASED ABOUT 60 PERCENT JULY 54 TO APRIL 55; PRICE RICE INCREASED ALMOST 100 PERCENT FROM LATE MARCH TO DATE; SALARIES PAID BY COMMERCIAL FIRMS SPIRALLING UPWARD. OUR TRAINED ENGLISH-SPEAKING KEY PERSONNEL IN DEMAND THESE FIRMS. PRESTIGE OF WORKING EMB SEEMS BASIC REASON MANY CONTINUE WORKING HERE. FOR LOCAL PERSONNEL SUBSISTENCE COSTS PRESENT SERIOUS PROBLEM; EMB PROBLEM IS RETAINING PERSONNEL AND KEEPING UP THEIR MORALE.

FOR OVER TWO MONTHS WAGE SURVEY HAS BEEN ON EMB WORK PROGRAM BUT HAS BEEN IMPOSSIBLE EVEN START IT ACCOUNT SHORTAGE WORKING FORCE. IN MEANTIME MEASURES TO RELIEVE LOCALS MORE AND MORE URGENTLY REQUIRED. EMB THEREFORE REQUESTS AUTHORITY EFFECT INTERIM 50 PERCENT ACROSS BOARD INCREASE JULY 1 ANTICIPATING FURTHER UPWARD ADJUSTMENT UPON COMPLETION FULL-SCALE SURVEY BEIGN UNDERTAKEN WAGE BOARD. EMB PARTICIPATING COLLECTION DATA THIS SURVEY. EMB PREDICTS SURVEY WILL FULLY JUSTIFY 50 PERCENT INCREASE BUT PROBABLY CANNOT BE COMPLETED AND IMPLEMENTED IN LESS THAN FOUR MONTHS WHICH IS FAR TOO LONG TIME FOR EMB LOCAL PERSONNEL TO WAIT.

OFFICIAL HWAN RATE WAS 310 WHEN PRESENT LOCAL SCHEDULE BECAME EFFECTIVE NOV 7. CURRENT RATE ACQUIRING HWAN 440.

EMB STILL CONSIDERING POSSIBILITY PAYING LOCAL EMPLOYEES IN DOLLARS BUT NO DEPENDABLE MEANS EXISTS AT PRESENT FOR CONVERSION DOLLARS INTO HWAN AND EMB FINDS IT DIFFICULT PLAN IN THIS RESPECT UNTIL IT KNOWS WHAT RESPONSIBILITY IT WILL HAVE FOR ICA PERSONNEL.

EMB CONSIDERS THIS ACTION URGENTLY NECESSARY AND WILL GREATLY APPRECIATE DEPT'S AUTHORIZATION BY TELEGRAPH TO EFFECT 50 PERCENT

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ACROSS BOARD INCREASE BY JULY 1. USIA CONCURS.

LACY

MEM

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JOINT STATE-FOA-USIA

Origin

Info:

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895B.10/6-2455

Your 1424

FOA/W requests O.E.C. comments proposed wage scale revision.

Defer implementation new schedule pending consideration O.E.C. reply.

Dulles
(SD)

DULLES

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895B.10/6-2455

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Drafted by: FE/Ex:JTTidd:jgh - 6/28/55

Telegraphic transmission and classification approved by: FE/Ex Paul Serey

Clearances:
FER - Miss Brittingham
FOA - Mr. Kaiser
USIA - Mr. Minning

S/S-CR
JUN 29 1955 A.M.

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1955 JUN 29 PM

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SENT TO: Amembassy SEOUL 842

Origin

Info:

Your 1413.

Robertson wrote Yang June 27 summarizing editorial reported reference telegram protesting particularly implication US seeking destroy value hwan and absurdity blaming US economic ideas for fact Korean economy not yet fully recovered devastation three years war. Letter cited official connection "Korean Republic" and adverse effect such material as contained editorial would have if became generally known here. Yang was therefore asked convey his Government Robertson's deep concern. Copy letter airpouched.

You authorized your discretion make suitable personal representations along same lines President Rhee or Pyun.

Dist. Desired (Offices Only)

DULLES
(AHGM)

DC/R
Anal 31
Rev
Cat

Drafted by: FE:NA:RJGMcClurkin:emb 6/29/55

Telegraphic transmission and classification approved by: R. J. G. McClurkin

Clearances:

Ext S/S-CR
FE:NA
JUN 29 1955 P.M.

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INCOMING TELEGRAM 31 *Department of State*

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Control: 15515
Rec'd: June 30, 1955
6:28 a.m.

FROM: Seoul

TO: **Secretary of State**

NO: 1463, June 30, 7 p.m.

Reference DEPTEL 836

General Walter advises OEC concurs EMBTEL 1424.

LACY

LJ/11

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Action Assigned to FE/EX

Action Taken

No action required

Date of Action

Action Office Symbol FE/EX

Name of Officer Field

Direction to DC/R file

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JUL 26 1955

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1955 JUN 30 AM 11 31
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Control: 79
Rec'd: JULY 1, 1955
3:40 A.M.

Action Assigned to DC/R Central Files

Action Taken Deptel 9

Date of Action 7/6/55

Action Office Symbol PER/AD

Name of Officer Butterfield

Direction to DC/R File

FROM: SEOUL

TO: Secretary of State

NO: 5, JULY 1, 4 P.M.

PRIORITY

REF EMBTELS 1424, 1463 DEPTEL 836.

IN ALL LOCAL WAGE SCALE DISCUSSIONS AT EMBASSY DURING PAST YEAR INSTITUTION OF 48 HOUR WORK WEEK FOR LOCAL EMPLOYEES HAS BEEN A KEY POINT. MAIN ARGUMENTS IN FAVOR HAVE BEEN THAT 48 HOUR WORK WEEK IS THE UNIVERSAL RULE IN COMMERCIAL CIRCLES IN SEOUL, IN US ARMY EMPLOYMENT AND IN UN AGENCIES, THE EMBASSY BEING ALMOST THE ONLY INSTITUTION IN THE CITY BASING ITS WAGES ON 40 HOUR WEEK, AND THAT ABOUT 75 PERCENT OF EMBASSY'S LOCAL EMPLOYEES ARE ACTUALLY WORKING 48 HOURS EVERY WEEK AND BEING PAID OVERTIME. MOST OF REMAINING LOCAL EMPLOYEES ARE WORKING SOME OVERTIME. FACT OF BEING ON 40 HOUR WORK WEEK IS MAJOR OBSTACLE TO EMBASSY IN MAKING COMPARISONS WITH OTHER LOCAL EMPLOYERS IN SETTING UP WAGE SCALES.

AFTER LONG AND FULL DISCUSSION EMBASSY HAS FINALLY DECIDED RECOMMEND TO DEPT INSTITUTION 48 HOUR WORK WEEK FOR LOCAL EMPLOYEES IN KOREA AND ELIMINATION ALL OVERTIME PAY. FEASIBLE TO MAKE CHANGE LIKE THIS ONLY WHEN SUBSTANTIAL UNCREASE IS GIVEN AND THIS APPEARS TO BE A MOST OPPORTUNE TIME. IF DEPT APPROVES PROPOSAL MADE EMBTEL 1424 CURRENT WAGE SCALE WOULD BE INCREASED BY 50 PERCENT BUT EMPLOYEES WOULD BE REQUIRED TO GIVE 48 HOURS SERVICE IN PLACE OF 40 EACH WEEK. SUPERVISION OF 48 HOUR WORK WEEK WOULD NOT BE SERIOUS PROBLEM.

INSTITUTION THIS CHANGE IN WORK WEEK WOULD INCIDENTALLY ELIMINATE CONSIDERABLE AMOUNT OF BOOKKEEPING IN CURRENT OVRTIME PAYMENTS.

USIS AND FOA/OEC CONCUR.

LACY

WW

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FROM Date July 13 1955

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Control: 5657
Rec'd: July 13, 1955
5:18 a.m.

FROM: Seoul

TO: Secretary of State

NO: 55, July 13

Today's Korean REPUBLIC editorial (TWX 130400Z) asks "a question from our people". Question Korean people beginning ask is "why US trying destroy Korean economy". Paik Tu-Chin's proposed fixed rate 271 labeled "unrealistically low" by American negotiators. "It now turns out those who speak for US do not want any fixed rate". They are only willing set "very high" rate but insist it be subject review (escalator provision) and change. This would assure repetition soaring inflation which destroyed hwan.

Familiar arguments on exchange rate repeated, including former proposal make Hwan available to US-UN on "mutually acceptable terms". "Our friends can write their own ticket, "in return" we ask only that fixed rate be set at figure that will not create inflationary havoc, and then enforced for all purposes". "All American panaceas applied to date failed". Editorial concludes ROK Government has power establish, enforce fixed rate unilaterally but better act in concert.

LACY

SEG/11

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1955 JUL 13 AM 10 23
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31

FROM: Seoul

TO: Secretary of State

NO: 78 July 17, 6 p.m.

Bureau of FAR EASTERN AFFAIRS JUL 18 1955 ASSISTANT SECRETARY Department of State

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DIVISION OF NORTHEAST ASIAN AFFAIRS JUL 18 1955 DEPARTMENT OF STATE

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FOR ROBERTSON FOR DISTRIBUTION.

I am grateful, as I have written, for your stalwart efforts Yang consequent EMBTEL 1413. Regret report ROK official attitude reflected Korean Republic (EMBTEL 55), far from improved, seems more unreasonable and strident. Language editorial (EMBTEL 55) unmistakeable that of Rhee. Grateful for your trying again with Yang.

ROK violent attack July 16 on US policy Korea-Japan relations (TWX 160330Z) with particular reference Allison's visit here will be subject to separate message soonest.

LACY

VPW/5

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Action Taken noted
Date of Action July 19, 1955
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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL

45
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

July 27, 1955
DATE

REF : CERP March 20, 1953: Section D, Item 7

AUG - 1 1955

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SUBJECT: Bank of Korea Report on ROK Financial Policies

On the fifth anniversay of the Bank of Korea, the Governor of the Bank, Kim Yu-taek, made a significant report on current Korean financial policies (Translation enclosed) in which he described ROK financial policies that were applied during fiscal 1954 and outlined ROK financial plans for fiscal 1955.

The Governor foresees that scarcity of capital will continue during fiscal 1955 unless deficit financing is further increased. He hopefully believes that an increase in savings will be an important factor in holding down rising commodity prices but recognizes that only unusual success in accomplishing the savings program can ease prevailing scarcity of capital.

The Governor also takes the position that although it may seem desirable to sacrifice stability (in commodity prices) for the sake of accelerating reconstruction, it is not wise to place sole importance on rehabilitation to such an extent as to indulge in reckless finance resulting in further increased volume of currency and higher levels of commodity prices. Rehabilitation, financial and credit policies, he concludes, must be based on stability and real recovery in the national economy.

For the Ambassador:
Action Assigned to FE-3 HS
Action Taken
Willard O. Brown
Willard O. Brown
First Secretary of Embassy
Date of Action Aug 15
Action Office Symbol N/A
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Enclosure: Report by the Governor of Bank of Korea.

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Page 1 of
Encl. No. 1
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From AMEMBASSY, SEOUL

REPORT ON THE ACTUAL SITUATION OF FINANCIAL POLICIES DURING THE YEAR 1954 AND PROSPECTS OF FINANCIAL POLICIES FOR THE YEAR 1955.

By: - Governor Kim Yu-taek
Bank of Korea

Foreword:-

Fiscal year 1954 is the second year since the Armistice. Both the Government and people have co-operated in energy and spirit in a regular way to stabilize the economy and to rehabilitate industries with our entire strength. It was the year of hopes and desires. Our Country, with a much larger aid fund guarantee over and above that of the preceeding year, used it effectively as the motive power in stabilization and rehabilitation. All other policies were harmonized in such a manner as to wash away ill effects of the war and to recover completely from war damages in the shortest possible time.

In the field of finance, in harmony with the said policies, we have strained our efforts in compliance with the hopes and desires of our citizens.

In accordance with coordinated plans of national finance both in supply and demand, during a fifteen-month period, from April 1, 1954 to June 30, 1955 inclusive, the increase of currency issue was limited to 250 million hwan. Also, military and economic aid were separately accounted and thus, minimized the deficiencies in finance. On the other hand, in order to enhance economic rehabilitation, efforts were made in carrying out the considered plans of investment and finance. Simultaneously, in the field of finance, savings deposits were encouraged and, within permissible limits, credits were extended on a priority basis.

However, if we look back on the economic condition during the past twelve months, from April 1954 to March 1955, the wholesale price index advanced 87% and currency volume increased 69% respectively. This is the picture of the actual trend of inflation.

Regardless of all the efforts spent on the application of various policies; the progress of inflation was great, as it was mentioned previously. In the field of credit, strict controls were applied in supplying capital; whereas on the financial side, there was a great delay in the coming of aid goods which reduced the volume of supplies. It is believed that this situation has caused a sort of double action on inflation as well as on increasing the financial red-figures.

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According to the Government's plans, during the fifteen months of fiscal year 1954, the aid in the form of consumer goods received amounted to 120 million dollars. Proceeds from sales of the aid goods brought in 40 billion hwan and Government dollar sales fetched another 7.5 billion. Thus, 47.5 billion of currency was absorbed from circulation. Our Government was able to offset a budgetary deficit of nine billion hwan for this period.

Proceeds to our Government from dollar sales, about the same as that planned, amounted to more than 7.1 billion hwan. However, returns from sales of the aid goods accumulated only 18.5 billion hwan. Finally, as it has already been said before, increases in price levels and currency volume were shown.

I. Important Financial Policies as Applied during Fiscal Year 1954.

Among various fiscal controls delegated to the Monetary Board by virtue of the Bank of Korea Law; if we examine those important policies as applied during fiscal year 1954, exactly the same policies of the preceeding year were followed, i.e.:- "Payment Reserve" policy. As regards the policy on interest rates, in order to encourage savings, interest on fixed deposits was doubled. Centering on financial institutions, ceilings were set according to the types of loans with the expectation of improvements as to the quality and quantity of loans. Concerning loans on the basis of ceiling per quarterly periods, the capital which was earmarked for private industries were diverted to public industrial channels.
Other control measures carried out were:-

(a) Priority on funds for FOA aid goods.

(b) Priority on funds for consumer goods production.

(c) Priority on funds for collection of export items.

(d) Government guaranteed special loans as provided for by the Government Budget.

(e) Extension of time limit on installation loans to banking institutions.

(f) Instituted Commercial Note Discounting system.

Further explanatory details were as follows:-

1. Raising of interest rates on fixed deposits.

One of the most important factors of economic stabilization and reconstruction being increases in savings, on May 6, 1954, interest rates

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of financial institutions were boosted on fixed deposits more than doubling the then prevailing rates in the following manner:-

	New Rates:-	Old Rates:-
Maturing in 3 months	8%	4.1%
" " 6 "	10%	4.4%
" " 12 " & over	12%	4.8%

2. Loan Ceiling System on Quarterly Basis.

The loan ceiling of 1954 was a coordinated system of Government financing and loans on a quarterly basis. Within the framework of annual plans for supply and demand on capital of the nation, the Monetary Board fixed loan ceilings of various financial institutions for each quarter. Thus, controlling currency volume and at the same time loan allocations were differentiated according to the nature of projects; public and private. The public loan projects were again made to conform in detail with those plans of the Government in order to control both quantity and quality of loans.

3. Public Projects in Relation to the Loan Ceiling Plan on Quarterly Basis.

The loan ceiling plan, as applied to those projects which have direct bearing on Government plans, are given priority in allocation of funds so as to supply capital at the suitable time and in the right amounts. During fiscal year 1954, those projects which operated under Government guaranteed loans or else under direct operation of the Government were salterns, electric power and agricultural enterprises and a dozen other industries were added to the former list in application of the loan ceiling system.

The added industries are as follows:- Straw goods, tobacco, plant nursery, mulberry seedlings, silkworm eggs, cotton, marine products, irrigation, military supplies, textbook printing and autonomous local institutions.

4. Loan Priority for Acceptance of FOA Aid Goods.

In order to stabilize the economy and to accelerate rehabilitation, whenever FOA aid goods arrive, they must be distributed to the productive industries or to consumers without delay. As the interested businessmen were not able to finance the distribution of aid goods efficiently with their own funds alone, in order to remedy this situation, an extra loan limit of 650 million hwan at a low interest rate was set up on June 3, 1954 outside the framework of the loan ceiling system on quarterly basis.
This extra loan limit was changed twice since its inception and the last one was set as two billion hwan.

/5. Loans

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5. Loans for Production of Consumer Goods.

On account of slowing down in the movement of aid goods, caused by the disagreements concerning dollar-exchange rates between the ROK and the U.S. during the latter part of the present fiscal year, there was an unusual rise in commodity prices. The rising prices served no small threat on daily living conditions of the people. Therefore, in accordance with our Government's intention of increasing domestic production of consumer goods and with the aim of stabilizing prices and thereby enhancing economic self-sufficiency, on October 1, 1954 fixed amounts were sliced from the civilian industrial loan funds and were duly allocated to the following consumer items on a priority basis:-

Rayon textiles, shirts, socks, shoes, paper, briquettes, soap, matches and table wares.

6. Loan Priority for Collection of Export Items.

As the export financing was done within the scope of loan allocation for civilian enterprises, it was never ample. As a consequence neither the exports nor international balance were in a flourishing state. In consideration of the above facts, on February 3, 1955 and outside the framework of the quarterly loan ceiling basis, a new plan was formulated to finance exports to the extent of 200 million hwan as an initial measure. This export loan limit has been pushed up, since then, to a new level of 875 million hwan.

7. Special Loans Guaranteed by Accounts Receivable and as Provided for in 1954 Budget.

In reference to the financial principle of coordination of even supply and demand on capital and in order to ease the budgetary payments until the passage of the third supplementary budget, the accounts receivable which have been duly provided for in the 1954 budget proper have been used as collateral for special loans outside the ordinary loan ceilings. The total amount for this special fund is set on the mark of three billion hwan.

8. Extension of Time Limit on Installation Loans to Banking Institutions.

In consideration of ever advancing inflation, the time limit on loans for installation purposes by the ordinary banking institutions was fixed for a period of one year. As stabilization set in, rapid rehabilitation became more urgent. Therefore, on April 1st of this year, the time element on such loans was extended to three years — which is the longest possible deadline provided by the Banking Law of the ROK.

9. Instituted Commercial Note Discounting System.

/Inasmuch

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Inasmuch as capital must be tied up with the flow of commodity supply from the producer to the buyer, economy may be effected in an unified system of finance and increased velocity money would increase cumulative total of capital supply. Also, smooth flow of goods may be accomplished therefrom.

Thus, on April 1, 1955, a chunk of 300 million hwan was sliced from the loan fund earmarked for civilian enterprises and it was diverted to the use in discounting, at low interest rates, commercial notes issued by the producers or manufacturers of textiles, lumber, flour, sugar, medical supplies, coal and marine products.

II. Actual Results of 1954 Financial Plans on Supply and Demand of Capital.

A. Capital Supply Plan for the Fiscal Year 1954. (Applicable during 15 months)

The details of capital supply plan for fiscal year 1954, including that of the Reconstruction Bank and of the private banks are as shown below; loans climbed to the 24.675 billion level and four billion hwan was absorbed in savings deposits. Thus, leaving a balance of 20.675 billion hwan for increased credit financing.

1. Increases in Loans

Banking credit increases	₩ 15,000. million
BOK loan increase to the Reconstruction Bank (with collateral)	5,000. "
Loan increase on FOA aid goods	1,000. "
" " " Export Finance	675. "
Loans on Account Receivable & as provided for in Government budget	3,000. "
TOTAL	24,675. million

2. Absorption in Savings Deposits ₩ 4,000. million.

3. Balance for Increased Credit Financing 20,675. million.

B. Actual Results of 1954 Financial Plans on Supply and Demand of Capital.

The actual results of financial plans as obtained up to March 31st plus the figures to be applied until July 1st of this year are together estimated to be as shown below:- The loans added up to 27,517. million hwan and savings deposits amounted to 6,603. million hwan. Thus leaving an increase of financial credits to the extent of 20,915. million hwan.

/1. Loans:-

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1. Loans:-

Actual results as of March 31, 1955.	₩ 17,246. million
Estimated result (4/1/55 - 6/30/55)	10,272. million
TOTAL	₩ 27,518. million

2. Savings Deposits:-

Actual results as of March 31, 1955.	₩ 4,003. million
Estimated results (4/1/55 - 6/30/55)	2,600. million
TOTAL	₩ 6,603. million

3. Increased Credit Balance: - ₩ 20,915 million

The plan and actual result may be compared in the following manner:-

(a) Firstly, planned savings deposit were 4,000. million hwan, whereas the estimated, actual result was 6,603. million hwan; leaving a favorable balance of 2,603 million hwan. This increase in savings was due to the incentive stimulated by raising savings interest rates by a wide margin during the current fiscal year.

Estimated Savings	₩ 6,603. million
Planned Goal	4,000. million
Balance in Excess	₩ 2,603. million

(b) Secondly, as regards the loan-increase plan, the target was set at 24,675. million hwan. However, the estimated, actual result appears to be 27,518. million hwan. So, a difference of 2,843. million hwan may be obtained at a glance. However, as it has been stated elsewhere; loan increases based on savings increases, the issuance of reconstruction bonds in excess of the planned amount and industrial debenture bonds made loan increase unavoidable. In consideration of the foregoing factors, it may be said that the loan operations were almost in accord with the original plans.

Comparison of Planned Increases with the Actual Results:-
(Unit = million hwan)

Estimated Result	₩ 27,518.
Planned Goal	24,675.
Loan Excess	₩ 2,843.

Savings in Excess of Plan	₩ 2,603.
Bond Issues (Other than planned)	1,724.
Net Difference	1,484.

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If we examine the details of reconstruction bonds and industrial debenture bond issues, the planned amount for the Reconstruction Bank, as guaranteed by the Bank of Korea, was 500 million hwan. However, the amounts actually underwritten by the BOK according to the plans of the National Assembly and the ROK Government, were 2,000 million hwan for the 2nd series; 2,724 million hwan for the Government guaranteed 3rd series, making a total of 6,724 million hwan. This means an excess of 1,724 million hwan above the target and the 4th series of reconstruction bonds of 6,000 million hwan which is already on the agenda of the National Assembly, if and when passed by the Assembly, the increases, outside of those planned, will reach a new total of 7,724 million hwan by the end of the current fiscal year.

C. Deposits During FY-1954 According to Industries and Financial Institutions.

If we were to examine deposits in the financial institutions during the 12-month period(4/1/54 - 3/31/55);

1. Combined loan increases of the Reconstruction Bank and various other financial institutions amounted, 17,246 million hwan. Loan increases to the by five industries, i.e., manufacture, agriculture and forestry, mining, marine products and electricity and gas, were 55.9%, 28.6%, 6.6%, 1.9%, and 5.5% respectively. Making a total percentage increase of 98.5%. These increases elucidate the fact that great efforts were made in quality-finance control towards important, basis industries on a priority basis.

Exhibit Showing Loan Increases to Various Industries by Financial Institutions:- (Unit: - million hwan)

	March 31, 1954	March 31, 1955	+ or -	%
Manufactures	6,145.	15,786.	+ 9,641.	55.9
Agriculture and Forestry	4,215.	9,152.	+ 4,937.	28.6
Mining	847.	1,986.	+ 1,139.	6.6
Marine Products	1,184.	1,515.	+ 331.	1.9
Electricity and Gas	504.	1,460.	+ 956.	5.5
Building Trade	419.	660.	+ 241.	1.3
Transportation	299.	565.	+ 266.	1.5
Commerce	2,213.	3,319.	+ 1,106.	6.4
Trade and Finance	878.	870.	△- 8.	—
Gov't. Agencies	1,227.	- - -	△1,227.	(-)7.1
Others	2,172.	2,036	- 136.	(-)0.7
Total	20,103.	37,349.	17,246.	99.9

Note: - Total loan figures from the BOK the Reconstruction Bank and all other financial institutions.

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Exhibit showing Reconstruction Bank loans according to industries. From April 1, 1954 to March 31, 1955. (Unit: - million hwan)

	March 31, 1954	March 31, 1955.	+ or -	%
Manufactures	1,536.	3,760.	+ 2,224.	39.6
Agriculture and Forestry	2,428.	4,241.	+ 1,813.	32.2
Mining	580.	1,458.	+ 878.	15.6
Marine Products	84.	35.	- 94.	0.9
Electricity & Gas	0.	947.	+ 947.	16.8
Building Trade	0.	0.	----	----
Transportation	102.	152.	+ 50.	0.9
Commerce	0.	0.	--	--
Others	302.	60.	△- 241.	△5.3.
Total	5,031.	10,653.	5,622.	100.

Exhibit showing loan increases among financial institutions. From April 1, 1954 to March 31, 1955. (Unit: - million hwan)

	March 31, 1954	March 31, 1955	+ or -	%
Manufactures	4,609.	12,026.	+ 7,417.	57.7
Agriculture and Forestry	1,787.	4,911.	+ 124.	24.3
Mining	267.	528.	+ 261.	2.0
Marine Products	1,100.	1,480.	+ 380.	3.0
Electricity & Gas	504.	513.	+ 9.	----
Building Trade	419.	660.	+ 241.	1.9
Transportation	197.	413.	+ 216.	1.7
Commerce	2,213.	3,319.	+ 1,106.	8.6
Others	1,871.	1,976.	+ 105.	0.7
Total	12,967.	25,826.	12,859.	100.

Exhibit showing Loan Increases According to Financial Institutions. (Unit: - million hwan) From April 1, 1954 to March 31, 1955.

	March 31, 1954	March 31, 1955	+ or -
Bank of Korea	2,105.	870.	- 1,235.
Reconstruction Bank	5,031.	10,653.	+ 5,622.
Other Financial Institutions	12,967	25,826.	+12,859.
Total	20,103.	37,349.	+17,246.

2. If we were to examine the actual results of deposit increases during the 12-month period, it would be found that out of a total deposit increase of 12,232 million hwan; fixed deposits and call deposits advanced 24.7%, current deposits added 37.5% and petty savings accounted for another 31%.

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31%. As it was stated previously, the nearly equilateral increases on various types of deposits help to explain the fact that the results were caused by the new interest rates of wide margin.

Types of Deposit Increases (Unit: - million hwan)
From March 31, 1954 to March 31, 1955.

	31 March 1954	March 31, 1955	/ or -	%
Current (checking)	6,131.	12,219.	/ 6,088.	37.5
Petty Savings	5,223.	10,266.	/ 5,043.	31.0
Call Deposits	421.	722.	/ 301.	1.9
Fixed Deposits	770.	4,472.	/ 3,702.	22.8
Other Deposits	4,626.	5,724.	/ 1,098.	6.8
Total	17,170.	33,403.	16,232	100

Deposit Increases according to the Types of Financial Institutions.
(Unit: - million hwan) From April 1, 1954 to March 31, 1955.

	March 31, 1954	March 31, 1955	/ or -
Bank of Korea	743.	612.	△ - 131.
Reconstruction Bank	316.	1,444.	/ 1,128.
Other Financial Institutions	16,111.	31,347.	/ 15,236.
Total	17,170.	33,403.	16,233.

D. Financial Plans for the Remaining Part of FY-1954.
(April 1, 1955 - June 30, 1955) (Unit: - million hwan)

A. Within Financial Plans.

Financial Plans, as agreed upon by the ROK Government, in Application during the remaining part of the current FY, are as follows:-

1. Loan Increase Ceiling.

(a) Financial Institutions in General

Public in Nature	3,973.
Private in Nature	1,000.
Total	4,972.

(b) Reconstruction Bank

Irrigation Fund	1,224.
Others	400.
Total	1,624.

Grand Total 6,597.

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2. Saving Increases

Saving in Goods	1,200.
All Other Services	1,400.
Total	2,600.

3. Increased Credit Balance Within Financial Plans (1 - 2)

3,997 million hwan

B. Outside of Financial Plans (Unit: million hwan)

	April 1, 1955 - June 30, 1955	Top Ceiling
Fund for:		
Collection of Goods	675.	875.
Gov't Guaranteed Loan	3,000.	3,000.
Receiving FOA Goods	- - -	2,000.
Total	3,675.	5,875.

C. Total Credit Increase (A / B) 7,672.

III. Financial Prospects of FY-1955 and Pertaining Policies.

A. Financial Plans for FY-1955.

Financial plans pertaining to the Government's estination of supply and demand capital during FY-1955.

(1)	Loan Increases	21,000 million hwan
(2)	Deposit Increases	-6,000 million hwan
(3)	Increased Credit Balance	15,000 million hwan

If the FY-1955 budget were translated in terms of the FY-1954 plan for 15 months and compared with the results thereof, it would appear as follows:-

1. Re:- Deposit Increases from Savings.

1955 plan	6,000 million hwan
1954 results (12 mo. portion)	5,282 million hwan
1954 plan (12 mo. portion)	3,200 million hwan

Planned amount for 1955 almost doubles that of 1954 and shows an increase of 13.5% (over the results of the 1954 plan).

2. Re:- Loan Increases.

1955 plan - - - - - - - 21,000 million hwan /22,014 million

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1955 plan (Cont'd) 22,014 million hwan
19,740 million hwan

If may be observed at a glance from the foregoing figures that in comparison with the 1954 plan it is about 1,000 million hwan more and in comparison with the actual result, it is approximately 1,000 million hwan less respectively. Thus, the figures even up. However, just like the new budget which has already been sent to the National Assembly, the total will reach 39.7 billion hwan. If the deficits were not filled in with aid increases nor plugged with some other means, the financial red-figures plus increased currency issue of about 55 billion hwan are bound to boost commodity prices to high levels and the realistic credit allowance of the new fiscal year is bound to decrease from that of the present fiscal year.

B. Financial Prospects for FY-1955.

Regarding the financial prospects of the next fiscal year, it is anticipated that a good portion of the third supplementary budget will be disbursed actually during the first part of the new fiscal year. Unless deficit financing is increased, scarcity of capital will continue during the coming fiscal year.

Judging from savings results accomplished during this year, it is needless to say that a positive plan may be applied to obtain a goal to exceed that plan. Unless an unusual success in the savings program can be made, scarcity of capital may not be expected to case off. It is believed that such savings increase will be an important factor in holding down rising commodity prices.

C. Controlling Policy.

In formulating an applicable, basic, financial policy under such prospects, must be the need rapid, economic rehabilitation without causing too drastic a rise in commodity prices kept in mind. Although it may seem desirable to sacrifice stability for the sake of accelerating reconstruction. However, it may not be wise to place sole importance on rehabilitation to such an extent as to indulge in reckless finance to the point where currency volume together with increased commodity prices will cause a complex chain reaction. Consequently, the essence of rehabilitation should be based on stability, so that rapid and true recovery of the national economy may be effected. This is not only so in the application of financial policy. Stability must also be the essence in supply of credits and in that by lessening the pressure of financial red-figures. Reflecting on the same point, the expectant policies of finance and credit may be listed as follows:-

A. 1. Obtain much larger foreign aid.

2. Utilization of Government-owned dollars.

/3. Expansion

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2. Expansion of proceeds on sales of aid goods.

3. Expediting sales on vested properties.

4. Offsetting deficits with the foregoing results.

B. Regarding Credit Policy.

1. By increasing the interest rate to a certain level, increases in savings may be expected. Also it is thought that this action will increase supply of dapital and simultaneously discourage expenditures in speculation and unnecessary consumption. Inasmuch as the interest rates are now controlled by existing law, it is hoped that the National Assembly would give some appropriate thought to this matter.

2. As the effectiveness of capital may be advanced with speedy turnover, it follows that by increasing the flow of money the scarcity of credit may be relaxed in a realistic way. Needless to say that with a sufficiency of funds the intention is to utilize the commercial note system to the greatest possible limit.

3. The counter part fund for FOA goods, money for export item collection and operational funds for consumer goods production should be studied also.

4. In order to maintain mutually firm relationships between finance and credit, it is desirable to continue Government guaranteed loans within the loan ceilings.

5. In conjunction with the sales of stocks of the vested banks, the mutually-held shares between banking firms should also be disposed of to the people as rapidly as possible. Then, by increasing capitalization the source of capital will naturally be enlarged. Now, by fostering the stock market, the long-term capital potential would be strengthened.

6. Finally, it should be planned to adhere firmly to the credit control measures. But, at the same time, we should not follow the present, uniform ceiling system —— control in quantity. Finance and credit should depend upon the basis of urgency. Thus, improving the control methods to a flexible, adjustable and automatic system.

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JUL 27 1954
SEOUL

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NND 867400
By ____ NARA, Date 1/12/01

RM/R

TRANSFER-[redacted]

SHEET

8/15/55
(Date)

TO: RM/R Files (Changes on despatches and incoming tels - send thru Interim Control)

Please send the following papers to the Catalogue Section for necessary corrections.

FROM Seoul

TO

☐ TEL.
☐ INST.
☒ DESP.
☐ AGM.
☐ LTR
☐ NOTE

FROM Date July 27, 1955

46

TO Date

(a) File No. from 895b.10/7-2755

to 895b.131/7-2755

(b) Additional information

(OLD FILE NUMBER) 895b.10/7-2755

☑ All cards (other than "name" cards) in the Card Indices have been changed or corrected as indicated above.

☐ All "name" cards have been changed or corrected, etc.

☐ All papers have been changed or corrected, etc.

☐ SCS ACTION papers.

71
(No. of RM/R Analyst)

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By [illegible] NARA, Date 11/6/24

DEPARTMENT OF STATE

ASSISTANT SECRETARY

September 12, 1955

TO: Mr. Robertson

FROM: Howard P. Jones

The attached is for information only but I thought you should be alerted to a developing problem that may further complicate our relations with Korea.

FE:HPJones:lg

Bureau of FAR EASTERN AFFAIRS
SEP 12 1955
ASSISTANT SECRETARY
Department of State

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E.O. 12356, Sec. 3.3
NND 867400
By ____, NARA, Date 4/6/21

0649

STANDARD FORM NO. 64

OFFICIAL USE ONLY

Office Memorandum • UNITED STATES GOVERNMENT

Bureau of FAR EASTERN AFFAIRS SEP 12 1955 ASSISTANT SECRETARY Department of State

TO : FE - Mr. Robertson
FE - Mr. Jones - Mr. Sebald

FROM : NA - Mr. McClurkin

DATE: SEP 9 1955

SUBJECT: Impending Problem with Korea Regarding ROK Dollar Income.

Mr. Wood has informed us that another problem regarding our economic relations with Korea is visible on the horizon. As part of its plan to support the new 500/1 exchange rate the ROK has announced plans to sell $60 million during FY 56 through the Bank of Korea at a 500/1 rate. This action is all to the good. In fact, Mr. Wood has been attempting to persuade the ROK for two years to spend part of its foreign exchange reserves to augment the aid program. However, the ROK does not intend to draw down its reserves for this purpose but to rely upon the dollar income from the U.S. Army purchases of hwan, offshore procurement, and the settlement by the U.S. Army of past utility bills.

The ROK has been informed that the dollar income from these sources will be far less than $60 million. The army has sufficient hwan on hand to cover its requirements for several months and offshore procurement plans are uncertain at this point and will certainly be far less than the $50 million the ROK is anticipating from this source. Mr. Wood said he expressed doubt that any substantial payments for past utility bills should be anticipated.

U.S. position is that US counter-claims equal or exceed the Korean claims. RJG

The ROK has also requested that ICA dollars be sold through the Bank of Korea in exactly the same way, i.e., for broad multiple use purposes. Mr. Wood explained that ICA dollars cannot be sold for unspecified purposes but that ICA would examine the question of preparing multiple purpose Procurement Authorizations.

The danger inherent in this situation is that the ROK will lay the blame upon the United States for the inevitable price increases and consequent depreciation of the hwan for not making dollars available to support their dollar-sale program despite U.S. "commitments" to support the exchange rate. Mr. Wood intends to make the best estimates possible of the dollar income from these sources and present them in writing to the ROK. This is the logical move to make at this point. If the ROK wishes to seize upon this circumstance as an excuse for the future depreciation of the hwan there is little that can be done to dissuade them from this move. However, it behooves us to minimize the problem by reminding Defense of its commitment to the ROK during the recent economic discussions to do what it can in the way of offshore procurement this year, and to support the liberalization of the Procurement Authorization procedure.

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9/9/55

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By lgm, NARA, Date 4/17/99

AIR POUCH
PRIORITY

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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL

228
DESP. NO.

Action Taken

TO : THE DEPARTMENT OF STATE, WASHINGTON.

January 16, 1956
DATE

REF :

Date of Action JAN 17 1956

15 For Dept. Use Only	ACTION	DEPT.	Action Office Symbol
	FE-4	INFO RM/R-2 A/REP-2 OLI-6 E-5	ICA-10
	REC'D 1/23	OTHER CIA-5 COM-8 TR-3 FRB-2	Name of Officer XMB-3 TAR-2

Direction to DC/R

SUBJECT: Operational Loans for Industry

(UNCLASSIFIED) The scope of Korean commercial bank loans was enlargened by action of the ROK Monetary Board, effective January 1 this year, to include the financing of a portion of the operating expenses of certain industrial enterprises. Previously, loans granted to industry through the commercial banking system (ROK Reconstruction Bank loans not included) were limited to the financing of capital investments, exports and aid-goods imports. The new regulation purportedly adds to these uses the financing of the purchases of raw materials that otherwise have not been the basis of a loan under aid-goods financing regulations of the Bank of Korea. It also provides that an enterpriser who has already paid part or all of the costs of imported raw materials may obtain a loan under the terms of this regulation. The use to which these funds are expected to be put in the latter case is not made clear.

Loans are to be made for a maximum of three months. Their amounts depend on whether the raw materials used as collateral were, or are to be, of foreign or domestic origin. Up to 350 hwan may be obtained per each dollar value of imported raw materials and up to 70% of the value of two months' supply of domestically produced raw materials used by an enterprise. If the firm's stock of raw materials on hand is insufficient, alternative collateral may be put up. Interest rates will be the same as for general loans -- 4.8 chon[a] per 100 hwan per day[b] (approximately 17.5% per annum). The commercial banks are allowed to rediscount the borrowers' notes by 80% at the Bank of Korea. The total amount of loans that is likely to be provided has not been determined, but some officials suggest that it may go as high as two billion hwan ($4 million[c]).

To obtain a loan under the Monetary Board's revised policy, an enterprise must be engaged in one of the following manufacturing activities (a nearly all-inclusive list): cotton spinning, weaving, net or rope making, dyeing or dye stuff production, drugs, industrial or farm chemicals, paints, printing ink, plastics, rubber, fertilizer, cement, china or chinaware, glass or glassware, tanning, pulp, plywood, sugar, flour, canning, steel, tin, electric wire, motors, automobile parts, bicycles,

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a/ One hundred chon equal one hwan.
b/ This is the rate for ordinary loans. If the risk is considered to be less than usual, it may be set at 4.5 chon; if greater than usual, 5.0 chon.

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JAN 27 1956
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REPORTER

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By lgd, NARA, Date 11/07/94

and spinning machine parts. In addition, the enterprise must also come under at least one of three other categories: (1) established since June 25, 1950 with at least 50,000,000 hwan ($100,000c/) of the owner's own capital, (2) rehabilitated since June 25, 1950 at a cost of at least 100,000,000 hwan ($200,000c/) with funds from any source, or (3) operating with more than $50,000d/ of imported equipment, financed by any source (this category will be given priority during the last half of FY 1955/56). (END UNCLASSIFIED)

(OFFICIAL USE ONLY) The effect this new policy is likely to have is difficult to assess. It will depend largely on whether or not the total loan ceiling is raised as a result. If the Finance Committee of the Combined Economic Board sets the ceiling no higher than it would have been without this provision, it may be mildly deflationary. Investment loans would have to be restricted to the extent that operational loans were requested and granted, the latter producing results in the form of saleable production much sooner than the former, especially since some output is apparently being delayed for need of operational funds.

There are numerous complicating factors, however. Not the least of these is the fact that grossly inadequate policing of loans in the ROK makes it virtually impossible for financial officials to be certain, if indeed there is any real desire to be, that the funds are being used for the purposes for which they were ostensibly drawn. Loans avowedly obtained for investment reasons are frequently used for operational purposes (if used in the business at all), and little reason exists why the opposite may not also be true. Korean enterprisers usually desire to obtain as large a quantity of funds as possible for use in highly profitable speculative operations that often are divorced from manufacturing activities.

The effect that this source of short-term funds is likely to have on manufacturers' dependence on non-bank money-lenders is uncertain. Funds secured at commercial banks are very often no less expensive than those obtained from less officially (publicly) sanctioned sources. The former carry with them far lower stated rates of interest, but it is believed they also almost always involve extra-legal payments of varying amounts. In view of increasing complaints about the scarcity of funds, it is likely that the new flow of operational funds will supplement, rather than replace, existing extra-legal sources. (END OFFICIAL USE ONLY)

For the Charge d'Affaires ad interim:

Edwin M. Cronk
First Secretary of Embassy

c/Converted at current official rate of exchange of 500 hwan per dollar.
d/Actual dollar value.

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795B.21/3-1756.00

FOREIGN SERVICE DESPATCH

FROM : Amembassy, Seoul

282
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

March 6, 1956
DATE

Action Assigned to NFA
Action Date MAR 8 1956 none required

REF :

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67	FE-4 3/12	RMAR-2, OLI-6, E-4, ICA-10, P-1 CIA-7, USIA-10, Comm-10, PACS-8, TR-3, FPS-2

SUBJECT: Political and International Aspects of National Assembly Interpellation on 1956 Supplemental Budget. FMR-2 Army-4, Navy-2, AIR-3

The National Assembly of the Republic of Korea on February 16, 1956, commenced the interpellation of Cabinet Ministers in connection with the supplemental budget for the Fiscal Year 1955-56. Several legislators took advantage of the opportunity to ask questions of political import unconnected with the budget itself. The principal questions and answers of this nature are summarized below. Ten mimeographed copies of the Summary of the Proceedings of the National Assembly for February 16, containing the report of the interpellation in question, are attached as Enclosure 1.

1. Appointment of an American Ambassador. YI In (Independent) asked the Acting Foreign Minister to state "why the American Ambassador to Korea has not been appointed in so long a time". The Minister replied, "I do not know the reason but I think that in view of the fact that Korea is a very hard, important and complicated post, the American Government is probably very prudent in selecting a person for the post so it will take a very long time."

YI In's question is a further illustration of the considerable political importance which, in Korean opinion, is attached to the appointment of a new Ambassador. The fact that the query was made by an Independent legislator (allied with opportunistic YUN Ch'i-yong) suggests that it was designed to embarrass the Administration. The Korean Government is also greatly interested in this matter and, as already reported, has urged that the appointment be made soon. (See Embassy Telegram 792 of January 27, 1956.)

2. Appointment of a Foreign Minister. HAN Tong-sok (Democratic Party) asked, "Don't you think that the system of an Acting Minister of Foreign Affairs violates the Constitution?" Justice Minister YI Ho replied, "I think that the system does not violate the Constitution, but it is not a proper system." The Minister continued by justifying the Acting Foreign Minister's position on the basis of Article 29 of the Government Organization Law. YI In pursued the topic further, asking "Do you have any idea of advising the President to appoint a Minister of Foreign Affairs?" The Home Minister, presumably replying in his interim capacity as Senior Member of the State Council, laconically replied with two Korean words meaning "I have the idea".

/The

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The continued absence of a full-fledged Foreign Minister is another topic of considerable political interest, which receives attention from time to time in the daily press. Some editorials have linked the absence of an American Ambassador to that of a Foreign Minister. When PYON Yong-t'ae resigned as Minister on July 31, 1955, CHO Chong-hwan, then Vice Minister, assumed the role of Acting Foreign Minister and has continued in this capacity until the present. The effect has been to make the Home Minister the Senior Member of the State Council, a role he would not ordinarily occupy, and has made of the Foreign Ministry, even more than normally, a mere mouthpiece of the Kyongmudae.

3. Foreign Aid. KIM Chung-ho (CGCA) asked how many more years the Administration expected that foreign aid would continue. The Finance Minister responded, "I am sure that the aid will continue three years more."

4. Defense Minister SON and the "raw cotton case". HAN Tong-sok (Democratic Party) also asked whether it was not illegal "for the Ministries of National Defense and of Justice to investigate the raw cotton case in view of the fact that National Defense Minister SON Won-il himself is involved in the case, and Justice Minister YI Ho was Vice Minister of National Defense when the case happened." The Home Minister responded that the investigation was not illegal because "Government offices do not attach to individuals but to the Administration; so they can probe the case despite the above fact indicated by you."

The term "raw cotton case" refers to an investigation touched off in 1955 by the discovery, on the part of the American Economic Coordinator's staff, that approximately 500 thousand pounds of raw cotton had been diverted by the Ministry of National Defense and not properly disposed of. This case was referred to a committee of the National Assembly which unexpectedly delivered its report to the plenary session on January 25, 1956, apparently as a stratagem to embarrass Minister Son and Liberal Party Chairman YI Ki-bung. After extensive maneuvering in the Assembly, the case was finally referred to a nine-man "settlement committee", which is not expected to act for some time. At the same time the President appointed a committee to examine the case, composed of the Defense, Justice and Home Affairs Ministries. These appointments occasioned the interpellation. Han's query indicates an Opposition policy of keeping this political pot boiling as long as possible.

For the Chargé d'Affaires a.i.

Turner C. Cameron, Jr.

Turner C. Cameron, Jr.
First Secretary of Embassy.

Enclosure 1. Ten (10) copies of the Summary of the Proceedings of the National Assembly for February 16, 1956.

cc: G-2, 8th Army
JODB

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By ____ NARA, Date 4/7/99

FE

SUMMARY OF THE PROCEEDINGS OF THE NATIONAL ASSEMBLY OF THE REPUBLIC OF KOREA
85TH MEETING, 21ST SPECIAL SESSION, SEOUL, KOREA. FEBRUARY 16, 1956.

This summary consists of notes made by an observer at meetings of the National Assembly. It has not been checked against the official Assembly transcript of the proceedings and in no way constitutes an official record of the proceedings.

Enclosure 1 to Despatch 282 of March 6, 1956, from Seoul.
2 of 10

The meeting convened at 10:35 with 110 members present, Speaker YI Ki-bung presiding.

1. HIGHLIGHTS:

The Assembly started the deliberation of the first supplementary budget bill for the fiscal year 1955-56.

2. POSTED AGENDA:

1) Approval of the Journal of the Eighty-fourth Meeting.
2) Particulars to reports;
3) First supplementary budget bill for the fiscal year 1955-56.

3. PROCEDURAL REPORTS:

The Journal of the Eighty-fourth Meeting was read and approved.

4. PROCEEDINGS:

Item Three was taken up. YI Ch'ung-hwan (LP-Chairman, Budget and Accounts Committee) reported that as a result of the deliberation of the bill by the Committee, the following changes had been made: 1) local administrative expenses were increased from 1,197,915,500 hwan to 1,212,340 hwan in order to strengthen the local administration; 2) expenses for the coming presidential and vice-presidential elections were reduced from 316,819,400 hwan to 295,667,600 hwan; 3) a 1,996,500 hwan, subsidy for Mokp'o High Mercantile Marine School, was newly allocated, while the same amount was reduced from printing expenditures for the Education Ministry; 4) a 750,100,000 hwan item for handling expenses of imported fertilizer in the Special Account for controlling fertilizer was transferred to the General Account for the Agriculture and Forestry Ministry, because the bill for a special account controlling fertilizer had not been passed and; 5) 1,672 million hwan was newly allocated for the salt monopoly service, for the purpose of having the Administration continue the service. In this connection, YI said that the Finance and Economy Committee, also, had previously repealed, in accordance with the above purpose, the bill for repealing the Salt Monopoly Ordinance, submitted by the Administration which intended to transfer the service to civilians; however, in order to maintain the principle of compiling a balanced budget, the same amount was made up by reducing various expenditures, including reserve funds, in the Special Account for Monopoly Services. He added that owing to the above changes, the total amount of the expenditures of the General Accounts and Special Accounts was reduced from the original 135,980,975,600 hwan to 135,973,956,900 hwan, thus bringing a surplus amounting to 7,818,700 hwan, for the first time in the budgetary history of the Republic of Korea.

Following the report, YI Sok-ki (DP) pointed out that it was strange that no reporter was present in spite of the fact that such an important budget bill was being deliberated before the plenary session. He continued that it was reported that the reporters boycotted today's session for the purpose of making a protest against the decision of the Committee of the Whole held the previous day, which resolved: 1) to move the present seats for the reporters to the second floor, the gallery of the Assembly, and 2) to prohibit them from entering the Assemblymen's lounge. He also said that the gallery was not suitable for reporting all the happenings in the Assembly hall; and the above prohibition was not proper because it actually restricted their reporting activities. He then demanded that the decision be cancelled immediately and stated that the Speaker or the Chairman of the Steering Committee had better invite the reporters to attend the plenary session immediately.

HWANG Song-su (LP) suggested that the reporters be seated in the present seats located in the back of the Assembly hall until adequate seats for them had been established.

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MUN Chong-du (CGCA) and YI Ch'ol-sung (DP) supported the above demand and suggestion.

The Presiding Officer then suggested that as himself, the Vice Speakers and the Chairman of the Steering Committee would solve this issue, the deliberation of the budget bill be continued. The suggestion was accepted by a voice vote.

CHONG Chun (CGCA) introduced a motion to limit the time for participating in the interpellation and general debate on the budget bill to 15 minutes per legislator, in order to expedite the deliberation of the bill. The motion was passed by a vote of 62-2 out of 104.

Then, interpellation on the bill was held as follows:

HAN Tong-sok (DP): 1) When will the Administration hold the presidential and vice-presidential elections? Which will be held first, the above elections or elections for local autonomous bodies?

Answer (Home Minister): The Administration has not decided the definite dates for the elections.

2) Isn't it illegal for the Ministries of National Defense and of Justice to investigate the raw cotton case, in view of the fact that National Defense Minister SOH Won-il himself is involved in the case, and Justice Minister YI Ho was Vice Minister of National Defense when the case happened?

Answer (Home Minister): It is not illegal, because Government offices do not attach to individuals, but to the Administration; so, they can probe the case despite the above fact indicated by you.

3) Don't you think that the system of Acting Minister of Foreign Affairs violates the Constitution? (HAN then quoted from Articles 66, 70-II and 73 of the Constitution.)

Then, who will sign the documents pertaining to foreign affairs? Against whom does the Assembly adopt a non-confidence resolution concerning possible maladministration in foreign affairs? and on what legal grounds does CHO Chung-hwa who is not a member of the State Council, hold the position of head of the Foreign Affairs Ministry? Do you have any idea of eliminating the illegal system or of advising the President to appoint a Foreign Affairs Minister immediately?

Answer (Justice Minister): I think that the system does not violate the Constitution, but it is not a proper system. The Acting Foreign Minister holds the position of the head of the Ministry in accordance with Article 29 of the Government Organization Law which stipulates that in case of the inability of the Minister to execute the duties of his office for any reason, the Vice Minister shall act as the Minister.

KIM Chung-ho (CGCA): 1) State the reasons why the Administration has not appointed a Minister of Foreign Affairs for almost a year.

Answer (Acting Foreign Affairs Minister): In accordance with law, only the President has the authority to appoint Ministers, so I don't know the reasons.

2) How many years more does the Administration expect that foreign aid will continue?

Answer (Finance Minister): I am sure that the aid will continue three years more.

3) Don't you think that the estimate, by the Administration, of the nationa income as 60 hwan per person per day is wrong?

Answer (Finance Minister): I do not think that it is an accurate one, but I think that it is not entirely wrong. In estimating the figure, not only earning persons, but also unearning persons, i.e., children, females, the old, etc, are included.

4) State the ratio of fuel between coal and oil for operating the Tanginni Power Plant.

Answer (Commerce and Industry Minister): The ratio is 9-1.

YI In (IND): 1) Do you have any idea of advising the President to appoint a Minister of Foreign Affairs?

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Answer (Home Minister) I have the idea.

2) Why has CH'OE Dok-sin not yet left for Vietnam to assume the post of Korean Minister to that country?

Answer (Acting Foreign Minister): As soon as he finishes the transfer of his military business to his successor, he will leave for that country.

3) State the reasons why the American Ambassador to Korea has not been appoint in so long a time.

Answer (Acting Foreign Minister): I do not know the reasons, but I think that in view of the fact that Korea is a very hard, important and complicated post, the American Government is probably very prudent in selecting a person for the post, so it will take a very long time. The interpellation on the bill will continue tomorrow.

The morning session adjourned at 13:00; the afternoon session convened at 14:45, and adjourned at 16:55.

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* Reporter's note: PYON Yong-t'ae resigned as Foreign Minister on July 31, 1955

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NND 867400
By [illegible], NARA, Date 4/07/94

~~E.A.B.~~

OK R/MR
Reply drafted
March 16 1956
File
~~Howard Smith~~
(mw)

To Mr. chief of department of finance

How do you do ?

I'm Korean high school girl.

I am sixteen years old.

my name is young Un Kim.

I was living in Seoul where is capital in Korea

I'm a student of Kyung Gi girl's high school

that is best famous in Korea.

Korea is state of war as you know

This war confiscate my family property

Recently, My father make a plan The great undertak-
-ing But my father is in agony because has not
fund.

I want help my old parents

If you have in reserve $ 40,000, It lend to me
for five years.

After five years, I will just reward $ 40,000 and
I thank your kindness

If you have not in reserve $40000, you make
introduction to me some one who is man of
moral influence and rich person.

I'll for your reply ! Good bye 1956. 3.7

895B.10/3-1356 CS/W

MAR 21 1956

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8-95B.12/3-1956

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NND 867400
By [illegible] NARA, Date 4/17/24

Miss Young Im Kim
40 Wa Ryong Dong, Chong No Koo,
Seoul, Korea.



FE

To Mr. ~~chief~~ of department of finance
in U.S.A.

~~DEPT OF STATE~~

0709

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E.O. 12356, Sec. 3.5
NND 867400
By [illegible], NARA, Date [illegible]

March 1 9 1956

In reply refer to
FE/MA

Dear Miss Kim:

We have received your letter of March 7, 1956 in which you asked for the loan of some money to help your parents.

We are sorry that the war has resulted in so much hardship to your parents and to other Koreans. We think you are a thoughtful daughter to want to help your parents. As you know, the United States Government is helping Korea with many old goods -- wheat, barley, cotton, coal, rubber, lumber, cement, medicine, and many other items -- so that all Koreans can live a better life. We hope you understand that this aid must be given to your Government and not to individual Koreans. We are sorry, therefore, that we cannot loan your father the $10,000 you requested.

Perhaps your father can discuss his idea with one of the banks in Korea. Even if your father cannot obtain a loan of the money he needs, we are sure he will feel very proud of his daughter for trying to help him in this way.

Sincerely yours,

Mark Hammarskjold
Acting Director
Office of Northeast Asian Affairs

Miss Kyung Ja Kim
[illegible]
Seoul,

DC/R
Appl 2
Rev
Cat

[illegible]
3/14/56

Ltr DS-4 to Seoul

S/S-CR
MAR 19 1956 P.M.

For S/S 10/3-1656

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 11/21/94

STANDARD FORM NO. 64

CONFIDENTIAL

NA ~~NEA~~
SA
RM/R

Office Memorandum • UNITED STATES GOVERNMENT

TO : FE - Mr. Robertson

DATE: September 24, 1956

Bureau OF FAR EASTERN AFFAIRS
SEP 24 1956
ASSISTANT SECRETARY
Department of State

FROM : NA - Mr. Hemmendinger WH

SUBJECT: Appointment with Governor, Bank of Korea.

You have an appointment at 4:30 today with Kim Yu-taik, Governor of the Bank of Korea, who is in Washington for the annual meetings of the governors of the IBRD and the IMF.

Mr. Kim may raise the following matters:

1. Possibility of an IBRD survey mission for Korea in connection with the proposal to construct a dam at Chongju on the Han River. (This matter was brought to your attention by my memorandum of September 18; you sent a memorandum to Mr. Prochnow on September 20 recommending that he urge approval of such a mission with the appropriate authorities of the IBRD). Mr. Kim has spoken of this matter with officials at other agencies (Treasury, ICA) as well as with Mr. Prochnow. He told me Saturday that the others, except Mr. Prochnow, appeared sympathetic. He indicated that Mr. Prochnow was "cautious and noncommittal."

It is suggested that you tell Mr. Kim that you will support a request for a survey mission.

2. The hwan-dollar exchange rate. (A complete memorandum on this subject is being prepared.)

You will recall that the exchange rate was set at 500/1 in our agreement with the ROK in August, 1955, and that we agreed to maintain the 500/1 rate through September, 1956. After the latter date, the rate is subject to change if the average wholesale price index for September, 1956 is more than 25 percent higher or lower than the average for September, 1955. The ROK formally have requested through our Embassy and the OEC in Seoul that the 500/1 rate be maintained through December, 1957. As of September 21, 1956 the wholesale price index in Korea was 21.2 percent greater than it was in September, 1955.

Mr. Kim can be expected to point out that the ROK has maintained relative financial stability during the past year while a fixed rate was in existence. He will probably note that while the rate in and of itself is not the vital factor for ROK economic progress, the fixing of the rate and the guarantee that it would be maintained for at least one year gave the Bank of Korea and other government agencies a rallying point around which they could take effective measures regarding the budget, the elimination of excessive deficits, and the control o[illegible]

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895B.10/9-2456

VR 895A.2614

VR 895A.131

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 11/1/01

and money supply. He may note that the ROK now is in the midst of these measures and that the maintenance of the rate is a vital psychological factor for continuing these effective steps.

I suggest that you tell Mr. Kim that the U. S. is gratified with the financial stability maintained during the past year by the ROK and agree that the guaranteed fixed rate was an important psychological factor in achieving this stability. You might tell Mr. Kim that the exchange rate question is one for which many agencies share responsibility and that while we have heard and received comments from all the interested agencies in the field, the discussions regarding this problem in Washington have not yet been concluded. In addition, an immediate decision does not seem vital since the first review under the existing agreement is not scheduled until the end of September and then only if the wholesale price index has increased by 25 percent. It does not appear that the average index for September, 1956 will be 25 percent greater than it was a year ago.

Clearance:

FE - Mr. Jones HPS

FE:NA:EWeintraub:mml 9/24/56

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By [illegible], NARA, Date 1/24/01

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895 B. 10/10-256
XR 020.95 B

FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL

105
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

October 2, 1956
DATE

REF : Vol. CERP March 20, 1953, items B-1-7, 11, 12.

OCT 4 1956

15 For Dept. Use Only	ACTION REP-3	DEPT. INFO RM/R-2 OLI-6 LR-1* FE-4* E-5 ICA-10 U/MSA-1 SCS-1
	REC'D 10/8	OTHER CIA-13 COM-8* TR-3* FRB-2* XMB-3 AG-8 TAR-2

SUBJECT: Transmittal of Monthly Treasury Bulletin

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895B.10/10-256

Transmitted as an enclosure to this despatch are five copies of the July 1956 issue (No. 1) of a new publication prepared by the Ministry of Finance, entitled Monthly Treasury Bulletin. The Ministry plans to publish this report monthly. Approximately a two month lag can be expected between the month covered by the statistics and the month of publication.

The report covers the status of ROK Government revenues and expenditures, its accounts at the Bank of Korea, and the counterpart fund and collection accounts, as well as statistics on money supply, loans, foreign exchange, securities and prices.

ACTION REQUESTED The Embassy would appreciate being informed of whether or not the Department desires to receive this report regularly, and, if so, the number of copies to be sent by air and/or by sea pouch.

FOR THE AMBASSADOR:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

Enc. Att.

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DIVISION OF FOREIGN REPORTING

RMC 965

Encl. in Desp. No. 105 from Seoul, 10-2-56. Ref. FILED FILE

J.E.P.
JEO'Mahony/rks
REPORTER

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Action Taken 11-16-56
8954.131

FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL — 117 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — October 16, 1956 Date of Action

REF : CERP March 20, 1953, Section B, Items 6-d(1) and 11a.

OCT 16 1956
Action Office Symbol

For Dept. Use Only	ACTION	DEPT.
	FE-4	
	REC'D 10/22	INFO OTHER CIA-13, Com-10, FRB-2, TR-3, LAB-4, AB-8

Name of Officer
Direction to DC/R

SUBJECT: Daily Unofficial (Illegal) Prices for Gold and Dollars and Weekly Seoul Price Indexes.

The illegal selling prices for gold, greenbacks and military payment certificates during the period ended October 14, 1956, were as follows:

Date	Gold (3.75 grams) Hwan	Greenbacks (US $1) Hwan	MPC's (US MPC $1) Hwan
Oct. 8	4,200	910	770
9	4,200	910	790
10	4,200	910	780
11	4,200	910	780
12	4,200	910	790
13	4,200	900	800
14	4,200	890	810

DIVISION OF NORTHEAST ASIAN AFFAIRS
OCT 23 1956
DEPARTMENT OF STATE

The weekly Seoul wholesale and retail price indexes* as of October 12, 1956 were as follows:

	Weights	Index (1947=100)	Percent change from 5 Oct.56	14 Sept.56	Sept. 55 av.
Wholesale	100.0	19,691.4	-3.3	-7.9	+11.1
Grain	39.0	24,073.2	-6.4	-15.9	+14.1
Meats, eggs, fish	6.0	36,852.6	-2.6	-3.0	+39.4
Textile raw materials	10.0	14,215.3	+1.8	+2.6	+18.5
Textiles	8.0	7,609.2	0	+6.4	+ 8.5
Building materials	3.0	21,286.3	0	+0.3	- 7.7
Fertilizer	2.0	53,940.0	0	0	+68.6
Fuel	7.0	32,616.4	0	+3.3	-12.5
Miscellaneous	25.0	8,243.4	negl.	-0.1	- 6.9
All items except grain	61.0	16,890.0	-0.3	+0.8	+ 8.4
Consumer goods		20,281.1	-4.6	-1.1	+12.2
Producer goods		16,900.9	+0.5	+1.8	+13.1
Retail		22,345.0	-2.5	-3.0	+ 9.9
Food		23,614.2	-3.8	-4.4	+15.5
Clothing		10,844.2	0	-1.1	- 2.4
Fuel		31,135.7	0	0	+ 0.3
Miscellaneous		7,780.0	0	negl.	+10.4

9/24 — 20.7
21 — 12.2
28 — 7.6
10/5 — 4.9
12 — 0.1

OCT 31 1956
DEPARTMENT OF STATE

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G.E.D.
JEO'Mahony/rks
REPORTER

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OCT 31 1956

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*Unpublished data, subject to revision.

Source of price indexes: Bank of Korea.

FOR THE AMBASSADOR:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

cc: OEC

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INCOMING TELEGRAM *Department of State*

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31

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Action
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Control: 17677
Rec'd: DECEMBER 31, 1956
4:50 AM

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FROM: SEOUL

TO: Secretary of State

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NO: 615, DECEMBER 31

FY 1957 BUDGET PASSED SUBSTANTIALLY AS SUBMITTED. COMBINED GENERAL, DEFENSE AND NATIONAL BOND ACCOUNTS TOTAL 218.5 BILLION HWAN WITH DEFICIT 9.6 BILLION (DEFENSE ACCOUNT). IN ADDITION, COMBINED NET DEFICIT SPECIAL ACCOUNTS, NOT INCLUDED IN ABOVE, TOTAL 48.8 BILLION, AS FOLLOWS: RECONSTRUCTION BONDS, 25.5; OSROK, 0.6; GRAIN MANAGEMENT, 22.7. THUS, FISCAL OPERATIONS AS PLANNED WILL ALONE EXPAND MONEY SUPPLY 58.4 BILLION DURING 1957. THIS EXCLUDES OPERATING DEFICITS SOME GOVERNMENT ENTERPRISES WHICH, DESPITE RATE AND PRICE INCREASES, EXPECTED CONTINUE OPERATE AT SUBSTANTIAL ALTHOUGH REDUCED DEFICIT COMING YEAR. RATES AND PRICES CHARGED BY GOVERNMENT ENTERPRISES INCREASED BETWEEN 50 AND 180 PERCENT FOR RAILROAD SERVICES, POSTAGE, TELEPHONE, TELEGRAPH, SALT, COAL AND ELECTRIC POWER. TAX LAWS AMENDED AS PROPOSED, BUT OF MINOR SIGNIFICANCE. GOVERNMENT SALARIES INCREASED TO 20,000 HWAN AVERAGE. NO GRAIN ALLOWANCE FOR GOVERNMENT EMPLOYEES PRESENTLY PROVIDED, BUT ROKG TENTATIVELY PLANS MAKE SUCH ALLOWANCES STARTING IN APRIL OUT OF ADDITIONAL PL 480 COMMODITIES MINISTER OF RECONSTRUCTION HOPES TO OBTAIN AS RESULT CURRENT WASHINGTON DISCUSSIONS.

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Action Assigned to DOWLING
Action Taken Noted

Date of Action 1/2/57
Action Office Symbol NA
Name of Officer WP
Direction to DC/R File

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2371

DEPARTMENT OF STATE

ASSISTANT SECRETARY

April 10, 1957

To: The Acting Secretary

Through: S/S

From: FE - Walter S. Robertson WSR

Subject: Loan Component in the FY 1957 Defense Support Program for Korea

In accordance with your request, Howard Jones has prepared the attached list of those projects in the Korean program which, by their very nature, might be assumed to be self-liquidating. In sending this forward, I should like to re-emphasize the point both he and I have made repeatedly that in the case of Korea even assistance to self-liquidating projects should be on a grant basis. Although normally the existence of such projects in a program would lead to a presumption that aid to that extent should be furnished on a loan basis, such a presumption should not be regarded as valid in the case of Korea for the following reasons:

1. Korea is unique in the extent to which the U. S. finances even the internal costs of the Korean government. Furthermore, there is no reason to believe that this situation will change significantly within the foreseeable future. It must be expected therefore that service on any loan could be maintained only through the U.S., in effect, reimbursing itself.

2. It is unwise fiscal policy to grant loans where there is no reasonable expectation of repayment.

3. It would be misleading to the Congress and the American people.

4. The Korean government itself has no illusions about its debt-carrying capacity and would inevitably construe a U. S. request for repayment as an invitation to enter into an international obligation upon which it must default. This would be particularly unfortunate in the case of such a new and inexperienced government which has not yet had an opportunity to establish a tradition of strict adherence to international agreements.

FE: HPJones:LSTyson:ffg

FE - Walter S. Robertson

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NND 867400
By [illegible] NARA, Date 11/27/96

5. The Korean Government will certainly resent and bitterly resist any effort to place any portion of this year's aid program on a loan basis. It may be safely assumed that this resentment would be translated into a new truculence on the part of the Korean government in cooperating with the United States on the wide range of problems involving not only the United States but also the Unified Command (UNCURK).

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Attachment:

List of Projects

Clearance: NA (in substance) HPJ

HPJ
FE:HPJones:LSTyson:efp

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NND 65460
NARA, Date 11/6/01

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LIST OF PROJECTS IN THE FY 1957 KOREAN DEFENSE SUPPORT PROGRAM WHICH SHOULD EVENTUALLY BECOME SELF-SUPPORTING

21

Project Description	Total Cost In thousand of dollars
Dai Han Coal Processing Plant - to assist the Dai Han Coal Company in its efforts to produce a superior quality of coal largely by providing equipment, materials and supplies for a plant to process coal containing a high ash content and upgrade it for industrial consumption.	1,511
Straw Pulp Plant - to assist the ROK in conserving foreign exchange and reducing dependence on aid-financed pulp imports by providing (a) additional machinery, other equipment and materials for the establishment of a rice straw pulp plant (18,000-ton capacity), the first phase of which was funded in FY 1956, and (b) the services of U.S. specialists in straw pulp manufacture to assist and advise plant officials and technical personnel in the installation, operation and maintenance of the plant, and in manufacturing and processing techniques.	1,100
Steel Plant - to assist the ROK in reducing dependence on aid-financed steel imports for domestic requirements and to utilize indigenous iron ore deposits for the production of ingots by providing (a) an electric hearth furnace of 300 tons per day capacity, together with necessary equipment and materials for installation, and (b) U.S. specialists to assist and advise ROK technicians in installation, operating and maintenance techniques.	3,600
Spun Rayon Plant - to aid the ROK in conserving foreign exchange and to reduce dependence on aid-financed imports of large quantities of spun rayon yarn for the manufacture of light-weight summer clothing by providing (a) machinery and equipment for a staple rayon yarn mill capable of spinning fibers longer than 1½ inches, separately or in blends, and (b) a U.S. specialist under contract to assist and advise local plant technicians in installation, operation and maintenance of the equipment and in the specialized manufacturing techniques.	1,000

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NND 867020
By [illegible], NARA, Date 11/21/11

Small Industries - to increase ROK capacity for self support by rendering assistance to medium- and small-scale industrial enterprises manufacturing basic commodities (leather, rubber, wood, metals, textiles, food, paint, etc.), utilizing local manpower and indigenous materials insofar as possible, by furnishing (a) equipment, materials and supplies to improve, expand and establish production facilities, (b) technical and professional services under contract to assist with plant construction, operation and management, and (c) U.S. specialists to work with ROK officials in developing and implementing the selected project facilities.	12,065
Total cost	19,276

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NND 867400
By [illegible] NARA, Date 12/6/21

INCOMING TELEGRAM 68 *Department of State*

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Action Taken N.A.

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Control: 8133
Rec'd: APRIL 12, 1957
7:42 AM

Date of Action

Action Office Symbol FE/NA

Name of Officer PMD

Direction to DC/R

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Action
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AIR

FROM: SEOUL

TO: Secretary of State

NO: 881, APRIL 12, 6 PM

FOUR ECONOMIC MINISTERS HAVE MET ALMOST DAILY PAST TWO WEEKS IN EFFORT DEVELOP STABILIZATION PLAN SATISFACTORY TO PRESIDENT. PRESIDENT REPORTEDLY ORDERED MINISTERS TAKE STEPS ROLL PRICES DACK BY ONE-THIRD, PRESUMABLY TO ESTABLISH PARITY SEPTEMBER 1955. RUMORS ARE ONE OR MORE MINISTERS WILL BE REMOVED IF STABILIZATION PLAN NOT SATISFACTORY TO PRESIDENT. REMOVAL FINANCE MINISTER APPEARS ALMOST CERTAIN. AS REPORTED TOICA 2476, SPECIAL CEB RPT CEB COMMITTEE HAS DEVELOPED STABILIZATION PLAN WHICH WOULD PROVIDE FOR ONLY 5 BILLION HWAN INCREASE MONEY SUPPLY DURING 1957. MOST OF THIS INCREASE HAS ALREADY TAKEN PLACE, THUS VIRTUALLY NO MONETARY INCREASE WOULD BE POSSIBLE UNDER AGREEMENT BALANCE OF YEAR. THIS WOULD BE EXCEEDINGLY DIFFICULT TO CARRY THROUGH ECONOMICALLY OR POLITICALLY. NEVERTHELESS IT APPEARS GOVERNMENT FROM PRESIDENT DOWN FINALLY CONVINCED OF IMPORTANCE OF STABILIZING PRICES.

IN ADDITION POINTS OF STABILIZAION PLAN REPORTED TOICA 2476, PRESS REPORTS FINANCE MINISTER AS SAYING PURCHASERS AID DOLLARS THROUGH BOK RPT BOK, IN CASES DEMAND EXCEEDS DOLLAR AVAILABILITY, WILL BE REQUIRED PURCHASE 200 HWAN PER DOLLAR NATIONAL BONDS (A FORM OF TAXATION) IN ADDITION 500 HWAN PER DOLLAR PURCHASE PRICE. THIS, IF IMPLEMENTED, WOULD REDUCE SPECULATIVE PROFIT IN SALE OF AID DOLLARS. MINISTER ALSO QUOTED AS SAYING GOVERNMENT EMPLOYEES WOULD BE ASKED DEPOSIT 10 PERCENT OF SALARIES IN BANK ACCOUNTS. IN LIGHT ABSENCE OF EMPOWERING LEGISLATION AND INADEQUACY GOVERNMENT SALARIES, THIS SCHEME WOULD ALMOST INEVITABLY FAIL.

WEIL

RSB

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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL

95
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

Action Assigned to AMB
DATE August 12, 1957

REF : 1957 CERP, Section D, Items IV-A-4 and V-A-3, ACW-B-1

Action Taken AUG

67 For Dept. Use Only	ACTION	DEPT.
	FE-4	RMR-2, REP-2, OAI-8, E-5, ICA-10
	REC'D 8/16	INFO OTHER CIA-13, AG-8, Com-10, TR-3, FRB-2

Date of Action FE AM
Division of Action DAD
Name of Officer
Action to DC/R

SUBJECT: ROKG Plan to Extend Loans to Farmers Against Rice Mortgages

A plan, promoted by the Ministry of Agriculture and Forestry, has been submitted to, and approved by, the State Council and the Combined Economic Board, which is aimed at ironing out some of the seasonal variations in the price of rice through the extension of Agricultural Bank loans to farmers during the post-rice-harvest season against a mortgage on part of the farmer's crop. As the attached copy (enclosure 1) of the plan explains, the Agricultural Bank will be provided with 24 billion hwan, principally from repayments of fertilizer loans, to loan against a million suk (one suk equals roughly five bushels) of rice. (The 1955 rice crop amounted to 15.5 million suk.)

The loans will be extended in November, December and January and made repayable from March through June. The rice will be stored by the Agricultural Bank in warehouses that formerly belonged to the Federation of Financial Associations. When the loan matures, the farmer will be expected to make payment, and will then be able to consume or sell the rice. Officials of the Ministry of Agriculture and Forestry explain that the intention of the plan -- this part is not yet described in writing -- is to foreclose the mortgage immediately after it matures if it has not been repaid. The Agricultural Bank then would sell the mortgaged rice for the prevailing price, deduct from the amount received, the amount of the loans, as well as handling and administrative expenses, and deposit the balance to the farmer's savings account.

As shown by the enclosure, only the general outline of the plan has been worked out so far. Ministry officials claim to be working on the details. One problem is to set up the necessary administrative machinery in the Agricultural Bank.

While only around six or seven percent of the rice crop will be involved in this program, it could have some stabilizing effect on the rice market. As experience in handling this program is gained, and additional financial resources become available, perhaps larger quantities of rice can be loaned against. To illustrate the enormous seasonal variations that have taken place in the price of rice during recent years, a chart prepared by the Embassy is attached as enclosure 2.

JEO'Mahony/mc
REPORTER

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By [illegible], NARA, Date 11/27/91

For the Ambassador:

Samuel O. Lane

Samuel O. Lane
First Secretary of Embassy

Enclosures: att
(1) Min of Agriculture & Forestry's Suggested Plan for Stabilization of Grain Prices
(2) Graph: Wholesale Price of Bag of Rice in Seoul on Selected Days in 1955, 1956, and 1957

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Page 1 of
Encl. No. 1
Desp. No.
From Amembassy, SEOUL

COPY

MINISTRY OF AGRICULTURE AND FORESTRY
REPUBLIC OF KOREA
Seoul, Korea

August 8, 1957

Suggested Plan for the Stabilization of Grain Prices

1. Purpose:

In recognition of the fact that the stabilization of domestic rice price is the basis for the stabilization of the general price level, this plan anticipates to stabilize the national economy by preventing a decline of domestic rice price in the harvest time that results from the suddent release of rice by farmers and controlling its sharp increase in food-short season so as to maintain stable rice price.

II. Quantity of Rice programmed:

Approximately one million suk (1,000,000 suk).

III. Handling Institution:

The Agricultural Bank Ltd.

IV. Amount of Loans under Lien:

Twenty-four (24) billion Hwan.

V. Sources of Funds:

a). Fertilizer Fund ..... Twenty (20) billion Hwan

b). Agricultural Credit Funds from the Vested Property Account.....1,500,000,000 Hwan

c). Other Agricultural Credit Funds.2,500,000,000 Hwan

VI. Plans for Advancing Loans:

a). Security Rate.

The amount of loans shall not exceed 80% of the prevailing price of rice in the production area. However, the government's rice purchasing price shall be taken into account.

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By [illegible], NARA, Date [illegible]

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b). Time for making Loans.

November 1957	30%
December 1957	50%
January 1958	20%
Total	100%

VII. Prospective Recipients of Loans.

The loans shall be extended to the farmers who may provide rice in kind as collateral. Priority shall be given to the farmers who received the fertilizer loans, agricultural credit funds from the Vested Property Account and other agricultural credit funds.

Justification:

Since the farmers who already received fertilizer loans and agricultural credit funds agreed to repay their loans with rice in kind at the harvest season, they shall entertain an advantage by locating their rice as collateral.

VIII. Method to Ensure the Liened Rice and its Management:

The liened rice shall be the unhulled paddy inspected by the Government Inspection Office. The rice will be stored by grades under the responsibility of the Agricultural Bank with the minimum insurance which may deem necessary.

IX. Repayment of Loans.

The farmer shall have an option as to the period for the repayment of loans. In order to comply with the objective of this plan, the following schedule for the repayment is recommended. The release of liened rice may be subject to the decision of Government, if necessary.

March	1958	20%
April	1958	20%
May	1958	30%
June	1958	30%
Total		100%

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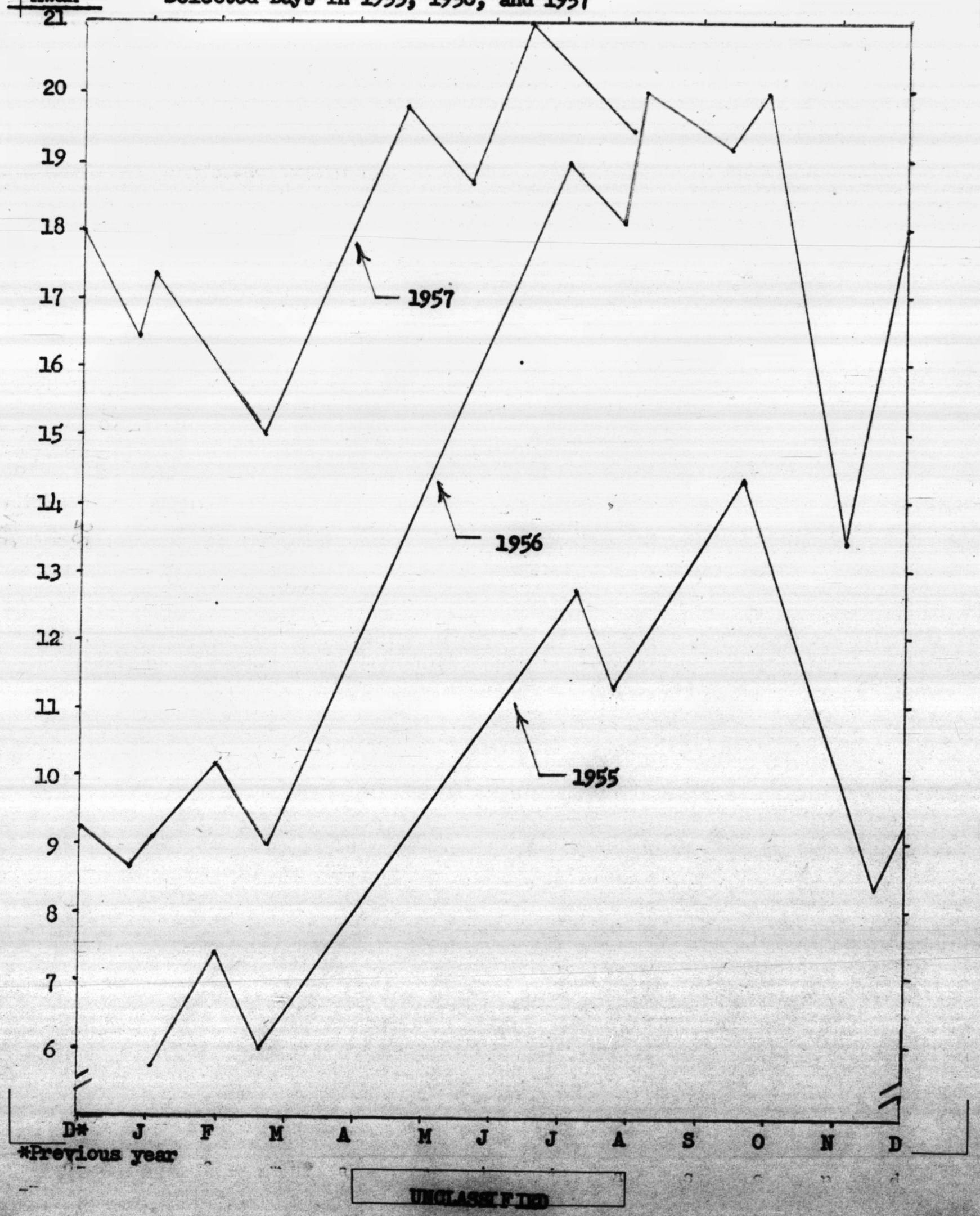
Wholesale Price of a Bag (2.5 bu.) of Rice in Seoul on Selected Days in 1955, 1956, and 1957



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E.O. 12356, Sec. 3.3
NND 867400
By NARA, Date 4/6/01

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Action to 895b.10/11-1957
Action Taken 895b.15
895b.01

FOREIGN SERVICE DESPATCH

FROM: AMEMBASSY, SEOUL — 324 (DESP. NO.)

TO : THE DEPARTMENT OF STATE, WASHINGTON. — November 19, 1957 (DATE)

REF : 1957 CERP, Section B, Item II-B-I-a and III-B-4.

Date of Action NOV 20 1957

For Dept. Use Only	ACTION	DEPT.
35	FE-3	RM/R-2 REP-2 IRC-8 E-5 IGA-10
	REC'D 11-25	INFO OTHER CIA-13 COM-8 TR-3 FRB-2 XMB-3

PMD
ARMY 4 pcs
NAVY-3
AIR-3
AG-8
LAB-5

SUBJECT: Daily Unofficial (illegal) Prices for Gold, Dollars and Yen and weekly Seoul Price Indexes

The illegal selling prices for gold, greenbacks, military payment certificates and yen during the period since the Embassy's last weekly report were as follows:

	Hwan paid for Gold, and MPS in Seoul	Greenbacks		Hwan paid for Japanese Yen in Pusan	
Date	Gold (3.75 grams)	Greenbacks (US $1)	MPCs (US MPC $1)	Date	Yen (¥360)
Nov.11	4,600	1,010	890	Nov.10	972
Nov.12	4,600	1,010	880	Nov.11	1,008
Nov.13	4,600	1,020	890	Nov.12	1,008
Nov.14	4,700	1,030	890	Nov.13	1,080
Nov.15	4,700	1,040	900	Nov.14	1,080
Nov.16	4,700	1,040	900	Nov.15	1,080
Nov.17	4,700	1,040	900		

The weekly Seoul wholesale and retail price indexes as of November 15, 1957 were as follows:

	Weights	Index (1947=100)	Percent change from 8 Nov 57	18 Oct 57	16 Nov 56	Sept.55 av.
WHOLESALE	100	19,805.3	- 0.2	- 3.3	+ 3.1	+ 11.7
Grain	39	20,691.2	- 0.5	- 7.3	-10.4	- 1.9
Meats, eggs, fish	6	38,180.8	+ 4.0	+13.3	+14.7	+ 44.4
Textile raw materials	10	15,764.6	+ 0.2	- 0.6	+ 9.9	+ 31.4
Textiles	8	6,690.2	- 1.2	- 0.6	- 8.5	- 4.6
Building materials	3	26,048.8	+ 0.6	+ 4.0	+20.3	+ 13.0
Fertilizer	2	53,940.0	0	0	0	+ 68.6
Fuel	7	39,074.2	0	- 3.3	+14.0	+ 4.8
Miscellaneous	25	10,950.9	- 3.5	- 8.3	+33.0	+ 23.7
All items except grain	61	19,239.0	- 0.1	- 0.5	+15.1	+ 23.5
Consumer goods		19,624.2	- 0.3	- 4.4	+ 0.2	+ 8.6
Producer goods		17,957.4	- 0.4	- 1.2	+ 6.5	+ 20.2
RETAIL		22,607.5	+ 0.8	- 1.0	+ 4.3	+ 11.2
Food		21,835.2	+ 1.4	- 2.0	- 0.4	+ 6.8
Clothing		11,104.3	0	+ 0.8	- 0.5	- 0.1
Fuel		37,481.9	0	negl	+14.3	+ 20.5
Miscellaneous		10,838.1	0	+ 6.7	+28.1	+ 53.7

*Computed by Embassy.

JEO'Mahony/rhj
REPORTER

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By [illegible], NARA, Date 4/24/98

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Source of Price Indexes: Bank of Korea.

For the Ambassador:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

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E.O. 12356, Sec. 3.5
NND 867400
By [illegible], NARA, Date 4/17/24

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1-1355 895B.10/12-2457 XR 895B.0

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FOREIGN SERVICE DESPATCH

FROM: AMEMBASSY, SEOUL — DESP. NO. 409

TO : THE DEPARTMENT OF STATE, WASHINGTON. — DATE December 24, 1957

REF : 1957 CERP, Section B, Items II-B-1-a and III-B-4.

Action Taken

50 For Dept. Use Only	ACTION	DEPT.
	FE-3	INFO RM/R-2 REP-2 IRC-8 E-5 ICA-10 PER-2
	REC'D 1-2	OTHER COM-8 TR-2 FRB-2 XMB-4 CIA-13 LAB-2 AG-8

SUBJECT: Daily Unofficial (illegal) Prices for Gold, Dollars and Yen and Weekly Seoul Price Indexes

The illegal selling prices for gold, greenbacks, military payment certificates and yen during the period since the Embassy's last weekly report were as follows:

Hwan paid for Gold, Greenbacks and MPC in Seoul

Date	Gold (3.75 grams)	Greenbacks (US $1)	MPCs (US MPC $1)
Dec 16, 17	5,000	1,140	970
Dec 18	5,000	1,090	940
Dec 19	5,000	1,070	940
Dec 20	5,000	1,060	940
Dec 21	5,000	1,040	920
Dec 22	4,900	1,030	910

Hwan paid for Japanese Yen in Pusan

Date	Yen (¥360)
Dec 14, 15	1,242
Dec 16, 17	1,260

The weekly Seoul wholesale and retail price indexes as of December 20, 1957 were as follows:

	Weights	Index (1947-100)	Percent change from 13 Dec 57	22 Nov 57	21 Dec 56	Sept 55 av.
WHOLESALE	100	19,624.2	- 0.2	- 0.4	- 4.8	+10.7
Grain	39	20,478.3	- 0.1	- 0.4	-18.4	- 2.9
Meats, eggs, fish	6	32,433.6	0	-14.6	+ 1.7	+22.7
Textile raw materials	10	15,228.4	- 3.5	- 4.4	+ 8.2	+27.0
Textiles	8	6,854.1	+ 0.6	+ 1.2	-15.2	- 2.3
Building materials	3	24,616.3	+ 2.1	- 5.5	+11.0	+ 6.8
Fertilizer	2	53,940.0	0	0	0	+68.6
Fuel	7	43,868.4	0	+14.2	+ 0.5	+17.7
Miscellaneous	25	10,929.5	- 0.2	negl	+32.1	+23.5
All items except grain	61	19,078.1	- 0.4	- 0.5	+ 7.4	+22.5
Consumer goods		19,524.4	negl	- 0.1	- 8.1	+ 8.1
Producer goods		17,541.4	- 0.8	- 2.0	+ 1.4	+17.4
RETAIL		23,037.8	- 0.2	+ 2.8	- 9.0	+13.3
Food		21,122.9	- 0.3	- 1.9	-16.3	+ 3.3
Clothing		11,165.2	0	+ 0.5	- 2.7	+ 0.5
Fuel		42,267.5	0	+12.7	+ 1.6	+55.9
Miscellaneous		10,858.1	0	0	+14.3	+53.7

*Computed by Embassy.

YKChon/hcn Chon
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Page 2 of
Encl. No.
Desp. No. 409
From Seoul/12/24/1957

Source of Price Indexes: Bank of Korea.

For the Charge d'Affaires ad interim:

Edwin M Cronk

Edwin M. Cronk
First Secretary of Embassy

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NND 867400
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XR 895 F.13

FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, SEOUL

445
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

January 10, 1958
DATE

REF :

For Dept. Use Only	ACTION	DEPT.
	FE-4	RM/R-2 REP-2 IRC-8 E-5 ICA-10 L-2 SCS-1 OB-1
	REC'D 1/17	OTHER ARMY-4 NAVY-2 AIR-1 TAR-2 CIA-13 OSD-4 Cdm-8 TR-3 FRB-2 XMB-4 AG-8

SUBJECT: Transmittal of Editorial on Subject of Monetary Policy

Attached, as of possible interest to Washington agencies, is an editorial which appeared in the vernacular Kyonghyang Ilbo on January 7, 1958, on the subject of controlling the money supply in the ROK. It will be noted that the newspaper agrees that it is important to impose ceilings on the money supply, in the interest of stabilizing prices, but questions the constitutionality of having these ceilings established by the US-ROK Combined Economic Board (CEB).

For the Charge d'Affaires ad interim:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

Enclosure #1

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By LPJ, NARA, Date 4/17/99

0731

News Editorial, Kyonghyang Ilbo, January 7, 1958

ISSUES ARISING FROM IMPOSING CEILINGS ON VOLUME OF CURRENCY

To decide the maximum amount of currency in the Combined Economic Board is contrary to the National Constitution.

The hotly debated economic problem at the beginning of the New Year is undoubtedly the ceiling system which has been imposed on the volume of currency. This system, although unquestionably making it possible to arrest inflation, has raised numerous difficulties in the management of enterprises or led them into bankruptcy. The effort to maintain the level of Hw.124.4 billion (the maximum level of currency allowed for issuance) has failed due to the tremendous money demand, particularly in the year-end season. It was learned that an agreement was reached between the US and ROK to re-adjust the maximum currency volume to Hw.135 billion until the end of the first half of 1958. Since the total money supply at the end of November totaled Hw.132.4 billion, the above level would not appear to be proper in view of the stringent monetary situation around the lunar New Year season. There will be many questions regarding the proper maximum level of money supply, and economic benefits resulting from imposition of a ceiling on the volume of currency and whether decisions made by the Combined Economic Board are lawful under the National Constitution. To estimate an adequate level of currency volume, the standard on which it must be decided is the Gross National Product as has been the case in foreign countries. Although it is not perfect, it seems a common yardstick of financial theorists. To make estimates on the adequate maximum volume of currency of a nation which lacks reliable or accurate estimates of GNP, as in Korea, would be very difficult. But how ever difficult it is, this job must be done.

The financial policy, as it relates to the decision of currency volume, must be seriously discussed on its merits. Needless to say, adjustment of currency volume should help stabilize prices to some extent when it is supported by other pertinent financial measures. This is well demonstrated by the fact that the rising inflation in Korea has been arrested, even for a while. We honestly, therefore, admit the merits of the ceiling system. But we wonder that such a basic policy can be lawfully decided by the ROK-US Combined Economic Board without conflict with the National Constitution.

The authority for handling currency constitutes a major factor of sovereignty of a nation. Furthermore, the Law of the Bank of Korea provides that the notes of the bank are the only legal currency available in Korea and important monetary policies are to be decided only by the Monetary Board which is the decision-making organ of the Bank of Korea. From the view point of the above, the decisions made by the CEB would appear anything but lawful under the National Constitution. The CEB, though it is operated under a certain US-ROK agreement, is not approved by the National Assembly, and is nothing but a voluntary organization. This organization should not make such a great decision

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as it exceeds the law. Though we agree with the Economic importance of imposing a ceiling on the volume of currency, we should like to call the attention of the authorities concerned to remedy this situation.

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Direction to DC/R File

FROM: AMEMBASSY SEOUL

SENT TO: SECSTATE WASHDC

53

NUMBER: G-2 JANUARY 10, 1958

Origin FE

Info: RMR W L IO INR P UOP UMSA E IRC DCL ICA OCB USIA CIA OSD ARMY NAVY AIR

Embassy local employee reports Seoul City Council in turmoil over city's 1958 budget, totalling 350,000,000 hwan. Council convened December 31 at call Vice Chairman YI Chung-gu (2621/6850/0046), Independent, who used Democratic Chairman's official seal to authenticate summons. Twenty members newly-organized City Administration Club bloc, mostly ex-Democrats who bolted party in September following turmoil over election Council chairman, appeared for meeting plus 19 Democrats out of 25 members in Democratic bloc. Budget bill introduced contained large sum for erection Unam Hall, auditorium named for President's pen name, which project opposed by Democrats previous year and at that time cut by about two-thirds. Democrats, unable summon majority, walked out, thus leaving less than quorum. After issuing two written summonses for reappearance, Vice Chairman and remaining Councilmen proceeded to enact budget under authority Section 2, Article 35 Local Autonomy Law. Home Ministry confirmed legality of action and authorized Mayor to operate under budget.

In counter-move January 6, Democratic Chairman called Council meeting. In meantime one more Democratic councillor, YI Won-ch'un, had bolted party on grounds dissatisfaction with September election chairman. One additional Democrat sick. Since no non-Democrats attended, Council lacked quorum. Chairman followed tactics of December 31 meeting, issuing two written summonses and then declaring legal session without quorum, but all clerks and other officers absented selves and Home Ministry declared action illegal. Uncertain what action Democrats will take next. In meantime no action on budget city education committee, which therefore has no money, although most schools now on vacation until end month.

From available indications Embassy presumes Liberal Party arranged absence DP Assemblymen December 31 and will probably win additional defectors among Democrats, leaving Opposition without even theoretical majority. Democrats have operated without real policy since inception City Council 1956, and Seoul City Democratic leader CHONG Il-hyong has been unable exercise guidance.

Drafted by: DSMacdonald/ch

[redacted] and classification approved by: POLIT/WGJones

Clearances:

JAN 29 1958

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Council members generally admitted of indifferent caliber. Result this and previous maneuvers in Council politically damaging to Democratic Party. Seems unlikely any substantial improvement expectable before next council election 1959.

WEIL

cc: G-2 Eighth Army
Bio Section
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FOREIGN SERVICE DESPATCH

FROM: Amembassy, SEOUL

596
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

March 13, 1958
DATE

REF : CERP Section B III A

MAR 17 1958

For Dept. Use Only	ACTION	DEPT.
	FE-3	REP-2 RM/R-2 E-7 IRC-8 ICA-10 FE/NA
	REC'D 3-21	INFO OTHER Com-8 TR-3 FRB-2 TAR-2 CIA-13 XMB-4 ARMY-4 NAVY-2 AIR-1

SUBJECT: ROK FY 1958 National Budget

(BEGIN UNCLASSIFIED)

Summary: The Fiscal Year 1958 budget (January-December, 1958), as approved by the National Assembly on December 31, 1957, provides for total expenditures during the year of 323 billion hwan and revenues of 307 billion hwan. The seeming deficit of 16 billion hwan is covered by interaccount transfers at the Bank of Korea which require no actual cash expenditures. These transfers involve a one billion hwan local currency "investment" (subscription) in the IBRD and a 14.6 billion hwan "settlement" of accumulated deficits in the grain account -- accomplished by simply transferring the grain account deficit to the Government's overdraft account at the Bank of Korea. The budget, as approved by the Assembly, is therefore in balance -- on paper. It is estimated, however, that budgeted expenditures, if carried out as approved by the Assembly, would result in a deficit of at least 12 billion hwan, probably more. There is already (March 10, 1958) widespread talk of a budget revision to be proposed after the May elections to eliminate the deficit and make other modifications. General Account expenditures for FY 1958, as approved, are almost precisely the same, in total, as the level approved for FY 1957. Revenues are projected at 1.5 percent above the FY 1957 budget estimate. (Actual receipts and expenditures in FY 1957 were somewhat less than shown in the budget; actual figures for the year are not yet available.)

Outline of FY 58 Budget (in billions of hwan)

General Accounts	Expenditures		Revenues
General Expenditures	113.7	Taxes	124.4
National Defense	124.2	Revenues other than taxes	26.8
National Bonds	4.3	National Bonds	18.0
Industrial Reconstruction Bonds	4.5	Industrial Reconstruction Bonds	4.7
		Monopoly Enterprises	19.9
General Account Totals	246.7 a/	Sub-total	193.8 a/

a/ Deficit in general accounts (52.9 billion) to be offset by transfer of counterpart funds to national defense account.

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Counterpart and Special Transfers			
Economic Reconstruction	44.6		
Counterpart Funds	16.0	Counterpart Funds	113.5 a/
Inv. in IBRD	1.1 b/		
Repayment Grain Debt	14.6 b/		
Total	323.0	Total	307.3

a/ Deficit in general accounts (52.9 billion) to be offset by transfer of counterpart funds to national defense account.

b/ Bookkeeping transfers requiring no cash expenditures.

Comparison with 1957 Budget: General Account expenditures in the 1958 budget total 246.7 billion hwan -- an overall decrease of approximately 0.5 percent from the 1957 budget. There has been, however, a change of considerable magnitude in several of the individual accounts. The National Defense Account has been increased by approximately 10 billion hwan, reflecting a slight increase in military pay, increased food costs and other factors; the Ministry of Home Affairs by 6.5 billion hwan; the Ministry of Education by about 4 billion hwan; the Ministry of Health and Social Affairs by more than 1 billion hwan. Offsetting these and other smaller increases is the reduction in the expenditures of Industrial Reconstruction Bond funds which in 1957 were budgeted at 30 billion hwan as compared with 4.6 billion hwan in the current budget -- 2.4 of this latter amount to be used to retire outstanding Industrial Bonds held by the Bank of Korea. (See attachment #1 for a detailed comparison of the 1957 and 1958 expenditure budgets).

General Account Expenditures c/

Account	FY 58 Budget	FY 57 Budget	Percentage change from 57 to 58
General Expenditures	113,692,503,600	99,463,446,800	+14.0
National Defense	124,164,603,600	114,070,700,200	+ 8.8
National Bonds	4,299,452,100	4,211,855,700	+ 2.1
Industrial Reconstruction Bonds	4,596,875,700	30,179,867,800	-84.8
Total:	246,753,435,000	247,925,870,500 d/	- 0.5

c/ See attachment #1 for detailed breakdown

d/ As budgeted; not actual

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General Account revenues for 1958 are projected at 193.8 billion hwan -- about 1.5 percent above the 1957 budgeted total. The major increases in the individual accounts are: 9.4 billion hwan, domestic taxation; 5 billion hwan, customs duties; 8 billion hwan, miscellaneous revenues; 3 billion hwan, national bond receipts; and nearly 4 billion hwan in monopoly profits. Offsetting these increases are decreases of 25 billion hwan in Industrial Reconstruction Bond revenues and ~~x~~ 1 billion hwan in lottery income. (The national lottery has been suspended.) It should be noted that both expenditure and revenue figures shown for 1957 are as budgeted. Actual receipts and expenditures during 1957 fall somewhat short of these estimates although actual figures are not yet available.

General Account Revenues

Account	FY 58 Budget	FY 57 Budget	Percentage change from 57 to 58
General	151,156,293,900	128,488,172,500	+17.0
Domestic Taxes	(79,127,297,000)	(69,741,666,500)	(+13.0)
Land Income Taxes	(20,342,017,900)	(19,994,888,600)	(+ 1.5)
Customs Duties	(24,874,893,900)	(19,777,901,400)	(+25.7)
Misc.Rev. other than Taxes	(26,812,085,100)	(18,973,716,000)	(+41.0)
National Bonds	18,000,000,000	15,000,000,000	+20.0
Industrial Reconstruction Bonds	4,720,179,300	30,179,867,600	-85.0
Monopoly Profits	19,906,961,700	16,200,000,000	+16.0
Lottery	100	1,001,283,900	-100.0
Total:	193,783,435,000	190,869,324,000 d/	+ 1.5

~~x/ xxxx

Sources	(Billions of hwan)
ICA (other than Section 402)	66.6
Section 402	18.9
PL 480	27.2
UNKRA	0.8
	113.5

Utilization	
Government projects (includes aid goods handling charges)	44.6
Private projects and other uses	16.0
Transfers to Defense Account	52.9
	113.5

Special Accounts: All special accounts are shown in balance in the 1958 budget with the exception of the Monopoly Account, the net profits of which are to be transferred to the General Account, and the Grain Management Account which, on paper, shows a deficit of 15.9 billion hwan. This latter amount represents merely a bookkeeping transfer at the BOK wiping out the accumulated deficits of the Grain Account (15.9 billion) against increases in Government overdrafts by 14.6 billion and special account overdrafts of 1.3 billion. A summary of these 1958 special accounts is shown in attachment #2.

Vested property receipts are believed to be on the optimistic side. Revenue estimates include, for example, 4.3 billion for sale of the Korea Shipping Corporation which officials of the Ministry of Finance admit is far in excess of what could be realized from the sale of that enterprise. Expenditures, which will be made only to the extent vested property revenues are actually realized, have been apportioned as follows:

	(Billions of hwan)
Housing	6.0
Small and medium industries	1.6
Agriculture (irrigation)	4.0
Total project use	11.6
Administrative and other expenses	1.4
Total:	13.0

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Estimated Deficit: It has been estimated by the Office of the Economic Coordinator that the over-all deficit of the current year's budget is roughly 12 billion hwan. This estimate is derived as follows:

(Billions of hwan)	
- 9.2	This sum was collected in the form of land income taxes in 1957 and was expended for general governmental purposes. However, according to Korean law, these funds were to have been used to support local governments. The National Assembly, in discovering this misuse of funds, has included the 9.2 billion in the 1958 budget as land income taxes but, since the funds have already been collected and expended, this constitutes a 9.2 billion hwan overestimate of revenues in the current year.
+ 4.2	Partially offsetting the above deficit are counter-inflationary items in the budget which constitute actual cash withdrawals from the economy. Principal among these is the retirement of 2.4 billion hwan in Industrial Reconstruction Bonds.
- 2.0	Internal tax revenues for 1958 are budgeted 17 percent above the amount shown in the 1957 budget and are 20 percent higher than actual tax receipts in 1957. It is believed that these revenue estimates are very optimistic, but possible. The Office of the Economic Coordinator (OEC) estimates that customs revenues, which are carried in the budget at a level 8 percent above 1957 actual collections, may fall two billion hwan short of the budgeted amount due to the reduced import program for 1958.
- 5.0	The budget carries estimated counterpart revenues at 113.5 billion, including 66.6 billion ICA (other than Section 402); 18.9 billion Section 402; 27.2 billion PL 480; and 0.8 billion UNKRA. The PL 480 estimate was made prior to the conclusion of the recent PL 480 agreement and is now estimated to be about 9 billion hwan in excess of anticipated revenues during the current year. Other [redacted] counterpart income is believed to be slightly underestimated in the budget. Overall, collections of approximately 108.5 billion are anticipated by OEC, leaving a cash deficit of 5 billion hwan.
-12.0	Estimated minimum budget deficit

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By [illegible], NARA, Date 4/4/29

For the Charge d'Affaires ad interim:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

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NND 867400
By [illegible], NARA, Date 4/24/24

General Account Expenditures by Agency

Budgeted Expenditures

	FY 1958	FY 1957	% Change 1957 - 1958
Office of President	38,590,700	36,944,500	+ 4.5
Office of Vice President	20,974,600	16,472,400	+12.9
National Upper House	190,946,400	192,764,500	- 0.9
National Assembly	1,591,176,000	1,199,267,700	+32.7
Supreme Court	1,488,786,700	1,219,698,900	+22.1
Board of Audit	183,595,900	166,992,700	+ 9.9
State Council	484,446,300	372,586,400	+30.0
Board of Inspection	0	44,450,200	-100.0
Ministry of Foreign Affairs	1,296,791,600	1,068,741,900	+21.4
Ministry of Home Affairs	37,631,696,100	31,092,596,600	+21.0
Ministry of Finance	16,956,145,200	41,783,256,300	-59.4
Ministry of Finance	(8,059,817,400)	(7,391,532,800)	+ 9.0
National Bonds	(4,299,452,100)	(4,211,855,700)	+ 2.1
Industrial Reconstruction Bonds	(4,596,875,700)	(30,179,867,800)	-84.8
Ministry of Justice	4,921,428,100	4,736,967,400	+ 3.9
Ministry of National Defence	124,164,603,600	114,070,700,200	+ 8.8
Ministry of Education	35,422,581,000	31,603,302,500	+12.1
Ministry of Reconstruction	120,278,700	75,992,100	+58.3
Ministry of Agriculture and Forestry	4,544,147,200	4,795,065,000	- 5.2
Ministry of Commerce and Industry	4,807,390,600	4,156,084,500	+15.7
Ministry of Health and Social Affairs	10,981,964,700	9,628,570,200	+14.1
Office of Public Information	1,557,792,500	1,452,291,300	+ 7.3
National Constitution Committee	1,294,000	1,313,000	- 1.4
Court of Impeachment	2,325,800	2,383,000	- 2.4
Reserve	346,479,300	209,429,200	+65.4
Total	246,753,435,000	247,925,870,500	- 0.5

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Special Accounts

(In billions of hwan)

Account	Receipts	Expenditures	Balance
Vested Property	13.0	13.0	0
Monopoly Enterprises	58.1	38.2	+19.9 a/
Ex-royal Property Management	0.3	0.3	0
Grain Management	94.3	110.2	-15.9 b/
Land Reform	11.7	11.7	0
Transportation Enterprises	39.4	39.4	0
Communications Enterprises	15.5	15.5	0
Insurance & Annuity	0.7	0.7	0
	233.0	229.0	+ 4.0

a/ Transferred to General Account.

b/ Represents settlement (through bookkeeping transfers at the BOK) of accumulated deficits of the Grain Account. This is accomplished by the transfer of a 14.6 billion hwan deficit in the Grain Account at the Bank of Korea to the Government's overdraft account and the transfer of a 1.3 billion hwan deficit in the Grain Account to various special accounts.

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Action Taken
May 12, 1958
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SUBJECT: Korean Chamber of Commerce Advocates Relaxation of the ROKG "Tight Money Policy"

Direction to DC/R
OSO-4 Apply 7 and file 3

The Department and other end users will find of interest the recommendations on the 1958 fiscal and monetary policy of the Korean Government made in the form of a resolution adopted by the General Assembly of the Chamber of Commerce of Korea at the 1958 annual meeting. According to a communication to the Embassy from Mr. Sei Hyun Rhee, President of the Chamber, dated April 28, 1958, the General Assembly resolved to recommend to the Korean Government that it "relax in the Fiscal Year 1958 over-all economic program its extremely tight money policy."

Further pertinent extracts from the General Assembly resolution are quoted below:

The Government's current financial austerity program aiming at price stabilization has had a key importance in fighting the spiral of inflation, and it has attained remarkable success. But, under present circumstances where our economy is gradually moving toward stabilization and expansion, the tight money policy has to be, the General Assembly is convinced, replaced by more positive measures that would directly contribute to industrial recovery and growth.

It may be well said that relatively stabilized price trends of the present have been attained through the past tight money policy. However, it is also of utmost importance to equally note that the tight money policy has also caused weakened purchasing power with consequent surplus production in main indigenous industrial branches.

In view of the above, the General Assembly would like to suggest the Government establish and implement more positive industrial reconstruction program s including more realistic fiscal and monetary measures that correspond to the expansionary policy in industry thus guaranteeing maximum economic growth under the present conditions. The General Assembly recommends to the Government the following measures to the effect above-mentioned:

1. In the past, financial operations in the money market have been under heavy pressure because of the Government's stop-gap measures to cover up its fiscal deficit. This pressure has to be removed.

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Justification: The money supply for the market has always been restricted due to the fiscal deficit factors contained in the overall fund program of the Combined Economic Board. For example, the Government is currently restricting commercial loan activities in the money market, and this measure is understood to be necessitated by the net fiscal deficit factor of Hwan 13.5 billions contained in the Government budget of the first half of the present fiscal year.

2. Release of counterpart funds through the Bank of Korea to supply operational funds for non-ICA Aid productive business; and reduction of Bank of Korea's discount rate.

Justification: In view of the urgency of supplying necessary operational funds for needy productive enterprises, it is suggested that counterpart funds be released utilizing a part of the frozen fund of Hwan 33.2 billions in the Stabilization Sub-account through the Bank of Korea as revolving funds for commercial banks loan activities to the above enterprises. This step, linked with reduction of BOK's discount rate as well as encouragement of saving and loan reimbursement by the commercial banks themselves would provide reasonable money sources for loan-hungry private enterprises.

3. Readjustment of the over-all money supply policy including more realistic determination of an adequate amount of total money supply, prevention of inactive hoarding and maldistribution of money.

Justification: Despite the fact that the total amount of money supply as of the end of 1957 was increased by Hwan 24.3 billions compared to that of 1956, scarcity of money availability in the market and the consequent decrease of purchasing power of the consumers have even worsened. It is evident that the situation resulted from 1) demand for money increased because of the expansion of industries, and 2) maldistribution and inactive hoarding of money to a considerable extent. The unrealistic ceiling of Hwan 135 billions set for money supply in the first half of 1958 should be liberalized; a pump-priming policy of releasing counterpart funds and other financial operations should be boldly employed; and serious maldistribution and hoarding of money should be remedied.

4. Advancement of the purchasing power of the consumers should be given top priority in overall policy making.

Justification: The restricted money supply and the maldistribution of money have inevitably resulted in decreased purchasing power among the rural and urban consumers. Therefore, generation of increased effective demand through adequate and timely financial measures including release of counterpart funds and normalization of money distribution should be given first priority in moulding overall monetary policy. Bold Government spending of the so-called social overhead capital in irrigation, land cultivation and reclamation works, highway construction and improvement, bridge and port facilities improvement, and natural resources development are recommended. Strongly commendable as well

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is a rice parity price, in order to advance the consumer's purchasing powers which, in turn, would revitalize manufacturing industries that have been haunted by production surpluses.

5. More realistic approach to the problem of interest rates and banking policy, especially in relation to the proposed increase of the official interest rate.

Justification: The proposed increase of the official interest rate, reportedly contemplated by the Government, is quite contradictory to collective efforts in business circles to rationalize managements and cut production costs. In view of the current decreasing trends of the interest rate in the money markets, and the subsequent drop in the profit rate of business enterprises, the General Assembly would like to express strong objection to the proposed increase of the official interest rate. On the contrary, the General Assembly suggests 1) to withdraw legal restrictions imposed through Act 24 of the Emergency Monetary law upon free, private banking transactions; 2) to exempt Interest Income Tax.

Industrial Sector

1. Protective measures are urged to promote and explore both external and internal markets for productive industries.

Justification: a) In order to promote indigenous manufacturers' participation in U.S. Offshore Procurement, every possible protective consideration (including most favored treatment for the Dollars acquired therefrom) should be given to the participant industries. b) In order to encourage and ensure increased export, such drastic measures as trade agreements with broader overseas areas, freer exchange of trade missions with foreign countries linked with a liberalized passport system for Korean exporters, and strengthening of export incentive measures including establishment of export bounty system are strongly recommended. c) More severe counter-measures to root out smugglers.

2. Tax reform and introduction of technical innovation to the effect of reducing current high level of production costs, and of advancing products quality.

Justification: a) Tax reform, in terms of revising the present heavy stress on financial revenue regardless of the nature of the business and the variety of profit rates and specific importances of industries, would be a major incentive for production, and would encourage greatly accumulation of capital in this capital-hungry country. A general tax cut for productive branches of industry would also contribute greatly to more investment and production. b) miscellaneous duties and charges and insurance burdens, which constitute a formidable factor in the current high level of production costs in indigenous industry should be eliminated or alleviated. c) Introduction of technological innovations together with caution against over-investment to any specific branches would bring about low cost for high quality, and thus would ensure balanced industrial development.

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3. Establishment of a) a specialized banking institution for medium and small industries, b) of a credit insurance system to reinforce credit availability for small industries, c) enactment of a Law of Industrial Co-operatives to enable the small and medium industries to take collective measures in mutual assistance in order to protect themselves.

Justification: Statistics compiled as of October, 1957, show that small industry, whose employment is less than 200 persons per factory occupy 99.2% of total national industry. There can be no economical growth without protection and development of these small industries through the aforesaid measures.

For the Ambassador:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

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773
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TO : THE DEPARTMENT OF STATE, WASHINGTON.

June 5, 1958
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67	FE-4	INFO RUMR-2, IRC-8, E-5, ICA-10 USIA-2
	REC'D 6/13.	OTHER CIA-13, AG-8, Com-10, TR-3, FRB-2, Treas-4

SUBJECT: Conversion of Military Payment Certificates

(BEGIN UNCLASSIFIED)

from AFKN Seoul

The surprise announcement on the 0700 news broadcast Thursday, May 21, that Military Payment Certificates (MPC) were to be recalled that day, caused much less consternation on the ROK free money market than had been experienced during previous conversions. The military held the conversion as a very tight secret. Most authorized holders were in the $200-$500 bracket.

Bitten on the two previous occasions (1952 and 1954), and perhaps anticipating a changeover on the basis of the timing of preceding conversions, it appears that Korean speculators, for the most part, had become conditioned to handling this currency with caution. No large black market holders were caught short, to the Embassy's knowledge, nor apparently, were there any widespread "leaks". In the recent past, dealers have apparently confined their operations to limited amounts and quick turnovers. As dealers become emboldened by the expectation that the new issue will remain valid for some time, this situation could quickly change.

Other factors have contributed to the somewhat blase attitude of the Korean black market toward MPC's.

For example, the accessibility of other types of dollars -- such as "missionary" and "transfer" dollars -- frequently at more attractive rates, entailing less risk, and providing greater freedom of use, has undoubtedly reduced the volume of MPC circulation. US greenbacks are also in circulation and can be purchased at a moderate premium (usually about 10 percent higher than MPC). The apparent scarcity of MPC is also attributed to the timing of the conversion at the "dry period" of the month -- i.e., just preceding the monthly pay-day of the military. It is reported, also, that many dealers have established "reliable" sources that they can tap as the need for MPC occurs.

The MPC are utilized largely for financing PX or commissary purchases, made with the "cooperation" of Americans or others who have access to these establishments. (END UNCLASSIFIED)

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(BEGIN CONFIDENTIAL)

There is evidence, though no statistical proof, that some traffic in MPC's occurs in smuggling trade between the ROK and Japan and North Korea, Newspaper accounts of captured NK "spies" nearly always report that the spies possess MPC's as well as greenbacks (frequently in amounts of $1,000-$2,000 or more) and hwan. To what extent these spies engage in trading is not known, but a number of South Koreans have admitted informally to the reporting officer that there is some traffic in ROK foodstuffs, particularly rice, to North Korea, and that the so-called political spies are in some cases chiefly interested in trade. (END CONFIDENTIAL)

(BEGIN UNCLASSIFIED)

An estimated $20 million was exchanged by US and UN forces in Korea. The procedure was facilitated by restriction of military forces to their bases throughout the day.

The impact on free market quotations is shown below:

Period	Hwan per MPC ($1)
May 26	1,030 - 1,050
May 27:	
First half hour	700
Evening	100
May 28, old MPC	2,000 a/
May 28, new MPC	1,040
May 29, new MPC	1,040

a/ A few transactions reportedly were effected at this high rate after the conversion period closed. The period was extended to accommodate soldiers and others who were out in the field or for other legitimate reasons were unable to reach conversion offices by the 1930 deadline.

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

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TO THE DEPARTMENT OF STATE, WASHINGTON.

June 24, 1958
DATE

REF : CERP Section D, IV-General

JUN 26 1958

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	FE-3	INFO RMTA-2 REP-1 AR-1 IRC-8 E-5 P. Dev. Staff
	REC'D 6-30-58	OTHER COM-8 TR-3 FRB-2 XMB-4 dia [illegible]

SUBJECT: Enclosed "Report on Fiscal and Monetary Conditions"-- Economic White Paper of ROK Ministry of Finance

The Ministry of Finance has supplied the Embassy with several copies of an English translation of its "White Paper," published in April 1958. Two copies are enclosed; six copies are being sent by surface pouch.

This paper recapitulates the progress of the Korean economy since the truce of 1953, giving special attention to the financial stabilization program adopted in fiscal year 1957 and to proposals for its extension into FY 1958.

It should be noted that some of the estimated data on which the paper is based (e.g., gross national product, employment) are admittedly incomplete or otherwise deficient.

The "Conclusion" section lists the following as Korea's major economic problems: to improve the pay of Government officials; to meet the financial requirements of key industries; to achieve reconstruction of the farm economy; and to curb unemployment. Measures for dealing with these problems have not been presented in very specific terms in MOF's paper.

The Embassy is awaiting a translation of another White Paper, published in June by the Ministry of Reconstruction. Judging from press reports, this latter paper is regarded as more substantive than that of the Ministry of Finance.

For the Ambassador:

Robert W. Tucker
Robert W. Tucker
First Secretary of Embassy

Enclosures: as stated

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Enclosure to Despatch
810, 6/24/58
Amembassy Seoul

REPORT

ON

FISCAL AND MONETARY CONDITIONS

- - - In view of the Outcome of

the Financial Stabilization Program in 1957 - - -

CERP PUBLICATION

FROM RM/R DEPARTMENT OF STATE

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PREFACE

As a result of the Government Financial Stabilization Program undertaken during the fiscal year 1957, our national economy has been considerably stabilized and is developing steadily as compared with conditions from the Armistice year of 1953 to 1957. The gross national product has continuously increased in real terms, and the price level has so stabilized that international confidence is being shown in our economy.

Hereby, I send you the report on the fiscal and monetary situation for 1957, pursuant to Article 80 of the Financial Act, and also express our future policy outlook in this report.

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By [illegible] NARA, Date 4/16/04

I. The Stabilization and Development of the Korean Economy

1. The Financial Stabilization Program for the FY 1957.

During the fiscal year 1957, the Financial Stabilization Program was enforced in order to moderate the financial inflationary pressure accumulated since the liberation of 1945, and to do so a curtailed balanced budget policy was very strictly maintained. The outcome of this policy has brought a stabilized foundation to our economy. Here I would like to recall why we needed such a stabilization policy: every year, in order to finance the tremendous defense expenses and industrial rehabilitation programs, the budget deficit had continously increased, and the private credit demand for reconstruction also had increased day by day. All of these factors made for an unadjustable and vicious inflation: therefore, during the FY 1957, a budget deficit of Hw56.0 billion (including the Industrial Reconstruction Bond of Hw25.0 billion) was shown, and in the banking system new loans of Hw10.0 billion were estimated. Accordingly, the net increase in the money supply totaled 66.0 billion hwan. Confronted with such a condition, our Government, in cooperation with the foreign aid authorities, established the principle of maintaining the current level of money supply as of the end of 1957. Under this principle our Government changed fiscal and monetary policy drastically; therefore, in the fiscal aspect, the expenditure curtailment and the increased revenue policy were executed, and simultaneously the quantitative and qualitative control of bank credit was stressed. The execution of such a financial stabilization program has created strong reconstruction foundation in each field of our economy; the level of prices and money supply has been stabilized for the first time since 1945; and production increased far beyond the pre-Korean War level.

Now I am going to review and analyze the stable trends of price and money as well as the development of production during FY 1957. In connection with such an analysis, the actual arrivals and utilization of foreign aid will be evaluated, and our balance of payment and employment problems will be reviewed as well.

2. Money, Prices, and Cost of Living.

First, the money supply and price movements are reviewed: The money supply during 1957 increased by 24.3 billion hwan, or 20.1% as compared with the December (1956) high of 120.9 billion hwan; the total money supply as of December, 1957, amounted to 145.2 billion hwan. On the other hand, the Seoul wholesale price index rose by 18.5% in annual average during the same period. However, the price index of December, 1957, was down by 6.9% from the high of December, 1956, and rose by 10% as compared with that of September, 1955. This percentage of price rise was far below the 25% line which was required for maintenance of the current exchange rate.

Next, the money and price trends are illustrated:

a) The money supply.

First, the price factors leading to an increase of approximately 24.3 billion hwan in the money supply are analysed. As table 1 shows, 8.8 billion hwan was added in the General Account, the Defense Account, the Vested Property Account and the other Special Accounts, despite the

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fact that 15.6 billion hwan was absorbed by the Grain Control Special Account in the fiscal field and 8.0 billion hwan of net increase was created. In the banking field, 51.6 billion hwan of new credit was shown, in the U.S. dollar field 12.1 billion hwan was engendered due to the excess purchase of U.S. dollars, and in the other fields 2.5 billion hwan was increased. The total increase was 74.2 billion hwan. However, 50.0 billion hwan of the surplus in the Counterpart Fund was untouched, even though 43.1 billion was released for the Defense Support Budget and 56.6 billion for Economic Rehabilitation and other purposes. Including this 50.0 billion hwan of surplus, the net money supply increase amounted to 24.3 billion hwan.

Though the 24.3 billion hwan of the money increase amounted to a gain of 20.1%, this was far below the average annual gain of 92% for the eleven years after Liberation Day. Furthermore, this increase can be regarded as a suitable accelerator for economic development reflected in the Gross National Product and other production figures.

Second, the composition of the money supply is analysed: As shown in the Table 2, if the total money supply is divided into two parts -- money in circulation and the demand deposits -- the proportion of money in circulation to the total money supply has gradually decreased, while the proportion of demand deposits has increased. The figures are as follows: in December, 1953, the proportion of the money in circulation was 73.3%, while the deposit proportion was only 26.3%; but in December, 1957, the deposit proportion was 40.7% and the circulating share 59.3%. The deposit proportion as of the end of February, 1958, was 47.7%.

The proportion of deposits to the total money supply is a measure of the economic stabilization for a country. The fact that in Korea the deposit-money versus circulation ratio is almost one to one means that (1) the value of money is stabilized, (2) public confidence in the money has increased, and (3) various economic transactions are being carried out in a normal way.

The proportion of passbook deposits has gradually increased. As Table 3 shows, at the end of 1957, 63.3% of 59.1 billion hwan of total deposit money, or 37.4 billion hwan, was passbook deposits. At the end of 1956, total deposits were 47.6 billion hwan, of which 56.3% was in passbook deposits. Thus the proportion of passbook deposits, as well as the amount, has increased considerably. At the end of 1957, passbook deposits were 37.4 billion hwan and had increased by approximately 40% and by 10.5 billion hwan as compared with 26.8 billion hwan in December, 1956. Considering both this increased percentage and the total increase in the money supply, 24.3 billion hwan of the total increase in money during 1957 included the 10.5 billion hwan of the increase in passbook deposit. Therefore, if we subtract the increase in passbook deposits, which has less liquidity, from the total money increase, the increase in the currency and in checking deposits, with more liquidity, is only 10.5 billion hwan. Such a change in the composition of the money supply reflects in part the recent stabilization of economic condition in Korea.

b) Actual Status of the Budget.

Along with the above analyses of the money supply, the actual status of the budget for FY 1957 is reviewed on the fiscal year basis (which is not equivalent to the calender year), concentrating on the General Budget. (See the Annex Table 4.)

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Total expenditure of the General Budget was estimated 計 218.6 billion hwan, but was curtailed by 9.9 billion hwan, the actual expenditure thus amounting to 208.7 billion hwan. For financing this expenditure, 209.1 billion hwan was collected as revenue, leaving 400 billion hwan of surplus. Thus we had healthy budget execution last year. But actually, because 6.1 billion hwan of expenditure was transferred from 1956 and also because 1.3 billion hwan was transferred to the next fiscal year, 1958, with 4.8 billion hwan left as a net transfer, the total expenditure during FY 1957 amounted to 213.5 billion hwan. Consequently, 4.4 billion hwan was the excess expenditure, and this deficit was financed by borrowing within the debt limit of 9.9 billion hwan which was estimated in the initial budget. This was in accord with the principle of the Government to clear up past fiscal burdens, keeping a balanced budget during the current year.

c) Price and the Cost of Living.

First, let us survey the movement of the Seoul wholesale price index (1947 = 100), as a barometer, of 1957. It stood at 22,070 and rose by 18.5% as compared with 18,623 of the 1956 average. Compared with the 34.8% of the annual rate of increase in 1956, the 18.5% of 1957 a considerable improvement. This also verifies that our economic situation has been materially stabilized, because the annual average rate of price rise had been 130% for the eleven years after the 1945 Liberation.

The upward shift of prices in 1957, analysed by commodity, are illustrated in table 5. The grain price index showed a rise of 16.1%, and there was a 20.7% rise in the nongrain index. Meat, eggs, and fish rose by 19.4%; textiles (raw materials) by 16.6%, fuel by 27.9%, building materials by 12.1%, fertilizers by 5.0% and miscellaneous commodities by 32.0%. Only the price of textile fabrics, whose production capacity has increased, fell -- by 1.5%.

Comparing the price index of December, 1957, with that of December, 1956, the general index of December, 1957, stood at 19,503, and was down 6.9% from the 20,950 of December, 1956. Even though the 1957 high of 19,503 is compared with the December (1955) high of 17,729%, the increase is only 10%. This means that, as I mentioned in the Introduction, the present price level is far below the 25% increase level that is linked with the current exchange rate.

Analysing this price change by commodity, the figures are as follows:

The grain price index of December, 1957, declined by 25.5% as compared with that of December, 1956, nd the non-grain index rose by 8.0%. Non-grain increases were eggs, meat, and fish, 0.6%; textile raw materials, 9.6%; construction materials, 11.3%; fuel, 1.4%; and miscellaneous, 32.3%. Textile fabrics declined by 9%.

Let us survey recent trends of retail prices: the 1957 average index showed 25,985 (1947 = 100), and shifted upward by 23.5% compared with 21,048 of the 1956 average. However, the 22,753 of December, 1957, can be compared with the 25,017 of December, 1956, for a 9% decline.

Now we turn to the general price index for Korea as a whole:

As shown in the table 6, 26,613 was the average of 1957, and this was up 22.7% from the 21,695 of 1956. However, comparing December figures, we find the 23,711 of December, 1957, was down by 7.9% from the 25,732 of December, 1956. Third, the consumer price index, which directly affects our daily life, is surveyed here. In 1957, the annual average index of consumer prices was 151 (1956 = 100), a rise of 32% compared with the 123 of the 1956 average. Comparing December figures, however, the 137 of

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December, 1957, showed a fall of 2% as compared with the December (1956) high of 139. This was mainly because of a 17.8% decline in the price of foodstuffs and of 1.6% in clothing. (See Table 7.)

These stabilized trends in money and prices have had various economic effects: the stabilization in the value of money provides certainty and safety in business forecasting and investment planning. This decreases drastically the speculative money demand, which has usually occurred because of windfall profits under inflation; and also increases the incentive to save voluntarily. Such increased savings flow into production and the fixed income group has a better stabilized life.

As we have already seen in the analyses of money supply, bank money has increased considerably, not only in its absolute amount, but also in its proportion to banknotes. Of such increased bank money, the passbook demand deposits, which have a relatively different economic effect on the flow of money from checking deposits and banknotes, increased at a rapid rate. All of these facts verify that the foundation for economic stabilization has been established.

Fourth, in this section, how has the cost of living (in view of family income and expenditures) changed? As table 8 shows, with a stabilized price level, we recently have begun to be able to make both ends in family living. As the cost of living in Seoul indicates, in 1957 the average income amounted to 59,787 hwan, which was up by 20.7% as compared with the 1956 average of 49,552 hwan, while the average expenditure in 1957 was 59,787 hwan, which was up only 15.1% from the 51,940 hwan of the 1956 average. Such improved standard of living is reflected not only in the contrasting of changes in absolute amounts of income and expenditures in both years, but also in rates of increase: that is, in 1956 the rate of increase in income (28.5%) was far less than the rate in expenditures (28.5%), while in 1957, on the contrary, the rate of increase in income was slightly more 5% ahead of the rate for expenditures. In addition to this fact, taking account of the recent downward trend in retail prices, it is obvious that our standard of living is much improved. Furthermore, if the December figures in both years are contrasted, difference becomes even more apparent. The average income in December, 1957, was 84,245 hwan, which was 21.8% higher than the 69,173 hwan of December, 1956, while the expenditures in December, 1957, were 71,388 hwan, which is only 7.0% higher than the 66,760 hwan of December, 1956. Consequently, in 1957 there was 12,857 hwan of surplus, which is up 10,384 hwan from the 2,473 hwan of surplus in December, 1956.

And such improved standard of living also is reflected in the fact that the proportions of income going to food and rent have recently tended to decline. First, as shown in table 8, the proportion of food to total expenses was 41.9% in 1957. This proportion was slightly higher than the 39.3% of the 1956 average, but comparing both December figures -- 38.9% in December, 1957, and 42.7% in December, 1956 -- 1957 brought a 7% decline. Second, the proportion for rent in 1957 was 12.4%, almost the same as the 12.3% in 1956. But in December figures, the proportion in December, 1957 was 9.7%, down by 15% as compared with the 11.4% of the proportion for December, 1956.

As the price indices and the money supply figures indicate, price and money tend to be stable, and simultaneously the standard of living tends to rise. All of these stabilized tendencies are, as mentioned above, mainly due to the moderate adjustment in money supply through the Financial Stabilization Program. However, in part these tendencies were supported by a 10% increase in rice production, as compared with the average production level, because of good weather and the well-timed distribution of fertilizers and farming funds, and increased production in mining and industry.

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3. Gross National Product and Actual Status of Production for 1957.

a) Gross National Product:

The value of the gross national product in 1957 was, as shown in table 9', 1,634.1 billion hwan in current price terms, showing an increase of 18.9% compared with that of 1,268.9 billion hwan in 1956. However, this increase in GNP involves a considerable amount of nominal increase due to price rises. For the convenience of comparison in real terms, each value of GNP is reduced to the 1953 money value, which is presented in table 9'. By the 1953 constant price as shown in table 9', the 1957 GNP actually increased by 12.5% compared with that of 1956.

If this increase is broken down by economic sectors, there is an 11.6% increase in agriculture and fishery, 14.6% in non-agriculture, and 4.1% in Government enterprises and services. Furthermore, compared with the year of Armistice, 1953, the GNP in 1957 represented an increase of 35%. The breakdowns by sector are as follows: agriculture and fishery, 20%; non-agriculture, 51%; and Government enterprises and services, 25%. Manufacturing in the non-agriculture sector showed a remarkable increase of about 82%. This was attributed mainly to continuous Government efforts for the development of secondary industry during these years. And the rapid increase (by 235%) in private construction since the Armistice was reflected in the remarkable progress of building construction work.

Such a sharp increase in secondary industry is illustrated by the production index of mining and industry (1956=100), as shown in table 10. The general average index of 1957 was 156, showing an increase of 39% compared with the 1956 figure of 120. Detailed breakdowns are: Mining in 1957 reached 170, 35% higher than the 1956 high of 126; manufactures at 156 were 31% above the 119 in 1956, and electronics, with a 1957 high of 151, increased by 19% as compared with 127 in 1956. Furthermore, if both December indices are compared, the increase in production is illustrated more clearly: at the end of 1957, the general index reached 172, the mining index 211, the electronics 181, and manufactures 167.

b) The Actual Status of Production:

In order to illustrate further the increase in the GNP and the production index, the actual status of production is analysed by industries.

i) Agriculture:

Rice production, which is usually 70% of total grain production, has increased year by year since 1945. Last year rice production reached the highest peak since 1945; the total production was 19.85 million suk. This was 24% higher than that of 1956 and a 10.4% increase over the average level of production. Such a sharply increased production in rice was not only attributable to good weather conditions last year, but also to the completion of irrigation projects and to the well-timed distribution of fertilizers and farming funds.

In stock breeding, substantial progress has also been made. Although livestock was mostly destroyed during the Korean War, large numbers of livestock were added due to the livestock-increment policy of the government. As of the end of September, 1957, cows and oxen totaled 879,000, which is a ratio of 1 to 9.5 farm households, and chicken were increased to a ratio of one to four households. (See Table 11.)

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ii) Minerals and Manufactures.

With the intensive investment policy of the Government and aid goods support, the production of minerals and manufactures has increased remarkably. This increased production has contributed greatly to the stabilization and growth of national economy. Here, the analysis is concentrated on mineral production: last year coal production, which is usually almost 45% of the total production in mining and industry, attained a new peak of 2,440 thousand tons, an increase of 182% as compared with 1953 and by 116% over the 1948 peak level of 1,130 thousand tons before the Korean War. This increase in coal production was due to the improvement and expansion of mining facilities realized through Government special loans and the aid investment program so as to meet a considerable deficit in the coal supply.

Comparing other mining production in 1957 with that of 1956 gold production in 1957 totaled 2,058 kg., four times above 1956; silver was 8,626 kg., more than five times higher; lead ore 1,884 tons, more than seven times; and iron ore totaled 185 thousand tons, about ten times more. Thus most metal ore production increased tremendously. Tungsten production was reduced, chiefly because of the curtailment in international demand.

In non-durable manufacture, most industries rehabilitated and had enough capacity to meet domestic demand. Some are preparing to export their products. To illustrate this development, several products are analysed, as shown in table 12. Food manufactures have produced sufficiently to meet domestic demands since 1955 and cotton yarn is in a position to export.

Cotton fabrics had their first export last year; woollen cloth of quality equivalent to that of foreign products is now adequate for domestic demand; and nylon fabrics have been developed further.

In the chemical products, major industrial materials have not made any remarkable development, but rubber products and soaps have been developed in quality year by year. Paper production was doubled as compared with 1954. And in metal products and machinery, the plant constructed under the ICA program last year is now producing 170 thousand tons of steel ingots per year. Nails, electric supplies such as wire, aluminum products, and others have increased continuously since the Armistice.

Finally, the electric power supply, which is indispensable for all other production, is surveyed. Last year the power supply was 151 thousand KW, showing almost a doubling from the 1953 Armistice year high of 84 thousand KW. Even though the power supply gained sharply, it is not sufficient to meet the growing demand. Therefore, considering that the power demand will increased still more rapidly as new industrial plants are completed in the near future, our Government policy is designed to expedite power development.

4. Foreign Aid.

In the foregoing, we have taken a look at the stabilization of money and prices in the light of the financial stabilization program, as well as at the real increase in production which was conducive to price stabilization. However, it should be noted that foreign aid also was one of the key factors accelerating the stabilization and development of our economy.

Here I should like to call attention to the effects of foreign aid on our economy in terms of actual amounts and use of aid during the period 1953 to 1957.

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Until the Armistice Agreement, most of the foreign aid was concentrated in the war relief field. After the ceasefire of 1953, the concentration was shifted to the reconstruction field. The ICA aid program was started and the UNKRA projects strengthened. Since the Armistice, total foreign aid has amounted to 1,300 billion dollars, of which 1,076 million dollars were channeled through the ICA, UNKRA and PL480 programs for the purpose of economic reconstruction. During 1953 - 1957, total ICA aid was 880 million dollars, of which 285 million dollars was used for project and technical assistance and the remaining 630 million dollars for the importation of productive raw materials. (See Table 14.)

First, let us survey the contents of the project assistance, to which 285 million dollars was released: 11 million dollars allocated for agriculture and natural resources was used for irrigation and crop and livestock development; 82 million dollars for mining and manufacturing was used for the development of the electric power industry, including the rehabilitation of Hwachon hydro-electric station and thermal power plants, and for the construction of a fertilizer plant and for the fostering of medium and small enterprises. For the transportation field, 147 million dollars -- the highest amount of all -- was allocated because of the great damage of the Korean War and the indispensable nature of transport. Money was used for the importation of locomotives and rolling stock and for the rehabilitation of railroads. A total of 35 million dollars was used for public utilities, health and sanitation facilities, housing and school buildings; and the remaining 9 million dollars was used for public administration and other miscellaneous purposes.

Second, for nonproject assistance 630 million dollars was available, of which approximately 300 million, or almost half, was used for the importation of raw materials and semi-finished products to enable newly constructed and rehabilitated plants to boost their production, as well as for the importation of fertilizer and general chemicals to increase farm products. Seventy million dollars was used for the importation of fuels such as coal and petroleum, and 66 million for machine tools, iron and steel products, logs, lumber, and building materials. A total of 167 million dollars from Sec.402 and 78 million dollars from PL480 were used for the import of surplus agricultural commodities.

Third, let us turn to the breakdown of the UNKRA aid program. The total of UNKRA aid was 109 million dollars, of which almost 70%, 71 million dollars, was used for project assistance. As the table 15 shows, 7 million dollars for key industries, including a cement plant, flat glass plant, and spinning facilities. This fund available for key industries was more than 38% of the total project assistance. Other than such key industries, 10 million dollars was used for coal mines, 4 million dollars for power development, 5 million for transportation and communications, and 18 million for education, housing, and health and sanitation.

We have roughly surveyed, in aggregate terms, the actual status of the foreign aid by industry during 1953-1957. As for construction progress and production capacity of key industries, a summary can be made from table 16. Beginning with the ICA projects, (1) the Hwachon hydropower plant with 70,000 KW per month was completed in October, 1957; (2) the Chungju Fertilizer Plant with total capacity of 200,000 tons per year has progressed to almost 70% of completion and is expected to be completed, at the latest, within 1959. Furthermore, the Naju Fertilizer Plant, financed by Government-held dollars, is scheduled for completion following three years and will add 200,000 tons of capacity annually. Thus, in the near future, we shall have annual production of 400,000 tons of fertilizer, and this will meet almost 50% of the domestic demand and

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save about 25 million dollars in fertilizer imports annually. (3) As part of the Daihan Heavy Industry Corporation, a flat furnace plant was completed in November, 1957, in the first-year program, and in the second-year program, a press machine plant is now under construction.

Next, through the UNKRA fund, (1) the Mungyong Cement Plant was completed in September, 1957, and is producing 200,000 tons of cement per year; (2) the Inchon Flat Glass Plant was completed in April, 1957, and has a capacity of 130,000 boxes per year, sufficient to meet the domestic demand.

As we have seen, foreign aid has not only contributed to our economic reconstruction through direct capital investment, but also through the counterpart fund which, was collected on the sales of aid goods, has played a major role in stemming inflation as well as in the support of defense expenses.

Since the Counterpart Fund Special Account was established in 1953, the total expenditures of the fund have amounted to 229.0 billion hwan. The breakdown of the Counterpart Fund is presented in table 17. As the table shows, 53.7% of the total of 229.0 billion hwan was for economic reconstruction, while the remaining 46.3% went for the support of national defense. Investigating the breakdown by fiscal year, in 1953 all of 1,000 million hwan was used for defense support; in 1954, 51.4% of the total of 24.7 billion hwan was for defense and 48.6% for economic reconstruction; in 1955-56, on the other hand, 52.5% of 109.1 billion hwan was for reconstruction and 47.8% for defense; in 1957, 56.5% of 93.5 billion hwan was for reconstruction while the remaining 43.5% was for defense. The proportion for economic reconstruction has increased steadily. This trend was in keeping with the increased production mentioned previously.

Thus foreign aid has had a dual effect in spurring economic reconstruction and stabilization, and in supporting national defense.

5. The Balance of Payment.

We have analysed economic conditions in accordance with internal trends, concentrating on the Financial Stabilization Program in 1957. Now let us turn to the national economy as a whole. To see the influences of international economic transactions on our national economy, what transactions were made and consequently what was brought into our economy, we must examine the balance of payments. Of course, in a broad sense, foreign aid also should be included in the balance of payments, but because it is a big and special problem, dealt with aid separately. Accordingly, in this section the balance of payment includes only the tangible and intangible transactions which have a commercial base.

The breakdown of the balance of payments is presented in table 18. As shown there, we had in tangible trade last year a total of 27 million dollars of excess importation -- 49 million dollars of tangible imports and 22 million dollars of tangible exports. Major components of the exports were inedible crude materials for 16 million dollars, foodstuffs for 6 million, and semi-finished products and raw materials for 2 million. The imports consisted chiefly of foodstuffs, machinery, and fuels. Although 27 billion dollars of deficit is shown, a considerable amount of foreign currencies were gained through invisible transactions such as the direct dollar purchases of the UN Forces in Korea, procurement within Korea for ROK Army support, and goods and services offered to UN Forces. This invisible trade in 1957 amounted to approximately 38 million dollars, of which 25 million dollars was from the direct dollar purchases of UN Forces,

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3 million from offshore procurement, and 10 million from goods and services offered to UN Forces. This total was up 18 million dollars as compared with 20 million in 1956.

With reference to the 3 million dollars from offshore procurement and the 10 million from goods and services offered to UN Forces, it should be remembered that such procurements were made in Japan and other countries until recently. If we want to increase the level of such procurement, we must produce a higher quality of commodities at a lower cost. That way we could acquire more foreign currencies, and the balance of payments would be in our favor. To summarize for 1957, the total receipts of U.S. dollars, including 38 million dollars from the invisible trade with UN Forces, 17 million from other invisible trade and 22 million from visible exports, amounted to 77 million dollars. On the other hand, total payments, in both visible and invisible trade, amounted to 61 million dollars; therefore, approximately 16 million dollars of favorable trade balance was recorded in 1957. However, as I mentioned before, in a broad sense the balance of payments should include not only general foreign trade but also the foreign aid. Including foreign aid, under which 384 million dollars of goods and services were imported last year, 368 million dollars of deficit is shown. Thus, in a broad sense, our balance of payments presents a considerable amount of excess imports. This means that Korea still has many unsolved problems to solve before attaining the goal of a self-supported economy.

6. Employment Problems.

In analysing the trend of our economic activities, the employment problem also must be investigated. Because most of our economic policies have been directed against inflation, the employment problem faced inevitable neglect, though it was a very serious matter for us. Several questions on this problem can be answered through analyzing still unconfirmed statistical data of 1956.

First, let us survey the level of employment. As table 19 shows, the total population in 1956 was 21,870 thousand, of which 11,716 thousand was assumed to be the potential labor force (ages 14 - 60). Out of 11,716 of the potential labor force, 8,565 thousand persons were regarded as the active labor force. The statistical investigation also shows that there were 1,135 thousand persons among the involuntary unemployed -- those who were willing to work but could not find job opportunities.

Second, by contrasting the Gross National Product by industry with the level of employment in industry, the following results are derived (as shown in table 20): the value of the gross product in primary industry, consisting chiefly of agriculture and fisheries, was 534.0 billion hwan, while the number of employed persons in this industry was 5,802 thousand: therefore, the value of product per capita per year in the industry was 92,106 hwan. In secondary industry, including mining and manufacturing, the value of the product per capita per year was 243,289 hwan; and in the third industry -- commerce and service -- the per capita product was 574,629 hwan. In other fields it was 1,163,333 hwan.

Thus, comparing the per capita figures by industries, it is found that the lowest value was in primary industry. As we may see in the table, it is a characteristic point that in Korea, 78% of the total employed population, 5,802 thousand was engaged in primary industry with lowest per capita productivity. This fact means that in primary industry we are confronted with the problem of disguised unemployment which will cause serious difficulty in our future employment policy. It is believed that

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such low productivity in primary industry is mainly attributable to the seasonal fluctuation in production, the long idle times in winter, and the fragmented, small-scale operation. Therefore, it is essential to encourage farmers to make use of idle time for side-jobs so as to increase productivity.

As our economy is gradually stabilized and reconstructed, and as the production level is enlarged, it is expected the level of employment will be shifted sharply upward. To raise the employment level, the Government should take every possible measure, such as the fostering of medium and small industries, projection of regional community development, and investment in public utilities.

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CURRENT FISCAL AND MONETARY POLICIES

(1) Financial Stabilization Program in 1958

(a) Background of the Financial Stabilization Program in 1958:

Objectives of economic policy are, under a stabilized money supply and prices, to boost production, to guarantee employment opportunity, and to increase people's real income. As clearly illustrated in the preceding analysis, the present price stability, accompanied by monetary stability and a production increase, has been obtained through implementation of the Financial Stabilization Program in 1957. However, to assure further increases in production, employment, and income, the confidence of the general public in the value of money should be strengthened, its expectations for the future should be hopeful, and its voluntary investment through a reduction in consumption should be increased. To attain these ends, strenuous efforts should be made to sweep away potentially inflationary factors, to strengthen further the stabilized economic foundation, and at the same time to embark upon a long-term development policy. For these reasons, the Government has established a new Financial Stabilization Program for 1958, the contents and characteristics of which are stated hereafter.

(b) Characteristics of the Financial Stabilization Program for 1958:

The 1958 Financial Stabilization Program has a greater flexibility than that for 1957. Although the 1957 program was implemented on the basis of a fixed limit for the money supply, allowing no net increase, some amendments became unavoidable during the last half of FY 1957. However, the new Stabilization Program is designed to provide appropriate industrial funds as long as the overall economic circumstances -- considering monetary and fiscal aspects -- will permit and as long as such funds have the effect of increasing production. A review of the current year's Stabilization Program includes these points:

(i) Government Finance: Efforts should be made to maximize Government revenues, such as those from taxes and from the sale of aid goods; to maintain the Cash-Budget-Balance Principle; and to generate industrial funds by adopting a foreign exchange special tax and by immediate sale of Government owned and vested properties. In addition, the program is designed to provide counterpart funds for productive enterprises, through effective administration of such funds, to the extent that such fund releases will not endanger price and monetary stability.

(ii) Banking Sector: In principle, loans will be granted within an amount not exceeding increase in passbook deposits, and outstanding loans amounting to over Hw200 billion can be extended. In addition, for development of key industries, small and medium businesses, and farming, new loans of over Hw19.0 billion will be made from surpluses in Government special accounts and counterpart funds. Distribution of fertilizer on credit and rice loans, which have contributed greatly toward the stabilization of prices of agricultural products and development of the farm economy, will be continued.

(iii) Sales of UNC Dollars: The dollars purchased from UNC and obtained through sale of military supplies and utility services will be offered for sale to the general public to offset inflationary pressures which are created as the money supply increases. To the end of effective implementation of the 1958 Stabilization Program, it is

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contemplated that price and other general economic trends will be studied and coordinated from time to time.

(2) Formulation of Current Policies:

In order to make possible the effective implementation of the stabilization program and to achieve the targets of economic policy mentioned above, the following essential problems must be solved.

(a) Guarantee of a Minimum Standard of Living for Government Officials:

First of all, the fundamental problem is how to guarantee a minimum standard of living for Government officials. The pay increase problem is still unresolved, although several attempts have been made. Although there has been danger that various Government functions would be paralyzed by harmful effects resulting from inability to provide a minimum living for Government officials, the problem was not adequately dealt with because of pressures and lack of required funds. Now, with the Korean economy being stabilized, the pay increase problem will be reflected in the revised budget bill to be presented to the new National Assembly. Means for financing the increase will be obtained through Government economics; through legislation to regularize school fees to the extent that such a tax burden can be reasonably borne; by effective control of such special Government service revenues as utility and handling charges; levies such as the foreign exchange tax upon windfall profits of small groups; and by an automatic increase in tax collections resulting from better administration followed by the effect of the pay increase itself.

Such pay increases should not bring about a rise in prices because the financing is anti-inflationary and execution will be under the present stabilization program. The purpose of the increases is not only to guarantee a minimum living to Government officials, but eventually to purify the morals of Government functionaries.

(b) Rationalization of Business Accounting
(Enforcement of Assets Revaluation)

The Assets Revaluation Act, now in force, is designed to encourage normal development of the national economy, through capital accumulation, by eliminating unreasonable elements in enterprise accounting and tax assessment. These elements were brought about by inflationary effects accumulated since Liberation.

Depreciation of capital assets to make possible efficient management has not been realized because the same standard of money value has been used in enterprise accounting despite the fact that money value actually fell drastically. Moreover, the imposition of taxes and the distribution of dividends on a basis of book value has encroached upon capital assets and hindered normal development of the national economy.

To eliminate these harmful elements, all capital assets should be revalued in the light of the present situation. By doing so, depreciation accounting and reasonable tax assessment can be attained. This would contribute to rationalization of enterprise management through capital accumulation, and to normal development of the economy. Although we are not unaware that it was somewhat late to commence assets revaluation on January 1st, we had decided to do so in consideration of the recent economic stability, because enforcement of assets revaluation is always subject to timing to accord with economic stabilization. Value re-

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assessed after the base line of January 1st will become book-value, and the margin created as the result of such revaluation will be used to cover carry-over deficit up to the day of revaluation. The margin thus acquired will be further transferred to a revaluation reserve fund to be used for payment of a revaluation tax at a rate of .017, and the remainder of such reserve, if any, will be added to capital, which will help to increase capital and attract private investment. It is also believed that this will eventually result in strengthening our preparedness for foreign investment.

(c) Establishment of Banking System:

The banking system is an indispensable organization which has important and direct relation to the development of production and employment at a stabilized price level. As various banking acts and regulations, such as the Bank of Korea Act and the Commercial Bank Act, have gradually been enacted, the banking system has begun to operate effectively.

(i) The Korean Reconstruction Bank, exclusively empowered to extend long-term industrial loans, has provided over Hw25.0 billion of irrigation funds and over Hw90.0 billion of long-term industrial funds for enlargement of electric power facilities, construction of fertilizer and flat glass plants, and development of coal mining and heavy industry. Thus the bank has made a great contribution to the development of key industries.

(ii) As the Government sold all bank stocks vested in it, commercial banks are now in a position to liquidate mutual bank shares. Consequently, democratic bank operation is being attained. Use of commercial drafts in business transactions has been restored and developed. Loans have fostered export industries, and medium-small industry encouraged through enlarged credit.

(iii) After more than a decade's delay, the Korean Agricultural Bank was activated on April 1st as a special bank to be owned and controlled by farmers themselves. With the establishment of a consumer bank now planned, the specialization of banking functions is taking shape. All this will lead to more effective banking operations and will provide equal opportunity for credit. At a moment when the economic order is stabilizing and functioning more efficiently, it has been found that there are several defects and contradictions in the Bank of Korea Act, the Korea Reconstruction Bank Act, and other provisions hastily enacted before or after the Korean War. Revision of the existing bank acts thus is being requested so as to cope with present economic condition, and decisive action is being taken to reorganize the existing banking system and capitalize on the knowledge gained from past experience.

The Korean Reconstruction Bank, whose nature is being changed by new trends in the aid programs, should become an investment bank so as to put large enterprises under private ownership and eliminate monopolistic practices. It is also our plan to provide for protection of depositors and to conduct banking operations in the public interest under the Bank of Korea Act and the Commercial Bank Act.

(d) Effective Fund Mobilization and Its Administration

It is also necessary to mobilize idle money of the general public and to administer it effectively within the framework of the Financial Stabilization Program. To remove the obstacles that private usurious lenders set up for productive enterpreneurs, the Government is considering the interest-adjustment problem so as to transfer such high-interest

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money into industrial funds. Deposit interest is to be adjusted so as to absorb such idle money and shift it to industrial use. As one of means to this end, the unregistered deposit system may be used to protect interest gains against taxation. Other possible projects include:

(i) Fostering of Small and Medium Business:

Small-medium enterprises manufacturing daily necessities with meager capital accumulation still require enormous amounts of money, despite the fact that the development of such enterprises has been given prime priority by the President and vigorous efforts have been made to mobilize Hw3.0 billion from the Vested Property Fund plus Hw3.5 billion from the ICA Counterpart Fund, in addition to loans from the banking sector. In view of the fact that development of small-medium enterprise plays the most important role in increasing production, employment, and income, and in stabilizing the price level, further efforts should be made to improve management of such enterprises and to provide fund for them. To this end, it is planned under the Financial Stabilization Program for 1958 to release 4 billion to 6 billion hwan from the Counterpart Fund to increase their working capital fund. Further releases of Hw 1.6 billion from the Vested Property Fund and fund releases through commercial banks also are contemplated.

(ii) Settlement of Housing Problem:

Hw4.7 billion has been released through the Korean Reconstruction Bank for housing, so as to provide homes for war refugees. In 1958 greater emphasis will be placed on this housing project. It should also be noted that Hw6.0 billion, equivalent to half of the available fund in the Vested Property Account, was set aside for housing when procedures for operation of the Vested Property Fund were enacted.

(e) Problems in Farm Loans:

The future of our country depends largely on the development of the farm economy. In view of the gradual foreign aid cut, it is urgent that efforts be made to improve the balance of payment by exporting domestic products to the international market. Special consideration should be given to the fact that rice occupies the highest percentage of exportable goods, and that the raising of the farmer's living standard would result in a huge increase in purchasing power for the domestic market. Farm credit can have great impact, considering the urban-rural economic unbalance resulting from the huge amount of farmers' debts, small-scale and inefficient farming, disguised unemployment in farm labor forces, etc. The independent Korean Agricultural Bank now has taken full charge of agricultural banking operations, including irrigation fund loans. With branches all over the country, it will function as a special banking institution for the farmer's welfare. Last year the bank released farm credit of Hw 4.0 billion from the Counterpart Fund and Hw1.5 billion from the Vested Property Account to expedite agricultural production, and made early use of fertilizer possible by extending loans of over Hw 18.0 billion. By releasing Hw20.0 billion as rice loans, the bank prevented farmers from suffering undue losses which have occurred due to the fall in grain prices at harvest time and the rise in the spring. Such rice loans will be continued this year. The Korean Reconstruction Bank has taken charge of fund management for irrigation works and land reclamation, both requisite to increase in agricultural productivity, and has extended over Hw25.0 billion of loans. However, new responsibility for irrigation loans has been transferred to the Korean Agricultural Bank for the

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farmers' convenience. It has been decided that the Government will extend loans to the Bank in total of Hw12.0 billion, including Hw4.0 billion from the Grain Control Special Account and Hw4.0 from the Vested Property Disposal Special Account. Moreover, the settlement of the high-interest debts of farmers is presently under consideration.

(f) Fostering of Consumer Bank:

The problem of equal credit opportunity for all has been discussed for a long time. After the Agricultural Bank Act was promulgated, a proposal was made to reorganize the city branches of the former farm bank. The Banking System Research Committee, consisting of academic circles and other interested groups, has drafted and proposed a Credit Association and Banking Act. There also has been a proposal to activate consumer banks in accordance with the Commercial Bank Act. With these proposals as a basis, the Government hopes to establish and activate a consumer's bank for workers and small-scale businessmen. Another urgent question is the encouragement of mutual loan activities, which have played a large role in consumer credit. To improve business morals, the Government is planning to develop the authorized mutual loan activities and has introduced the draft of the Mutual Loan Act in the National Assembly. Further efforts are being made to establish mutual loan companies in every local district, to work out plans for a new type of mutual loan system, and to rationalize the management of the existing mutual loan companies.

(g) Expedition of Foreign Capital Investment:

(i) Necessity of Foreign Capital Investment:

To continue and expand economic stability, every effort must be devoted to development of national resources and to the attainment of advanced technology. Capital formation for a balanced economic growth can be obtained by curtailing consumption and increasing savings. When the increased investment is financed by the increases in such savings, increased production can be attained without creating inflationary effects.

However, in Korea today, the capital accumulation for the huge amount of reconstruction investment is inadequate because of the low level of national income. Accordingly, introduction of foreign private capital and importation of advanced foreign technology are strongly required, in addition to the national capital mobilization, so as to obtain increased capital supply without inflationary pressures. A foreign capital investment program will be established in conjunction with overall production planning. It should stimulate domestic production and employment, and contribute to improvement of balance of payments. In view of the fact that in U.S. foreign aid, the existing grant system is gradually being converted to a loan basis, it is felt that a high degree of readiness should be maintained to put the foreign capital investment program into effect.

(ii) Legislative Action for Foreign Capital Investment:

Recognizing the necessity of foreign capital investment, the Government entered into the ROK-US Friendship, Commerce and Navigation Treaty to expedite and protect foreign investment. In addition, the ROK-US Investment Guaranty Agreement under MSA413 soon will be put into force. Strenuous efforts are being made to effect early enactment of a Foreign Capital Investment Law so as to establish an overall foreign capital investment system. Attractive terms must be offered foreign capital investors, and to this end, the following principles

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will be reflected in the foreign capital investment bill:

i. Maximum possible guaranty should be maintained with respect to withdrawal of capital and remittance of profit, so that Korean investment may present more attractive terms than those of other countries.

ii. Special favors will be bestowed in tax assessment. More favorable consideration will be given in tax assessment on frontier industry.

iii. Stricter guaranty will be accorded to the foreign investor in connection with nationalization or expropriation of his investment assets to overcome the usual fears of foreign investors in making investments in an underdeveloped country.

Foreign capital investment will be directed into industrial fields, where our own capital and technology are inadequate.

Industries where development is possible with domestic capital and technology will be excluded from the foreign investment field.

(h) Fostering and Development of the Insurance Business:

Insurance designed to cover death, illness, and property casualty made remarkable progress in 1957. Statistics for life insurance covering the period from April, 1957, to the end of February of this year show more than 60,000 policyholders with a policy value of Hw16.1 billion and net premiums of Hw226 million. These figures represent increases since 1956 of approximately sixfold in the number of policyholders, twelvefold in the total contract amount, and sixfold in premiums received. In view of the increased zeal for education, education insurance is about to be established to alleviate the financial burden imposed upon families. Authorization for other new insurance businesses appropriate to the economic situation is being studied. Life insurance will be improved to the level of advanced countries. As to casualty insurance, there has been public complaint about the high level of existing rates. This rate issue will be brought before the Premium Rate Assessment Committee for review.

(i) Mobilization of Industrial Funds through the Bond Market:

The Securities Exchange Office was activated in March, 1956, to contribute to development of domestic industries with idle private capital. The amount transacted the first year was only Hw10,282 million, but it increased to Hw24,189 million in the following year, demonstrating the rapid economic development of Korea.

As the existing Securities Exchange Act, enacted in the Japanese occupation period, involves many points contrary to democratic principles, a new bill has been drafted and is being introduced in the National Assembly. It is expected that more private capital will be mobilized when the bill is passed. When assets revaluation is accomplished, the details of profit and loss will be clearly ascertainable. Public offerings of stocks can be expedited, and family partnerships can float their stocks through the securities market by granting favorable tax assessment upon dividends from such stocks. It is hoped that by giving such investment opportunities, maximum mobilization of private capital can be obtained.

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(j) Enactment of Foreign Exchange Special Tax:

A minute study has been made as to the importance of such a foreign exchange special tax system. It is desirable to impose a foreign exchange tax upon profits accruing as the result of the difference between official and market exchange rates so as to assure equitable taxation and prevent evasions at the time of foreign exchange auctions for ICA procurement. Such levies will replace the sale of national bonds in foreign exchange auctions and thus avoid a future treasury debt burden. Provisions are being prepared to reflect such tax assessment in the supplementary revised budget.

CONCLUSION

During the years since Liberation, the Korean economy has been continuously thrown into confusion and rendered unstable because of inadequate production and inflation resulting from territorial division and the Korean War. This is dramatized in the parallel upward curve of money supply and prices, which has produced tragic inflationary effects. Confronted with such a situation, the Government decided last year to take drastic action through the Financial Stabilization Program of 1957. Fortunately, this program has attained satisfactory results, as reviewed in this white paper. Money supply and prices have been stabilized and production increased. But this is only a beginning, and for further progress, four urgent problems must be solved. The first is to improve the pay of Government officials; the second to meet the financial requirements for key industries, bringing about more abundant production and income; the third to achieve reconstruction of the farm economy; and the fourth to curb unemployment. It is believed that top priority should be given to improvement of officials' pay in the interest of Government efficiency and honesty, and the desperate need of the nation's civil servants. However, such priority should not preclude close attention to the importance of funds for industry, the reconstruction of the farm economy, and solution of the employment problem. As part of the solution to these problems, the Government has sought to develop small and medium enterprises, to construct various key industrial facilities, to activate the Agricultural Bank, to make rice loans, etc. Other measures will be undertaken after the financial stabilization and pay increase programs have been effected. It is also believed that the pay increase will accelerate settlement of the other problems.

At the end of this report, it may be observed that there has been no accidental economic development in any advanced country, nor any easy way to such progress. Behind economic development and prosperity, there always are hard work, painstaking savings, and creative imagination. Cognizant of this, we pledge to implement Government finance with utmost sincerity and effort, paying respect to the all opinions, and seeking the active cooperation of the people and our foreign friends.

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Table 1

Principal Factors Affecting Money Supply in 1957

(In Millions of Hwan)

Sector	Net Balance (increase or decrease)
A) General Budget.	
1) General, Defense, National Bond	(+) 14,825
2) Grain control.	(-) 15,573
3) Vested Property.	(+) 143
4) Others.	(+) 8,632
Sub-Total	(+) 8,027
B) Counterpart Fund.	
1) Collection.	(-) 49,611
2) Defense Support.	(+) 56,576
3) Other expenditures.	(+) 43,050
Sub-Total	(-) 49,985
C) Banking.	
1) Loans extended by B.O.K.	(-) 198
2) Korean Reconstruction Bank.	(+) 20,052
3) Agricultural Bank.	(+) 23,001
4) Other Commercial Banks.	(+) 3,760
Sub-Total.	(+) 51,615
D) Foreign exchange.	
1) Excess value of foreign currencies purchased during the year.	(+) 12,074
E) Others	(+) 2,520
Sub-Total	(+) 14,594
Grand Total :	24,261

Remark :

Money Supply.	(As of the end of December,	1956).	120,925
"	("	1957).	145,186
"	Net increase in 1957		24,261

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Table 2

Conposition of Money Supply

(In Millions of Hwan)

	Currency in circulation (Notes of Bank of Korea held by Public)		Demand deposits		Total
	(Value)	(Percentage)	(Value)	(Percentage)	
1945	84.4	73.8	29.9	26.2	114.3
1946	165.4	66.6	83.1	33.4	248.5
1947	311.8	63.1	182.7	36.9	494.5
1948	406	58.3	290	41.7	696
1949	707	58.4	504	41.6	1,211
1950	*) 2,228	78.7	*) 603	21.3	*) 2,831
1951	*) 5,393	73.8	*)1,911	26.2	*) 7,304
1952	9,743	68.0	4,582	32.0	14,325
1953	22,334	73.7	7,982	26.3	30,316
1954	39,979	68.8	18,100	31.2	58,079
1955	58,777	62.8	34,716	37.2	93.523
1956	73,338	60.6	47,587	39.4	120.925
1957	86,048	59.3	59.138	40.7	145,186

Remark.

Source : Bank of Korea.

* Estimated

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Table 3

Demand Deposits

(In Millions of Hwan)

		Passbook Deposits.	Percentage	Checking Deposits, Others	Percentage	Total
1955.	9	12,278	46.5%	14,098	53.5%	26,378
	10	13,483	45.2	16,324	54.8	29,807
	11	13,427	43.9	17,126	56.1	30,553
	12	15,340	44.1	19,406	55.9	34,746
1956.	1	18,676	45.8	22,509	54.2	40,735
	2	20,778	50.0	20,834	50.0	41,612
	3	20,472	50.7	19,876	49.3	40.348
	4	22,714	47.0	25,653	53.0	48.367
	5	27,745	55.2	22,545	44.8	50.290
	6	27,205	60.9	16,905	29.1	44,650
	7	26,413	55.2	21,459	44.8	47,872
	8	27,756	59.4	18,951	40.6	46.707
	9	27,708	64.3	15,246	35.7	43.062
	10	27,816	56.1	21,785	43.9	49,601
	11	28,573	54.4	23,911	45.6	52.484
	12	26,788	56.3	20,799	43.7	47,587
1957.	1	28,786	56.3	22,380	43.7	51,166
	2	30,613	59.9	20,531	30.1	51,144
	3	33,738	59.6	22,880	40.4	56,618
	4	33,442	58.6	23,603	41.4	57,045
	5	33,244	56.5	25,557	43.5	58,791
	6	36,001	62.0	22,096	38.0	58,097
	7	36,295	60.2	24,017	39.0	60,312
	8	36,146	61.1	23,054	38.9	58,200
	9	36,526	61.6	22,807	38.4	59,333
	10	55,116	61.3	22,200	38.7	57,316
	11	36,648	63.5	21,022	26.5	57,670
	12	37,436	63.5	21,702	36.7	59,138

Note : Passbook deposits consist of mostly special demand deposits, a few of "schoolboy's savings," and the deposits of National Savings Association.

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Table 4

Status of the Budget for FY 1957

(In 100 Million of Hwan)

Revenue

Classification	Estimated Revenue	Collected	Balance	Account
Tax	1095	1162	+ 67	General
Miscellaneous	188	131	- 57	Defense
Monopoly Profits	162	162		
National Bonds	152	152		
Lottery	10	1	- 9	
Counterpart Funds	483	483		
Total	2090	2091	+ 1	Total

Status of the Budget For FY 1957 (Continuation)

(In 100 Millions of Hwan)

Expenditure

Classification	Estimated	Entailment Curtailed	Allocation Syspended	Unused	Total Reduced
Tax	1045	31	15	12	58
Miscellaneous	1141	40	-	1	41
Monopoly					
National Bonds					
Lottery					
Counterpart Funds					
Total	2086	71	15	13	99

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Table 4

Status of the Budget For FY 1957 (Continuation)

(Hh 100 Millions of Hwan)

Classification	Actual	Transferred From 1956	Transferred To 1958	Net Transferred	Actually Total Payment
Tax	987	33	10	23	1010
Miscellaneous	1100	28	3	25	1125
Monopoly					
National Bonds					
Lottery					
Counterpart Funds					
Total	2087	61	13	48	2135

	Balance		
	Revenue A	Expenditures B	Surplus or deficit (A-B)
The Actual Budget for FY 1957	2091	2087	+ 4
The Actual Budget plus Transfers From FY 1956	2091	2135	- 44

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Table 5

Wholesale price index in Seoul

Classification	1953	1954	1955	1956
General index, annual change	5,951.0	7,628.5	13,815.7	18,622.9
% of	-	28.2	81.1	34.8
Sept. 1955 = 100	-	-	-	-
A) Grains Index	7,566.7	6,076.8	14,587.3	22,861.2
% of Change	-	(-)19.7	140.0	56.7
Sept. 1955 = 100	-	-	-	-
B) Non-Grain index	5,151.6	8,620.5	13,336.0	15,916.9
% of Change	-	-	-	-
Sept. 1955 = 100	-	-	-	-
1) Eggs, meat, fish.	10,226.4	20,060.3	24,102.3	38,557.6
% of change	-	96.2	20.1	18.5
2) Textile materials	3,710.7	6,526.3	10,906.1	12,605.0
% of change	-	74.5	67.1	15.6
3) Textile fabrics	3,047.9	5,394.3	6,708.7	6,892.2
% of change	-	77.0	12.5	2.3
4) Building materials	7,682.6	13,264.4	20,335.2	21,892.8
% of change	-	72.7	53.3	7.7
5) Fertilizer	8,448.7	8,448.7	14,824.7	51,375.0
% of change	-	0	75.5	246.6
6) Fuels	8,074.7	18,476.9	32,255.1	34,227.8
% of change	-	128.8	74.6	6.1
7) Miscellaneous	3,215.4	4,441.7	7,555.1	8,415.7
% of change	-	38.1	70.1	11.4

Wholesale price index in Seoul (Continuation)

Classification	1957	Dec. 56	Dec. 57	Jan. 57
General index, annual change	22,070.2	20,950.0	19,502.7	21,921.1
% of	18.5	-	(-) 6.9	-
Sept. 1955 = 100	-	-	-	123.6
A) Grains Index	26,552.5	26,263.8	20,357.3	25,968.7
% of change	16.1	-	(-)22.5	-
Sept. 1955 = 100	-	-	-	123.1
B) Non-Grain index	19,204.5	17,553.0	18,956.0	19,333.0
% of change	20.7	-	8.0	-
Sept. 1955 = 100	-	-	-	124.1
1) Eggs, meat, fish.	34,085.3	32,119.0	32,301.8	32,849.0
% of change	19.4	-	0.6	-
2) Textile materials	14,703.1	14,172.8	15,536.9	14,670.7
% of change	16.6	-	9.6	-
3) Textile fabrics	6,760.0	7,865.9	6,858.6	7,548.6
% of change	(-)1.5	-	(-)12.8	-
4) Building materials	24,551.8	22,280.3	24,803.4	22,776.0
% of change	12.1	-	11.3	-
5) Fertilizer	53,940.0	53,940.0	53,940.0	53,940.0
% of change	5.0	-	0	-
6) Fuels	43,785.9	41,822.1	42,412.3	47,407.0
% of change	27.9	-	1.4	-
7) Miscellaneous	11,112.6	8,258.7	10,924.5	10,683.4
% of change	32.0	-	32.3	-

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Table 5

Wholesale price index in Seoul (Continuation)

Classification	Feb. 57	Mar. 57	Apr. 57	May 57
General index, annual change	21,928.1	22,499.7	23,187.0	21,919.9
% of	-	-	-	-
Sept. 1955 = 100	123.7	126.9	130.8	129.3
A) Grains Index	25,372.9	26,544.8	29,896.7	29,886.8
% of change	-	-	-	-
Sept. 1955 = 100	120.3	125.8	140.4	141.7
B) Non-Grain index	19,726.0	19,914.0	18,897.0	18,466.0
% of change	-	-	-	-
Sept. 1955 = 100	126.2	127.9	120.9	118.6
1) Eggs, meat, fish.	28,942.6	28,880.6	29,518.2	32,928.5
% of change	-	-	-	-
2) Textile materials	14,431.9	14,130.8	14,152.6	14,297.7
% of change	-	-	-	-
3) Textile fabrics	6,813.9	6,754.8	6,674.0	6,665.7
% of change	-	-	-	-
4) Building materials	23,323.0	23,693.8	25,097.9	24,972.3
% of change	-	-	-	-
5) Fertilizer	53,940.0	53,940.0	53,940.0	53,940.0
% of change	-	-	-	-
6) Fuels	54,598.4	56,470.8	46,790.5	40,190.5
% of change	-	-	-	-
7) Miscellaneous	10,830.0	10,873.5	10,819.5	10,735.0
% of change	-	-	-	-

Wholesale price index in Seoul (Continuation)

Classification	June. 57	July. 57	Aug. 57	Sept. 57
General index, annual change	23,426.7	22,959.1	23,340.7	22,554.0
% of	-	-	-	-
Sept. 1955 = 100	132.1	129.5	131.7	127.2
A) Grains Index	31,261.9	29,961.2	29,718.6	26,330.0
% of change	-	-	-	-
Sept. 1955 = 100	148.2	142.0	140.9	124.8
B) Non-Grain index	18,417.0	18,482.0	19,263.0	20,140.0
% of change	-	-	-	-
Sept. 1955 = 100	118.3	118.7	123.7	129.3
1) Eggs, meat, fish.	33,657.8	33,856.3	38,552.6	43,113.3
% of change	-	-	-	-
2) Textile materials	14,059.1	13,841.9	14,432.5	15,234.9
% of change	-	-	-	-
3) Textile fabrics	6,465.8	6,393.0	6,614.6	6,696.0
% of change	-	-	-	-
4) Building materials	25,468.4	24,768.7	24,345.6	24,584.6
% of change	-	-	-	-
5) Fertilizer	54,940.0	53,940.0	53,940.0	53,940.0
% of change	-	-	-	-
6) Fuels	38,811.1	39,632.3	39,875.0	40,194.3
% of change	-	-	-	-
7) Miscellaneous	10,929.2	11,004.3	11,457.8	12,037.7
% of change	-	-	-	-

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Table 5

Wholesale price index in Seoul (Continuation)

Classification	Oct. 57	Nov. 57	Dec. 57
General index, annual change	20,829.1	19,774.7	19,502.7
% of	-	-	-
Sept. 1955 = 100	117.5	111.5	110.0
A) Grains Index	22,696.6	20,634.6	20,357.3
% of change	-	-	-
Sept. 1955 = 100	107.6	97.8	96.5
B) Non-Grain index	19,635.0	19,225.0	18,956.0
% of change	-	-	-
Sept. 1955 = 100	126.1	123.4	121.7
1) Eggs, meat, fish.	26,874.2	37,549.1	32,301.3
% of change	-	-	-
2) Textile materials	15,810.2	15,838.1	15,536.9
% of change	-	-	-
3) Textile fabrics	6,876.9	6,758.5	6,858.6
% of change	-	-	-
4) Building materials	24,856.7	25,931.8	24,803.4
% of change	-	-	-
5) Fertilizer	53,940.0	53,940.0	53,940.0
% of change	-	-	-
6) Fuels	40,341.2	38,778.1	42,412.3
% of change	-	-	-
7) Miscellaneous	11,941.9	11,114.2	10,924.5
% of change	-	-	-

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Table 6

Index number of retail prices

Classification	1953	1954	1955	1956	1957	Dec. 1956
Seoul	7,383.9	10,125.9	17,057.7	21,047.8	25,984.8	25,016.
% of change	52.5	37.1	68.5	23.4	23.5	
Nationwide	7,618.8	10,319.3	17,483.3	21,694.7	26,613.3	25,732.
The general index						
% of change.	45.3	35.4	69.4	24.1	22.7	

Classification	Dec. 1957	Jan. 1957	Feb. 1957	Mar. 1957
Seoul	22,752.6	26,586.8	27,661.4	29,470.0
% of change.	(-) 9.0	6.3	4.0	6.5
Nationwide				
The general indes	23,710.5	27,099.3	27,609.9	29,493.6
% of change.	(-) 7.9	5.3	1.9	6.8

Classification	Apr. 1957	May 1957	June 1957	July 1957	Aug. 1957
Seoul	29,714.7	27,172.9	25,986.8	25,993.9	26,364.5
% of change	0.8	8.6	4.4	0.0	1.4
Nationwide					
The general index	30,557.9	27,795.5	26,511.1	26,511.7	26,964.9
% of change	3.6	9.0	4.6	0.0	1.7

Classification	Sep. 1957	Oct. 1957	Nov. 1957	Dec. 1957
Seoul	24,756.7	22,915.8	22,441.8	22,752.6
% of change.	6.1	7.4	2.1	1.4
Nationwide				
The general index	25,673.1	24,054.0	23,378.0	23,710.5
% of change	4.8	6.3	2.8	1.4

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Table 7

Seoul Consumer Price index

Classification	1955	1956	1957	Dec.56	Dec. 57	Jan. 57
General	100.0	122.8	151.3	139.9	137.3	149.3
(change)	-	22.8	23.2	-	(-)1.9	6.7
Foods	100.0	136.7	164.2	159.9	131.5	167.2
(change)	-	36.7	20.1	-	(-)17.8	4.9
Residences	100.0	115.1	152.3	137.3	160.3	137.3
(change)	-	15.1	32.3	-	16.8	0.0
Fuel and light	100.0	101.2	135.5	111.5	128.8	147.6
(change)	-	1.2	33.9	-	15.5	32.4
Clothing	100.0	109.3	120.9	121.3	119.3	123.1
(change)	-	9.3	10.6	-	(-)1.6	1.5
Miscellaneous	100.0	110.1	144.5	113.6	153.7	129.0
(change)	-	10.1	31.2	-	35.3	13.6

Classification	Feb.57	Mar.57	Apr. 57	May 57	June 57	July 57
General	152.3	156.8	165.9	161.7	155.6	153.1
(change)	2.0	3.0	5.8	2.5	3.8	1.6
Foods	171.0	179.1	194.8	184.5	172.1	167.4
(change)	2.3	4.7	8.8	(-)5.3	(-)6.7	(-)2.7
Residences	138.2	138.1	138.3	158.2	159.8	159.3
(change)	0.7	0.1	0.1	14.4	1.0	0.3
Fuel and light	183.7	170.7	151.7	128.2	122.7	121.5
(change)	10.9	4.3	(-)11.1	(-)15.5	(-)4.3	(-) 0.7
Clothing	120.4	120.4	123.1	120.5	120.3	119.4
(change)	(-)3.2	0.0	2.2	2.1	0.2	0.7
Miscellaneous	129.4	129.9	145.0	147.5	148.2	148.3
(change)	0.3	0.4	11.6	1.7	0.5	0.1

Classification	Aug. 57	Sep. 57	Oct. 57	Nov. 57	Dec. 57
General	155.1	148.4	141.9	137.8	137.3
(change)	1.3	4.3	4.4	2.9	0.4
Foods	171.9	157.7	140.4	132.8	131.5
(change)	(-)2.7	(-)8.3	(-)11.0	(-) 5.4	(-) 1.0
Residences	159.3	159.4	159.6	159.7	160.3
(change)	0.0	0.1	0.1	0.1	0.4
Fuel and light	121.5	122.8	123.5	122.8	128.8
(change)	(-)0.3	1.1	0.6	(-)0.6	4.9
Clothing	120.4	120.3	123.0	120.5	111.9
(change)	0.8	(-)0.1	2.2	(-)2.0	(-)1.0
Miscellaneous	146.7	147.2	154.8	154.9	153.7
(change)	(-)1.1	0.3	5.2	0.1	(-)0.8

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Table 8

Family income and expenditures in Seoul

Classification	1953	1954	1955	1956
Income	15,042	25,704	48,569	49,552
% of change		+(70.9%)	+(50.1%)	+(28.5%
Expenditure	16,968	26,444	38,240	51,940
% of change		+(55.8%)	+(44.6%)	+(35.1%
1. Food	8,630	10,676	16,981	22,388
(Proportion to the total expenditure)	(50.86)	(39.71)	(42.31)	(39.32
2. Residence	1,526	3,806	4,601	6,393
(Proportion to the total expenditure)	(8.99)	(14.39)	(12.03)	(12.31
3. Fuel and Light	1,339	1,938	2,849	3,347
4. Clothing	2,194	4,151	4,489	6,474
5. Miscellaneous	3,279	5,873	9,329	13,339
Excess or Deficit	1,926	740	329	2,388

Classification	1957	Dec. 1956	Dec. 1957
Income	59,785	69,173	84,245
% of change	+(20,7%)		+(21.8%)
Expenditure	59,787	66,700	71,388
% of change	+(15.1%)		+(7.0%)
1. Food	25,063	28,515	27,821
(Proportion to the total expenditure)	(41.92)	(42.75)	(38.97)
2. Residence	7,376	7,632	6,955
(Peoportion to the total expenditure)	(12.34)	(11.44)	(9.74)
3. Fuel and Light	3,791	4,550	4,253
4. Clothing	7,157	10,723	12,581
5. Miscellaneous	16,400	15,388	19,870
Excess of Deficit	(-) 2	(+) 2,473	(+)12,857

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Table 9'

The Gross National Product

(In 1953 prices)

Classification	1953	(Percent)	1954	(Percent)
Farm Population	205.1	42.6	247.2	37.5
Agriculture	179.0	37.1	206.0	31.3
Forestry	21.5	4.5	34.5	5.2
Fisheries	4.6	1.0	6.7	1.0
Non-farm population	283.8	48.5	347.3	52.5
Mining	9.6	2.0	7.9	1.2
Private construction	5.8	1.2	15.1	2.2
Manufacturing	57.8	12.0	84.3	13.8
Wholesale and retail trade	279.2	16.4	123.5	18.7
Finance, ihsuranceand real estate.	29.2	6.1	42.4	6.4
Civil Transportation	3.1	0.6	5.4	0.8
Public utilities	1.0	0.2	1.4	0.2
Services	48.1	10.0	67.3	10.2
Government enterprices	7.6	1.6	13.0	2.0
Government services	31.9	6.6	46.4	7.0
Rest of the world	3.7	0.8	6.0	0.9
Gross National product	482.0	100.0	659.9	100.0
Foreign Aid (in thousands of capita)	67.7	14.2	68.5	10.3
Population (per capita)	20,844	-	21,178	-
Value (per capita)	23,127	-	31,156	-

Classification	1955	(Percent)	1956	(Percent)
Farm population	463.8	44.5	534.4	42.1
Agriculture	417.2	40.0	479.1	37.8
Forestry	36.0	3.5	37.8	2.9
Fisheries	10.6	1.0	17.5	1.4
Non-farm population	477.1	45.7	617.9	48.7
Mining	11.1	1.1	17.5	1.4
Private construction	22.4	2.1	28.7	2.3
Manufacturing	109.8	10.5	137.2	10.8
Wholesale and retail trade	182.7	17.5	237.5	18.7
Finance, insurance and real estate.	55.1	5.3	77.7	6.1
Civil transportation	6.3	0.6	7.0	0.6
Public utilities	1.3	0.1	1.5	0.1
Services	88.4	8.5	110.8	8.7
Government enterprices	24.4	2.4	34.0	2.7
Goverment services	63.2	6.1	75.2	5.9
Rest of the world	13.9	1.3	7.4	0.6
Gross National Product	1,042.4	100.0	1,268.9	100.0
Foreign Aid (in thousands of capita)	97.6	9.6	158.3	12.5
Population (per capita)	21,526	-	21,870	-
Value (per capita)	48,426	-	58,024	-

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Table 9:

The Gross National Product

(In 1953 Prices)

Classification	1957	(Percent)
Farm Population	720.7	44.1
Agriculture	655.3	40.1
Forestry	44.2	2.7
Fisheries	21.2	1.3
Non-farm population	737.5	45.1
Mining	16.9	1.0
Private construction	36.5	2.2
Manufacturing	154.5	9.5
Wholesale and retail trade	276.9	16.9
Finance, insuranceand real estate.	96.5	5.9
Civil transportation	15.9	1.0
Public utilities	3.1	0.2
Services	137.2	8.4
Government enterprices	42.7	2.6
Government services	122.5	7.5
Rest of the world	10.7	0.7
Gross National Product	1,634.1	100.0
Foreign Aid (in thousands of capita)	187.2	11.5
Population (per capita)	22,220	-
Value (per capita)	73,541	-

Table 9:

Classification	1953	(Percent)	1954	(Percent)
Farm population	205.1	42.6	232.6	43.9
Agriculture-Forestry	200.5	41.6	227.2	42.9
Fisheries	4.6	1.0	5.4	1.0
Non-farm population	233.7	48.5	253.9	47.9
Mining	9.5	2.0	5.0	0.9
Private construction	5.8	1.2	10.8	2.0
Manufacturing	57.8	12.0	72.5	13.7
Wholesale and retail trade	79.2	16.4	85.4	16.1
Finance, insurance and real estate	29.2	6.1	28.9	5.5
Civil Transportation	3.1	0.6	3.8	0.7
Public utilities	1.0	0.2	1.0	0.2
Services	48.1	10.0	46.5	8.8
Government enterprices	7.6	1.6	8.7	1.7
Government services	31.9	6.6	30.3	5.7
Rest of the world	3.7	0.8	4.0	0.8
Gross National product	482.0	100.0	539.5	100.0
Foreign Aid	-		9.8	
Population (000)	100.0		109.8	
G.N.P Per capita				

Source : B.O.K.
a) Fiscal Year (Apr. 1953 - Mar. 1954)
b) Half of the year (Jam-June) : Actual
Last half (July-Dec.) : Assumed

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Table 9'

Gross National Product

(In current Prices)

Classification	1955	(Percent)	1956	(Percent)
Farm population	240.0	42.6	220.2	38.1
Agriculture-Forestry	235.8	41.9	212.8	36.8
Fisheries	4.2	0.7	7.4	1.3
Non-farm population	276.1	49.1	307.6	53.2
Mining	6.5	1.2	7.1	1.2
Private construction	10.2	1.8	12.1	2.1
Manufacturing	84.1	14.9	89.2	15.5
Wholesale and retail trade	99.6	17.7	109.7	19.0
Finance, insurance and real estate.	27.9	5.0	35.9	6.2
Civil transportation	2.8	0.5	3.2	0.6
Public utilities	0.4	0.1	0.6	0.1
Services	44.5	7.9	49.7	8.6
Government enterprices	13.1	2.3	14.5	2.5
Government services	28.9	5.1	31.8	5.5
Rest of the world	5.2	0.9	3.3	0.6
Gross National Product	563.3	100.0	577.4	100.0
Foreign Aid	6.4		2.5	
Population (000)	116.9		119.8	

Classification	1957	(Percent)	From 57 to, 56 Change (Percent)
Farm population	245.8	37.8	11.6
Agriculture-Forestry	239.9	36.9	12.7
Fisheries	5.9	0.9	(-)20.3
Non-farm population	352.4	54.4	14.6
Mining	7.9	1.2	11.3
Private construction	19.4	3.0	60.3
Manufacturing	105.2	16.2	17.9
Wholesale and retail trade	125.9	19.4	14.8
Finance, insurance and real estate.	36.8	5.7	2.5
Civil transportation	5.0	0.8	56.3
Public utilities	1.0	0.2	66.7
Services	51.2	7.9	3.0
Government enterprices	14.2	2.2	(-)2.1
Government services	34.0	5.2	6.9
Rest of the world	3.4	0.5	3.0
Gross National Product	649.8	100.0	
Foreign Aid	12.5		
Population	134.8		

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Table 9:

Gross National Product

(In current Prices)

Classification	From 1957 to 1956 Change (Percent)
Farm Population	19.8
Agriculture-Forestry	19.7
Fisheries	28.3
Non-farm population	50.8
Mining	(-)16.8
Private construction	234.5
Manufacturing	82.0
Wholesale and retail trade	59.0
Finance, insuranceand real estate	26.0
Civil transportation	61.3
Public utilities	0.0
Services	6.4
Government enterprices	86.8
Government services	6.5
Rest of the world	(-)8.1
Gross National Product	
Foreign Aid	
Population (000)	

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Table 10

Index number of Mining and industrial production

	General Index	Mining	Manufacturing	Electricity
1955	100	100	100	100
1956	120	128	119	127
1957	157	170	155	151
1957 Jan.	123	134	120	161
Feb.	119	130	117	138
March	126	159	122	133
April	153	182	150	143
May	170	140	174	143
June	177	186	177	136
July	160	180	158	145
August	159	152	160	148
September	171	179	171	145
October	181	180	182	154
November	173	204	170	160
December	172	211	167	181

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Table 11

Farm Products and Related Policies

Classification	(Unit)	1953	1954
A. Grains	(In millions of suk)	22.2	24.8
rice	(")	14.1	15.0
others	(")	8.1	9.8
B. Supply of Fertilizer	(1000 million M/T)	536.0	761.8
C. Balance of loans extended to agricultural sector	(In million of Hwan)	4,882	6,928
D. Government grants and subsidies 4)	(")	1,517	3,544

Classification	1955	1956	1957	Remarks
A. Grains	24.4	21.8	26.3	Grain year
rice	15.5	12.8	15.1 1)	(Nov. - Oct)
Others	8.9	9.0	10.4	
B. Supply of Fertilizer	838.5	1,004.7	2	Fertilizer year
C. Balance of loans extended to Agricultural sector	14,468	29,850	68,586	(Aug. - July) Calendar year
D. Supplemented value	10,217	-	11,155 3)	Fiscal year

1) Estimated
2) Unknown
3) Actual
4) Irrigation subsidy in the general account, the Land Reform Special Account and the Economic Reconstruction Special Account.

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Table 12

Actual Status of Production in Main Mining and Industry

Classification	Unit	1953 Products	1953 Index	1954 Products	1954 Index
Electricity	1,000 Kw	84	100	103	123
Coal	1,000 ton	867	"	889	103
Gold	KG	457	"	1,484	325
Silver	"	1,623	"	1,563	96
Iron	Ton	18,971	"	30,996	163
Lead	"	255	"	116	45
Tungsten	1,000 ton	7,441	"	3,829	51
Cotton, Silk	1,000 pound	29,310	"	45,910	157
Yarn	"				
Cotton Yarn		723	"	290	40
Blanket	"	86,585	"	115,136	133
Wool	1,000 Suk	2,938	"	3,978	135
Artificial Textile	"	59,960	"	41,200	69
Nylon	"		"	591	100
Cement	1,000 ton	44	"	62	140
Aluminum	"	1,420	"	1,440	101
Paper	"	3,505	"	5,985	171
Bicycles	1,000 veh.	15	"	22	147
Sewing Machines	"	27	"	27	100
Electric Motors	set	1,250	"	2,450	196

Source: Statistical Monthly Bulletin.
Ministry of Commerce & Industry.

Actual Status of Production in Main Mining and Industry (Continuation)

Classification	1955 Products	1955 Index	1956 Products	1956 Index	1957 Products	1957 Index
Electricity	100	119	127	151	151	180
Coal	1,309	151	1,815	209	2,441	282
Gold	1,368	299	1,470	322	1,058	450
Silver	2,476	153	6,109	376	8,626	531
Iron	28,586	151	62,887	331	185,412	977
Lead	1,365	535	2,902	1,380	1,844	723
Tungsten	3,146	42	3,742	50	3,825	51
Cotton, Silk	58,576	200	67,590	231	90,918	310
Yarn			1,112	100	4,057	365
Cotton Yarn	244	34	345	48	819	113
Blanket	120,960	140	146,563	169	197,650	228
Wool	4,134	141	4,170	142	4,834	158
Artificial Textile	54,000	90	48,963	82	51,993	87
Nylon	942	159	2,196	372	4,643	786
Cement	56	127	47	107	92	209
Aluminum	1,400	99	1,000	70	1,714	121
Paper	6,928	198	7,595	217	8,025	229
Bicycles	40	267	43	287	36	240
Sewing Machines	31	115	31	85	23	85
Electric Motors	2,280	182	8,187	655	7,817	625

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Table 13

Status of Foreign Aid Received (1953 - 1957)

(In Thousand Dollars)

	ICA	UNKRA	PL 480	Sub-Total
1953	5,571	28,866	-	34,437
1954	82,437	14,624	-	97,061
1955	205,815	29,405	-	235,220
1956	271,049	21,479	32,955	325,483
1957	323,267	P) 15,205	45,528	384,000
Grand-Total	888,139	109,579	78,483	1,076,201

Source: The Bank of Korea
P: Shows figures estimated.

Status of Foreign Aid Received (1953 - 1957) (Continuation)
(In Thousand Dollars)

	CRIK	ECA	Total
1953	158,787	232	193,456
1954	50,191	-	147,252
1955	8,711	-	243,931
1956	331	-	325,814
1957	-	-	384,000
Grand-Total	218,020	232	1,294,453

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Table 14

Breakdown of ICA Aid Received

(Unit: Thousand Dollars)

Classification	1953	1954	1955
Project Sector:			
Agr. and Natural Resources	-	198	3,404
Industry and Mining	-	6,367	20,668
Transportation	-	1,305	62,024
Labor	-	-	-
Health and Sanitation	-	255	2,106
Education	-	--	33
Public Administration	-	-	-
Social Welfare and Housing	-	1,570	7,330
Operating Costs	-	,470	1,395
Total	[illegible]	10,165	96,960
Materials:			
Agricultural Commodities	3,963	23,405	28,448
Fuels	-	11,712	10,471
Raw Materials and Semi-finished Products	1,608	30,518	54,937
Investment Salables	-	6,637	15,004
Total	5,571	72,272	108,855
Grand-Total	5,571	82,437	205,815

Source: The Bank of Korea

Breakdown of ICA Aid Received (Continuation)

(Unit: Thousand Dollars)

Classification	1956	1957	Total
Project Sector:			
Agr. and Natural Resources	(7) 1,784	(321) 5,947	(328) 11,333
Industry and Mining	(2) 25,960	(277) 28,935	(279) 81,930
Transportation	(1) 42,097	(126) 42,129	(127) 147,555
Labor	(-) -	(17) -	(17) -
Health and Sanitation	(4) 2,099	(45) 2,741	(49) 7,201
Education	(4) 982	(847) 3,491	(851) 4,506
Public Administration	(3) 124	(293) 396	(296) 520
Social Welfare and Housing	(-) 9,003	(-) 6,266	(-) 24,169
Operating Costs	(179) 3,341	(855) 2,824	(1,034) 8,030
Total	(200) 85,390	(2,781) 92,729	(285,244) 285,244
Materials:			
Agricultural Commodities	37,747	73,758	165,316
Fuels	23,478	24,000	69,656
Raw Materials and Semi-finished Products	107,171	105,638	299,872
Investment Salables	17,268	27,142	66,051
Total	185,659	230,538	602,895
Grand-Total	271,049	323,267	888,139

The figures in the parentheses show only the amount of technical assistance.

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Table 15

Breakdown of UNKRA Aid Received

(Unit: Thousand Dollars)

Project	1953	1954	1955
Agriculture	2,309	1,375	521
Fisheries	185	462	1,664
Industries	349	3,501	3,921
Electric Power	34	757	2,293
Transportation and Communications	2,260	2,636	521
Mining	100	748	2,059
Housing	120	1,519	2,033
Education	3,630	1,930	2,089
Health Sanitation & Welfare	375	577	1,245
Commodities Sustaining Civilian Supply	19,504	1,118	71087
Personnel expense and others	-	1	5,972
Grand-Total	28,866	14,624	29,405

Breakdown of UNKRA Aid Received (Continuation)

(Unit: Thousand Dollar)

Project	1956	1957	Total
Agriculture	119	15	4,339
Fisheries	430	382	3,123
Industries	11,843	6,951	26,610
Electric Power	191	335	3,610
Transportation and Communications	50	1	5,468
Mining	2,598	4,764	10,269
Housing	643	474	4,789
Education	985	430	9,064
Health, sanitation & welfare	640	706	3,543
Commodities sustaining civilian supply	3,932	847	32,488
Personnel expense and others	48	300	6,321
Grand-Total	21,479	P)15,205	109,579

Source: The Bank of Korea
P: Shows the figures estimated.

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Table 16

Progressed Status of Key Industries by Foreign Aid

Designation	By Fund	Total Investment As Of the End of 1957 (MIL. Hw)
1. Hwachon power plant	ICA	1,598
2. Chungju Fertilizer Plant	ICA	2,120
3. Dae Han Heavy Industry Corporation	ICA	749
4. Munggyong Cement Plant	UNKRA	2,772
5. Inchon Flat Glass Plant	UNKRA	917

Progress Status of Key Industries by Foreign Aid (Continuation)

Designation	Completion date	Production Capacity	Remarks
1. Hwachon power plant	Completed in Oct. 1957.	Monthly average 60,000 Kw	
2. Chungju Fertilizer Plant	To be completed in Apr., 1959	Urea per Year 200,000 M/T	
3. Dae Han Heavy Industry Corporation	The first year program completed in Nov., 1956 and the 2d Year Program.		
4. Munggyong Cement Plant	Completed in Sept., 1957	Per Year 200,000 M/T	
5. Inchon Flat Glass Plant	Completed in Sept., 1957	Flat glass year 120,000 Boxes Net glass 10,000 Boxes	

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Table 17

Counterpart Fund Operation Status

(Unit: Million Hwan)

Classification	1953	1954	1955	1958
1. Collection 2)	3,346	25,711	128,279	133,392
2. Disbursement 2)	1,753	24,642	98,803	89,768
3. Balance 2)	1,593	1,069	29,476	43,624
(Breakdown of Disbursement) 3)	1,116 (100%)	24,728 (100%)	109,103 (100%)	93,512 (100%)
Support of N.D.	1,116 (100%)	12,729 (51.4%)	51,200 (47.8%)	40,550 (43.5%)
Reconstruction exp.	- (-)	11,999 (48.6%)	57,903 (52.2%)	52,962 (56.5%)

Source: Monthly treasury bulletin.
Note: 1) shows the amount as of 31 Dec. 1957
2) shows net figure.
3) shows carry-over.

Counterpart Fund Operation Status (Continuation)

Classification	Total	Remarks
1. Collection 2)	290,728	Collection A/C Income
2. Disbursement 2)	214,966	Collection A/C Exp. (transfer to Deposit A/C)
3. Balance 2)	75,762	Collection A/C Balance
(Breakdown of Disbursement) 3)	229,009 (100%)	Deposit A/C Exp.
Support of National Defense	106,145 (46.3%)	
Reconstruction exp.	122,864 (53.7%)	Total balance except N.D. support.

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Table 18

Foreign Exchange Receipts and Payments, 1957

(Unit: Thousand U.S. Dollars)

	Receipts		
	Tangible	Intangible	Total
1957	21,521	55,319	76,840
1956	25,154	37,027	62,181
Balance (Increase or decrease)	(-)3,633	(+) 18,292	(+)14,659

Source: The Bank of Korea annual report, 1957.

Foreign Exchange Receipts and Payments, 1957 (Continuation)

	Payments			
	Tangible	Intangible	Total	Remarks
1957	48,872	11,836	60,708	16,132
1956	43,238	14,734	57,972	4,209
Balance (Increase or decrease)	(+)5,634	(-)3,898	(+)2,736	(+)11,923

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Table 19

Estimated Number of Employees by Industry

(Unit: Thousand)

Classification	Numbers	Remarks
1. Total population	21,870	This estimate derived from
2. Potential labor force	11,716	the 1956 Census, assuming
3. Active labor force	8,565	the natural rate of in-
a) Employed labor force	(7,430)	crease in population as
Agriculture	5,602	1.6%
Fishery	?200	
Mining	35	
Mamufacturing	225	
Cottage manufacturing	500	
Commerce	400	
Government employees	298	
UN employees	45	
Professional	30	
Transportation	35	
Others	:60	
b) Unemployment	(1,135)	
4. Number of unemployed	3,151	

Source: UNC/ROK CEB (7 Nov. 1956)

0795

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date [illegible]

Table 20

Estimated Number of Employees and Productivity by Industry

By Industry	G.N.P.(1) (A)(Billion)	Employees (B)(Thousand)	Products per Capita A÷B (Hw)
Primary Industry	534.4	5,802	92,106
1. Agriculture	516.9	5,602	92,271
2. Fishery	17.5	200	87,500
Secondary Industry	184.9	760	243,289
1. Mining	17.5	35	500,000
2. Manufacturing & Cottage Industry	167.4	725	830,897
Third Industry	463.3	808	574,629
1. Commerce	315.2	400	788,000
2. Government agencies	109.2	298	366,443
3. UN employees	7.4	45	164,444
4. Professional	41.0	30	1,366,667
5. Transportation	7.0	35	200,000
Others	69.8	60	1,163,333
Grand-Total	1,268.9	7,430	170,781

Footnotes: The sectors of G.N.P. in current price are reclassified so as to be in accord with the sectors of employed labor force:
The adjustment made as follows:
1) "Forestry" is included in "Agriculture" sector.
2) "Private construction," "manufacturing," and "public utilities" are included together in "manufacturing."
3) 20% of "finance, insurance and real estate" is included in "commerce."
4) 37% of "services" is included in "professional" and the other 63% is in "Others."
5) "Government services" and "Government enterprises" are under "Government agencies."
6) "The rest of world" is under" UN employees."

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NND 86740
By NARA, Date 11/6/91

OUTGOING TELEGRAM

INDICATE: ☐ COLLECT
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1958 AUG 12 PM

0557

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SENT TO: Amembassy SEOUL PRIORITY 57

JOINT STATE - ICA MESSAGE

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Rev

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Reference TOICA 372; ICATO 339 nc nc 895b.10 x12 795b.5-MSP

Greatly regretted here that Finance Minister unwilling take firmer stand on pay raise and budget issue. Effect of pay increase effective October 1 on next year's budget regarded as principal problem. Unfortunately ROK apparently has no realistic plan to bring 1959 budget into balance. Also no indication that ROKG intends and able reduce civil service staff in line with previous proposals, or otherwise cut expenditures as offset to higher salaries.

Felt here, in view of peril to stabilization program, threat to common US-ROK objectives, and establishment undesirable precedent future ROK action, that Ambassador should consider presenting case to higher ROK authority. In such approach it may be pointed out that, while US sympathetic to administrative reform and requirements of ROK troops and civil employees and has sought to assist in development of an acceptable pay raise plan, we are convinced that the present proposal before National Assembly entails serious risks of unbalancing the budget, triggering further inflation, and undermining the public confidence in the ROK economy that has developed over the past two years.

Drafted by: FE:NA:PMDavenport:lte 8/11/58

Telegraphic transmission and classification approved by: FE: J. Graham Parsons

Clearances:
ICA - Mr. Stettner (in draft)
Mr. Nathan (in draft)
S/S-CR

FE:Com
WMSC

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By lgw, NARA, Date 1/17/39

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Such a set-back would cause discouragement among Korea's friends and would be difficult to explain to the American people.

No prospect exists for an increase in total US aid to Korea to offset renewed inflationary pressures. As indicated in TOICA 372, any additional commodity aid would have to be at the expense of the project sector. This retarding of economic development to offset unsound fiscal management would be highly undesirable use US aid. Unlikely in any event that US aid could prevent spiralling Korean prices and dispel adverse psychological reaction. If impossible from viewpoint ROK domestic political requirements to accept less than 100 percent pay raise, suggest you strongly urge stretch-out in implementation of pay increase as means of alleviating financial impact, say 60 percent October 1, 1958, 20 percent April 1, 1959, and 20 percent October 1, 1959, to be made subject to actual availability additional revenue.

Dulles
C.S.P.

DULLES

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NND 867400
By Lyn, NARA, Date 1/17/29

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Classification

67

SENT TO: Amembassy SEOUL PRIORITY

Origin

Info:

JOINT STATE - ICA MESSAGE

Deptel 57

TOICA 510 indicates National Assembly approved exchange tax bill August 14. Has revised budget also passed? Please cable summary provisions exchange bill and revised 1958 budget and your assessment/~~probable effect on~~ outlook for stabilization program and 1959 budget.

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Ana 68
Rev
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Drafted by: FE:NA:PMDavenport:lto 8/20/58

Telegraphic transmission and classification approved by: FE:NA: David M. Bane

Clearances:

ICA: Mr. Nathan (in substance)

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S/S-CR
AUG 20 1958 P.M.

1958 AUG 20 PM 7 28

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NAVY
AIR

FROM: SEOUL

TO: **Secretary of State**

NO: 79, AUGUST 22, 10 AM

JOINT EMBASSY - CINCUNC - OEC MESSAGE.

DEPTEL 57.

IN ABSENCE PRESIDENT RHEE IN CHINHAE, GENERAL DECKER, WARNE AND I MET YESTERDAY WITH MINISTERS DEFENSE, AGRICULTURE, RECONSTRUCTION, AND COMMERCE-INDUSTRY, VICE MINISTER FINANCE AT OUR REQUEST TO INFORM THEM OF WASHINGTON'S FEARS REVISED 1958 AND PROPOSED 1959 BUDGETS WOULD IMPERIL ECONOMIC STABILIZATION, WE STRESSED FACT THAT ROKG COULD NOT EXPECT INCREASED US AID TO COUNTER FURTHER INFLATION, AS WELL AS ARGUMENTS SET FORTH REFTEL, AND PUT BEFORE THEM PROPOSED STRETCH-OUT IDEA FOR IMPLEMENTING ROKG PAY RAISES BY 60 PERCENT INCREASE OCTOBER 1, ETC.

MINISTERS COUNTERED BY SAYING 1958 REVISED BUDGET IRREVOCABLY COMMITTED IN NATIONAL ASSEMBLY AND POLITICALLY IMPOSSIBLE WITHDRAW 100 PERCENT PAY RAISE PRINCIPLE. ARGUED THAT BY BEST CALCULATIONS SUCH INCREASE ONLY PROVIDES LIVING WAGE IN MOST CASES AND THAT ELIMINATION CORRUPTION NOT FEASIBLE WITH LESS THAN WHOLE MEASURES. POINTED OUT PROPOSED 1959 BUDGET NOW IN HANDS OEC AND WILLING TO CONSIDER COUNTER PROPOSALS RESULTING FROM OEC STUDY.

MINISTERS INSISTED THEY WERE OPTIMISTIC 1958 AND 1959 BUDGETS COULD BE BALANCED, ALTHOUGH ADMITTING THIS POSSIBILITY DEPENDED UPON ROK GOVT PERFORMANCE IN IMPLEMENTING PROPOSALS TO AVOID DEFICIT ASSURED THEY WOULD POSITIVELY TAKE STEPS CUT PERSONNEL AND OTHER MEASURES REDUCE EXPENDITURES.

WE EXPRESSED

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NND 867400
By NARA, Date

WE EXPRESSED FULL SYMPATHY US GOVERNMENT AND PEOPLE TO PAY RAISE GOAL ROKG BUT INDICATED NOTHING SAID OR DONE BY ROK IN RECENT PAST HAD INSPIRED CONFIDENCE ROKG WOULD REALLY TAKE STRONG MEASURES NECESSARY EFFECTIVELY BALANCE BUDGET. STRESSED THAT MINISTERS MUST BE WILLING TAKE POLITICALLY UNPOPULAR STEPS OR ROK WILL WIND UP IN DEEP TROUBLE, POINTING OUT PROPENSITY ALREADY APPARENT OF ROK MINISTERS "CHIP AWAY" AT AGREED MEASURES NECESSARY MAKE BUDGET BALANCE AND ACHIEVE OTHER ECONOMIC GOALS.

MEETING NOT CONCLUSIVE BUT DID RESULT IN MINISTERS' STRONG ASSURANCES THEY WOULD DO UTMOST ACHIEVE BUDGET BALANCE AND HAVE ALREADY ESTABLISHED PLAN INAUGURATE NATION-WIDE AUSTERITY PROGRAM. WE ARE SATISFIED ROK LEADERS NOW CONVINCED OF US CONCERN RE FURTHER INFLATION, AND THAT ROKG ITSELF MUST FIND WAYS MEETING PAY RAISE WITHOUT FURTHER US AID. AT MINISTERS' REQUEST, WE SHALL MEET AGAIN ON BUDGET, RELATED ISSUES AFTER THEY HAVE HAD CHANCE FOR DISCUSSION AMONG THEMSELVES. MEMO CONVERSATION FOLLOWS.

DOWLING

AM

DEPARTMENT OF STATE
1978 AUG 22 AM 7 05
PM/AIAD OF
AR EASTERN AFFAIRS

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NND 86749
By NARA, Date 1/16/97

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5:52 P.M.

Action
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Info
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IRC
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ICA
CIA

FROM: SEOUL

TO: Secretary of State

NO: 84, AUGUST 25, 5 P.M.

Action Assigned to VAL
Action Taken NAR
Action
Office Symbol
Name of Officer
Direction to DC/R

PRIORITY

JOINT EMBASSY-OEC MESSAGE

DEPTEL 67. REVISED BUDGET 1958 STILL UNDER DEBATE ASSEMBLY. EMBTEL 79, AUGUST 21, AND MEMO CONVERSATION FOLLOWING APPLIES GENERAL ISSUE 58 AND 59 BUDGETS ALSO STABILIZATION PROGRAM CONVERSATIONS 59 BUDGET BETWEEN ROK'S AND US SIDE TO CONTINUE. OEC'S DETAILED ANALYSIS PROPOSED 1959 BUDGET WILL BE SUBMILTED LATER. FOREIGN EXCHANGE TAX LAW, WHICH EFFECTIVE DATE PROMULGATION BY PRESIDENTIAL DECREE NOW BEING PREPARED MINFINANCE, PROVIDES TAX GENERALLY APPLICABLE IMPORTS BOTH COMMERCIAL AND AID-FINANCED. MINIMUM TAX 150 HWAN TO DOLLAR AT CURRENT LEGAL EXCHANGE RATE BUT IF BIDDING PROCESS RESULTS IN BIDS EXCEEDING 650 HWAN TO DOLLAR EXCESS ALSO PAYABLE AS TAX. FOREIGN EXCHANGE ACQUIRED FROM EXPORTS OR SALES UN FORCES TAX-EXEMPT. ROK NATIONAL, PROVINCIAL AND LOCAL GOVERNMENTS, FOREIGN DIPLOMATIC AGENCIES, UN AGENCIES, FOREIGN AID MISSION IN KOREA NOT SUBJECT TO LAW. LAW DOES DOES NOT SPECIFY TREATMENT TO BE GIVEN EXCHANGE FOR IMPORTS CAPITAL ASSETS SUCH AS UNDER ICA PROJECT AID OR DLF LOANS BUT MINFINANCE STATES EXCHANGE FOR THIS PURPOSE NOT TO BE TAXED, WHILE SO-CALLED "INVESTMENT SALABLES" SUBJECT TO TAX.

DOWLING

AMB/22

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SEP 22 1958

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DATE August 26, 1958
Date of Action AUG 28 1958

FOREIGN SERVICE DESPATCH

FROM: Amembassy, SEOUL
DESP. NO. 104

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : EMBTEL 84, Aug. 24, 1958; EMBTEL 79, Aug. 21, 1958; DEPTEL 67, Aug. 20, 1958; CERP-Korea, D,I,A,3; D,IV,A,4 and 5; D,V,A,1, and 7; D,V,B, 1

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	FE-4	RMR-2 POP-1 E-7 L/M 50-1 ICA-10
	REC'D 9/2	OTHER CIA-13 COM-10, TR-3, FRB-2 OMB-4

SUBJECT: Discussion with ROKG Ministers on 1958-59 Budget Situation

FE RM R INR L/M S/C
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ICA CIA

As indicated in the Embassy's telegrams referenced above there is enclosed the Memorandum of Conversation covering the meeting on August 20, 1958, between certain ROK Cabinet Ministers and the Ambassador, General Decker, and Economic Coordinator Warne.

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

Enclosure:

As stated above.

Clearances:

Ambassador Dowling (in draft) by RWT
General Decker - UNC (MSP)
Mr. Warne - OEC HEWarne

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NND 867400
By NARA, Date 1/27/94

MEMORANDUM OF CONVERSATION

August 22, 1958

PRESENT: Ambassador Walter Dowling
General George A. Decker, UN Command
William E. Warne, Economic Coordinator, UNC
Kim, Il-hwan, Minister of Commerce and Industry
Kim, Chong-yol, Minister of National Defense
Chong, Chae-sol, Minister of Agriculture & Forestry
Song, In-sang, Minister of Reconstruction
Ch'on, Pyong-yu, Vice Minister of Finance
Yi, Han-bin, First Section Chief, Bureau of Budget, Ministry of Finance
Robert W. Tucker, American Embassy

SUBJECT: Meeting with ROKG Ministers to Discuss 1958-59 Budget Situation

The Ambassador opened the meeting with certain ROKG Cabinet Ministers, called at his request in his office on August 20, 1958, by explaining that the tone of recent communications from Washington indicates that the United States Government and people are becoming disturbed about developments in the ROK. These communications touched upon such matters as the budget and money supply situation, reports of graft and corruption and the operation of government enterprises. He then proceeded to paraphrase certain portions of the Department's telegram No. 57 dated August 12, 1958, explaining that Washington had indicated that the revised 1958 budget and proposed 1959 budget were not considered realistic and that the probable resultant deficits would imperil the stabilization program in Korea and common objectives of the United States and the ROK. The United States is sympathetic to ROKG efforts towards administrative reform and pay raises of government employees, but fears the serious risks of unbalanced budgets and renewed inflation. The Ambassador emphasized that ROK leaders should not expect any increase in U. S. aid to offset budget deficits and that if it should prove absolutely necessary to use the aid program in further support of the ROK budget the only possible means of doing this would be by reducing the project sector and transferring aid to commodities, with a resulting loss to the economic development of the ROK.

He then presented a proposal from Washington that the ROKG, if it found impossible the acceptance of less than 100% pay raises, should institute a "stretch-out" program with 60 per cent increases effective October 1, 1958, 20 per cent effective April 1, 1959, and 20 per cent effective October 1, 1959 on the basis of a determination that sufficient revenue is actually available to cover these increases. He stressed his belief that balancing the budget is possible, but added he did not feel that the proposed revised 1958 and 1959 budgets reflected an actual balance of revenues and expenditures.

General Decker stated that he favors a pay raise to the ROK armed forces aimed at making a military career attractive but pointed out that a 100 per cent across-the-board pay raise, including selectees, would result in increased expenditures of about 13 billion hwan per annum above the U. S. (PROVMAAG-K) proposal for a selective increase to officers and the first three grades of non-commissioned officers. He went on to indicate his concern that large amounts of U. S. military supplies are seen in Korean stores and markets which obviously were illegally

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By [illegible] NARA, Date 4/6/21

acquired. He pointed out that this had made a bad impression on U. S. visitors and in Washington, and that he had written a letter to the Minister of Home Affairs asking the latter's cooperation in a vigorous effort to control this black market. General Decker also referred to the large traffic in Military Payment Certificates (MPC) which could be seen on the streets of Seoul and which had also given a bad impression to American visitors. He has also written a letter to the Ministry of Finance in an effort to obtain the Minister's cooperation in controlling or suppressing this traffic.

Economic Coordinator Warne acknowledged the frequent accusations made against him that he is an optimist, but indicated that nevertheless he too was alarmed at the increased expenditures proposed in the 1958 and 1959 ROK budgets. He considered the Washington proposal as much more logical than present draft legislation. If it should be too late for any change in the revised 1958 budget he assured the Ministers that they would have great responsibility in making the budget work.

The Ambassador stressed two main points which he felt were implicit in the present U. S. attitude: first, that the sizable aid programs since 1954 have effected the rehabilitation of the ROK and that now is the time to begin to build a viable self-supporting economy; second, that the real success in the economic stabilization program in 1957-58 had demonstrated what could be done, and had naturally brought in its wake expectations of further progress.

MOR Song replied that in his opinion the U. S. is excessively concerned over the present situation. Since 1953 Korea has been in the process of rehabilitation and until recently the ROKG has been in an experimental phase. He admitted the general charges of corruption and pointed out that the ROKG has acknowledged this, that Minister of Agriculture and Forestry Chong has asked Home Minister Min to help expose the grain scandal and that all ROK Ministers are engaged in trying to root out corruption. The need for amending existing institutions was admitted. Minister Song said that the ROKG definitely wants to eliminate black markets and that they are concerned because of the consumption patterns for luxuries being created above the normal capabilities of the ROK economy. He queried the Ambassador as to why the United States did not permit the use of greenbacks instead of MPCs in Korea. The Ambassador replied that it seemed to him there were two principal reasons that the U. S. could not consider this at present: one, that the U. S. was concerned that these dollar notes would find their way into the hands of Communist China, and the other that the greenbacks would merely create a black market as long as the unrealistic exchange rate exists. Minister Song remarked that when the last conversion of MPCs occured very few Koreans appear to have suffered because only a relatively small amount of this scrip was held in the hands of Koreans. He indicated that the ROKG was trying to improve the operation of government enterprises and had achieved complete control of the money supply pointing out that the money supply has continued to decrease within the past few months. He further indicated that the ROKG is taking steps to improve the government enterprises one by one. For example, he mentioned that the telecommunications had earned a profit last year and that the Korean National Railways were greatly improved by the use of diesel locomotives. He admitted the poor state of the Daehan Heavy Industries but indicated that the ROKG would do its best to improve and better its economic practices and policies. He stated that the ROKG has decided to sell out all vested properties except the utilities to be operated by the government. MOR Song indicated

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that his government would use the foreign aid control law to the utmost. He pointed out that one official of MOR had been discharged, as had another official of the MOF, for corrupt practices; that two Koreans are in jail probably to be sentenced to a prison term. He was sure that the ROK record would be improved in 1959. Defense Minister Kim indicated that all the cabinet ministers were worried about the pay raise too, but their studies had shown that expenditures had actually risen every year from 20 to 30 billion hwan. In light of this he did not feel that the expected 50 billion hwan increase, roughly 1/6 of the total budget, should be considered too great an increase. He indicated that the ROKG cannot control corruption because of inadequate salaries. He fully appreciated Washington's views but believed that the risks involved in the pay raise would be well justified by better results. He assured that he would make every effort to cut down other expenditures.

General Decker inquired as to whether the proposed military pay raises would be 100% across-the-board or selective raises as the U. S. military had previously suggested to the Defense Minister. Minister Kim replied that he had favored the selective pay raise system and had proposed it but that the Budget Committee of the Assembly had altered the bill to provide 100% raises to all ranks for political reasons.

MOR Song said that the ROKG did not want an increase in aid from the U. S. in order to offset the deficit but that it wanted more aid for development. The Ambassador replied that if a serious budget deficit results the only way the aid program can be used would be to replace development projects with importation of consumer goods. However, he indicated that Washington does not want this. Perhaps the best way the ROK can demonstrate its entitlement to more project aid, the Ambassador stated, is by showing success in the operation of industrial projects already completed. He indicated that some ROK industries are having to compete with both authorized imports and smuggled goods. The Ambassador stated that according to some observers in Japan more than 100,000 tons of Korean rice have been smuggled into Japan during the past year. MOR Song doubted this figure contending that the smuggling of rice, as a bulky product, is very impractical. The Ambassador replied that, nevertheless, Korean rice can be purchased in Tokyo shops and it is not being sent there legally.

MOR Song stated that the ROKG wants to export rice to Japan this year. They have decided on the export of about 200,000 metric tons, dependent upon the crops. The ROKG would even like to increase this amount. He promised that the ROKG would try to stop the smuggling but pointed out that with the ROK's long coast line it is almost impossible to check smuggling entirely. He stated that up to the present the ROKG has overlooked illegal practices and tax evasion because of the war mentality prevalent, but the ROKG is now determined to put a stop to it. The ROK appreciates U. S. economic aid but if this aid is cut the existing consumption pattern will force smuggling. The Ambassador stated that if the ROKG would confiscate illegal imports found in stores the smuggling would stop within a few months as being unprofitable. MOR Song indicated that the ROKG has confiscated up to a billion hwan worth of goods smuggled from Japan but has no money to pay the 50 per cent cash bonus to informers.

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By [illegible], NARA, Date 4/6/21

Defense Minister Kim indicated that the revised 1958 budget debate is now in its final stages in the Assembly. He did not anticipate much difficulty in meeting the expenditures of the 1958 budget from revenues but he admitted great difficulty with the 1959 budget. However, he believed there is a 50-50 chance or better for success. The efforts of the ROKG to reduce non-salary expenditures and increased revenues would be the key. Vice Minister Ch'on stated that a new moral and economic policy is now necessary. The ROKG must cut government personnel and organizations and must eliminate illegal practices. The ROKG has no choice with the revised 1958 budget since it cannot be removed from the hands of the Assembly. But he assured a drastic policy for next year. He stated that tax collections have not been satisfactory to date but with salary increases better tax collections must and should be achieved.

Mr. Warne agreed that strong ROKG efforts are needed to effect a balance in the 1958 budget. However, he has been concerned by press reports of exemptions to be granted from the 150 hwan foreign exchange tax bill. Further, there have been no indications of moves taken to provide for the promised utility rate raises in 1959; no indications that delinquent fertilizer loans are being collected or that additional fertilizer costs this year would be passed on to farmers; no resolution of the problems of refunds due from the ROKG under the ICA aid program regulations; no evidence that the ROKG really intended to reduce government personnel; and there have been the irregular credit advances. Mr. Warne indicated that all of these did not add up to a "better than 50-50 chance" of success in balancing the budget if the ROKG continues to give way each time because of political considerations.

Vice Minister Ch'on stated that the ROKG might favor the 60% "stretch-out" idea but that it was politically impossible. The Ambassador interjected that political considerations must be overcome. "Unpopular measures are needed to avoid disaster." Vice Minister Ch'on stated that there have been no exemptions of the 150 hwan exchange tax on imports and that the ROKG was willing to consider a change in utilities rates.

MOR Song stated his belief that the ROKG can collect the delinquent fertilizer loans if it exports rice. He had personally agreed to the 50-50 ratio (commercial vs. government) in procuring fertilizer this year but had been severely criticized by his colleagues. If the procurement ratio were either 100 per cent commercial or 100 per cent government there would be no trouble, but with the 25-75 ratio last year the farmers could not understand the double prices. The MAF had compromised with the MOR in agreeing on the continuation of the 25-75 ratio. Also, MOR Song said, the ROKG had agreed to impose the 150 hwan per dollar exchange tax on all imports of fertilizer. Political pressure had forced the MAF to state there would be no increased cost (on government-procured fertilizer) to the farmer, but in practice the ROKG had found this to be impossible. The 150 hwan tax will improve the situation and the opening of the Chungju fertilizer plant will put freely-priced fertilizer on the market. MOR Song pointed out that the Cabinet has passed the foreign investment law and sent it on to the Assembly for final action. The ROKG was trying to pass a law to provide for a Public Utilities Commission to set rates but it had run into strong political opposition.

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The Ambassador indicated his belief that although there had been ample discussion by both sides there had been nothing from the ROK side to inspire confidence. He stated that if the ROK budget plans succeed all will be well, but if not the ROK would be in deep trouble. Mr. Warne said he feared the ROKG have not really made up their minds to make the budget succeed. The "chipping away" process illustrated their lack of good will. MOR Song responded that the ROKG would stand firm against inflation. They would do their best but they could not withdraw from the 100 per cent pay raise. They would reorganize the government to make the budget balance. They would do their best to increase tax collections "right now" in order to meet the gap when the salaries go up on October 1. The Cabinet would meet to discuss the 1959 budget program again and would like to meet later with the American side for further discussions on this and related problems. Defense Minister Kim said that it is hard to be honest when the pay is insufficient to eat. With the pay raise the ROKG would punish corruption. His predecessor as Defense Minister had decreed that no military vehicles could be used for commercial purposes but Minister Kim could not enforce this because "soldiers must eat".

The Ambassador agreed but pointed out that inflation may destroy the effect of pay raises. Minister Kim responded that if inflation does result from budget deficits, President Rhee may stop the salary raises by decree, say next April.

The Ambassador enlarged upon a general program he hoped the ROKG would adopt. He hoped that the ROKG would show Washington sound 1958 and 1959 budget programs by reduction of government personnel, by elimination of graft and corruption, by coupling the pay raises with vigorous measures to increase tax collections. He hoped the ROKG would develop an effective export program. He hoped that the ROKG would make a more effective use of their own resources. He indicated that the 500 hwan to $1.00 exchange rate had about exhausted its benefits to the ROK. "Domestic prices are well above world markets." He pointed out that smuggling must be suppressed both <u>in</u> and <u>out</u>.

MOR Song indicated that the ROK Cabinet is now engaged in preparing a new austerity program. He assured that the ROKG would take action on black marketing.

The Ambassador urged that if the ROKG felt that the basic 500 to $1.00 rate must be maintained a while longer, then the ROKG should establish special rates for tourists and resident foreigners to eliminate the black market in currency. Defense Minister Kim interjected that he and the other economists or economic-minded members of the Cabinet had originally favored free exchange rates but the 500 to $1.00 had succeeded. The Ambassador replied, however, that this had been a short-run success. An adjustment should now be made.

It was agreed that a second meeting would be held when the Cabinet Ministers had had an opportunity for discussion among themselves of the issues referred to in the meeting of August 20, 1958.

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By [illegible], NARA, Date 1/11/24

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Rec'd: AUGUST 27, 1958
5:52 AM

Action Assigned to ACTION FE

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FROM: SEOUL

TO: Secretary of State

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NO: 89, AUGUST 27, 6 PM

REVISED 1958 ROKG BUDGET PASSED ASSEMBLY LATE AUGUST 25 AND SUBMITTED RHEE FOR SIGNATURE. REPEATED EMBASSY EFFORTS OBTAIN DETAILS AS YET UNSUCCESSFUL BUT WILL SUBMIT LATER BY DESPATCH. BUDGET PROVIDES DOUBLING PAY ALL ROKG EMPLOYEES AND ROK ARMED FORCES. INCREASED REVENUES ANTICIPATED FROM NEW FOREIGN EXCHANGE TAX, AND HIGHER INCOME TAXES, STAMP TAXES, SCHOOL TUITION FEES.

BOWLING

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Officer

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NND 867400
By NARA, Date 11/6/04

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SENT TO: Amembassy SEOUL PRIORITY 80

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895d.10/8-1257

895d.10/8-2258 — 895d.5-MSP 7/R 7954.5-MSP

Origin

Info:

JOINT STATE-ICA MESSAGE

Your 79 and 89, Our 57

1. Appreciate efforts made to impress ROK Ministers with seriousness US views concerning impact 100 percent pay raise on stabilization program, but greatly disappointed that National Assembly has now approved budget containing full 100 percent increase with no indication delay in its implementation. Unfortunately our fears not allayed by Ministers' response at August 21 meeting or by ROK reticence in supplying budget details, particularly after Ministers had proposed further discussion.

2. Suggest (a) that you press for further meeting at Ministerial level and (b) that at first reasonable opportunity Ambassador call on President Rhee and express to him US concern along lines Deptel 57.

3. In discussing budget with Ministers and President you may refer to our strong hope that opportunity still exists for salutary ROK action and that a way may yet be found to delay effectiveness of pay raise. We question whether immediate full implementation pay-raise proposal provides proper setting for inaugurating

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Drafted by: ICA:WPStettner
FE:NA:PMDavenport:lto 8/28/58

Telegraphic transmission and classification approved by: FE: Jr. Graham Parsons

Clearances:
ICA: Mr. Stettner (in draft)
S/S CR
AUG 29 1958 P.M.
FE: Mr. Matlock

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By lgw, NARA, Date 1/17/29

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reported plan for nation-wide austerity. You may also stress to ROK that probable resurgence inflation may require adjustment of official exchange rate.

Herter
ACTING
J.G.P.

HERTER

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By Lyw, NARA, Date 1/17/89

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Control: 2675
Rec'd: SEPTEMBER 5, 1958
8:12 A.M.

Action Assigned to NPE

Action Taken NAR

Date of Action

Action Office Symbol

Name of Officer

Direction to DC/R

Action
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AIR

FROM: SEOUL

TO: Secretary of State

NO: 98, SEPTEMBER 5, 7 P.M.

PRIORITY.

#)RECONSTRUCTION,(#)AGRICULTURE AND COMMERCE_INDUSTRY MET WEDNESDAY AT THEIR REQUEST WITH DECKER, WARNE AND ME AS AS FOLLOW_UP AUGUST 20 DISCUSSION.

FINANCE MINISTER, AS SPOKESMAN FOR GROUP, SAID ROKG FIRMLY COMMITTED TO STABILIZATION PROGRAM, AND HE COULD ASSURE US REVISED 58 AND PROPOSED 59 PROJECTS DEFINITELY QCHSGHBE# BALANCED O THIS END, GOVT PLANNED REDUCE CIVIL SERVICE ROLLS BY 15,000,(PRESENT TOTAL ABOUT 240,000 INCLUDING TEACHERS WHOSE NUMBERS NOT RPT NOT TO BE REDUCED); ENDEAVOR AMEND FINANCIAL ACT TO PERMIT FIXING UTILITIES RATES BY GOVT COMMISSION RATHER THAN BY NATIONAL ASSEMBLY AS AT PRESENT; MAKE STRONG EFFORT TO "RATIONALIZE" GOVT OWNED ENTERPRISES, THUS ELIMINATING SUBSIDIES FOR THESE OPERATIONS; AND INTENSIFY PROGRAM FOR SALE VESTED PROPERTIES. CONSTRUCTION MINISTER ASSERTED DEFINITE PLANNING UNDER WAY FOR IMPROVED UTILIZATION KOREA'S OWN RESOURCES, INCLUDING DEVELOPMENT OF EXPORTS. ROKG HAS ALREADY DECIDED EXPORT 200,000 METRIC TONS RICE THIS YEAR, AND DETAILS ARE NOW BEING WORKED OUT.

AS REGARDS PAY RAISE, ALL MINISTERS UNITED IN INSISTING THIS MOVE ESSENTIAL. ACKNOWLEDGING CORRUPTION IN GOVT, THEY ARGUED LIVING WAGE FOR GOVT EMPLOYEES FIRST STEP IN PROGRAM TO CORRECT SITUATION. THEY PROMISED LIBERAL PARTY WOULD INTRODUCE IN NATIONAL ASSEMBLY ANTI_CORRUPTION LAW PROVIDING SEVERE PENALTIES FOR VIOLATIONS.

ROKG WILL ALSO SHORTLY INITIATE ANTI_SMUGGLING AND ANTI_BLACK MARKET DRIVE, WITH THREE WEEKS PUBLIC EDUCATION CAMPAIGN TO BE FOLLOWED BY CONFISCATION SMUGGLED GOODS AS WELL AS MILITARY SUPPLIES ILLEGALLY DIVERTED

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ILLEGALLY DIVERTED TO BLACK MARKET. MINISTERS ASSERTED THAT IT WAS NOW NECESSARY TO RE-ESTABLISH CODE OF PUBLIC ETHICS WHICH HAD DISINTEGRATED IN POST-WAR YEARS, AND ALSO INSISTED THAT AS PRACTICAL MATTER IMPROVED REVENUE COLLECTIONS, TOGETHER WITH SAVINGS FROM STOPPAGE ILLEGAL USE OFFICIAL FUNDS AND SUPPLIES, WOULD GO FAR TOWARDS MEETING COST OF PAY RAISE.

WHILE IT IS OBVIOUS THAT CONTINUED SUCCESS OF STABILIZATION PROGRAM WILL DEPEND UPON ROKG PERFORMANCE IN CARRYING OUT STATED OBJECTIVES, WE BELIEVE MEETINGS HAVE SERVED TO IMPRESS UPON MINISTERS DIFFICULTIES WHCIH THEY FACE, AND WILL RESULT IN STRENUOUS EFFORTS THEIR PART TO MAINTAIN STABILIZATION. REVISED 58 BUDGET AS PASSED BY ASSEMBLY, AND PRELIMINARY DRAFT 59 BUDGET NOW UNDER STUDY BY EMBASSY-OEC (MILITARY BUDGET BY COMUSKOREA) AND OUR VIEWS WILL BE REPORTED WASHINGTON SHORTLY. IF AND WHEN CARRIED THROUGH, OTHER REFORMS REPORTEDLY DECIDED UPON WILL MAKE SUBSTANTIAL CONTRIBUTIONS TO SOLUTION OF PROBLEM. WE URGED STRONG SUPPORT OF THEM, AND WILL ENDEAVOR TO FOLLOW UP.

DOWLING

AMB/21

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NND 867460
NARA, Date 12/2/04

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CONFIDENTIAL Action Assigned 9/8/58 12:50 p.m. BB
CORRECTION ISSUED: NAR
Control 2675
Action Taken
Rec'd: September 8, 1958 8:12 a.m.

Date of Action
Action Office Symbol
Name of Officer
Direction to DC/R

FROM: Seoul-CORRECTED PAGE 1

TO: Secretary of State

NO: 98, September 5, 7 p.m.

PRIORITY.

Ministers Finance, Reconstruction, Defense, Agriculture, and Commerce-Industry met Wednesday at their request with Decker, Warne and me as follow-up August 20 discussion.

Finance Minister, as spokesman for group, said Rokg firmly committed to stabilization program, and he could assure US revised 58 and proposed 59 budgets definitely would be balanced. To this end, Government planned reduce civil service rolls by 15,000 (present total about 240,000 including teachers whose numbers not to be reduced); endeavor amend financial act to permit fixing utilities rates by Government Commission rather than by National Assembly as at present; make strong effort to "rationalize" government-owned enterprises, thus eliminating subsidies for these operations; and intensify program for sale vested properties. Construction Minister asserted definite planning under way for improved utilization Korea's own resources, including development of exports. Rokg has already decided export 200,000 metric tons rice this year, and details are now being worked out.

As regards pay raise, all ministers united in insisting this move essential. Acknowledging corruption in government, they argued living wage for government employees first step in program to correct situation. They promised Liberal Party would introduce in National Assembly anti-corruption law providing severe penalties for violations.

Rokg will also shortly initiate anti-smuggling and anti-black market drive, with three weeks public education campaign to be followed by confiscation smuggled goods as well as military supplies illegally diverted

Correction made by RM/R 11/6/58

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47

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Action

Control: 3485
Rec'd: SEPTEMBER 6, 1958
1:27 AM

FE
Info

FROM: SEOUL

TO: Secretary of State

RMR

NO: 101, SEPTEMBER 6, NOON

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DEPTEL 80 AND MY 98.

I TOOK OCCASION TODAY TO DISCUSS WITH PRESIDENT RHEE OUR CONCERN RE BUDGET SITUATION, EXPLAINING NECESSITY FOR MAINTENANCE ECONOMIC STABILIZATION. HE SAID CABINET MINISTERS HAD TOLD HIM OF THEIR MEETINGS WITH ME, AND THAT HE HAD EVERY CONFIDENCE THEY WOULD CARRY FORWARD ECONOMIC PROGRESS ACHIEVED IN LAST YEAR.

ICA
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FOREIGN SERVICE DESPATCH

FROM : AmEmbassy, SEOUL

TO : THE DEPARTMENT OF STATE, WASHINGTON

REF :

DESP. NO. 114

Action Assigned to AP/K

Action Taken

DATE September 15, 1958

SEP 19 1958

Date of Action

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Typed to DC/R

SUBJECT: Provincial Reaction to the 1958 Revised Budget Debate

SUMMARY

Although the recent debate on the government's revised budget for 1958 dominated the political scene in Seoul for most of August, interest in provincial areas was appreciably lower. During a field trip to North and South Cholla Provinces, August 21-26, an Embassy officer found that most provincial government and party leaders were well-informed on the course of the debate, but that they apparently did not regard it as an issue which merited active exploitation at their level. At the town and village level, interest in and informed opinion about the debate was relatively lacking. Apart from the fact that the budget bill did not contain items of direct and material significance to the majority of the rural electorate, this situation reflects the paucity of timely information on national political developments. With radio unavailable in many areas and newspaper circulation limited, the rural electorate apparently depends for its information on national developments primarily upon the few articulate local community leaders and occasional contacts with returning students and intellectuals and visiting politicians. Consequently, the formation of local political opinion lags well behind events in the national capital. These circumstances suggest that broad popular opinion exercises only a minor influence on party leadership during legislative debate and that such debate does not now serve to educate the electorate either in the substance of political issues or the processes of representative government. Even such limited evidence as is available on this problem seems to indicate that a much more active popular interest and better informed opinion is required if government in Korea is to become more responsive to popular needs and demands and if popular opinion is to be a significant influence in affecting such attempts to change the structure of government as were made with the constitutional amendments of 1952 and 1954.

INTRODUCTION

For the greater part of August, the political scene in Seoul was dominated by the National Assembly debate on the Administration's revised budget for fiscal 1958, finally approved by the Assembly on the 25th of that month. A bitterly contested legislative battle, the debate reached a climax during the latter part of the month, its drama being heightened by the desperate parliamentary stratagems of the Opposition

TPShoesmith/cv
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of the Opposition designed to force concessions from the government by delaying final action on the bill. Under pressure of prolonged sessions, often more occupied with procedural wrangles than substantive debate, orderly parliamentary procedure frequently was abandoned by partisans of both sides and, on occasion, committee hearings were disrupted by outbreaks of physical violence. On at least two occasions, presiding officers were forced to call Assembly guards to restore order.[1]

The course of this debate was publicized in great detail by all major national papers, their coverage and editorial comment reflecting their customary partisan bias. As portrayed by Opposition leaders and their partisans, the Democratic Party was waging a determined battle to expose the evils of maladministration and corruption lying behind the government's budget bill, while the Liberal Party was employing its majority position to silence criticism and over-ride Democratic proposals. For their part, Liberal spokesmen insisted that the budget bill was a major effort to improve national welfare by realizing the long-delayed increase in the salaries of government employees and that the Democratic Party was bent on making partisan propaganda at the expense of the national interest.

As the debate progressed, substantive issues were steadily pushed into the background of what had every appearance of a major political campaign. Partisan allegations aside, the primary objective of the Democratic Party clearly was to strengthen its popular support by utilizing the debate as another opportunity to levy charges of corruption against the government. On the defensive against this attack, the Liberals, also concerned with the possibility of adverse popular reaction, were constrained from using too soon their majority to over-ride the Opposition.

An opportunity to observe the impact of this political contest in areas outside the capital city was provided during a field trip which the reporting officer made to North and South Cholla Provinces, August 21-26. The contrast between the intense interest with which the debate was followed in Seoul and the appreciably lower interest evident in provincial areas brings into sharp relief what appear to be certain basic aspects of political behavior and opinion in Korea--aspects which, in Seoul, are frequently obscured by the smoke of political battle.

A. Attitudes of Provincial Leaders

Leaders of both parties in the provincial capitals of Chonju (North Cholla) and Kwangju (South Cholla) discussed the budget debate within the terms delineated by the national party leadership. Like the Governor of North Cholla Province, most Liberal Party leaders with whom the reporting officer discussed the issue emphasized that "the people" had become very impatient with Democratic "obstructionist" tactics. CHO Ung-man (6392/2019/5502), Vice-chairman of the South

1. Embassy Despatch No. 93, August 20, 1958, Weekly Notes on Korean Political Developments, No. 31, Item 2 (CONFIDENTIAL); Despatch No. 111, August 28, 1958, Weekly Notes on Korean Political Developments, No. 32, Item 2 (OFFICIAL USE ONLY).

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By [illegible], NARA, Date 11/2/21

Cholla LP Provincial Branch, insisted that such tactics had injured the political position of the Democratic Party, since many people believed that these tactics were not "democratic." Mr. Cho, and other Liberal leaders, also noted that popular dissatisfaction with the Democratic position had been strengthened by the fact that "many people" would profit from the much-needed pay-raise. Provincial Liberal leaders, however, mirrored the defensive attitude of their colleagues at national headquarters toward the issue of corruption. They apparently were attempting to counter the charge of corruption by stressing that the effort to increase the salaries of government employees was a key point in the party's program to eliminate corruption.

Democratic leaders, on the other hand, appeared confident that the party had gained in popular support by its budget fight. They argued that the party's attack on corruption and maladministration had met with a sympathetic response from "the people", resentful of the government's failure to take more adequate and positive steps to improve their standard of living. Democrats seemed not overly concerned with the possibility that their obstructionist tactics would prove counter-productive. YANG Pyong-il (2733/3524/2480), Chairman of the South Cholla DP Provincial Branch, for example, pointed out to the reporting officer that the Liberal Party and the Administration did not hesitate to resort to "illegal" means to retain power and, therefore, the Democratic Party must take advantage of every opportunity and employ every available means to expose and remedy the corrupt administration of government. Even, he observed, the outbreaks of physical violence during Assembly debate would not impair the Democratic cause.

B. Extent of Popular Reaction

A rather different picture of popular reaction to the budget debate appeared, however, when these broad generalizations concerning opinions of the "people" were subjected to closer scrutiny. During a conversation with several officers of the Democratic Provincial Branch in North Cholla, the Chairman of the Organization Department, YU Su-bok (2692/1108/4395), pointed out that, although interest in the budget was high in the provincial capital and the subject of much tea-room conversation, this was not the case in the rural areas. Indeed, these officers indicated that their confidence that the party's Assembly tactics were not likely to have an adverse impact appeared largely based on the knowledge that only a very small proportion of the rural electorate was likely to be informed of or interested in the details of the debate. A similar observation with respect to the budget debate as a whole was made by the Governor of South Cholla, YI Ki-se (2621/3823/0013).

Almost all observers of the local scene with whom the reporting officer talked confirmed this assessment. CHA Ch'ol-hun, Director, North Cholla Provincial Information Center, for example, observed that informed interest in the budget debate was confined principally to intellectual and political circles in the provincial capital, although he believed that many people in urban and rural areas had a passing interest in the matter and may even have been aware of the main issues involved. This statement, however, would seem to require the qualification that even in the provincial capital, interest in the budget debate appeared appreciably lower than in Seoul. Although political leaders were well-informed

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on the course of the debate, their attitude toward it was almost casual and suggested that they did not regard the budget battle as an issue which merited active exploitation at their level of political organization.

Below the level of the provincial capital, it was difficult to detect any significant body of informed opinion about the debate. The chief of the small township of Unju, Wanju County, North Cholla, told the reporting officer that there had been little discussion of the budget in his area. He added that there was, in fact, little general interest in politics except, of course, during election time. A similar view was expressed by the deputy myon chief of Tuma, Nonsan County, South Chungchong Province.

C. The Problems of Interest and Information

Much of the urban interest in the budget debate centered in the parliamentary tactics of the opposing forces and in the more sensational Democratic Party allegations of corruption and maladministration. An interest in such political in-fighting and an appreciation of its significance for the operation of representative government in Korea, however, requires a measure of political sophistication which apparently is not present to an appreciable extent among the rural electorate here. Moreover, the low level of interest in the budget debate outside the provincial capitals may be explained by the fact that the revised budget bill itself did not contain items of direct and material significance for the majority of the electorate. It is not surprising, therefore, that the myon chief of Unju should indicate that the people in his area were much more interested in whether the central government would be able to effectively assist them in combating the effects of a previously unknown type of weevil which was threatening serious damage to this year's rice crop.

Perhaps of equal significance in explaining the comparatively low level of rural interest in national political developments, however, is the fact that information about events outside the immediate local area appears extremely limited. Electricity being unavailable, many villages are without even a single radio. Morover, national and provincial newspapers apparently do not circulate widely in rural areas. Estimates of provincial party and government officials with whom the reporting officer discussed this matter indicated an average of one newspaper for every twenty to thirty households, or approximately one for each village. The picture presented to the reporting officer thus was that of a great portion of the electorate largely cut off from timely information on current political developments, except for one or two persons in each village who subscribe to newspapers and from whom such information spreads by word of mouth.

D. Formation of Local Political Opinions

In discussing this situation with local observers, it appeared that these few persons in each village are generally the natural leaders of the community, rather than local governmental or party officials. In view of the apparent key position which such personalities seem to hold in the dissemination of political information, it is interesting that the myon chief of Unju should observe that in his area the most politically articulate are generally persons who had lost

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land during the land reform program and who are, for that reason, generally critical of the government's policies. He added, however, that since most farmers now held more land than they did previously, they are not generally critical of the government or interested in politics.

It would be hazardous to make any broad generalization as to the orientation of informed political opinion in rural areas on the basis of such limited observations as were possible during the reporting officer's recent field trip. In recent conversations in Seoul, however, several political leaders have remarked to the reporting officer that, in addition to the natural community leaders, returning students and intellectuals play a major role in the formation of local opinions. Further, there seems to be an agreement, shared even by Liberal Party representatives, that the influence of these persons generally is critical of the Liberal Party and the Administration. It may also be noted that the Liberal Party has for some time stressed the necessity of increasing the circulation of pro-government newspapers, perhaps sensing a drift in local sentiment toward a more critical view of the party and the Administration. This assessment, at any rate, was forcefully presented to the reporting officer by Cho Ung-man, of the South Cholla LP Provincial Branch. Mr. Cho estimated that newspaper circulation in that province was heavily weighted in favor of the opposition, and he emphasized that, as a result, most of the information on political affairs reaching the electorate was critical of the government's policies. The LP, however, as yet appears to have done little to correct this situation. It is possible that the solution of the problem is being left to local initiative. In any event, at least one local Liberal Party has taken action. In the township of Tŭma, South Ch'ungch'ong Province, the reporting officer was informed that the myon chief, KIM Yong-ju (6855/1369/0719), a Liberal and reportedly a wealthy and public-spirited man, has provided each precinct chief within his myon with a subscription to the pro-government Seoul Sinmun.

For the most part, however, provincial party leaders indicated that their organizations do not play an active part in the formation of local political opinion outside the provincial capitals. In North Cholla Province, for example, the chief of the Democratic Party's Organization Department told the reporting officer that there were no plans for publicizing at the local level the party's view of the budget debate. Insofar as leaders of either party were concerned with this problem, they appeared content to rely on the views of provincial leaders filtering down to the local level through the occasional contact of myon and precinct leaders with the provincial organization. In addition, it was pointed out that the return of National Assemblymen to their districts during recess would serve to bring the national political scene closer to the rural electorate. HAN Hui-sok (LP, from South Chungchong Province and Vice Speaker of the Assembly) recently told the reporting officer that on such visits he usually tries to visit as many myon as possible, in addition to several villages, where he may make a formal public speech or participate in discussion groups.

One additional feature of this picture of the process by which information on national politics reaches rural areas is particularly noteworthy. Apart from the newspapers--and this may not be the most important channel--the nature of the

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influences affecting local public opinion are such that their impact probably lags considerably behind events in the national capital. Thus, a number of local observers remarked to the reporting officer that it was probably too early to expect any local reaction to the budget debate, and the Director of the North Cholla Provincial Information Center suggested that the full impact would not come for a month to six weeks after the height of the debate in Seoul, during which persons from the capital would be returning with news of the debate to rural areas. In discussing this aspect of the problem, Han Hui-sok remarked to the reporting officer that the lag was probably even longer, perhaps as much as three months, before the reaction of rural areas was fully formulated.

CONCLUSIONS

Even on the basis of limited observation, it seems reasonable to conclude that much of the political in-fighting and legislative debate which takes place in Seoul attracts little interest in rural areas and its impact, if any, on political opinions at that level is probably considerably delayed. To this extent, broad popular opinion--in the sense of the reactions of a wide sector of the electorate--probably do not exercise a significant influence on the positions taken by legislators of either major party or the formulation of party strategy during legislative debate. This is not to say that such opinion is not a significant political factor, but only that its impact on this particular aspect of political activity appears to be negligible.

At the same time, the apparent lack of interest in the details of legislative debate, reinforced by the paucity of timely information, suggests that the National Assembly does not now serve the function of educating the electorate either in the details of substantive issues or, of perhaps greater importance at this stage of Korea's political development, in the processes of representative government.

Once the tumult of parliamentary battle dies, local opinion gradually may take shape as the views of persons more directly concerned with and interested in the national political scene filter down to the local level. The importance which personal contact apparently plays in this process--whether through the natural community leader, the returning student, or the visiting politician--suggests that the opinions of the average voter are particularly vulnerable to the individual bias of such sources of information, since there is little opportunity for him to check these against independent and competing sources of information. For the moment at least, there appears to be no significant organized partisan or non-partisan effort to supply such information to the rural electorate.

Although it is easy to exaggerate the extent of active popular interest in and informed opinion about national political issues in more mature democracies, it is at least arguable that the establishment of an effective democracy in Korea requires this factor to be present to a much greater extent than is presently the case. At the very least, this would seem to be the case if

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political parties and government in Korea are to become more responsive to popular needs and desires and if popular opinion and conviction are to be a significant influence affecting such attempts to change the structure of government as were made in the constitutional amendments of 1952 and 1954.

For the Ambassador:

William G. Jones

William G. Jones
First Secretary of Embassy

cc: USIS

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By NARA, Date

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FROM: Amembassy, SEOUL

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TO: THE DEPARTMENT OF STATE, WASHINGTON.

September 16, 1958
DATE

REF: EMBTEL 98, September 5, 1958

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	FE-4	INFO RMIR-2 REP-1 IRC-8 E-7 W/MSC-3
	REC'D 9-22-58	INFO OTHER COM-8 TR-3 FRB-2 XMB-4 CIA-13

SUBJECT: Second Joint Meeting of Embassy, UNC, OEC Heads with ROK Cabinet Ministers

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The Memorandum of Conversation covering the second meeting, summarized in ref telegram, between Ambassador Dowling, General Decker and Economic Coordinator Warne with certain ROK Cabinet Ministers is enclosed.

The Embassy regrets the delay in submitting this despatch, but this was occasioned by the temporary absence of General Decker from Korea while the Memorandum awaited his clearance.

For the Ambassador:

Edwin M Cronk

Edwin M. Cronk
First Secretary of Embassy

Enclosure:
As stated.

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Page 1 of
Encl. No. 1
Desp. No. 147
From Amembassy, SEOUL

MEMORANDUM OF CONVERSATION

September 8, 1958

Present: Ambassador Walter Dowling
General George A. Decker, UN Command
William E. Warne, Economic Coordinator, UNC
Chong Chae-sol, Minister of Agriculture and Forestry
Koo Yong-su, Minister of Commerce and Industry
Kim Chong-yol, Minister of National Defense
Kim Hyon-ch'ol, Minister of Finance
Song In-sang, Minister of Reconstruction
Yi Han-bin, Director, Bureau of Budget, Ministry of Finance
Robert W. Tucker, American Embassy

Subject: Second Meeting with ROKG Ministers to Discuss 1958-59 Budget Situation

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The meeting on September 3, 1958, held in the Ambassador's Office, was called at the request of the five ROK Ministers as a follow-up to the August 20, 1958 meeting at which the Ambassador, General Decker and Mr. Warne expressed their (and Washington's) fears as to the inflationary effect of the ROK revised 1958 budget and proposed 1959 budget, and commented on other disturbing developments in Korea.

Minister of Finance Kim, acting as spokesman for the group, opened the meeting by assuring the Ambassador that the maintenance of financial stabilization remains a key point in the policy of the ROK Government. He asserted that both the revised 1958 and the proposed 1959 budgets will be balanced - "revenues must meet expenditures". He indicated that the government plans to reduce the existing ROKG payrolls of about 240,000 persons by a 15,000-man cut (about 6 per cent). Minister Kim acknowledged that corruption in his government does exist but the administration is now taking strong measures to curb it. The Liberal Party is introducing a bill into the National Assembly which will provide heavy penalties for government employees found to have engaged in dishonest practices. As to utility rates, Minister Kim said that the ROKG up to the present had been unsuccessful in amending the Financial Act to permit the fixing of rates by a commission (as opposed to the present cumbersome rate-fixing by the Assembly) but the government has finally obtained Liberal Party (the majority) support for such an amendment, which would be introduced at the next session of the National Assembly. As to the vested properties, Minister Kim stated that President Rhee has just issued an order that where deficits result from the operation of any government-owned corporation, the management must be reorganized and the operations of the corporation "rationalized" to make a profit.

With regard to smuggling in and out (and by implication, also, black marketing) Minister Kim stated that the Ministers of Defense, Commerce and Industry, Finance, Justice and Home Affairs will shortly inaugurate an anti-smuggling drive with a three-week's advance notice to the public which will be used as an educational campaign. After that the government will confiscate smuggled goods and

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illicitly-acquired merchandise in stores and markets, including Military Payment Certificates (MPC's). Minister Kim asserted, however, that the UN Command must cooperate in this drive. He pointed out that it is the "G.I.'s" who buy American goods and give them to their Korean girl friends, as well as the MPC's to buy goods and hwan.

General Decker replied that the UNC will do what it can but he retorted that with the artificial exchange rate of 500 hwan to $1.00, which overvalued the hwan by 100 per cent, it was against human nature to expect the troops to want to convert money or buy at the legal rate. The Ambassador remarked that the ROKG should treat MPC's as contraband and should confiscate them. For the long term, however, it was his view that the only solution to this problem would be for the ROKG to establish a realistic special exchange rate for resident foreigners and tourists. The Ambassador cited his experience in Austria where the Austrian Government had eliminated dealing in MPC's and foreign currencies by creating such a special exchange rate at a level just below the black market rates.

Minister Kim stated that the ROKG would go all out to stop the smuggling and black marketing of goods. He anticipated that the first public reaction would be bad, particularly in the case of American cigarettes, since so many street vendors make their living from selling them. General Decker interjected that if the ROKG starts by confiscating cigarettes it will stop the black market trade. Minister Kim replied, "We will do it!" General Decker then inquired whether an amendment to existing laws would be required to confiscate contraband goods, to which Minister Kim replied that the existing customs law gives the ROKG all the authority that is needed.

Minister of Reconstruction Song then remarked that with regard to corruption the ROKG had publicly warned its intention to enforce the Foreign Aid Control Law. Four men had been jailed. Severe punishment has been meted out to violaters. A public announcement recently has warned all Korean business men to comply with ROKG and ICA regulations. As to subsidies, Minister Song stated that both the MOR and Mr. Warne want sales on a competitive basis. The ROKG has even used bidding as a process for medium industry capital development projects. Minister Song mentioned two principle exceptions to the open bidding process, sales of aid-financed cotton and the agreed 30-70 (30 per cent by private business, 70 per cent by the ROKG) ratio for procurement of fertilizer imports. In the case of cotton, allocation to specified end-users (millers) was necessary because traders lacked the experience necessary for dealing in cotton. To counter this the ROKG wishes to send some Koreans to the United States to study cotton marketing and classification. The ROKG and OEC had reached a compromise agreement on fertilizer procurement but with the commencement of operations of the Chungju fertilizer plant next year this problem would have to be reviewed. The CEB is studying the entire fertilizer issue.

Minister Song stated that the ROKG has decided to shift most of the burden of the new foreign exchange tax on to the farmer as a part of the retail fertilizer price. He indicated that the ROKG would do its best to utilize Korea's own resources. He has been studying with the Minister of Finance a program for best use of ROK-owned foreign exchange. The ROKG plans to export 200,000 tons of

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rice from the coming crop, but in this connection they are encountering difficulties, such as the question as to what goods should be imported from Japan in exchange for the rice.

Minister Song asserted that the 1,000 hwan to $1.00 black market rate does not represent the real value of the MPC. In addition to its use for illegal purchases of military and PX goods, the MPC's are used more extensively to purchase smuggled goods from Japan, largely consisting of cosmetics and nylon stockings. Korea has little or no industry for the production of these goods, and nylon stockings sell in the ROK for 2,000 to 2,500 hwan per pair. Minister Song stated that he had asked Mr. Warne for aid funds to set up a nylon weaving plant but these had been refused. Minister Song continued that he wants to end the illegality in connection with these nylon stockings. He estimated the ROK's annual requirements at 400,000 pairs and stated that these are all now being smuggled into Korea. Minister Song remarked that President Rhee has just signed the new Foreign Investment Bill (to go before the National Assembly for consideration soon) and that this was another forward step.

Minister of Finance Kim said that he wished to set up the 1959 stabilization program soon, and not later than January of 1959. Mr. Warne replied that the OEC was ready to start on this at once.

Minister of Commerce and Industry Koo stated that he had just taken office and was therefore not familiar with what had been discussed at the previous meeting. He saw two main problems, first, how to eliminate hidden subsidies to government agencies, and, second, how to encourage exports. He is studying the idea of setting up holding companies to aid the weaker corporations and also the use of convertible debentures to sell out vested properties. As to exports, the exchange rate is the big difficulty. Minister Koo saw the new exchange tax as a step in the direction of adjusting the exchange rate. He noted that Korea had great difficulty exporting because of higher posts of production. He announced his intention to ask Mr. Warne to provide aid funds to be used for encouraging exports. He stated that he would like more money from counterpart hwan and dollars to develop small industry. He considered that DLF would take care of large industries.

Minister of Finance Kim asserted that Korean industry is growing and in the near future should be able to compete with Japan. But he complained that Korean textiles were already meeting competition because the Japanese are dumping at a loss. He pointed out that dumping is a form of subsidy. The Ambassador questioned that Japan is dumping, saying that the same charge had been made against the Germans in recent years, but investigation had apparently not substantiated the allegations. The Ambassador pointed out that the real Korean problem is that of marketing. He wondered whether the cost of production was the basic problem, or if it were not the artificial exchange rate which resulted in over-pricing potential exports. He insisted that salesmanship is needed. The Ambassador contended that Korean textiles could be sold right now in such markets as Burma, Indonesia and the Philippines.

As to the nylon stocking issue, the Ambassador stated that this is a question of what the ROK can afford to consume. He suggested the legal importation of

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stockings and cosmetics if necessary to end smuggling. For the same reason he also suggested the legal purchase and sale of American cigarettes. He pointed out that there is no incentive in the present Korean economy to compete and to export. Reverting to the general argument anent the budget, the Ambassador expressed his dissatisfaction with the answers given by the Ministers. For example, he pointed out that they had talked about a small payroll cut but did not say when or how it would be done. As to the export of rice, he foresaw difficulties, since because of the exchange rate the ROKG stood to lose an estimated $15 million on the export of 100,000 tons. Mr. Warne stated that the OEC had worked out several methods by which the rice exports could be made feasible. He pointed out that the FY 1959 salables program would have to be adjusted to the extent that similar goods were obtainable from Japan. These should be eliminated from the ICA program. The Ambassador indicated that there was no guarantee that the Japanese would buy the Korean rice, especially in the absence of a political agreement. He pointed out that Japan could probably meet its import needs with Formosan rice. Minister Song said that Korean rice has always been the favorite of the Japanese.

The Ambassador reiterated that he had not been convinced that the 1958 and 1959 budgets would be balanced and he felt that Washington had the same impression.

Mr. Warne stated that he was encouraged by Minister Kim's assertion that the ROKG would enact an anti-corruption law. He hoped that it would have a conflict of interest clause in it and that it would be framed to eliminate "side payments". Another encouragement was the ROKG promise to amend the Financial Act to provide for establishing a public utilities rate commission. He pointed out that it is essential to free the government enterprises and let them balance their budgets. He urged that his OEC experts be put to work at once in helping the ROKG frame the law changes.

Mr. Warne referred to the promises of Ministers Koo and Song for better management in government-owned corporations, but he pointed out the Pusan Iron Works and another firm as examples where this had not been done. As to Minister Koo's idea of using convertible debentures to sell vested properties, Mr. Warne stated that Mr. Wollmar had already worked out a plan along this line and would be pleased to offer it to Minister Koo. The latter's proposed special export fund should be a matter for later discussion in the CMB as should the rice export problem. Mr. Warne stated that his experts had done some study on the proposed 1959 budget. He had been informed that the income estimates seemed realistic except for doubt that 10 to 12 billion hwan could be realized from the sale of national bonds. There did not seem to be a serious question as to the validity of the expenditures. They did not seem to be badly out of line with the original 1958 budget.

General Decker asserted that the 1959 Defense budget was considerably higher than that of 1958. He doubted that the U.S. could support it, especially in view of the reduction in forces contemplated. Minister of Finance Kim stated that the increase was largely due to the pay raise. General Decker replied that he had favored a selective pay raise but not the across-the-board raise voted by the Assembly. He felt that the extra 13 billion hwan involved was not worth the

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risk of unbalancing the budget.

Minister Song then reviewed the history of Korea's post-armistice struggle to achieve economic normalcy. In concluding this he reverted to his fear that Korea may be developing a consumption pattern it cannot afford to maintain. The Ambassador stated that he was glad Minister Song is concerned about this and Washington would also be pleased to learn of it. But he insisted that the 13 billion hwan pay raise to inductees was not an example of proceeding along sound lines.

Minister of Defense Kim then stated to the Ambassador, "Please put these words in your report to Washington." He pointed out that corruption and the pay raise were closely linked questions. "The pay raise is absolutely necessary to destroy the corruption." He reminded the Ambassador that the Minister of Finance and Reconstruction would establish a new 1959 stabilization program. He asserted that after the raise the troops would be told to expect severe punishment if found to engage in corrupt practices. He claimed that perhaps as much as 10 to 20 billion more hwan in revenue could be obtained through the tax collectors if they were paid a living wage. The Ambassador declared that he agreed with the purpose of the pay raise but pointed out that if the budgets are unsound and inflation results the value of the pay raise would be wiped out. Minister of Finance Kim replied that ROKG expenditures will not be permitted to exceed revenues by President Rhee's order. He did not consider the pay raise as presenting a danger of inflation but did feel that the foreign exchange tax might cause some inflation. The Ambassador then concluded the general meeting by informing the Ministers that he would report to Washington their statements of confidence that the 1958 and 1959 budgets would be balanced.

A later discussion, involving primarily General Decker, Mr. Warne and Defense Minister Kim, then ensued on the U.S. counterpart support to the 1958 ROK Defense Budget. [redacted] Although the total contribution of 48.3 billion hwan had been agreed, a dispute had arisen as to the accuracy of an ROK estimated requirement of 393 million hwan as the cost of side dishes for troop meals. After considerable give and take, Minister Kim finally accepted the insistence of the U.S. side in eliminating this item pending a later review of defense budget requirements.

Clearances:

The Ambassador (in draft) by RWT
Gen. Decker (in draft) by RWT
Mr. Warne (in draft) by RWT

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SUBJECT: Democrats Formulate Principles for 1959 Budget

Summary and Conclusions

The Democratic Party has published a 19-point policy statement entitled Position of the Democratic Party on the Formulation of a Budget for Fiscal 1959. Sensitive to criticism that the party has been principally concerned with "opposition for opposition's sake," this pamphlet appears intended to signify the party's determination to present concrete and constructive policies during the forthcoming debate on the government's 1959 budget bill. The pamphlet, therefore, outlines a number of proposals for reducing governmental expenditures and increasing revenue and makes certain specific recommendations concerning government organization and economic and fiscal policies.

As developed more fully in the comprehensive policy statement prepared at the time of the party's national convention in 1957, on which this pamphlet appears to have been based, these policy recommendations reveal a distinct bias in favor of the reduction of governmental intervention in the economy and a weakening of the political powers of the central government. This bias probably reflects the historic origins of the party in the land-owning and managerial classes, as well as its own experience in attempting to gain political strength in the face of governmental opposition.

On a number of issues, however, there appears to be substantial agreement between Liberals and Democrats, at least on the objectives to be achieved if not the means thereto. Whether this circumstance will induce a greater measure of cooperation between the two parties during the Assembly's consideration of the 1959 budget will depend upon the calculations of political advantage on both sides, the Democrats continuing to be tempted to neglect constructive policy debate for narrow partisan attack. The suggestion advanced in this pamphlet that bi-partisan councils (presumably broader in scope than the present Assembly committees) be established to consider the interrelated problems of national defense and economic reconstruction, however, is an encouraging indication that at least some thought is being given to means whereby both major parties can make an effective contribution to the formulation of national policy.

Introduction

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One of the more encouraging aspects of the trend toward a two-party system in Korea has been the increasing recognition by the Opposition of the need to develop concrete and constructive policies as a guide for the party's efforts within the

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National Assembly and as a basis for its appeal to the electorate. Perhaps the most substantial effort in this direction was that made at the time of the Democratic Party's national convention in 1957 with the publication of the Current Policies of the Democratic Party (hereafter referred to as Current Policies), a detailed presentation of the party's program for the first four years, should the party take over the reins of government. A more recent effort in this direction appeared in the form of a pamphlet entitled Position of the Democratic Party on the Formulation of a Budget for Fiscal 1959. Released by CHO Pyong-ok on August 24, this policy statement probably was drafted by the party's Policy Committee, with such specialists in economic policy as KIM To-yon, KIM Yong-son, CHU Yo-han, and YI Ch'ung-hwan playing a leading role in the process. A copy of this document, together with a translation prepared by the Embassy, is contained in Enclosure 1.

I. The Democratic Approach to Korea's Economic Problems

The 19-point statement of budget principles draws heavily on Current Policies, in which these specific recommendations and their rationale are elaborated in much greater detail. As stated in the introduction to the budget pamphlet, the party offers these proposals in the hope that they will be given serious consideration by the Liberal Party and the Administration. In its view, however, a fundamental solution to the country's economic and political problems can be achieved only after a transfer of power to the Democratic Party.

Both the tone and approach of the document, therefore, reflect certain basic features of the party's approach to Korea's economic problems.

a. Assessment of the Foreign Aid Program: It is significant that a prominent place is given in the pamphlet's introduction to the party's assertion that, despite a generous program of foreign aid, "very little progress" has been made in the economic rehabilitation of Korea. It does not appear, from an examination of Current Policies that the party takes issue with the overall direction of that program, although as suggested in Point 13 of the pamphlet and discussed in considerable detail in Current Policies, the Democrats would give somewhat greater emphasis to increasing agricultural production, to the development of small and medium industries, and to the encouragement of enterprises producing goods for export. It is the party's principal contention, however, that Korea's failure to make greater and more rapid progress toward economic recovery is chiefly the result of corruption and maladministration on the part of the government in managing foreign economic aid. It is likely that this charge will be developed more fully during the forthcoming debate on the 1959 budget.

More specifically, the pamphlet reiterates Democratic proposals that the official foreign exchange rate be placed on a more "realistic" basis, that fertilizer imports should be distributed exclusively through private channels, and that hwan payments for "capital goods" imported with aid dollars should be deposited in full and in advance. Such measures, it is argued, not only would result in a more effective use of foreign aid but would increase government revenue.

b. Proposals for Reduction of Governmental Expenditures: At the same time, Democrats argue that Korea's economic recovery is hampered by what they

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regard as an excessively large national defense program. Thus, the party's principal proposal for the reduction of governmental expenditures involves the limitation of national defense costs to 20 percent of tax revenue, the deficit being "supplemented with aid from friendly nations." As developed in Current Policies 1/, this program involves a downward revision of force levels, in part based upon the assumption that defense potential will be augmented by more advanced weapons. Although the party's recommendations in this connection appear to be based on little more than a comparison of Korea's ratio of men under arms to total population with that in other countries, Current Policies tentatively suggests an active strength figure of 40-70,000 men with, it would appear, a reserve of approximately 500,000 men.

Other Democratic proposals for reducing governmental expenditures outlined in this recent pamphlet include rationalization of the structure of government, reduction of the strength of the police force by 20,000 men, and the transfer of certain educational and police functions to local agencies.

The concept of reducing the costs of central government by shifting a number of its functions to local agencies is discussed in considerable detail in Current policies where, in addition to educational and most police functions, it is suggested that local agencies assume responsibility for certain operations now performed by the Ministries of Agriculture and Forestry and Commerce and Industry. The details of this proposal, however, do not appear to have been carefully worked out by the party's drafters. Moreover, it seems doubtful that it could be undertaken on the scale indicated in Current Policies where it is estimated that more than half of the central government employees could be shifted to local payrolls. Perhaps the most serious weakness in the Democratic program on this point, however, is its failure to make a realistic appraisal of the ability of local entities to develop adequate revenue to support the functions which it proposes to transfer to them.

c. Economic Policy of the Democratic Party: Items 10 through 19 of the 19-point pamphlet on the 1959 budget are concerned with more specific Democratic proposals in the fields of economic and fiscal policy. The party favors the abolition of the government monopoly corporations 2/ and the denationalization of government-owned and operated industries. 3/ In addition, it is urged that greater emphasis be given the development of small and medium enterprises and agricultural production, with efforts to liquidate rural debts carried at usurious rates of interest and to provide more adequate rural credit facilities.

1/ A complete translation of this lengthy document is now in its final stages and will be transmitted to the Department in the near future.
2/ In Current Policies the party recommends that the Tobacco Monopoly be retained although, characteristically, it adds that the quality of cigarettes would be improved if their manufacture were in private hands.
3/ Current Policies does not elaborate on this proposal beyond calling for the denationalization of enterprises which are not "self-sustaining," with the overall problem to be studied by a Research Committee. It seems clear, however, that the ultimate goal is denationalization of all government enterprises.

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In the field of taxation, the party recommends abolition of the land income tax and favors revision of the tax structure to place greater reliance on indirect rather than direct taxes.

These proposals appear to reflect the historic origins of the Democratic Party in the land-owning and managerial classes, as well as the party's attempt to capitalize upon the discontent of small and medium private enterpreneurs. Probably reflective of the views of these groups, the party's economic policies, as developed more fully in Current Policies, reveal an economic philosophy which appears to be somewhat more "laissez faire" than that of the Liberal Party and the Administration. Throughout the tortuous argumentation so frequently characteristic of Current Policies are found the catch-phrases of "free market" and the "free operation of the laws of supply and demand," held out as the surest guide to maximum economic development of the society and the most equitable distribution of its product. Typical of the approach is this excerpt from Current Policies: "Maximization of the development of natural resources, of production, of consumption, and of fair distribution can be realized through free competition based on free commodity prices . . . /The/ efforts of businessmen to maximize profit leads, in the long run, to the development of industries which are urgently needed."

The fact that such concepts appear to have been largely ignored or substantially modified in the formulation of a number of specific policies suggests that the party's economic experts have had some difficulty in resolving Korea's contemporary economic problems within this philosophical framework. Despite such lapses of logic and consistency, however, the frequency with which such concepts are employed to provide a rationale for the party's economic program suggests that they are prime benchmarks in the Democratic Party's survey of Korea's economic problems and the construction of the party's program for their solution.

d. Decentralization of Central Government Powers: Further, this basic philosophy in the field of economic policy complements the political orientation of the party, expressed in its proposals designed to weaken the political powers of the central government. This objective is most clearly reflected in the party's recommendation (Item 4 of the pamphlet) not only to reduce the size of the police but to divide police power into separate and independent local and national organizations. Current Policies deals more extensively with this problem in its proposals to achieve greater local autonomy, such as the direct election of all local officials, including provincial governors, the abolition of the Home Ministry, and the division of the tax power between local and central government.

It is more difficult here than in the area of economic policy to detect any consistant philosophy at work. The practical experience which the party has had in attempting to gain political strength in the face of governmental interference with the democratic process, however, undoubtedly has provided sufficient inspiration for its present attitude in favor of weakening the powers of the central government.

II. Political Tactics

It seems likely that the primary purpose of this policy statement was to signify the Democratic Party's intention to adopt a constructive approach in the

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forthcoming budget debate. In view of the fact that the party's position during the revised 1958 budget battle was largely obscured by the desperate parliamentary maneuvering of Democrats to force concessions from the Liberals, Democratic leaders may have considered such a demonstration of good faith particularly timely.

As it stands, however, this policy statement parallels in many respects positions taken, or likely to be taken, by the Liberal Party. Liberals and the government already are pledged to take action to relieve farmers of debts carried at usurious rates of interest, strengthen farm credit facilities, promote agricultural development, dispose of vested properties, and to reduce the number and double the salaries of government personnel. The government has begun, in fact, to take steps to fulfill these promises and has made some progress in assisting the rural economy by instituting the rice lien program and establishing the Agricultural Bank. Liberals also have talked about tax reform, including abolition of the land income tax and improvement in the methods of tax collection, and measures to encourage small and medium industries.

There would appear to be, therefore, an area of agreement between the two parties, at least as to certain objectives if not as to means. Whether they will in fact be able to cooperate on such matters, of course, will depend upon the calculations of party leaders as to the possible political advantages of such a course of action. Such cooperation may be less favorably regarded by Democrats who will continue to be tempted to capitalize on the budget debate in order to score points off the Liberal Party and Administration. Whatever the views of the top leadership, many Democratic Assemblymen insist that, given the proximity of the presidential elections, the primary objective of legislative debate is to attack the Liberals and the Administration and thus, they believe, strengthen popular support for the Democratic Party.

It should be noted, however, that this pamphlet puts the Democrats on record in favor of a bi-partisan approach to at least two major national problems. In the area of national defense, it is suggested (Item 2) that a Supreme Defense Council be formed, to include "authoritative experts" of both the Liberal Party and the Opposition, together with the Ministers concerned, to consider the organization of the armed services and the size of the military establishment in relation to the requirements of economic reconstruction. It is also suggested (Item 12) that a similarly constituted Economic Council be formed to undertake a study of the economic recovery program and means to increase national income.

The responsibilities of such councils are only vaguely suggested and the extent of their authority is not indicated. However, although it is doubtful that the government would be willing to participate directly in such councils, much less commit itself to be bound by their recommendations, such committees could provide an opportunity for a constructive bi-partisan effort within the National Assembly. Although, here again, it must be conceded that the political climate probably is not immediately favorable to the fruition of such a proposal, the fact that it has been made--particularly by the Opposition--is an encouraging indication that

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some thought is being given to means whereby both major parties can make a constructive contribution to the formulation of national policy.

For the Ambassador:

William G. Jones

William G. Jones
First Secretary of Embassy

Enclosure:

1. Position of the Democratic Party on the Formulation of a Budget for Fiscal 1959.

cc: Economic Section

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Desp. No. 174
From Seoul

Position of the Democratic Party on the Formulation of a Budget for Fiscal 1959

[Introduction]

This Party has already pointed out that the first supplementary budget for fiscal 1958 involves a substantial deficit in revenue. Furthermore, it has been revealed that an attempt was made to conceal, in the formulation of its expenditures, many illegal acts, including the so-called illegal Reconstruction Bank loans, under the pretense of improving the treatment of government officials, thus making the citizens frown.

We are much more fearful, however, for the future of the nation if the budget bill for fiscal 1959, to be submitted shortly, is compiled without reforms in policies. [Without a change in] the present Administration's habitual policies of expediency the budget cannot be formulated and financial bankruptcy will result.

Our country has received economic aid amounting to about 2,188 million dollars from international organizations and friendly nations since the Liberation to the end of last year, and the total amount will reach about 2.6 billion dollars by the end of this year. (This figure represents only the amount of economic aid, excluding direct military aid.)

Although it is true that we have undergone the horror of more than two years of war during this period, the total amount of aid for six years since the Armistice has reached about 1.7 billion dollars. Nevertheless, economic rehabilitation has made very little progress and national income per capita remains at the level of 70 to 90 dollars per year, which is the lowest standard of living in the world. Most of the responsibility [for this situation] should be assumed by the incompetent and corrupt government's maladministration for ten years.

This party, as an Opposition party, is hereby going to express its opinion and make public its constructive proposals and thus show [the correct] direction for formulating the new fiscal year's budget and methods for reforming policy. The reform of administration and change of policies, thus eliminating the political and economic vicious circle of the past ten years, can be achieved only through the transfer of power [to the Democratic Party]. However, it will be very fortunate if the present Administration and pro-government party respect our proposals, thereby relieving the Republic's almost collapsed economy.

If this party assumes the reins of the Government, it will implement various reform measures on an annual basis in the interest of ensuring the ever-lasting prosperity of the nation. Meanwhile, the following measures can and should be immediately implemented by the present Administration:

1. Defense spending should not exceed 20 percent of the national revenues of the ordinary account and the deficit should be supplemented with aid from friendly nations. At the same time, we should wage a powerful diplomatic campaign in the interest of speeding the importation of new weapons and of ensuring an increase in foreign aid appropriations.

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By [illegible] NARA, Date 11/6/91

2. A Supreme Defense Council should be formed to discuss the formation of the three armed services and the adjustment of their military strength on a comprehensive basis in the interest of an economic adjustment of reconstruction and defense expenditures. This Council should be composed of the authoritative experts of both the pro-Government and Opposition parties and the Ministers concerned.

3. Expenditures should be reduced through revamping the administrative structure of Government, readjustment of administrative districts, moderation of the system of centralization and the reduction of the number of public officials. To this end, we should speedily establish an Administrative Research Committee which should study and establish various policies.

4. The police should be divided into national police and local police and their size should be reduced by 20,000 men (including a 10,000-man reduction in the size of the national police and another 10,000-man reduction in the size of the local police) in the interest of reducing the burdens of the people. At the same time, a Public Safety Committee should be established to operate the police and to accelerate the political neutralization of the police.

5. In principle, the expenses involved in elementary education should be met by the local agencies and in order to raise funds to meet other expenses, such taxes as can be regarded as local taxes (e.g., the business tax, admission tax and the entertainment tax) should be transferred to the local agencies. Middle and high schools should be merged and the scale of college education should be drastically reduced.

6. The official foreign exchange rate should be placed on a realistic basis in the interest of increasing the revenues from counter-part funds.

7. Fertilizer should be imported through civilian channels in its entire amount, its timely importation ensured and the seasonal rise in its price prevented, so that the farm economy may be placed on a normal footing, revenues increased and the speedy collection of counter-part funds ensured.

8. The payments for capital goods imported with foreign aid appropriations should be required to be deposited in advance in their entire amount in the interest of preventing speculation and of increasing government revenues.

9. Two hundred thousand tons of rice should be exported on an initial basis in order to earn dollars.

10. The monopoly system should be abolished in favor of denationalizing monopoly enterprises, so that the prices of their products may be lowered, their quality enhanced and national revenues increased.

11. Enterprises under the direct control of the government should be speedily denationalized, so that the government's financial burdens incurred by meeting their deficits may be eliminated and government revenues increased.

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By NARA, Date

12. An Economic Council should be established to conduct comprehensive study of the rehabilitation of the national economy and the increase of the national income that will cover research, the establishment of policies, surveillance and so forth. The council should be composed of the authoritative experts of the pro-government and Opposition parties and the Ministers concerned.

13. The policy of giving priority to reconstruction in the operation of foreign exchange and government finance should be changed in favor of placing emphasis on agriculture, middle and minor enterprises and export industries. And the usual policy of placing emphasis on key industries and large factories should be stopped except for the electric, coal-mining, transportation, shipping and fertilizer industries.

14. An annual plan to form 1,000,000 stabilized farm households and to establish a system of storing 1,000,000 sok of grain available for loans to the farmers should be established and implemented.

15. The temporary land income tax should be abolished, the sources of taxation transferred to the local agencies in the interest of augmenting their finance and a tax reform carried out in favor of laying the emphasis on indirect taxes instead of on direct taxes.

16. The loan policy should be improved, the practice of granting special loans done away with and the emphasis laid on agricultural funds and those for minor enterprises so that the supply and demand of funds may function on a national scale.

17. The reappraisal of assets should be effected in a thorough-going manner and the expansion and reproduction of productive facilities through their depreciation accelerated.

18. A fund for clearing the farmers' debts to the usurers should be established and a plan to clear these debts implemented on an annual installment basis.

19. Measures to eliminate evils arising from the implementation of the system of unilateral tax assessment by taxation officials without taxpayers' report should be envisaged in the budget.

If the government adopts the methods of reducing its spending as explained in Items 1 through 5 above and the methods of increasing its revenues as explained in Items 6 through 11 above, it will be able to secure about 50 billion hwan of new funds, thus improving the treatment of public officials in the genuine sense while preventing a financial bankruptcy through the compilation of a balanced budget. And the evils resulting from the system of unilateral tax assessment by taxation officials without taxpayers' report, which is designed to produce unreasonable revenue, will be naturally corrected. Through carrying out the other policies mentioned in Items 12 to 19, the political and economic vicious circle will be corrected to some extent; that will provide a clue to [beginning for] rehabilitation in the genuine sense to cities which are suffering heavy taxes and lack of funds. Furthermore, we are sure that rural areas, too, which have received no benefit

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By [illegible], NARA, Date 11/21/11

from past policies and are suffering high-interest debts, will be given a way to hope and revival.

If the Administration should miss this golden opportunity and follow its usual temporising measures, government finance which involves a 300-billion-hwan deficit and a great amount of arrears is bound to face collapse, the unbalanced condition of the industrial structure will be worsen, the national economy will be aggravated, the gulf between rich and poor will become wider and eventually the tragedy of ruining both agriculture and industry will ensue.

It is therefore desired that the Administration and pro-government party should accept our bitter counsel with frankness, and that they should have the readiness and courage to carry out resolutely a great reform in the policies.

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End. to #174 from Seoul FE 9-3058

Position of the Democratic Party on the Formulation of a Budget for Fiscal 1959

四二九二年度豫算編成에對한 民主黨의 主張

(一) 四二九一年度 第一回追加更正豫算案이 許多한 歲入缺陷을 內包하고있음은 이미 本黨이 指摘한바와 같거니와 歲出에 있어서도 公務員處遇改善이란 美名下에 所謂 産銀連繫資金·其他의 不法行爲를 掩蔽하려고 試圖하였음이 綻露되고있어 國民의 눈쌀을 찌프리게 하고있다.

그러나 우리가 不禁하는것은 一層國家前途를 위하여 憂慮를 算에 있어서 不遠에 提出되어야할 四二九二年度豫

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NND 867400
By tgw, NARA, Date 1/17/19

糊塗主義가 繼續되는 境遇에는 不可能하
던가 財政的 破綻을 가져오지 않을까 두렵다는 點
이다

우리나라는 解放以來 昨年末까지에 國際機關과
友邦으로부터 約二十一億八千八百餘萬弗의 經濟援助
을 받아왔고 今年末까지에는 그總額이 約二十六
億弗에 達할것이다 (이것은 直接的인 軍事援助를
除外한 經濟的援助만을 計上한것이다)

勿論 這間에 滿二年以上에 亘한 戰禍를 입었음
은 事實이나 休戰以後 六年間만하여도 援助總額이
거의 十七億弗에 達한다 그러함에도 不拘하고 우리
의 經濟復興은 遲々不振하고 國民所得은 每人앞

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NND 867400
By Lyn, NARA, Date 1/17/29

年七十弗乃至 九十弗의 線에서 머물러있어 世界最
低의 生活水準을 벗어나지 못하였으니 그責任의
大部分은 無爲無能하고 腐敗한 現政府當局의 十年
失政에 歸着될수밖에 없다

이에 本黨은 在野政黨으로서 所信을 披瀝하고
建設的인 提案을 公表하여 新年度豫算編成의 方向
과 當面한 政策革新의 方途를 提示하는바이다
勿論 庶政을 革新하고 政策을、轉換하여 十年間의
政治的 經濟的 惡循環을 止揚하는 길은 오로지
政權의 交替에 있는것이나 우리의 提案을 現政府
와 工與黨이 尊重하여 따르든 말든에 다른 韓
國의 經濟를 破綻에서 救出하게 된다면 多幸할것

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E.O. 12356, Sec. 3.3
NND 867400
By lym, NARA, Date 1/17/99

이다. 本黨이 政權을 擔當하게 되면 더욱 百年大計를 目標로하는 諸般革新의 構想을 年次的으로 實現할 수 있겠거니와 다음에 略述하는 바는 現政府의 能力으로서도 實踐에 옮길 수 있고 또 그렇게 하여야 할것만을 摘記한 것이다.

(1) 國防費는 一般會計國庫收入의 二〇%를 超過하지 않아야 하며 不足額은 友邦의 援助를 獲得하도록 하여야 할것이다. 同時에 新武器의 導入과 外援增額을 爲한 強力한 外交를 推進하여야 한다.

(2) 復興과 國防의 經濟的調節을 圖謀하기 爲하여 三軍의 編制、軍力調節等을 綜合審議하는 國防最

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By [illegible], NARA, Date 1/27/89

高會議를 構成하여야하며 이는 與, 野를 超越한 權威者들과 關係長官들로서 組織되어야한다.

(3) 行政機構의 再編. 行政區域의 整備. 中央集權制의 緩和. 公務員의 減員等으로 歲出의 節約을 期하여야하며 이를위하여 行政調査委員會를 早速히 設置하여 研究立案케하여야할것이다.

(4) 警察은 國立警察과 地方警察로 分立시키고 各 壹萬名式 合計貳萬名으로 減員하여 國民負擔을 輕減하는 同時에 公安委員會를 두어 이를 運營케함으로써 警察의 政治的中立化를 促進하여야한다.

(5) 初等敎育은 原則的으로 地方負擔으로하되 必要

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By [illegible] NARA, Date [illegible]

한 財源을 調達하기 위하여 元來地方稅의 性質을 가진 諸稅 (營業稅、入場稅、遊興飮食稅等)을 地方으로 移讓한다. 中、高等學校는 統合整備하고 大學敎育은 그 規模를 大幅 壓縮한다

(6) 外換公定率은 現實化하므로서 對充資金의 歲入擴大를 圖謀한다

(7) 肥料는 되도록 全部民間購買로 하여 適期의 導入과 季節的인 價格暴騰을 防止하여 農村經濟를 正常化하고 歲入增加와 對充資金의 迅速한 回收를 期하여야 한다

(8) 外資에 依한 施設材의 代錢을 全額先納케 하여 投機的傾向을 防止하는 同時에 歲入의 當面的增

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加를 꾀할것과

(9) 于先 二〇萬噸의 米穀輸出을 實施하여 外貨獲得을 期하여야 할것이며,

(10) 專賣制度를 廢止하고 이를 民營化하므로써 價格의 低廉과 品質의 向上을 圖謀함과 同時에 國庫收入의 增加를 期하여야 한다

(11) 政府直轄企業体를 早速히 民營化하므로써 赤字運營에 對한 政府의 財政負擔을 止揚하고 도리어 歲入의 增加를 圖謀하여야 한다

(12) 經濟復興과 國民所得의 向上에 關한 調査研究와 政策樹立 및 監査管理等에 亘한 綜合的인 審議를 하기爲하여 經濟審議會를 設置하되 主導成

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By [illegible], NARA, Date 4/17/89

은 與 野를 莫論한 斯界의 權威者와 關係國務
委員으로 한다

(13) 外換 및 國家財政에 依한 復興政策의 重点을
農業·中小企業·輸出産業等으로 移行시키고 從來
主力하여온 所謂 基幹産業 및 大工業施設은 오
직 發電·石炭開發·陸海交通施設 및 肥料工業以
外는 이를 中止한다

(14) 百萬戶 安定農家創定과 百萬石社還穀制度確立을
爲한 年次計劃을 樹立實踐하여야한다

(15) 臨時土地收得稅를 廢止하고 地方財政의 強化를
위하여 稅源의 地方移讓을 實現하며 直接稅보다
間接稅에 置重하는 等 稅制改革을 斷行하여야한

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다

(16) 興信政策을 改善하여 特惠金融을 止揚하고 農業資金과 中小企業資金에 置重하여 資金需給의 國民化를 期하여야 한다

(17) 資産再評價를 徹底히 促進시켜 生産施設의 原價償却에 依한 擴大再生産을 促求하여야 한다

(18) 農村의 高利債를 一掃하기 위한 基金을 設置하여 이를 年次的으로 推進하여야 한다

(19) 認定課稅의 弊端을 是正하기 위한 先行措置를 豫算化하여야 한다

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(二) 以上에 略述한 歲出節約方案(11)—(5)과 歲入增加策(6)—(11)을 採擇實施한다면 過少히 推算하더라도 約五百億內外의 財源을 確保하게 될것이므로 政府與黨이 構想하는 名目的인 公務員處遇改善이 아니라 참된 處遇改善이 實現될것이고 均衡있는 豫算이 編成되어 財政破綻을 謀免할수 있을뿐 아니라 現在와 같이 無理한 歲入을 確保하기위하여 恣行되는 認定課稅의 惡弊도 自然是正되어갈 것이며 餘他의 政策(12)—(19)을 實踐하므로써 政治的 經濟的 惡循環을 어느程度 矯正하여 稅金攻勢와 金融梗塞에 허덕이는 都市에도 眞正한 復興의 실마리를 찾게됨은 勿論 모든 施策으로부터 버림받

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고 高利債에 呻吟하는 農村에도 蘇生과 希望의
길이 열리어질것을 (三) 그러나 萬一에 이機會를 놓치고 舊態依然한 財
途政策을 踏襲한다면 三千億圓의 債務와 政府赤字
益을 內包하고있는 政府財政은 破綻에 直面할것이
요 産業構造의 不均衡狀態는 一層惡化하고 國民經
濟는 더욱 兩極化하여 貧富의 差가 日益懸隔하여
마침내 農工俱沒의 悲劇이 發生될것이다
請컨대 政府와 與黨은 우리의 苦言을 虛心坦懷
히 受納하여 政策上의 大革新을 斷行할 雅量과
勇氣를 가지라

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By NARA, Date 11/17/21

檀紀四二九一年八月　日

民主黨

二

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E.O. 12356, Sec. 3.3
NND 867400
By lgw, NARA, Date 1/17/29

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Department concerned AP story datelined Seoul October 11 quoting President Rhee as saying in his budget message reduction ROK forces quote is being suspended unquote because allies now realize danger cutting troop strength. There is no change in US position regarding ROK force reduction to which ROK with President Rhee's approval has already agreed. Reply to ROK counter-proposal on revised Appendix B in clearance process and will be transmitted soonest. In meantime you should reaffirm our position to President Rhee emphasizing US Government considers ROK agreement to force reduction is firm.

RM/R
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Dulles

DULLES

895B.10/10-1558

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Drafted by: FE:NA:GHBarbis 10/13/58

Telegraphic transmission and classification approved by: FE - Walter S. Robertson

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FROM : Amembassy, SEOUL

216
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

REF : 1957 CERP, Section B, Item III, A-1 and Section D, Item V, A-1.

Date of Action

15 For Dept. Use Only	ACTION	DEPT.
	FE-4	RM/R-2 REP-1 IRC-8 E-7 ICA-10 SCS-1 PER-2
	REC'D 10/21	INFO OTHER ARMY-4 NAVY-2 AIR-1 AGR-2 TREA-2 CIA-13 COM-8 TR-3 FRB-2 EXIM-4

Name of Officer

Direction to DC/R

SUBJECT: Proposed ROK National Budget for 1959

(Begin UNCLASSIFIED)

The Minister of Finance transmitted the proposed FY 1959 (same as CY) ROK budget to the National Assembly on October 8. The budget had previously been approved by President Rhee and the State Council (Cabinet). Following formal presentation of the President's budget message to the Assembly on October 10 and of the Finance Minister's more detailed statement, the budget was referred to various committees of the Assembly for a detailed review.

The budget, summarized in enclosures 1 and 2, is nominally in balance. Domestic revenue estimates are increased by 33 billion hwan (approximately 15%) over the revised 1958 budget estimate (55 billion hwan or 28% over the original '58 budget). This increase is based largely on the imposition of three new taxes -- automobile, foreign exchange and education -- which are expected to yield approximately 49 billion hwan during 1959. Substantial increases are also assumed in internal taxes (17% over the revised 1958 budget) and customs revenues (a 20% increase). Reduced revenues are forecast for both National and Industrial Bonds. National bond sales of 5 billion hwan are offset by 4.6 billion in interest and principal outpayments on maturing bond obligations. Repayment of KRB loans (originally financed by Industrial Bonds sold by the Finance Ministry to the BOK) are estimated at 2.9 billion, including interest. Since the Finance Ministry receives this money from the KRB and in turn uses it to retire Industrial Bonds held by the BOK this amounts to a wash transaction insofar as the budget is concerned.

Expenditure estimates are increased principally in two areas -- General Account (salaries) and National Defense (pay and allowances). These increases result from the substantial pay increase for all civil service and military personnel which becomes effective this month (October, 1958). General account expenses, other than salaries, are increased 7.4 billion hwan. Included in these expenses is the expenditure of the proceeds of the new education tax (9.9 billion) which is included under "Grants-in-aid to Local Governments". (The education tax is intended to replace the extra-legal PTA fees which heretofore have been the main source of funds for the public schools.) The non-pay items of the military budget have been reduced by about nine billion hwan from the figure contained in the original 1958 budget. (The 1959 defense budget figure, excluding pay, is 88.6 billion hwan, compared with the original 1958 budget figure of 97.1.)

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By [illegible], NARA, Date 4/29/99

Counterpart revenues (including PL 480 and Section 402 proceeds) are estimated at 140.6 billion hwan. This excludes the 150 hwan per dollar foreign exchange tax on aid imports which is included under "foreign exchange tax", item 5. The dollar equivalent of the counterpart revenue estimate, converting at 500/$1, is $281 million -- a somewhat optimistic assumption, based on current forecasts of aid levels. Deducting the 19.4 billion shown as "acquisition costs" for projects under both revenues and expenditures, the "cash" counterpart income is 121.2 billion. This, according to the budget, would be divided between project use (68.2 billion) and defense budget support (53 billion). The amount which has been allocated to defense budget support this year is 48.3 billion. (End UNCLASSIFIED)

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There is considerable doubt whether the greatly increased revenue estimates for 1959 can be realized. The Embassy and OEC, in a preliminary review, have estimated that revenue figures are excessive by at least 15 billion hwan. The following summarizes the basis for this estimate:

COMPARISON OF ROKG AND US 1959 BUDGET REVENUE ESTIMATE
(Billions of Hwan)

	ROKG	US	DIFFERENCE
Customs	39.2	35.8	3.4
Foreign Exchange Tax	34.8	29.4	5.4
National Bond Sales	5.0	3.0	2.0
Miscellaneous Revenue (Vested property sales)	4.2	2.0	2.2
Defense Budget Support	53.0	48.3	4.7
DEFICIT			17.7

(The Embassy and OEC were unable to assess the internal tax estimate, but the sharp increase - 17% - appears highly optimistic.) (End OFFICIAL USE ONLY)

(Begin UNCLASSIFIED)

The Ambassador, General Decker and Mr. Warne held a meeting with certain ROK Cabinet Ministers on October 8 to discuss the possible impact of the proposed budget on the stabilization program. A copy of the memorandum, prepared by the Embassy and OEC for presentation at that meeting, is attached (enclosure 3).

There are also attached a copy of the Liberal Party's 14-point budget policy statement (enclosure 4), a translation of a news story summarizing

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proposed amendments of tax legislation (enclosure 5), and a copy of President Rhee's budget message (enclosure 6).

For the Ambassador:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

Enclosures:

1. Fiscal year '59 budget outline.
2. Fiscal year '59 budget outline.
3. Copy of Memorandum.
4. Copy of Liberal Party's 14-point budget policy statement.
5. Translation of news story summarizing proposed amendments of tax legislation.
6. Copy of President Rhee's budget message.

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From Seoul

FISCAL YEAR '59 BUDGET OUTLINE
(In Billions of Hwan)

REVENUES	FY '59 Estimate*	FY '58 Original	Increase or Decrease
A. Domestic Revenue	249.2	193.8	55.4
1. Internal Taxes	84.8	71.3	13.5
2. Land Income Tax	20.3	20.3	0
3. Customs	39.2	32.8	6.4
Sub-Total	144.3	124.4	19.9
4. Automobile Tax	4.2	0	4.2
5. Foreign Exchange Tax	34.8	0	34.8
6. Education Tax	9.9	0	9.9
Sub-Total New taxes	48.9	0	48.9
7. Misc Revenue	25.6	26.8	-1.2
8. Monopoly Profits	22.5	19.9	2.6
9. National Bond Issue	5.0	18.0	-13.0
10. Industrial Recon. Bonds	2.9	4.7	-1.8
B. Counterpart Fund Revenue	140.6	157.8	-17.2
1. Cash	121.2	113.5	7.7
2. Acquisition Cost (projects)	19.4	44.3	-24.9
TOTAL REVENUE	389.8	351.6	38.2

* Approved by President Rhee on October 1, 1958

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EXPENDITURES	FY '59 Estimate*	FY '58 Original	Increase or Decrease
A. General Expenses	152.6	113.7	38.9
a. Salaries	62.8	32.3	30.5
b. Other Allowances and Payments (Wages, etc)	12.1	11.5	0.6
c. Office Expenses etc	11.5	12.6	-1.1
d. Work Programs	26.8	24.9	1.9
e. Grant-in-aid to Local Gov't	37.7	30.5	7.2
f. Other Expenses	1.7	1.9	-0.2
B. National Defense Support	142.2	124.2	18.0
C. National Bond Expenses	4.6	4.3	0.3
D. Industrial Recon. Bonds	2.8	4.6	-1.8
Sub-Total	302.2	246.8	55.4
E. Counterpart Expenditure	87.6	104.8	-17.2
a. Cash	68.2	60.5	7.7
b. Acquisition Cost (projects)	19.4	44.3	-24.9
TOTAL EXPENDITURES	389.8	351.6	38.2

Remarks: Book-keeping overdrafts.

1. Fund for the NA-JU fertilizer plant construction	4.7**
2. Liquidation of '58 flood control obligation	1.8
Total	6.5

* Approved by President Rhee on October 1, 1958.

** Represents second installment (payable in dollars) for Naju fertilizer plant; related hwan bookkeeping transfers cancel out.

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BREAKDOWN OF INTERNAL TAX REVENUES
(Billions of Hwan)

	FY '59 Est.	FY '58 Orig.	Increase or Decrease
Internal Taxes - Total	84.8	71.3	13.5
Income Tax	(21.7)	(16.0)	(5.7)
Corporation Tax	(4.8)	(4.9)	(-0.1)
Business Tax	(10.9)	(9.4)	(1.5)
Travel Tax	(2.4)	(1.9)	(0.5)
Registration Tax	(2.6)	(3.2)	(-0.6)
Liquor Tax	(11.0)	(10.3)	(0.7)
Commodity Tax *	(23.4)	(17.3)	(6.1)
Electric Tax	(3.2)	(2.8)	(0.4)
Admission Tax	(2.3)	(2.3)	(-)
Other	(2.5)	(3.2)	(-0.7)

* Excludes commodity tax collected by Customs Bureau which is included under customs revenues.

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From Seoul

FISCAL YEAR '59 BUDGET OUTLINE
(In Billions of Hwan)

REVENUES	FY '59 Estimate*	FY '58 Revised	Increase or Decrease
A. Domestic Revenue	249.2	216.1	33.1
1. Internal Taxes	84.8	72.5	12.3
2. Land Income Tax	20.3	20.3	-
3. Customs	39.2	32.7	6.5
Sub-Total	144.3	125.5	18.8
4. Automobile Tax	4.2	0	4.2
5. Foreign Exchange Tax	34.8	15.4	19.4
6. Education Tax	9.9	2.4	7.5
Sub-Total	48.9	17.8	31.1
7. Misc Revenue	25.6	24.0	1.6
8. Monopoly Profits	22.5	21.2	1.3
9. National Bond Issue	5.0	18.0	-13.0
10. Industrial Recon. Bonds	2.9	9.6	- 6.7
B. Counterpart Fund Revenue	140.6	187.5	-46.9
1. Cash	121.2	143.2	-22.0
2. Acquisition Cost (projects)	19.4	44.3	-24.9
TOTAL REVENUE	389.8	403.6	-13.8

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	EXPENDITURES	FY '59 Estimate*	FY '58 Revised	Increase or Decrease
A.	General Expenses	152.6	122.9	29.7
	a. Salaries	62.8	40.5	22.3
	b. Other Allowances and Payments (Wages, etc.)	12.1	11.9	0.2
	c. Office Expenses etc.	11.5	11.8	- 0.3
	d. Work Programs	27.0	23.1	3.9
	e. Grant-in-aid to Local Gov't	37.5	33.5	4.0
	f. Other Expenses	1.7	2.1	- 0.4
B.	National Defense Support	142.2	127.7	14.5
C.	National Bond Expenses	4.6	4.3	0.3
D.	Industrial Recon. Bonds	2.8	9.5	- 6.7
	Sub-Total	302.2	264.4	37.8
E.	Counterpart Expenditure	87.6	139.2	-51.6
	a. Cash	68.2	94.9	-26.7
	b. Acquisition Cost (projects)	19.4	44.3	-24.9
	TOTAL EXPENDITURES	389.8	403.6	-13.8

Remarks: Book-keeping overdrafts. (FY '59 Budget)
1. Fund for the NA-JU fertilizer plant construction 4.7 **
2. Liquidation of '58 flood control obligations 1.8

* Approved by President Rhee on October 1, 1958.

** Represents second installment (payable in dollars) for Naju fertilizer plant; related hwan bookkeeping transfers cancel out.

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By lgd, NARA, Date 4/6/24

M E M O R A N D U M

October 8, 1958

The success of our cooperative efforts to maintain price stability in the Republic of Korea, after years of rampant inflation, is the most significant single economic achievement in this country since it regained its independence. There also is agreement, surely, between our two Governments that the continued success of the financial stabilization program is imperative if political stability is to be maintained and further economic progress to be achieved.

There are indications, however, that the stabilization program is beginning to falter. Average wholesale prices rose approximately seven per cent during September this year and reached a level on September 30 slightly above that of a year ago (September 27). This is the first time in 1958 that the wholesale price level has exceeded that of comparable dates in 1957. Money supply, also, has risen this year at a more rapid rate than during the same period last year and indications are that there will be a further sharp rise in the remaining months of the year. In light of these circumstances, we believe it is imperative that we undertake a thorough review of the stabilization program and that we take every possible step to ensure its continued success.

We urge that the first step in such a review be a careful study of the proposed FY 1959 budget to ascertain whether it is compatible with the stabilization program. While the budget figures are nominally in balance, our preliminary estimate is that certain revenue estimates are highly optimistic and that an actual deficit of at least 15 billion hwan is quite likely. If such a deficit were to materialize, it would be virtually impossible to maintain the stabilization program.

About half of this estimated deficit results from an apparent overestimation of customs and foreign exchange tax receipts related to imports under the ICA and PL 480 programs. The budget figures are based on the assumption that $225 million of salable commodities will be funded under these programs during calendar year 1959. This does not, in our judgement, take sufficiently into account the progress which is being made by Korea in meeting increasingly its essential needs from domestic in lieu of foreign sources. This progress should make possible the gradual reduction of external aid. We believe, in the interest of prudence, the estimates of customs and foreign exchange tax income should be scaled down by about 9 billion hwan.

It also appears that the assumed level of defense support of 53 billion hwan - nearly 5 billion hwan more than has been allocated for this purpose in the current year - is unrealistic unless economic

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development is to be retarded during 1959. It would be more realistic to assume a gradually decreasing level of U.S. budget support. Taking into account the hwan (counterpart) requirements of planned economic projects, many of which have been started under previous years' programs, it is our estimate that the U.S.-controlled local currency and counterpart support of the ROK military budget in the coming calandar year can be no greater than the amount contributed in 1958. Even this level of support cannot be assured since the magnitudes of the ICA and PL 480 programs for the coming year have not yet been decided.

We also believe that the budget figures for national bond sales and income from sales of vested property will be extremely difficult, if not impossible, to realize. It is our understanding that the commercial banks, now under private management, will be unable to absorb national bonds as in the past since they could do so only at a substantial financial loss. With respect to the vested property income, there appears to be considerable doubt that the 4.2 billion hwan assumed in the budget estimate can be realized in 1959 from the sale of the Korea Shipping Corporation and the Korea Shipbuilding Corporation.

We have not been in a position to review the comprehensive estimate of internal taxes. It appears to us, however, that it will be extremely difficult to achieve in 1959 the assumed increase in internal tax collections of 19 per cent over the amount originally budgeted for 1958.

In view of the keen interest of the United States Government in the continued success of the stabilization program and of the aid program itself, we urge your consideration of certain courses of action affecting the draft budget which we think are necessary in the interest of financial stability.

1. The planned discharge of some 13,000 employees from government rolls will help finance the recent increase of government pay scales. Some additional savings could be realized from this source without jeopardizing the effectiveness of essential governmental operations. An additional release of 10,000 employees could be accomplished, we believe, in large part through normal attrition during the coming fiscal year. This would bring the total reduction of government personnel to about 10 per cent. The annual savings from this additional reduction, during 1959, would amount to about 2.0 billion hwan until it reaches 4.0 billion hwan in subsequent years.

2. The pay increase is being financed, in large degree, by the proceeds of the 150 hwan per dollar tax on foreign exchange. An additional yield of approximately 8 billion hwan could be realized from this source by raising the tax rate to 200 hwan per dollar. This additional tax, in our judgement, could be absorbed without significant increases in prices.

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3. We again urge reconsideration of the national defense budget estimate. U.S. military authorities are convinced that a selective pay increase would do more to strengthen the ROK military forces than would the doubling of pay of all military personnel. The selective pay increase would save approximately 12 billion hwan next year. Our strong recommendation is that the selective pay raise plan be adopted and that the overall military budget for 1959 be set at 135 billion hwan. Since the planned military pay increase is to begin in October 1958, early modification of the relevant provisions of the 1958 supplemental budget will be essential.

4. We suggest you consider making purchases of national bonds compulsory for all government personnel, excluding military, who benefited from the recent pay raise. If ten per cent of the pay increase were used for purchasing national bonds, annual revenues from this source would approximate 2.5 billion hwan.

We firmly believe that action along the lines recommended above is imperative if the 1959 budget is to be brought into balance. If it is not, not only will the stabilization program be lost but the real benefit of the recent pay increase will be wiped out by a renewal of inflation. Most important, the confidence of the Korean public - which is an essential ingredient of economic progress - would be undermined. Undoubtedly, there also would be a loss of confidence on the part of our own government and people in your future economic progress and in the effectiveness of the United States aid program.

American Ambassador.

Commander in Chief, United Nations Command.

Economic Coordinator, United Nations Command.

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From Seoul

LP, GOVERNMENT AGREE ON 14-POINT BUDGET POLICY. (SS. Full translation)

The Liberal Party yesterday made public a policy for compilation of the Government's budget for the new fiscal year on which it had reached an agreement with the Government side and the major budget policies of the party and the Government. The policy for compilation of the Government's new budget, as made public by Assemblyman WON Yong-sok, Chairman of the Liberal Party's Policy Committee, consists of 14 items. The highlights of the policy which is designed to maintain the Government's financial stabilization plan are as follows:

1. The budget will be compiled under the principle of maintaining the Government's financial stabilization plan and will be presented to the National Assembly early in October.

2. In order to maintain the financial stabilization plan, the issuance of national bonds will be avoided as far as possible. The maximum amount of national bonds to be issued in the new fiscal year is set at 5 billion hwan. These bonds will be used to re-pay the old national bonds.

3. The average monthly pay of public officials and military personnel will be maintained at 40,000 hwan per capita and an additional fund amounting to 58.8 billion hwan will be envisaged to pay their salaries.

4. The number of public officials will be reduced by 14,000 and personnel expenses will be thus reduced by 6 billion hwan.

5. Misconducts on the part of public officials will be thoroughly wiped out to eliminate their injustice to the people.

6. Although the appropriations for projects are to be reduced as a result of the increase of officials' salaries, they will be allocated on a priority basis and the deficit will be supplemented with the funds of the economic rehabilitation special account. Thirty percent of the funds of this account will be earmarked for construction projects.

7. An agreement on the simplification of the Government's structure will be sought and, in order to implement this plan in a discreet manner, the present structure of the Government will be tentatively maintained as far as the new budget is concerned, provided that an Administrative Structure Research Committee to be composed of the representatives of the Government and the pro-Government party will prepare a plan to simplify the Government's structure.

8. The expense on irrigation projects will be set at 21 billion hwan including subsidies and long-term loans for the projects for construction of small dams and other projects.

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9. The funds for embankment projects will be secured in the amount of 3.7 billion hwan out of the ordinary account and the economic rehabilitation special account.

10. A 300 million hwan fund will be envisaged for the encouragement of agricultural organizations, especially for the augmentation of agricultural cooperatives.

11. The issuance of agricultural and industrial financial bonds will be negotiated, separate of the ordinary budget.

12. The loans on the security of rice will be released at the rate of 20,000 hwan per sok under a plan to secure 2,000,000 soks of rice produced in 1958 and the funds required for this purpose will be secured.

13. The appropriations for the encouragement of minor enterprises will be envisaged in the amount of 22 billion hwan on a larger scale than that of the current fiscal year.

14. In order to promote social welfare, 5.6 billion hwan of funds will be envisaged to pay pensions for the soldiers and policemen wounded in action, 4 million hwan of funds envisaged to meet the expenses involved in guiding and training the discharged soldiers and 5 million hwan of funds envisaged to expand the medical facilities of farm communities.

15. In order to expand the facilities for compulsory education, 8.9 billion hwan of funds will be envisaged to meet the expenses on the construction of new class rooms and other naturally increased expenses.

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Desp. No. 216
From Amembassy, SEOUL

Translation of News Story of October 9, 1958 Relating to Proposed Amendments to Tax Laws from Seoul Sinmun.

The Ministry of Finance yesterday referred to ten bills amending tax laws to the Office of Legislation in an attempt to pave the way for the abolition of the apportionment tax system and to secure 190 billion hwan of tax revenues as envisaged in the budget for the new fiscal year. The bills are designed to expand the scope of tax sources by adjusting the tax rates, ensure fair play in the imposition of taxes, encourage the tax-payers' voluntary reports on their incomes and their voluntary payment of taxes and to exempt or lower the tax rates for poor tax-payers. The highlights of the bills are as follows:

1. The income tax rate will be lowered 15% on the average and the rate of the labor income tax imposed on low-paid working people lowered 30%.

2. The rates of business taxes will be readjusted and, in order to lessen the burdens of poor businessmen and entrepreneurs, the business taxes will be exempt in case the amount of the taxes imposed fall short of 1,000 hwan. About 50,000 persons will receive this benefit.

3. The rate of the juridical person tax will be lowered 2%. However, the usual tax rate will be applied to family companies.

4. In the imposition of the income, business and juridical person taxes, the usual policy of remitting 20% for those who voluntarily report their incomes and 10% for those who voluntarily pay their taxes will be maintained. On the contrary, additional taxes plus normal taxes will be imposed on those who do not report their incomes or prepare false account-books or fail to prepare such books. These measures will help expand the voluntary tax report system while accelerating the abolition of the apportionment tax system.

5. A 20% admission tax will be imposed on home-made motion pictures which have thus far been exempt from the admission tax. (A 115% admission tax will be imposed on foreign motion pictures)

6. A motor-car tax will be newly established.

7. The rate of the amusement and eating & drinking tax will be lowered 50% to prevent the dodging of the tax and to increase the tax revenues in practical terms.

8. The land income tax will be made available for occasional imposition and collection in addition to being imposed on a regular basis, so that the tax imposed on those cultivating special items may be collected in the harvesting season. While this tax has so far been imposed in accordance with the land register, it will be imposed on the actual owners.

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9. The rate of the registration tax will be adjusted and the rate of the mining tax will be lowered.

10. Tax advisory committees will be established on a tax office basis and the fair imposition of taxes based on the will of the civilians ensured by subjecting the adjustment of various taxes to the review of the same committees.

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From AmEmbassy, Seoul

PRESIDENT RHEE'S BUDGET MESSAGE

The new budget has been prepared by reducing its scale as far as possible as you can understand it if you take a look at it. With respect to the problem of reducing the number of public officials, we have reduced the number to the extent that no further cuts are possible. Some people urged that the number of policemen also be reduced to a large extent and I thought of the idea. In this turbulent period, however, when the communists are attempting to upset the Government by infiltrating into the country from various directions, carrying arms with them, it is really difficult to reduce the number of policemen and I have allowed the reduction of the number of policemen to some extent if there are unqualified persons or those who are incapable of performing their important duties among the policemen. I understand that arrangements have been made to reduce their size as far as possible.

Some of the Americans who advanced their views, mindful of only their own situation, without thinking of our own situation, asserted that the size of our national forces should be reduced, stating that it is too large. They reasoned that since modern weapons are to be given us to replace the old ones given us previously, the personnel may be reduced to some extent because the new weapons are more powerful even if the personnel is reduced. However, we explained that at this time when the Communists are building their military strength in various ways, bidding their time to come down here as soon as possible, a disaster will befall us all if the free nations fail to take serious note of the situation. Therefore, our friends who are sympathetic with us have finally come to think that the reduction should not be effected and are stopping the plan. Thus, the theory that the size of the police and the armed forces should not be reduced on a large scale has been established.

Above all, it is urgent for the Government to increase the salaries of public officials. As you know, the reason is that the average salary of a public official paid since the establishment of the Government has been only nominal, being insufficient to meet the dietary cost of a single person. In spite of this, some people criticized the Government, stating that the Government was corrupt or that there was something wrong about the Government's finance. Recently, commodity prices have fallen and the Cabinet members have come to make up their minds to pay for the public officials at least to the extent of meeting their cost of living by taking advantage of this opportunity. However, there is one question that arises from the increase of the salaries of public officials, and it is whether inflation will not arise from the increase of their salaries. Having discussed this issue, /~ the Government _/ has arrived at the conclusion that we will have no chance /_ to increase the officials' salaries _/ if we fail to do so at this opportunity. Thus, /_ the officials' salaries have been raised _/ to the present level. Fortunately, the step has been taken without the risk of causing a rise in commodity prices. From now on, if the public officials commit dishonest or dubious acts, they will be subject to severe punishment and I believe that from now on, no one will commit

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such acts. Thus, not only the Government but also the public is praising the step, thinking it is fortunate that the step has been taken. And our foreign friends also think so.

At the same time, we have made unprecedented progress in industries thanks to the aid furnished by friendly allies and our mechnical industry is also making unprecedented progress. New goods are being produced and distributed in many places and, as a result, the volume of exports to foreign countries is increasing gradually. If the Government and the public cooperate in preventing smuggling from neighboring countries, we will soon find ourselves in a position to increase our earnings of foreign exchange by ourselves. We will thus have an unprecedented chance /_ to develop our country_/.

In the educational field, too we are making great progress. We have made that we even failed to dream of making in the past and the foreigners have come to state that Korea is an "educational country." We have also built hospitals in many places, of which we are now proud. In the past, hospitals or doctors were not fully available in remote villages, whose residents suffered accordingly. Now, hospitals are built in the majority of the villages where their construction is possible.

Many of our people lost their houses because of an invasion by the Communists and almost one-half of our fellow countrymen were forced to retreat southward as refugees. The patriotism displayed by our fellow countrymen at the time moved us very much. Those who had their houses admitted the homeless refugees to their houses by utilizing every room available and the people praised them highly. However, many persons still remain homeless. In view of this, houses have been built in many places and the number of houses built in urban and rural districts reaches great proportions. We are endeavoring to step up our preparations for the construction of houses this winter also, so that more houses many be built next year. In Seoul alone, many-storied and gorgeous buildings are being built by the people themselves with the money they have raised by themselves rather than with foreign aid. If we continue such efforts, Seoul will become famous for its gorgeousness among the cities of Asia in a few years. Those foreigners who saw /Seoul_/ one year ago are also praising its rapid features of construction.

I have mentioned above what we have been able to do by ourselves and what we have done with the aid of friendly nations, being able to do it by ourselves. From now on, the features of construction will increase further. However, the military situation is becoming difficult gradually and we are unable to achieve national unification though we are shouting for it day and night. The situation is really deplorable. However, even those who were insisting on settling the problem of Communism by peaceful means have gradually come to realize that it is impossible to do so, thus changing their policies, because the Communists, who have steadily built up their military strength, are engaged in destructionist activities through aggression, being scattered the world over. I expect that the situation will make a favorable turn as soon as possible and that if allowed to achieve national unification, we will

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be able to push up even tomorrow, rescue our fellow countrymen in the North who are being killed or dying of diseases, exterminate the Communists and place our national sovereignty on a solid footing as soon as possible, so that the people in both North and South Korea may shout "Long live the Republic of Korea".

Lastly, I hope that the members of the National Assembly will be well acquainted with this situation and pass the newly submitted budget at an early date after studying it in a discreet manner.

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By CMJ NARA, Date 10/6/04

ACTION COPY

INCOMING TELEGRAM *Department of State*

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Action Assigned to NA/K-1

Control: 9528

Rec'd: OCTOBER 16, 1958 12:48 AM

Noted

Action Taken

Date of Action 10-16-58

Action Office Symbol NA/K

Name of Officer A. Lane

Direction to DC/R File

Action
FE

Info
RMR
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OCB
CIA
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ARMY
NAVY
AIR

FROM: SEOUL

TO: **Secretary of State**

NO: 174, OCTOBER 16, 11 AM

FOLLOWING EXCERPT FROM KOREAN REPUBLIC SUMMARY PRESIDENT'S OCTOBER 11 BUDGET MESSAGE: "SOME AMERICANS NOT WELL AWARE KOREA'S SITUATION PROPOSED REDUCTION ROK FORCES. PROPOSAL BASED ON BELIEF REPLACEMENT OLD WEAPONS WITH MODERN ONES WOULD COMPENSATE FOR CUT MILITARY PERSONNEL. OUR PERSISTENT REPLY WAS FREE WORLD WILL INCUR TRAGIC DISASTER IF IT NEGLECTS COMMUNIST MILITARY BUILDUP AND POSSIBILITY RENEWED ATTACK ON SOUTH. AS RESULT, OPINION OUR FRIENDS HAS TURNED INTO SYMPATHY FOR OUR POSITION AND AGAINST ANY REDUCTION OUR MILITARY STRENGTH."

FINANCE MINISTER'S BUDGET MESSAGE SAME DATE ALSO CONTAINED STATEMENT "BUDGET COMPILED IN SUCH WAY AS TO MAINTAIN PRESENT DEFENSE STRENGTH."

EMBASSY, PROVMAAG-K INTERPRETATION THESE STATEMENTS IS THAT THEY ARE DESIGNED PRIMARILY FOR DOMESTIC CONSUMPTION AND DO NOT PORTEND REVERSAL EARLIER DECISION REDUCE STRENGTH TO 630 THOUSAND WHICH, ACCORDING OFFICIALS DEFENSE AND FINANCE MINISTERIES, IS BUDGET COMPILATION. BUDGET BUREAU CHIEF, WHEN ASKED FOR EXPLANATION FINANCE MINISTER'S REMARK, SAID MINISTER WAS TALKING ABOUT REDUCTION FROM PRESENT ACTUAL STRENGTH NOT PAST STRENGTH IMPLYING THAT CUTS WHICH HAVE ALREADY BEEN EFFECTED FROM 720 THOUSAND AUTHORIZED STRENGTH WILL BE MAINTAINED. PRESENT TOTAL STRENGTH ABOUT 610 THOUSAND. THIS FIGURE INCREASES TO ABOUT 630 THOUSAND WHEN ADJUSTED FOR SOME 20 THOUSAND RESERVISTS WHO WERE NOT CALLED UP FOR TRAINING DURING HARVEST SEASON.

THERE REMAINS POSSIBILITY PRESIDENT MIGHT ORDER PARTIAL OR COMPLETE RE-BUILDING OF FORCE UP TO PRESENTLY AUTHORIZED 720 THOUSAND, BUT WE DISCOUNT THAT POSSIBILITY SINCE AVAILABLE FINANCIAL RESOURCES INADEQUATE COVER INCREASED COSTS. FURTHER, WE DO NOT THINK PRESIDENT, WHO WELL AWARE OUR AGREEMENT PROVIDE MODERN WEAPONS CONTINGENT UPON

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GENT UPON REDUCTION TO 630 THOUSAND, WOULD DO ANYTHING JEOPARDIZE MODERNIZATION PROGRAM. ANYTHING WHICH CAN BE DONE TO EXPEDITE CONCLUSION AMENDMENT AGREED MINUTE WOULD BE HELPFUL IN REMOVING THIS UNCERTAINTY.

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Date of Action

Action Office Symbol

Name of Officer

Direction to DC/R

SUBJECT: Meeting with ROK Ministers on the Stabilization Program and the Proposed National Budget for FY 1959.

Attached, in reproducible form, is a copy of a Memorandum of Conversation covering the third meeting between Ambassador Dowling, General Decker and Economic Coordinator Warne and certain ROK cabinet ministers on the subjects of the stabilization program and the proposed national budget for FY 1959.

For the Ambassador:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

Enclosure:

1. Memorandum of Conversation
2. Memorandum of October 8, 1958.

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Page 1 of
Encl. No. 1
Desp. No. 211
From Amembassy, Seoul

MEMORANDUM OF CONVERSATION

DATE: October 9, 1958

SUBJECT: Discussion of Stabilization Program and FY 1959 National Budget.

PLACE: American Embassy, Seoul, Korea.

PARTICIPANTS: Ambassador Walter Dowling.
General George H. Decker, Commanding General, UNC/USFK.
William E. Warne - UNC Economic Coordinator.
Samuel P. Gilstrap - Deputy Chief of Mission, American Embassy.
Henry Heuser - OEC
Edwin M. Cronk - American Embassy.

Song In-sang, Minister of Reconstruction.
Kim Hyon-ch'ol, Minister of Finance.
Kim Chong-yol, Minister of Defense.
Ku Yong-su, Minister of Commerce and Industry.
Chong Chae-sol, Minister of Agriculture and Forestry.
Yi Han-bin, Chief, Budget Bureau, Ministry of Finance.

The meeting, held on October 8, 1958, in the Ambassador's office, was called at the request of the Ambassador, General Decker, and Mr. Warne. The Ambassador opened the meeting by summarizing a memorandum of the same date on the subject of the proposed Korean National Budget for 1959 which had been prepared for the meeting by the Embassy and OEC. (Copy of the memorandum is attached.) The Ambassador stressed the importance of an immediate review of the 1959 budget in an effort to assess its probable impact on the stabilization program. He said that, based on a preliminary review, he, General Decker and Mr. Warne believed the budget as proposed would result in at least a 15 billion hwan deficit which would make it virtually impossible to maintain the stabilization program.

General Decker urged that the military budget, excluding the pay increase, be fixed at 120 billion hwan and that the pay increase be selective for officers and senior non-commissioned officers. The selective pay increase which he supported would cost approximately 15 billion hwan in 1959 bringing the total budget up to 135 billion hwan instead of the 142.2 billion shown in the draft budget. (Comment: The Government's 142.2 billion hwan budget figure includes 27.2 billion for the doubling of all military pay plus a small selective pay increase for certain non-coms.) He said that he could not support the granting of the pay increase to all grades since it would result in the curtailment of essential economic and military activities and jeopardize the stabilization program.

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Mr. Warne said that the rapid increase in money supply in recent weeks posed a serious threat to the stabilization program and that immediate steps had to be taken to head off a renewal of inflation. He stressed the importance of decisive action by the Korean Government to prevent a renewal of speculative activity.

Finance Minister Kim said he had no objection to an overall review of the budget and the stabilization program but pointed out that the budget had to be submitted to the National Assembly that day and that any cuts or adjustments would have to be made by the Assembly. He pointed out, however, that the National Assembly normally increases expenditures, particularly on agricultural projects, and that it is quite unlikely that the Assembly could be induced to effect budgetary cuts. The Minister referred to the price and monetary increases of the last few days and said they were largely seasonal in nature. He added that many Government agencies and private corporations had paid up back salaries just before the Chusok holiday and that this added to the pressure on consumer prices. He pointed out that prices in the past three or four days had fallen sharply due to the heavy arrivals of new rice on the market and that the overall wholesale index was again below the level of last year. "You don't have to worry about the price increases" he said, until next spring when there may be some danger of renewed inflation. He was certain of price stability over the next few months, he said, because there are no material shortages which would cause prices to increase. He added that the money supply had been reduced by nearly ten billion hwan during the past ten days and was now in the neighborhood of 90 billion hwan. (Comment: The Minister was referring to currency in circulation, not to total money supply.) He said a further withdrawal of five billion hwan was expected in the next week or ten days which would bring money supply (sic) down to a level of approximately 85 billion hwan.

Referring to the budget, the Finance Minister said that the estimate of customs revenue was not excessive and that in past years customs estimates always had been exceeded by actual collections. He said there was some concern about the foreign exchange tax estimate and expressed his opinion that the estimate was probably excessive by about five billion hwan. The Minister supported the estimate of national bond sales and income from the sale of vested property. Minister Kim referred to the planned discharge of 13,000 Government employees and said that out of the total number of 240,000 employees, there were only some 70,000 to which the cut could be applied since teachers and others in certain special categories could not be released. He said the Government was discharging 13,000 out of the 70,000 which was the maximum cut possible. The Minister pointed out that the national police were being reduced by 6,000 -- about 15 per cent of the present 40,000 -- and that the Home Minister insisted that further reductions would be impossible.

Reconstruction Minister, Song In-sang, referred to the recent rise in the price index and explained that this is largely due to sharp increases in the prices of rice, fuel and cotton goods. He said the price of rice fluctuated widely during September due to temporary shortages in the market and the heavy consumer purchases during the Chusok holiday. He pointed out that

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within the last three days the rice price had declined rapidly. The price of cotton goods also rose abruptly over the Chusok holiday, but this too, he said, was a temporary phenomenon. In the case of fuel, which constitutes 12 per cent by weight of the wholesale index, he pointed out that the price of firewood rose 41 per cent in one week due to more restrictive enforcement of Government cutting permits. In reality, he said, most urban consumers now use the 19-hole briquettes which are plentiful and stable in price but which, unfortunately, are not adequately weighted in the price index. He expressed confidence in the Government's ability to keep prices under control. Minister Song referred to the item of 53 billion hwan included in the draft 1959 budget for the U.S. contribution to defense and indicated that while he had wanted to include the same figure that was actually approved for 1958 (48.3 billion), the Government had decided to use the figure which had been included in the original 1958 budget (53 billion hwan). He admitted that there was some doubt that this amount of hwan could be made available for defense in 1959.

Mr. Warne summarized the OEC-Embassy estimate of the potential budget deficit as follows: Customs, 3.4 billion deficit; foreign exchange tax, 5.4 billion; national bond sales, 2.0 billion; vested property sales, 2.2 billion; defense budget support, 4.7 billion; total deficit, 17.7 billion hwan.

Finance Minister Kim referred to the suggestions made in the October 8 memorandum that purchases of government bonds be made compulsory for Government employees. He said that the Government was considering a forced savings plan which would accomplish the same purpose as compulsory bond purchases. He also said that they are considering some additional increases in customs rates which would eliminate the possibility of a deficit resulting from an overestimate of customs revenue.

Mr. Warne pointed out that if the customs and national bond sales figures in the budget were accepted as being realistic, the remaining deficit, according to the Embassy-OEC review, approximated the difference between General Decker's calculation of defense budget needs (135 billion) and the defense figure contained in the budget proposal (142.2 billion).

The Minister of National Defense stated that the military budget estimate was based on the reduced troop strength of 630 thousand which resulted in savings of 7.3 billion hwan for food and salaries. He said that despite these savings, the Ministry of National Defense had been forced to accept a budget figure (excluding the pay increase) of 115 billion hwan which is roughly 5 billion hwan less than General Decker's recommended budget figure of 120 billion (excluding the pay increase). The doubling of military pay increased the budget figure by 27.2 billion to a total of 142.2 billion, as compared with General Decker's figure (inclusive of the 15 billion hwan for the selective pay increase plan) of 135 billion. The Minister explained that each military grade had a civil service equivalent and that under the Korean Government's system, military and civil service pay scales were inseparable. Therefore, it was impossible to separate the military pay question from the question of civil service pay which was, he said, "beyond my control." The Minister said the National Assembly had decided to double the pay of all

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Government employees including military, and there was nothing he could do to change that decision. General Decker asked if there were a civilian rank equivalent to that of a private soldier, to which the Defense Minister replied there were no equivalent civilian grades below the rank of Tech Sergeant. General Decker then made the point that this being so he assumed there was no legal requirement for doubling the pay of the private soldier since their pay scale was in no way related to the pay of civilian employees. The Defense Minister indicated that General Decker's assumption was correct. General Decker stressed the point that if any action is to be taken to modify or defer the military pay plan, this action must be taken before the soldiers are paid at the new rates for the first time, which would be sometime during October. He said he did not think the U.S. position on this matter had been given adequate consideration. He reiterated his conviction that the doubling of military pay for the private and lower non-commissioned grades would do very little good in improving the military service and might contribute to a renewal of inflation which would wipe out the real value of the pay increase. The Defense Minister repeated that the National Assembly had made the decision to double pay, across-the-board, and that he had to abide by that decision.

General Decker then referred to the Administrative Agreement signed in 1954 by representatives of the two Governments which states that CINCUNC would be consulted on matters related to the ROK military budget and the pay of ROK military personnel. He said that that provision in the Administrative Agreement had been inserted in order to give the Commander-in-Chief the opportunity of participating in military decisions which affected the civilian economy. He pointed out that in the current instance, he had not been consulted with respect to the pay raise.

It was brought out in the ensuing discussion of the military pay question that not only does the military budget provide for a doubling of military pay, but it also includes 2.8 billion hwan for selective pay increases for certain non-commissioned officers. (Comment: The Director of the Budget Bureau later informed the reporting officer that this requirement had been pruned to one billion hwan and that it provided for a selective pay boost for staff sergeants only).

The Defense Minister pointed out that, excluding the pay increase, the military budget had been cut five billion hwan below the level recommended by General Decker and, as a result, all senior ROK military commanders had protested that, unless additional funds were made available, they could not perform their assigned functions adequately. The Defense Minister said that, despite the shortage of funds, he had supported a small selective pay increase for the "professional soldiers" which had been incorporated in the budget. He stressed the importance of keeping trained military technicians beyond the normal three-year period of enlistment. General Decker indicated his agreement in principle with the selective pay increase plan and said that he might have been able to support it if he had been consulted beforehand. He reiterated his objection to the doubling of all military pay since it would apply to a great many soldiers who are not interested in the military service as a career.

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The Defense Minister added that insufficient funds will be available to support necessary maintenance activity and that one-third of the trainees could not be properly trained due to fund limitation. General Decker replied that this results from the five billion hwan cut below his recommended figure of 120 billion hwan which was apparently necessary because of the military pay increase.

Finance Minister Kim referred to the statement in the October 8 memorandum to the effect that economic aid will be reduced. The Ambassador, General Decker and Mr. Warne all indicated that the steady improvement in the economic situation of Korea should make it possible to reduce the magnitude of aid gradually. They pointed out that the aid program had already been reduced substantially and that further cuts, hopefully moderate ones, were inevitable.

The Ambassador closed the discussion by suggesting a further meeting be held on these matters within the next week.

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M E M O R A N D U M

October 8, 1958

The success of our cooperative efforts to maintain price stability in the Republic of Korea, after years of rampant inflation, is the most significant single economic achievement in this country since it regained its independence. There also is agreement, surely, between our two Governments that the continued success of the financial stabilization program is imperative if political stability is to be maintained and further economic progress to be achieved.

There are indications, however, that the stabilization program is beginning to falter. Average wholesale prices rose approximately seven per cent during September this year and reached a level on September 30 slightly above that of a year ago (September 27). This is the first time in 1958 that the wholesale price level has exceeded that of comparable dates in 1957. Money supply, also, has risen this year at a more rapid rate than during the same period last year and indications are that there will be a further sharp rise in the remaining months of the year. In light of these circumstances, we believe it is imperative that we undertake a thorough review of the stabilization program and that we take every possible step to ensure its continued success.

We urge that the first step in such a review be a careful study of the proposed FY 1959 budget to ascertain whether it is compatible with the stabilization program. While the budget figures are nominally in balance, our preliminary estimate is that certain revenue estimates are highly optimistic and that an actual deficit of at least 15 billion hwan is quite likely. If such a deficit were to materialize, it would be virtually impossible to maintain the stabilization program.

About half of this estimated deficit results from an apparent overestimation of customs and foreign exchange tax receipts related to imports under the ICA and PL 480 programs. The budget figures are based on the assumption that $225 million of salable commodities will be funded under these programs during calendar year 1959. This does not, in our judgement, take sufficiently into account the progress which is being made by Korea in meeting increasingly its essential needs from domestic in lieu of foreign sources. This progress should make possible the gradual reduction of external aid. We believe, in the interest of prudence, the estimates of customs and foreign exchange tax income should be scaled down by about 9 billion hwan.

It also appears that the assumed level of defense support of 53 billion hwan - nearly 5 billion hwan more than has been allocated for this purpose in the current year - is unrealistic unless economic development is to be retarded during 1959. It would be more realistic to assume a gradually decreasing level of U.S. budget support. Taking into account the hwan (counterpart) requirements of planned economic projects, many of which have been started under previous

years' programs,

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years' programs, it is our estimate that the U.S.-controlled local currency and counterpart support of the ROK military budget in the coming calendar year can be no greater than the amount contributed in 1958. Even this level of support cannot be assured since the magnitudes of the ICA and PL 480 programs for the coming year have not yet been decided.

We also believe that the budget figures for national bond sales and income from sales of vested property will be extremely difficult, if not impossible, to realize. It is our understanding that the commercial banks, now under private management, will be unable to absorb national bonds as in the past since they could do so only at a substantial financial loss. With respect to the vested property income, there appears to be considerable doubt that the 4.2 billion hwan assumed in the budget estimate can be realized in 1959 from the sale of the Korea Shipping Corporation and the Korea Shipbuilding Corporation.

We have not been in a position to review the comprehensive estimate of internal taxes. It appears to us, however, that it will be extremely difficult to achieve in 1959 the assumed increase in internal tax collections of 19 per cent over the amount originally budgeted for 1958.

In view of the keen interest of the United States Government in the continued success of the stabilization program and of the aid program itself, we urge your consideration of certain courses of action affecting the draft budget which we think are necessary in the interest of financial stability.

1. The planned discharge of some 13,000 employees from government rolls will help finance the recent increase of government pay scales. Some additional savings could be realized from this source without jeopardizing the effectiveness of essential governmental operations. An additional release of 10,000 employees could be accomplished, we believe, in large part through normal attrition during the coming fiscal year. This would bring the total reduction of government personnel to about 10 per cent. The annual savings from this additional reduction, during 1959, would amount to about 2.0 billion hwan until it reaches 4.0 billion hwan in subsequent years.

2. The pay increase is being financed, in large degree, by the proceeds of the 150 hwan per dollar tax on foreign exchange. An additional yield of approximately 8 billion hwan could be realized from this source by raising the tax rate to 200 hwan per dollar. This additional tax, in our judgement, could be absorbed without significant increases in prices.

3. We again urge reconsideration of the national defense budget estimate. U.S. military authorities are convinced that a selective pay increase would do more to strengthen the ROK military forces than would the doubling of pay of all military personnel. The selective pay increase would save approximately 12 billion hwan next year. Our strong recommendation is that the selective pay raise plan be adopted and that the overall military budget for 1959 be set at 135 billion

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at 135 billion hwan. Since the planned military pay increase is to begin in October 1958, early modification of the relevant provisions of the 1958 supplemental budget will be essential.

4. We suggest you consider making purchases of national bonds compulsory for all government personnel, excluding military, who benefited from the recent pay raise. If ten per cent of the pay increase were used for purchasing national bonds, annual revenues from this source would approximate 2.5 billion hwan.

We firmly believe that action along the lines recommended above is imperative if the 1959 budget is to be brought into balance. If it is not, not only will the stabilization program be lost but the real benefit of the recent pay increase will be wiped out by a renewal of inflation. Most important, the confidence of the Korean public - which is an essential ingredient of economic progress - would be undermined. Undoubtedly, there also would be a loss of confidence on the part of our own government and people in your future economic progress and in the effectiveness of the United States aid program.

American Ambassador,

Commander in Chief, United Nations Command.

Economic Coordinator, United Nations Command.

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NO: G-98

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Government's FY 1959 budget proposal, submitted National Assembly October 8 (Embassy's Despatch 216), now under study various Assembly committees. Preliminary reaction both major parties, as related in conversations with Embassy officers, is that increase necessary in amount budgeted for agricultural development, and cuts must be effected other expenditure categories, including defense.

Influential elements Liberal Party initially proposed LP seek additional ten billion hwan for agricultural projects, but subsequently Party's Assembly Policy Sub-committee which deals with budgetary matters revised figure to five billion, three of which would come out of defense budget and balance from other governmental activities. According LP Assemblyman CHONG Chun-mo (6774/3294/2875), no intention of raising total budget, reducing military pay rates or cutting forces below level contemplated in budget submission. Thus, under sub-committee's proposal, cut in non-pay segments of military budget would be unavoidable. Sub-committee's position reportedly endorsed by Party's Assembly Policy Committee. Proposals to increase expenditures, under ROK law, must originate with Government rather than Assembly. Government, however, would be under strong pressure to follow LP Policy Committee recommendations.

According KIM Yong-son (6855/3057/0810), former National Assemblyman and currently on top DP Policy Committee, DP will also support increased funds for agricultural development and reduced military expenditures but on far larger scale than being considered by LP. DP tentatively planning propose 50 to 60 billion hwan increase in economic development expenditures, principally in field agriculture, and corresponding cuts in defense, police and education. Kim says DP position is military strength should be cut to 500 thousand in 1959 and police from 40 to 20 thousand, latter figure approximating size police force in South Korea during Japanese occupation. Kim admits DP position has no chance of success since LP will be able "deliver the votes". DP will also propose reductions revenue estimates by about ten billion and additional cuts in number civil servants.

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While too early predict outcome budget debate, it is significant that responsible elements both parties are supporting reduction defense budget, heretofore sacrosanct, in order cultivate rural support through increased spending on agriculture. Both parties obviously have eyes on farmer vote which will be crucial in 1960 Presidential elections.

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Enclosure:
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Ambassador Dowling (in draft)
Mr. Gilstrap (in draft)

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FROM: Amembassy SEOUL

Date Sent:
Rec'd: December 30, 1958

TO: Secretary of State

NO: G-109

JAN 9 8 37 AM '59

Budget for 1959 as passed National Assembly December 24 differs only slightly from Government's proposed budget submitted to Assembly October 8 (see Embassy Despatch 216, October 16).

Monopoly profits estimate increased 0.2 billion raising total domestic revenue estimate to 249.4 billion. Counterpart revenue estimate unchanged at 140.6 billion. Military budget reduced from 142.4 to 140.6, cut to be absorbed in non-pay categories. This reduction less than expected earlier (see Embassy Airgram G-96, November 24). General expenses increased 2 billion, chiefly in "work programs" for irrigation reservoirs, reconstruction of fisheries ports, construction new National Assembly building, and public works. Small increases also approved for education, local government support, police intelligence and OPI. Budget in nominal balance at 390.0 including estimated counterpart fund accruals and expenditures.

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TO : THE DEPARTMENT OF STATE, WASHINGTON.

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Action Office Symbol

SUBJECT: Approved ROK National Budget for 1959

NA-1 "clean" copy to Mrs. Stone 1/30/59 Name of Officer

Attached, as enclosures 1 and 2, are two tables which summarize the ROK National Budget for FY 1959 (same as calendar year). Embassy despatch 216 of October 16, 1958, contained a summary of the Government's proposed budget. Following is a brief comparison:

	(Billions of Hwan) Proposed	Approved	Change
Revenues			
Internal & Land Taxes & Customs	144.3	144.3	-
Automobile, Foreign Exchange & Education Taxes a/	48.9	48.9	-
Miscellaneous Revenues	25.6	25.6	
Monopoly Profits	22.5	22.7	+0.2
Other Domestic Revenues	7.9	7.9	-
Sub-Total	249.2	249.4	+0.2
Counterpart b/	140.6	140.6	-
TOTAL	389.8	390.0	+0.2
Expenditures			
General Expenses	152.6	154.6	+2.0
National Defense c/	142.2	140.6	-1.6
National & Ind. Recon. Bonds	7.4	7.2	-0.2
Sub-Total	302.2	302.4	+0.2
Counterpart b/	87.6	87.6	-
TOTAL	389.8	390.0	+0.2

The budget was passed unanimously (128 - 0) and without debate on December 24. Only Liberal Party assemblymen participated in the voting, the Democratic Party members having been forcibly removed from the assembly hall earlier in

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earlier in connection with a dispute over the National Security Law. It is believed that the Democratic Party would have proposed a much deeper cut in the defense appropriation and corresponding increases in expenditures for economic development, principally in the field of agriculture.

For the Ambassador:

Edwin M Cronk

Edwin M. Cronk
First Secretary of Embassy

a/ New taxes. **(Separate despatch is being prepared)**
b/ Includes 19.4 billion project acquisition costs; estimated revenues and expenditures cancel out.
c/ Includes 53.0 billion counterpart.

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Encl. No. 1
Desp. No. 368
From Seoul

FISCAL YEAR 1959 BUDGET
(In Billions of Hwan)

EXPENDITURES	FY '59 Est.1/	FY '58 Est.2/	Increase or Decrease
A. General Expenses	154.6	122.9	31.7
a. Salaries	63.3	40.5	22.8
b. Other Allowances and Payments (Wages, etc)	12.0	11.9	0.1
c. Office Expenses etc.	11.1	11.8	-0.7
d. Work Programs	28.5	23.1	5.4
e. Grant in-aid to Local Gov't	37.8	33.5	4.3
f. Other Expenses	1.9	2.1	-0.2
B. National Defense Support 3/	140.6	127.7	12.9
a. Pay	52.3	32.9	19.4
b. Subsistence	54.2	58.3	-4.1
c. Others	34.1	36.5	-2.4
C. National Bond Expenses	4.4	4.3	0.1
D. Industrial Recon. Bonds	2.8	9.5	-6.7
Sub-Total	302.4	264.4	38.0
E. Counterpart Expenditure	87.6	139.2	-51.6
a. Cash	68.2	94.9	-26.7
b. Acquisition Cost	19.4	44.3	-24.9
TOTAL EXPENDITURES	390.0	403.6	-13.6

Remarks:

Book-keeping overdrafts.

1. Fund for the NA-JU fertilizer plant construction	4.7
2. Liquidation of '58 flood control obligations	1.8
Total	6.5

1/ As approved by National Assembly, Dec. 24, 1958.

2/ As revised.

3/ Includes 53.0 billion hwan counterpart.

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Encl. No. 2
Desp. No. 368
From Seoul

FISCAL YEAR 1959 BUDGET
(In Billions of Hwan)

REVENUES	FY '59 Est. 1/	FY '58 Est. 2/	Increase or Decrease
A. Domestic Revenue	249.4	216.1	33.3
1. Internal Taxes	84.8	72.5	12.3
2. Land Income Tax	20.3	20.3	-
3. Customs	39.2	32.7	6.5
Sub-Total	144.3	125.5	18.8
4. Automobile Tax	4.2	0	4.2
5. Foreign Exchange Tax	34.8	15.4	19.4
6. Education Tax	9.9	2.4	7.5
Sub-Total New Taxes	48.9	17.8	31.1
7. Misc Revenue	25.6	24.0	1.6
8. Monopoly Profits	22.7	21.2	1.5
9. National Bond Issue	5.0	18.0	-13.0
10. Industrial Recon. Bonds	2.9	9.6	-6.7
B. Counterpart Fund Revenue	140.6	187.5	-46.9
1. Cash	121.2	143.2	-22.0
2. Acquisition Cost 3/	19.4	44.3	-24.9
TOTAL REVENUE	390.0	403.6	-13.6

1/ As approved by National Assembly, Dec. 24, 1958.

2/ As revised.

3/ Offsets acquisition cost expenditure same amount.

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OUTGOING TELEGRAM

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Origin

Info:

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JOINT STATE-ICA MESSAGE

Department/ICA concerned with continuing rapid expansion ROK money supply and deficit financing of ROK budget reported Embdes 544 and 553. Large-scale ROKG ~~borrowing~~ borrowing from BOK appears inconsistent with recently adopted financial stabilization program and with ROK assurances that CY 59 budget would be balanced.

~~Please~~ Cable assessment economic, political, and military implications rising money supply, particularly potential effect on price stability, aid requirements, and ROK defense posture. Do recent cabinet changes have bearing on situation?

Also cable your recommendation concerning appropriate action that U.S. can take to assist ROKG in stemming ~~should take to stem~~ monetary expansion and particularly whether high level approach to ROKG warranted at this time.

ACTING

Herter

HHH

RM/R
Anal
Rev

Drafted by: FE:NA:PMDavenport:mfs 4/3/59

Telegraphic transmission and classification approved by: NA - Howard L. Parsons

Clearances: ICA - Dr. Moyer (in draft)
W/MSC - Mr. Gardiner (in draft)
S/S CR

APR 3 - 1959 P.M.

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FOREIGN SERVICE DESPATCH

FROM : AmEmbassy, SEOUL

594
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

April 16, 1959
DATE

REF : CERP, Section D, Item V-A-4.

Action Assigned
Action Taken
Date of Action
Action Office Symbol
Name of Officer
Action to DC/R

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	FE-4	INFO RM/R-2 REP-1 IRC-8 E-7 ~~EUR-11~~ SCS-2
	REC'D 7/24	OTHER ARMY-4 NAVY-2 AIR-1 CIA-10 COM-8 TR-3 FRB-3 FMB-4 ~~TRE-2~~ AG-8

SUBJECT: ROK FY 1958 Revised 1st Supplementary Budget

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The following commentary on the ROK FY 1958 Revised 1st Supplementary Budget, based on a translation of a report prepared by the Ministry of Finance, is submitted as of possible interest to the Department.

Since the Korean cease fire the national standard of living has markedly improved as a result of the effective operation of the Financial Stabilization Plan which was put into force in 1957 and the national economy has begun to show quite a hopeful aspect.

With the brighter outlook of the economy, the Government in its 1st Supplementary Budget for FY 1958 raised the low salaries of public officials in order to guarantee them the minimum living costs (40,000 hwan monthly per employee) and to attempt to increase the remuneration of low salaried employees as a whole. The increased salaries were to be financed with funds accruing under the newly established Foreign Exchange Tax, the Education Tax and others while, on the other hand, nonurgent expenditures were to be cut to the maximum degree in order to maintain a balanced budget.

Because of the hearty cooperation of the tax payers the Government's efforts to increase the national revenues have generally achieved the anticipated results. At this time, when the Revised 1st Supplementary Budget is almost completed, the Government is hereby making a brief announcement regarding the implementation of the Revised 1st Supplementary Budget.

National Revenues

The overall national revenues for FY 1958 were estimated at 287.1 billion hwan. Results, in detail, were as follows:

(1) The programmed 143.2 billion hwan of national revenue from taxes was completely collected, a deficit of 1.2 billion hwan in domestic and Foreign Exchange Taxes being covered by custom duties collections of 1.2billion in excess of the budgeted amount. As mentioned above, the collection of 100 per cent of the budgeted revenues from taxes is, needless to say, an expression of the hearty cooperation of the people.

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(2) Of the 24.0 billion hwan budgeted from miscellaneous sources only 17.5 billion, 73 per cent of the budgeted amount, was collected. The short fall of 6.5 billion hwan included: 1.0 billion in stamp duties; 0.7 billion in fines and confiscations by the Customs Bureau; a deficit of 2.5 billion hwan resulting from a shortage of 2.9 billion in revenues from government investments and sales of government stock and an overage of 0.4 billion hwan in estimated revenues from the sale of stamps; a shortage of 0.9 billion hwan in fines and confiscations by the Ministry of Justice; 0.4 billion in revenues from hospitals; 0.8 billion hwan in domestic port charges; and, 0.2 billion shortage from miscellaneous sources. A maximum effort is to be made to make up this 6.5 billion hwan deficit.

(3) Revenues from monopoly enterprises, 21.2 billion hwan, and from the issuance of national bonds, 18.0 billion, were collected as budgeted. On the other hand deficits of 0.1 billion in the transfer of counterpart funds and 1.0 billion in the collection of loans financed by funds from the sale of reconstruction bonds are foreseen and borrowing from the Bank of Korea will be 0.4 billion hwan less than planned.

Overall results show 279.0 billion hwan in revenues, 97% of the budgeted figure of 287.1 billion, and a consequent deficit of 8.1 billion hwan. If the short fall of 1.1 billion hwan in the collection of loans financed by reconstruction bond funds, and the 0.4 billion in reduced borrowing from the Bank of Korea are taken into account, the actual deficit in revenues is reduced to 6.6 billion hwan.

Taking into account the unavoidable shortage in revenues from miscellaneous sources, the implementation of the budgeted national revenues is considered satisfactory.

National Expenditures

Planned national expenditures for FY 1958 were 288.7 billion hwan including 287.1 billion aquivalent to national revenues and 1.6 billion carryover from FY 1957. This total was reduced by 2.4 billion as, due to the Government's failure to collect 1.2 billion in repayment of loans from bond proceeds, redemption of bonds decreased by a like amount; 0.4 billion hwan in loans from the Bank of Korea was not received; and, 0.8 billion earmarked for the House of Councilors election was not utilized since no election took place. The actual amount of expenditures to be implemented in FY 1958 was therefore 286.3 billion hwan. The balance of 7.3 billion between national revenues of 279 billion and the expenditure figure was to be carried over to FY 1959. Another 0.5 billion in planned expenditures was dropped however, leaving a carryover of 6.8 billion. Subtracting the 1.6 billion 1957 carryover, a net carryover of 5.2 billion from the implementation of the FY 1958 budget to FY 1959 is shown.

[redacted]
For the Chargé d'Affaires ad interim:
Edwin M. Cronk
Edwin M. Cronk
First Secretary of Embassy

Enclosure: att
A Table of the General Accounts.

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CONDITIONS OF IMPLEMENTATION OF GENERAL ACCOUNTS BUDGET FOR FY 1958

(In millions hwan)

REVENUES

Items	Budgeted Estimates	Actual Amount	%	Difference
Taxes				
Gen. domestic taxes	76,161	75,185	99%	- 976
Foreign exchange taxes	13,550	13,319	98%	- 231
Land income taxes*	18,901	18,912	100%	11
Customs duties	34,634	35,830	104%	1,196
Sub-Total :	**143,246**	**143,246**	**100%**	-
Misc. revenues	24,029	17,530	73%	-6,499
Monopoly profits	21,207	21,207	100%	-
Issuance of national bonds	18,000	18,000	100%	-
Reconstruction bonds	9,610	8,495	88%	-1,115
Counterpart funds	48,370	48,300	99%	- 70
TOTAL :	**264,462**	**256,778**	**97%**	**-7,684**
Borrowings /from BOK/	22,667	22,300	98%	- 367
GRAND-TOTAL :	**287,129**	**279,078**	**97%**	**-8,051**

EXPENDITURES

Items	Budgeted Estimates	Actual Amount	%	Difference
Expenditures under general accounts	123,436	116,919	95%	-6,517
National defence expenditures	127,620	127,580	99%	- 40
Repayment of national bonds	3,927	3,619	92%	- 308
Repayment of reconstruction bonds	9,479	8,291	87%	-1,188
TOTAL :	**264,462**	**256,409**	**97%**	**-8,053**
Expenditures by borrowing from BOK	22,667	22,297	98%	- 370
GRAND-TOTAL	**287,129**	**278,706**	**97%**	**-8,423**

* Of the total Land Income Tax amounting to 20,342,000,000 hwan, 1,441,000,000 hwan collected in cash is included in the general domestic taxes.

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FROM : Amembassy SEOUL — 601 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — April 21, 1959 DATE

REF :

Date of Action

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	REC'D 4-27	INFO OTHER Ag-8 Com-10 TR-3 FRB-3 XMB-4	Name of Officer
			Direction to DC/R OSD-4 Army-4 FHA-3 CIA-10

SUBJECT: Implementation of Stabilization Program.

Enclosed is a Memorandum of Conversation held at the American Embassy, Seoul on March 27, 1959, with reference to the above subject.

For the Chargé d'Affaires ad interim:

Edwin M. Cronk

Edwin M. Cronk
First Secretary of Embassy

Enclosure: As stated.

Memorandum of Conversation

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Page 1 of
Encl. No. 1
Desp. No. 601
From Seoul

MEMORANDUM OF CONVERSATION

PLACE: Ambassador's Office, American Embassy, Seoul

SUBJECT: Implementation of Stabilization Program March 27, 1959

PARTICIPANTS: Ambassador Dowling
General George H. Decker
Mr. William E. Warne
Dr. Lowell Chawner

Minister Song In-sang, Minister of Finance
Minister Sin Hyon-hwak, Minister of Reconstruction
Minister Ku Yong-so, Minister of Commerce and Industry
[redacted]
Others

The Ambassador introduced the attached paper, "Implementation of Financial Stabilization Program for 1959," and asked Dr. Chawner to review it point by point. Dr. Chawner said that many factors which had contributed to price stability in 1957 and 1958 would be of diminishing importance in 1959 and that very strong measures would be necessary if the 1959 stabilization program were to succeed. He referred to the rapid growth of inactive bank deposits and pointed out that while this was a very encouraging phenomenon in that it indicated a greater degree of public confidence in the stability of the hwan, at the same time it presented a danger since these inactive deposits would flood into the market if public confidence were destroyed. OEC technicians estimate that, if no corrective action is taken, the money supply will expand 55-60 billion hwan during the year. This rate of monetary expansion would seriously threaten price stability.

Following Dr. Chawner's review of the attached paper, Minister Song made brief comments on each of the proposals. With respect to the budget deficit and the proposed reduction of expenditures (point 1), the Minister said that income from the sale of vested property probably would fall short of the budget estimate, but that this would not result in a budget deficit since the projects which were to be financed with vested property income could and would be deferred. He said that some shortage in tax collections during the current year was conceivable but that his Ministry planned an intensified tax collection campaign beginning in April. A major part of the expected budget deficit resulted from the severe cut in the PL 480 program which, he said, would be "fatal to the budget." As to the prospects for cutting budget expenditures by 6 percent, as suggested in the attached paper, he recalled that a five percent budget cut had been effected in 1957 and that while the various ministries had reduced their expenditures accordingly, they had not reduced their obligations. As a result, public utility and other unpaid bills were carried over into the following year which created many problems for the Government. He did not want to see that happen again. He expressed concern over the management of the grain account which he recognized had been a major source of monetary expansion in recent months but gave no indication of how this situation could be improved. With respect to the banking sector, the Minister said that could be

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controlled by the Monetary Board and he was confident that it would be. He said no one had been able to give him a clear statement of what an adequate supply of money was and expressed the view that while some overall money supply ceiling was probably necessary, some flexibility must be allowed. He said he had no objection to the elimination of the end-user system (point 4) on cotton and wheat but that each end-user of industrial coal purchased such small quantities that it would be difficult and expensive for them to import coal on their own account. He said some coal had been put up for bid at one time but there had been no bidders. Referring to point 5, the Minister said that the handling of fertilizer completely on a competitive commercial basis would be most difficult. He referred to the difference between the price of imported fertilizer, most of which is imported by the Government and sold at the official exchange rate plus the exchange tax and handling charges, and the much higher price which will have to be charged for domestically produced fertilizer (Chungju-Naju). Korea has had the same problem of import and domestic price competition with respect to cement and glass but this was being solved by eliminating imports of these commodities. In the case of fertilizer, however, large quantities will have to be imported for several years and these supplies will compete with the domestic supply. The Minister agreed "in principal" that fertilizer -- both imported and domestic-- should be handled commercially, but he pointed out that the increase in the price which would result would be difficult to explain to the farmer and might have some political implications.

Mr. Warne said it was extremely important for the Korean Government to study thoroughly the fertilizer price and distribution problems now so that solutions could be worked out before the Chungju plant begins operation. He felt it important that the Ministry of Agriculture get out of the fertilizer business entirely and said that the co-ops might serve as a distribution channel. OEC technicians estimate that 42 percent of the Korean farmers are sub-marginal producers who require approximately $6 million worth of fertilizer annually. Mr. Warne stated perhaps it would be necessary to subsidize these farmers by giving them fertilizer at below market prices, but he said the Government's participation in fertilizer distribution should be limited to the sub-marginal farmers and all other fertilizer handled commercially. He said it would be a step backward if the Government adopted policies which in effect would subsidize the Changju and Naju fertilizer plants rather than put them on a sound, self-supporting basis.

The Minister said that he would study the problem of raising public utility rates (point 6) in connection with the 1960 budget. He pointed out that a proposal to establish a public utility commission had been submitted to the National Assembly about a year ago but that no action had yet been taken. (Minister Song said, parenthetically, that the three National Assemblymen who had been sent to the United States to study this problem all had been defeated for re-election.) Mr. Warne said that the public utility rate structure needs close and continuous study by an independent agency and that it was important that such an agency be established as soon as possible.

Minister Song agreed that the repayment of rice loans (point 8) should be frozen and not used for any other purposes but pointed out that there will be strong political pressure to use these funds for irrigation and other agricultural projects.

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Mr. Lee Hahn-been pointed out that the dimensions of the current problem were somewhat less than the monetary expansion forecast in 1957 which he recalled was 71 billion hwan. Korea achieved stability that year by taking appropriate corrective action including both curtailment of expenditures and credit expansion and by the sterilization of aid goods sales proceeds. The problem this year, he said, is much more manageable and he was confident of success. Mr. Warne said he also thought the problem was manageable but pointed out that there is much less "elbow room" now than in 1957. He pointed out, as an example, that the opportunity for sterilizing massive quantities of counterpart was no longer possible and that this year there might be a small deficit in the counterpart program. He said that part of the problem which Korea now faces in the financial field results from the success of the economic program. For example, the two successive bumper rice crops were, in large part, the result of the fertilizer and agricultural development programs and that this success has created the problem with respect to PL 480 imports and the financing of the military budget. He said "we should not be defeated by our own success" and stressed that if success in the agricultural sector meant fewer imports and therefore less counterpart accruals Korea would have to make the necessary economic adjustments. Minister Song said that if Korea has a third bumper crop there will be no basis for importing grain next year and that the budgetary problem would be even more serious then than it is now.

Minister Song referred to the increase in the money supply from 192.6 billion at the end of December 1958 to 223.2 billion on February 28. He said that 57 percent of the December figure (111.1 billion) represented currency in circulation and the balance (81.5 billion) were deposits. The corresponding figures at the end of February were 111.4 and 111.8 billion -- approximately a 50/50 ratio. These figures show that the recent monetary increase has been in the form of deposits. He said this was a very encouraging sign of public confidence in the currency but recognized the danger of having so much idle money available. The Ambassador thought this was an extremely dangerous situation. He said no country could continue to absorb an increase of money supply at the rate which Korea has recently experienced without bringing about serious inflation. He stressed that if immediate steps were not taken to arrest the monetary expansion, the stabilization program would be in serious trouble.

Minister Song expressed appreciation for the frank discussion and said he would like to have another meeting after he had had an opportunity to study the situation further.

Enclosure:

Ten Copies of "Implementation of Financial Stabilization Program for 1959."

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By [illegible], NARA, Date 4/6/21

Seoul D-601
4-21-59
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RM/R

IMPLEMENTATION OF FINANCIAL STABILIZATION PROGRAM FOR 1959

The Combined Economic Board on February 21, 1959 agreed to a Financial Stabilization Program for 1959 (CEB-P-59-83) under which money supply expansion in 1959 would be restricted to a moderate amount.

In the absence of adequate measures to attain this objective, the money supply increased by hwan 30.7 billion, or by 16%, in the first two months of the year. A preliminary review of the prospective expansionary and compensatory factors influencing money supply during 1959 reveals that, unless determined corrective measures are undertaken immediately, the increase in money supply during the year may approximate 55 to 60 billion hwan (see attachment). An expansion in this order would endanger financial stability, and in all probability bring with it a return to the pervasive inflation of former years.

In the light of these circumstances, the following measures are believed to be essential in the interests of maintaining financial stability in the Republic of Korea:

1. Expenditure Reduction. Reduction of budgeted General Account expenditures by six (6) percent. Such action would reduce budgeted Government outlays during the current fiscal year by approximately hwan 18 billion. It is believed that a moderate personnel reduction could be effected without undue impairment of essential Government operations.

2. Foreign Exchange Tax Increase. Increase of the base rate of the Special Foreign Exchange Tax from the existing 150 hwan per

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dollar rate to 200 hwan per dollar. This would yield an estimated 7 billion hwan in additional tax revenues. This additional tax could, it is believed, be absorbed without any appreciable increase in domestic price levels. Such action would also tend to improve the competitive position of domestic producers with respect to commodity imports valued at the official foreign exchange rate.

3. Sale and Programming of Korean Foreign Exchange. Programming of the sale of Korean foreign exchange by the Bank of Korea on a quarterly basis, effective with the second quarter of 1959, to the extent and in the amount necessary to offset in full the monetary impact of net foreign exchange purchases by the Bank of Korea during the preceding quarter. Such programming of Korean foreign exchange sales to importers should be closely coordinated with, and made an integral part of, the programming of essential imports under the aid program.

4. Elimination of Specified End-User System. The awarding of aid foreign exchange for financing imports of cotton, wheat, industrial coal, all paper products, and fisheries supplies henceforth on a competive bid basis, without restriction as at present to specified end-users. Actual procurement could be carried out by agents acting in behalf of end-users. The elimination of the existing specified end-user system in the awarding of aid dollars should tend to increase foreign exchange tax revenues by widening the area of competition for such dollars.

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5. Commercial Fertilizer Import Programming. Programming of all future aid-financed fertilizer imports on a competitive (commercial) basis. Such action would not only tend to increase revenues from the foreign exchange tax, but would also tend to narrow the gap between the domestic price of imported fertilizer and the prospective price for urea to be produced at the Chungju plant.

6. Public Utility Rate Adjustments. Authorization should be obtained from the National Assembly as soon as possible to (a) make upward adjustments of all public utility (including railroad) service rates to the extent necessary to enable such enterprises to meet all current expenditures and obligations, and (b) establish a permanent, independent, and professionally staffed public utility rate regulating agency to continuously review rate structures and to recommend adjustments to the extent necessary to place public utility enterprises on a self-supporting basis.

7. Tax Collection and Vested Property Disposal. Intensification of efforts by the Government to collect taxes and to dispose of vested properties and Government-owned industries as expeditiously as possible. Specific attention should be given to increasing collections from direct taxes, such as the Individual Income Tax, the Corporation Tax, and the Business Tax. Revenue collections from these taxes have not kept pace with the rise in national income in recent years.

8. Rice Lien Program Proceeds. Utilization of cash proceeds from repayments of 1958 rice liens and/or from sale of rice under lien for future rice liens or for any other purpose only as specifically authorized by the Combined Economic Board, any other agreements to the contrary notwithstanding.

In the interest of successful implementation of the financial stabilization program, it is strongly urged that determined action be taken in the manner suggested above.

Attachment.

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By [illegible] NARA, Date 11/6/24

Attachment

Prospective Money Supply Expansion in 1959
(in billions of hwan; + indicates expansion and - indicates contraction)

A. Government Budget Account Sector:			
1. Actual impact in 1957:	14.6		
2. Actual impact in 1958:	31.5		
3. Potential impact in 1959:			
a. Assuming full realization of budgeted revenues and expenditures		6.5	
b. Prospective			17.4
B. Counterpart Accounts Sector:			
1. Actual impact in 1957;	-50.0		
2. Actual impact in 1958:	- 9.2		
3. Potential impact in 1959:			
a. Assuming full realization of budgeted revenues and expenditures		0	
b. Prospective			7.2
C. Banking Sector:			
1. Actual impact in 1957:	46.1		
2. Actual impact in 1958:	21.7		
3. Potential impact in 1959:			
a. Assuming full compliance with Financial Stabilization Agreement for 1959		3.9	
b. Prospective			16.5
D. Foreign Exchange Sector:			
1. Actual impact in 1957:	12.1		
2. Actual impact in 1958:	13.2		
3. Potential impact in 1959:			
a. Assuming full compliance with Financial Stabilization Agreement for 1959		2.5	
b. Prospective (assuming no BOK sales of 1959 receipts)			15.8
E. Other Factors Sector:			
1. Actual impact in 1957:	1.5		
2. Actual impact in 1958:	-9.9		
3. Prospective impact in 1959:		0	0
Total Money Supply Expansion in 1959:			
1. Potential assuming full compliance as above		12.9	
2. Prospective, as above			56.9

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NND 60740
BY NARA, DATE 12/29/99

Seoul D-601 FE
4-21-59

IMPLEMENTATION OF FINANCIAL STABILIZATION PROGRAM FOR 1959

The Combined Economic Board on February 21, 1959 agreed to a Financial Stabilization Program for 1959 (CEB-P-59-83) under which money supply expansion in 1959 would be restricted to a moderate amount.

In the absence of adequate measures to attain this objective, the money supply increased by hwan 30.7 billion, or by 16%, in the first two months of the year. A preliminary review of the prospective expansionary and compensatory factors influencing money supply during 1959 reveals that, unless determined corrective measures are undertaken immediately, the increase in money supply during the year may approximate 55 to 60 billion hwan (see attachment). An expansion in this order would endanger financial stability, and in all probability bring with it a return to the pervasive inflation of former years.

In the light of these circumstances, the following measures are believed to be essential in the interests of maintaining financial stability in the Republic of Korea:

1. Expenditure Reduction. Reduction of budgeted General Account expenditures by six (6) percent. Such action would reduce budgeted Government outlays during the current fiscal year by approximately hwan 18 billion. It is believed that a moderate personnel reduction could be effected without undue impairment of essential Government operations.

2. Foreign Exchange Tax Increase. Increase of the base rate of the Special Foreign Exchange Tax from the existing 150 hwan per

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NND 867400
By [illegible] NARA, Date 11/26/01

dollar rate to 200 hwan per dollar. This would yield an estimated 7 billion hwan in additional tax revenues. This additional tax could, it is believed, be absorbed without any appreciable increase in domestic price levels. Such action would also tend to improve the competitive position of domestic producers with respect to commodity imports valued at the official foreign exchange rate.

3. Sale and Programming of Korean Foreign Exchange. Programming of the sale of Korean foreign exchange by the Bank of Korea on a quarterly basis, effective with the second quarter of 1959, to the extent and in the amount necessary to offset in full the monetary impact of net foreign exchange purchases by the Bank of Korea during the preceding quarter. Such programming of Korean foreign exchange sales to importers should be closely coordinated with, and made an integral part of, the programming of essential imports under the aid program.

4. Elimination of Specified End-User System. The awarding of aid foreign exchange for financing imports of cotton, wheat, industrial coal, all paper products, and fisheries supplies henceforth on a competive bid basis, without restriction as at present to specified end-users. Actual procurement could be carried out by agents acting in behalf of end-users. The elimination of the existing specified end-user system in the awarding of aid dollars should tend to increase foreign exchange tax revenues by widening the area of competition for such dollars.

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NND 867408
By [illegible] NARA, Date 11/6/01

5. Commercial Fertilizer Import Programming. Programming of all future aid-financed fertilizer imports on a competitive (commercial) basis. Such action would not only tend to increase revenues from the foreign exchange tax, but would also tend to narrow the gap between the domestic price of imported fertilizer and the prospective price for urea to be produced at the Chungju plant.

6. Public Utility Rate Adjustments. Authorization should be obtained from the National Assembly as soon as possible to (a) make upward adjustments of all public utility (including railroad) service rates to the extent necessary to enable such enterprises to meet all current expenditures and obligations, and (b) establish a permanent, independent, and professionally staffed public utility rate regulating agency to continuously review rate structures and to recommend adjustments to the extent necessary to place public utility enterprises on a self-supporting basis.

7. Tax Collection and Vested Property Disposal. Intensification of efforts by the Government to collect taxes and to dispose of vested properties and Government-owned industries as expeditiously as possible. Specific attention should be given to increasing collections from direct taxes, such as the Individual Income Tax, the Corporation Tax, and the Business Tax. Revenue collections from these taxes have not kept pace with the rise in national income in recent years.

8. Rice Lien Program Proceeds. Utilization of cash proceeds from repayments of 1958 rice liens and/or from sale of rice under lien for future rice liens or for any other purpose only as specifically authorized by the Combined Economic Board, any other agreements to the contrary notwithstanding.

In the interest of successful implementation of the financial stabilization program, it is strongly urged that determined action be taken in the manner suggested above.

Attachment.

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E.O. 12356, Sec. 3.3
NND 867409
By [illegible] NARA, Date 4/22/11

Attachment

Prospective Money Supply Expansion in 1959
(in billions of hwan; + indicates expansion and - indicates contraction)

A.	**Government Budget Account Sector:**		
	1. Actual impact in 1957: 14.6		
	2. Actual impact in 1958: 31.5		
	3. Potential impact in 1959:		
	a. Assuming full realization of budgeted revenues and expenditures	6.5	
	b. Prospective		17.4
B.	**Counterpart Accounts Sector:**		
	1. Actual impact in 1957; -50.0		
	2. Actual impact in 1958: - 9.2		
	3. Potential impact in 1959:		
	a. Assuming full realization of budgeted revenues and expenditures	0	
	b. Prospective		7.2
C.	**Banking Sector:**		
	1. Actual impact in 1957: 46.1		
	2. Actual impact in 1958: 21.7		
	3. Potential impact in 1959:		
	a. Assuming full compliance with Financial Stabilization Agreement for 1959	3.9	
	b. Prospective		16.5
D.	**Foreign Exchange Sector:**		
	1. Actual impact in 1957: 12.1		
	2. Actual impact in 1958: 13.2		
	3. Potential impact in 1959:		
	a. Assuming full compliance with Financial Stabilization Agreement for 1959	2.5	
	b. Prospective (assuming no BOK sales of 1959 receipts)		15.8
E.	**Other Factors Sector:**		
	1. Actual impact in 1957: 1.5		
	2. Actual impact in 1958: -9.9		
	3. Prospective impact in 1959:	0	0
	Total Money Supply Expansion in 1959:		
	1. Potential assuming full compliance as above	12.9	
	2. Prospective, as above		56.9

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3:58 AM

FROM: CINCREP SEOUL

NO.: TOICA 2878, APRIL 23.

RM/R
CONTROL COPY

SENT WASHINGTON TOICA 2878, DEPARTMENT ARMY, CINCUNC.

SUBJECT: KOREAN FINANCIAL STABILIZATION

REFERENCE: DEPARTMENT STATE CABLE NO. 439 DATED 3 APRIL 1959; EMBASSY DESPATCH 601.

895.b.10/4-2359

1. THIS JOINT EMBASSY/OEC MESSAGE.

2. EMBASSY/OEC SHARE WASHINGTON AGENCIES CONCERN OVER RECENT INCREASES IN MONEY SUPPLY BUT ARE NOT REPEAT NOT ALARMED. AMBASSADOR DOWLING, GENERAL DECKER, AND ECONOMIC COORDINATOR APPROACHED ROKG 27 MARCH ON SPECIFIC ACTIONS TO RESTRAIN MONETARY EXPANSION. ROKG, UNDER ABLE LEADERSHIP MINISTER FINANCE SONG IN SANG IN MATTERS FINANCIAL AND ECONOMIC POLICY, HAS GIVEN FURTHER ASSURANCES ADHERENCE TO PRINCIPLES AND POLICIES SET FORTH 1959 FINANCIAL STABILIZATION AGREEMENT AND WE ARE REASONABLY CONFIDENT THAT AFTER MINISTER SONG'S FORMAL REAFFIRMATION CEB MEETING APRIL 16, ROKG CONSIDERS ITSELF FIRMLY BOUND TO AGREEMENT. WE CONSIDER MINISTER SONG'S SUCCESS IN OBTAINING AUTHORITY FROM PRESIDENT RHEE FOR SALE $15 MILLION KFX, COMPARED ONLY $5 MILLION THIS TIME LAST YEAR, STRONG INDICATION NEW FINANCE MINISTER'S STATUS WITH PRESIDENT RHEE. BELIEVE, THEREFORE, THAT SHOULD LIBERAL PARTY COMMITTEE PRESS AGAIN, AS IN 1958, FOR LARGE SCALE POLITICALLY MOTIVATED EXPENDITURES, PRESIDENT RHEE WILL HEED MINISTER SONG'S ADVICE AND SUPPORT LATTER'S INCREASED DETERMINATION MAINTAIN SOUND FINANCIAL POLICIES NOW THAT HE HAS ASSUMED LEADERSHIP FINANCE MINISTRY. PRESENT

OTHER AGENCY

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3. PRESENT SITUATION NOT REPEAT NOT INFLATIONARY. LARGE MONETARY EXPANSION FIRST TWO MONTHS 1959 CONSISTED ALMOST ENTIRELY LOW-TURNOVER BANK DEPOSITS WITH HWAN CURRENCY OUTSTANDING REMAINING SUBSTANTIALLY UNCHANGED. PRINCIPAL REASON FOR JANUARY-FEBRUARY EXPANSION WAS GOVERNMENT BORROWING FOR HOLDING OR PURCHASING GRAIN STOCKS FROM LAST YEAR'S BUMPER CROP. MONEY SUPPLY DECLINED 12.5 BILLION IN MARCH. NATIONAL AND SEOUL WHOLESALE PRICE INDEXES HAVE HELD STABLE PAST SIX MONTHS, WITH MARCH LEVEL BOTH INDEXES ABOUT 116 SEPTEMBER 1955 BASE AND STILL ABOUT 15 PERCENT BELOW PREVIOUS PEAK SUMMER 1957. CONSUMER INDEX ALSO UNCHANGED LAST SIX MONTHS. CONTINUED SLACK DEMAND FOR CERTAIN INDUSTRIAL PRODUCTS INCLUDING SOME METAL MANUFACTURERS AND TEXTILES.

4. PROSPECTS FOR CONTINUED FINANCIAL STABILITY REASONABLY GOOD WITH RECORD GRAIN INVENTORIES, SOME IDLE INDUSTRIAL CAPACITY, POSSIBILITY FURTHER INCREASE IN IMPORTS FINANCED BY SALES KFX, AND FINALLY MINISTER SONG'S RESOLVE KEEP 1959 BUDGET EXPENDITURES WITHIN LIMITS REALIZED REVENUES THROUGH INCREASED TAX COLLECTION AND POSSIBLY SOME DELAYS NON-MILITARY EXPENDITURES. ANNUAL TAX REVENUES FIRST QUARTER 1959 ALMOST TEN PERCENT ABOVE BUDGET EXPECTATIONS AND MINISTER SONG FORESEES INCREASE 5 BILLION HWAN ABOVE TOTAL 1959 BUDGETED REVENUES.

5. ACTION IMMEDIATE FUTURE WILL BE CONCENTRATED ON DEVELOPMENT ANNUAL FINANCIAL PLAN AND FORMULATION QUARTERLY PLANS TO BE APPROVED BY CEB AND FOLLOWED UP THROUGH IMPROVED CONTROL PROCEDURES, BOTH AS LAID DOWN IN 1959 STABILIZATION AGREEMENT.

CHAWNER

AM/21

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VIA AIR POUCH
PRIORITY

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895b.10/8-1859
895b.131

FOREIGN SERVICE DESPATCH

FROM : Amembassy, SEOUL

82
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

Action Assigned to AID
August 18, 1959
Action Taken DATE

REF : 1957 CERP, Section B, Items II-B-1-a and III-B-4.

NA/E 8/31

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67	FE-4	
	REC'D 8/25	INFO OTHER COM-10 TR-3 FRB-3 XMB-4 CIA-10 AG-8

Date of Action
Action Officer Symbol
Action to DC/R

SUBJECT: Daily Unofficial (illegal) Prices for Gold and Dollars and Weekly Seoul Price Indexes

The illegal selling prices for gold, greenbacks and military payment certificates during the period since the Embassy's last weekly report were as follows:

Hwan paid for Gold, Greenbacks and MPC in Seoul

Date	Gold (3.75 grams)	Greenbacks (US $1)	MPCs (US MPC $1)
Aug 8, 9	6,100	1,360	1,180
Aug 10	6,100	1,360	1,190
Aug 11	6,100	1,370	1,190
Aug 12 - 14	6,200	1,360	1,190

The weekly Seoul wholesale price indexes as of August 14, 1959 were as follows:

	Weights	Index (1947=100)	Percent change from* 7 Aug 59	10 Jul 59	15 Aug 58	Sept 55 av.
WHOLESALE	100	22,561.5	+ 1.6	+ 2.9	+ 9.5	+27.3
Grain	39	21,117.2	+ 2.3	+ 1.7	- 8.4	+ 0.1
Meats, eggs, fish	6	45,743.0	+ 0.5	+ 0.5	+24.8	+73.0
Textile raw materials	10	17,003.2	+ 6.2	+13.8	+21.9	+41.8
Textiles	8	7,717.3	+ 0.4	+10.7	+14.8	+10.0
Building materials	3	27,913.2	+ 1.8	+ 5.9	+17.7	+21.1
Fertilizer	2	53,940.0	0	0	0	+68.6
Fuel	7	56,609.1	0	+ 0.3	+35.4	+51.8
Miscellaneous	25	13,538.6	+ 1.4	+ 5.2	+22.5	+53.0
All items except grain	61	23,484.8	+ 1.2	+ 3.6	+23.4	+50.8
Consumer goods		22,220.9	+ 1.3	+ 1.8	+ 4.7	+23.0
Producer goods		19,804.3	+ 2.9	+ 7.0	+18.6	+32.6

* Computed by Embassy.

Source of Price Indexes: Bank of Korea.

For the Ambassador:

Robert W. Tucker
First Secretary of Embassy

FILED
SEP 3 - 1959

RWTucker:YKChon/hcn
REPORTER

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AUG 19 1959

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FROM : Amembassy, SEOUL

212
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

Vol. I

REF : CERP - Korea, D, V, A, 1

Action Assigned to AAA

October 28, 1959 OCT 29
Action Taken DATE

NOV. 6, 1959

Action NAR

Action Office Symbol NA

Name of Officer

Direction to DC/R File

(approval noted NA/E-RMD 11/6/59)

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	REC'D 11-3	INFO OTHER COM-8 TR-3 FRB-3 XMB-4 CIA-10

SUBJECT: Summary Table of Korean National Tax System

There are enclosed three copies of a "Summary Table of Korean National Tax System" prepared by the Brookings Institute team of tax advisors to the ROK Ministry of Finance, currently working with Korean officials under a USOM Technical Assistance project toward simplification and rationalization of the ROK tax structure and collection system.

It is believed that the table may be considerably useful to the Department and other Washington end-users in providing a simplified, visual analysis of existing ROK taxes and the comparative role each category will play in anticipated FY (CY) 1960 budget revenues.

For the Charge d'Affaires ad interim:

Robert W. Tucker
First Secretary of Embassy

Enclosure - as described.

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FROM: SEOUL

TO: **Secretary of State**

NO: 263, AUGUST 28, 10 P.M.

PRIORITY

RE WEEKA 34, F-4; EMBDESP 317, JUNE 10.

DURING MEETING WITH C. TYLER WOOD AND MYSELF YESTERDAY, BOARD OF GOVERNORS AND EIGHT-MAN TAX COMMITTEE OF AMERICAN CHAMBER COMMERCE IN KOREA INFORMED US THEY HAD PREPARED AND WOULD ISSUE PRESS RELEASE AT MIDNIGHT AUG 27 IN NAME OF AMERICAN AND OTHER FOREIGN BUSINESSMEN PROTESTING KOREAN GOVERNMENT'S ARBITRARY AND UNWARRANTED-RETROACTIVE ACTIONS AGAINST FOREIGN BUSINESS COMMUNITY, IN ASSESSMENT OF BUSINESS TRANSACTIONS TAX. QUESTION OF INCOME TAXES PAYABLE BY FOREIGN BUSINESSMEN HAS BEEN SETTLED AND IS NOT AT ISSUE. RELEASE WAS ISSUED AS THEY PROPOSED.

ALEXANDER LURY, LOCAL MANAGER ORIENTAL EXPORTERS, WAS INFORMED YESTERDAY BY TAX AUTHORITIES 10 PER CENT PENALTY HAD BEEN ASSESSED AGAINST HIS COMPANY FOR NONPAYMENT OF TAX BILL OF 63 MILLION HWAN PREVIOUSLY PRESENTED. NOTICE INFORMED HIM TAX AND PENALTY TOTALLING ABOUT 70 MILLION NOT PAID BY NOON YESTERDAY, KOREAN TAX AUTHORITIES WOULD IMPOUND HIS COMPANY'S ASSETS IN KOREA, INCLUDING BOOKS AND RECORDS.

ALVIN MELNICK, AMERICAN DOING BUSINESS IN HIS OWN NAME, WAS DENIED EXIT PERMIT YESTERDAY TO MAKE A REGULAR VISIT TO HIS FAMILY RESIDENT IN JAPAN ON GROUNDS TRANSACTIONS TAX NOT PAID, BUT WAS OFFERED PERMIT IF SOME OTHER PERSON REMAINING IN KOREA WOULD SIGN A GUARANTEE PAY ALL TAXES THAT MIGHT BE ASSESSED AGAINST HIM. (IN VIEW ARBITRARY NATURE AND MAGNITUDE ASSESSMENTS THAT HAVE BEEN MADE, QUITE CLEAR NO ONE WOULD SIGN SUCH AN OPEN END GUARANTEE FOR ANOTHER PERSON.)

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FIFTY-TWO OTHER FOREIGN FIRMS HAVE RECEIVED TAX BILLS, MOST OF THEM EXORBITANT AND SIMILAR TO ONE PRESENTED ORIENTAL EXPORTERS, PAYABLE SEPTEMBER 5. MEMBERS OF ACCK AND OTHER FOREIGN FIRMS ASSOCIATED WITH THEM HAVE ALL DECIDED NOT TO OPEN THEIR OFFICES FOR BUSINESS TOMORROW.

FROM MY CONVERSATIONS WITH INDIVIDUAL MEMBERS OF CHAMBER AS WELL AS BOARD OF GOVERNORS AND TAX COMMITTEE I CONCLUDE THAT FOREIGN BUSINESSMEN AFTER MANY MEETINGS WITH ROK TAX AUTHORITIES HAVE BEEN UNABLE OBTAIN CLARIFICATION OF BUSINESS TRANSACTION TAX AS IT APPLIES TO THEM. EMBASSY COMMERCIAL OFFICER HAS PARTICIPATED IN THESE MEETINGS. CHAMBER OFFICIALS WHO MET WITH ME STATED TAX BILLS RENDERED HAVE BEEN BASED ON KOREAN AUTHORITIES' ESTIMATES OF BUSINESS DONE BY THEM IN ROK, IN SOME CASES COVERING BUSINESS DONE IN PAST 2 TO 5 YEARS, AND THAT BILLS ARE NOT ITEMIZED SO AS TO PERMIT THEM TO RELATE AMOUNTS OF ASSESSMENTS TO SECTIONS OF THE LAW UNDER WHICH ASSESSMENTS ARE PRESUMABLY MADE. WHEN ASKED FOR CLARIFICATION OF THE BILLS, TAX AUTHORITIES HAVE BEEN EVASIVE BUT HAVE SUGGESTED THAT EACH BUSINESSMAN MIGHT SEE THEM INDIVIDUALLY WITH THE IMPLICATION THAT IT WOULD BE POSSIBLE TO MAKE A DEAL. A FEW OF THE FIRMS HAVE MADE TAX SETTLEMENTS THROUGH "TEA-HOUSE NEGOTIATION," AS THE KOREAN PHRASE PUTS IT BUT THE OTHERS ARE NOW UNITED IN DEMANDING CLARIFICATION AND UNIFORM APPLICATION OF THE TAX LAWS.

THE OFFICIALS OF THE CHAMBER WHO MET WITH ME YESTERDAY CONSIDER THAT THEIR ABILITY TO STAY IN BUSINESS IN ROK IS AT STAKE IN THIS MATTER. EMBASSY WILL CONTINUE GIVE THE WHOLE PROBLEM ITS CLOSE ATTENTION AND WILL EXTEND USUAL PROTECTION TO AMERICAN CITIZENS.

LACY

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FROM: Seoul

TO: Secretary of State

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NO: 271, August 29, 5 p.m.

Re Embassy telegram 263.

About eight foreign businessmen, including Americans, refused exit permits today by Ministry Foreign Affairs on grounds taxes not paid. Handwritten statement given one applicant states "unless aliens in ROK pay taxes and public obligations will not be permitted leave country." Americans are wiring their head offices with recommendation Department be approached.

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Action Taken
Date of Action
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O.C.R #5
Reply drafted
9/1/55
file
HS

AMERICAN TRADING COMPANY, INC.

96 WALL STREET

CABLE ADDRESS:
"AMTRACO"

NEW YORK 5, N.Y.

September 6 - 1955

August 30, 1955

Mr. Noel Hemmindinger
Deputy Director of North East Asian Affairs,
Department of State
Washington 25, D.C.

895f. 11
811.05195f

Dear Mr. Hemmindinger:

With reference to our telephone conversation of today, we enclose herewith photostatic copy of our Seoul office letter 265-G of July 14 to us together with enclosures as stated therein.

3 x l's

After you have had an opportunity of reviewing the enclosures, we believe you will concur with us that we are receiving unfair treatment in Korea.

On August 28 our Seoul office cabled as follows:

XL
800.05195f
XL
811.05195f

XL
895f.181

3/30 CONTRARY TO TAX AUTHORITIES PROMISES WE HAVE BEEN ARBITRARILY ASSESSED APPROXIMATELY EQUIVALENT OF DOLLARS ONESEVENFOURTHOUSAND AND HAVE BEEN UNABLE ASCERTAIN BASIS ON WHICH TAX COMPUTED PAYMENT DEADLINE SEPTEMBER FIFTH STOP MANY OTHER FOREIGN FIRMS ALREADY HAVE BEEN SIMILARLY ASSESSED MORE EXPECTED STOP AMERICAN CHAMBER COMMERCE DAILY SESSIONS WITH OTHER FOREIGN FIRMS ATTENDING ALL ACTING IN UNISON STOP AMERICAN AND OTHER EMBASSIES BEING CONTINUOUSLY INFORMED ALSO TOP EXECUTIVES ICA STOP EXIT PERMIT DENIED ONE CASE BECAUSE ALLEGED TAX DELINQUENCY AND RUMORED OTHERS WILL BE SIMILARLY TREATED STOP PLEASE CONSULT OTHER INVOLVED FIRMS WITH VIEW TO PREPARING FOR APPROPRIATE MEASURES IN WASHINGTON STOP AMERICAN CHAMBER SPONSORING DELEGATE TO WASHINGTON ADVISING DETAILS LATER STOP SUGGEST CONSULT OUR MAJOR PRINCIPALS REGARDING POSSIBLE HELP IN WASHINGTON STOP SEVERAL COMPANIES BEING ASSESSED DESPITE FACT THAT THEIR OPERATIONS TO DATE ARE IN DEFICIT STOP PRESS WIRE SERVICES COVERING FULLY STOP ENTIRE FOREIGN BUSINESS COMMUNITY CLOSING OFFICES TO BUSINESS MONDAY FOR INDEFINITE PERIOD IN RESPONSE TO NOTIFICATION GIVEN THREE COMPANIES THAT THEIR OFFICES WILL BE CLOSED AND ASSETS IMPOUNDED STOP WILL KEEP YOU ADVISED OF DEVELOPMENTS

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NND 867400
By NARA, Date 11/1/24

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August 30, 1955

We would greatly appreciate any and all assistance which your office can render in relieving the unfair tax pressure now being felt by our personnel as well as those of other American firms with employees in Seoul.

Very truly yours,
AMERICAN TRADING COMPANY, INC.

R.A.Heironimus,Vice-President.

RAH/CS

Encs. att. 7 pp.

cc: Seoul

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AMERICAN TRADING COMPANY, INC.

NEW YORK OFFICE

RECEIVED

JUL 18 1955

MEMO FROM SEOUL TO

NO. 265-S
963-S

DATE 14 July 1955

Referred to

Answered

RE TAXES

After much discussion and negotiation, the tax question was finally, apparantly, pinned down at a meeting between Korean tax authorities and the tax committee of the American Chamber of Commerce.

At this meeting I handled personally most of the case from our side, led up to the conclusions agreed according to the attached copy of the resultant memorandum issued by the Chamber tax committee, and personally drafted the memorandum and had it read before all the persons present at the meeting and agreed to by all of authority on the Korean side.

It was announced at this meeting that on July 11 would begin investigation of all foreign firms in Korea to determine their tax liability.

On July 13, two representatives of the tax bureau called at this office and inquired:

1. Can you give us a list of all the business you have done in Korea?

   (Answer: We have made many offers which resulted in purchases by customers direct from our head office, but we do not attempt to keep a complete and accurate list of the volumen of such transactions.)

2. Does this office receive any business income?

   (Answer: No. We receive only salaries.)

3. Do you pay income tax on the salaries?

   (Answer: Yes.)

4. How do you pay the expense of running the office?

   (Answer: Money is remitted here monthly from our head office.)

5. How do you change this money?

   (Answer: By transferring it to other [illegible] of Korea and receiving hwan from the [illegible].)

6. How many Korean employees do you have?

   (Answer: About 30)

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By [illegible], NARA, Date 11/29/99

7. Do you ever have transfers of any kind into you special dollar account at the Bank of Korea?

(Answer: Only once or twice, when we ran short of money to pay for cables, when we had other foreign companies transfer dollars from their special account to ours purely as a loan.)

8. You have never received transfers into your Bank of Korea account as payment?

(Answer: No.)

9. When you make offers here, do you make them in your own name, or in your head office's name?

(Answer: In our head office's name.)

10. When you make offers to OSROK, do you offer in your own name, or in your head office's name?

(Answer: In our head head office's name.)

11. When you sign contracts with SOROK, do you sign here, or does your head office sign?

(Answer: We sign here.)

12. Do you always offer on behalf of your head office, or have you at times offered on behalf of companies other than your head office?

(Answer: Our head office has agency agreements with many companies, including some not in the United States. Even though shipment may be made by some of these foreign principals, we always offer on behalf of our head office, and profit accruing is for the account of and goes directly to our head office.)

13. Does payment always go to your head office, or do letters of credit sometimes go direct to other companies?

(Answer: In very rare instances, about once or twice, the letter of credit has gone directly to our head office's principal outside the United States, but profit was paid by the letter of credit recipient direct to our head office and not via Korea.)

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DECLASSIFIED
E.O. 12356, Sec. 3.5
NND 867400
By [illegible], NARA, Date 1/17/24

14. Can you give us an accounting of all the business done between your company and the Korean Government, and between your company and Korean endusers?

(Answer: For business with the Korean Government, we could give an estimate from memory, but an accurate listing would have to come from our New York office. Regarding business with endusers, we have no means of differentiation endusers from buyers for resale in Korea.)

15. Then will you please, omitting business with endusers, get from New York as soon as possible a list of business done with the Korean Government?

(Answer: Yes.)

16. When you bid to OSROK, do you bid direct or through others?

(Answer: Almost always direct.)

17. Then by not bidding through others, you save the Korean Government money, by not making them liable for payment of hwan commission?

(Answer: Yes.)

18. Have you registered with the Korean courts?

(Answer: We will register this month.)

19. What is your main field of business in Korea?

(Answer: Heavy industrial equipment and complete plants.)

20. Do you ever do installation or construction work with relation to your equipment?

(Answer: We never do installation or construction work for our own account or for income. We sometimes provide an expert to act purely as consultant and adviser.)

They then left with us two blanks to fill out and give to them when they return, about two days later. They said that as we apparantly were not liable for taxation, we could fill them out stating that we owed no taxes.

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 1/10/94

They gave it as their opinion that, according to what we had told them, we would not be liable for tax except, possibly, on the letters of credit that had gone to other than our own head office. On this point they were not sure, but thought that we might have to pay tax on these transactions.

They also mentioned that some other firms were claiming non liability for tax on the grounds that they had done no business here, but that those firms had taken cash deposits here against D/P payment. They mentioned that, as our company did no D/P business, we would not be in this class.

The insinuation clearly was that deposits would be considered by the tax people as local payment and sufficient to put the receiver of such payment into a tax category.

By this letter we request you to give us, by return mail, a list of all sales you have made to the Korean Government.

See W#2 65 Jan 20/55

H. E. Renfro

H. E. Renfro

HER/hb
Incl.: 1. Copies of two tax forms to be filled out and submitted (inclosure with original copy only).
2. Copy of American Chamber of Commerce tax Committee report to Chamber.

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 11/21/24

[redacted]

At a meeting held in the Ministry of Finance on Today, July 5, 1955 at which were present the following persons.

1. Korean Tax Officials:

Mr. Kim Manki, Chief, Taxation Bureau, Ministry of Finance
Mr. Whang Jeong Yul, Chief, Tax Section, Ministry of Finance
Mr. Kim Ok Kyung, Chief, Seoul City Tax Office
Mr. Park Mi Bang, Chief, Chong-Bu Tax Office

2. American Chamber of Commerce in Korea:

Mr. Micklentz
Mr. Renfro
Mr. Cooper
Mr. Lury
Mr. Yaron
Mr. Pickett
Mr. Min } American Embassy Observers
Mr. Hughes }

The following understandings were obtained from the Korean representatives above, regarding Taxes:

CLASSIFICATION:

I. Any corporate entity which buys and/or sells commercially in Korea is subject to

a) Corporate Tax, after deduction of expenses
and
b) Business Transaction Tax.

II. Any entity acting not for its own account but as agent for others in return for commission is subject to Tax 5.5% on the gross commission.

III. Any entity which makes offers and/or signs contracts only on behalf of its head office, receiving no income for its own account, other than personal salary, is not subject to any Tax other than personal Income Tax on the salary.

IV. Any entity which engages in a combination of classifications I through III above is subject to the respective Tax of Classification I and/or II proportionately as its activities fall into classification I and/or II.

The American Chamber of Commerce Representatives make a special point of praising the cooperative attitude of the Korean Representatives.

All inquries for factual and specific information pertaining to individual problems on Korean Taxation, should be taken up with Mr. Kim Manki Direct at the Ministry of Finance.

* NOTE: A special meeting of the Chamber Members and all foreign Businessmen will be held Quarry Dining Room Bando Hotel at 12:30 Saturday, July 9, 1955.

Mr. Kim Manki will also attend this meeting.

TAX COMMITTEE
AMERICAN CHAMBER OF COMMERCE IN KOREA.

0917

DECLASSIFIED
E.O. 12356, Sec. 3.5
NND 867400
By [illegible] NARA, Date 1/24/24

分類所得金額申告書
SCHEDULAR INCOME RETURN

申告年月日
Date, Deturning:

年期分
For the terms: _____

稅務署長 貴下
To: Chief of National Tax Office

住居所
Address: _____

商號又は名稱
Firm-Name: _____

姓名印
Name & Signature: _____

電話
Phone No.: _____

所得の種類 Kind of Income	所得の生ずる場所 The place the income earned	總收入金額 Gross Receipts	必要經費 Expenses	所得金額 Income

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E.O. 12356, Sec. 3.5
NND 867400
By [illegible], NARA, Date 1/17/29

[redacted]
THE RETURN OF THE PAYABLE
AMOUNT FOR BUSINESS

申告年月日
Date, Returning:

{ 基準年度 自 年月日
For the period; From Mouth of Year
至 年月日
To , ,

税務署長 殿 F
To: Chief of National Tax Office

営業場住所
Business Address:

営業主の住所
Proprietor's Address:

商號又は名稱
Firm-Name; 姓名印
Name & Signature: 電話番號
Phone, No.

営業名 Type of Business	種目 Kind of Article	[redacted] Tax Base	申告額 Amount Returning	摘要 Remark

0 9 1 9

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 1/17/29

In reply refer to
[redacted]

September 6 1955

800.0-2795
895A.11/8-3055

Dear Mr. Rabenstange:

Thank you for your letter dated August 30, 1955, concerning your tax problem in Iran.

I found the enclosures to your letter helpful in understanding the background of the present controversy.

You may be sure that the Embassy and we have spared no effort to do what we can to resolve the present difficulties.

Sincerely yours,

For

[redacted]

[redacted]

[redacted]

[redacted]

DC/R
Anal
Rev
Cat

[redacted]

S/S-CR
SEP 2 1955 P.M.

FW 895A.11/8-3055

0 9 2 0

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E.O. 12356, Sec. 3.3
NND 867400
By [redacted], NARA, Date 4/17/24

INCOMING TELEGRAM 63 *Department of State* ACTION COPY

17-D CONFIDENTIAL

Action FE

Info RMR SS G SP C L IO E P UOP SCS OLI USIA CIA OSD ARMY NAVY AIR DCL ICA

Control: 15849
Rec'd: AUGUST 30, 1955 8:46 A.M.

FROM: SEOUL

TO: Secretary of State

NO: 279, AUGUST 30, 6 P.M.

PRIORITY SENT DEPARTMENT 279, REPEATED INFORMATION PRIORITY TOKYO 149

TOKYO PASS CINCUNC.

FOLLOWING IS TEXT LETTER I HAVE PROPOSED TO DELIVER TOMORROW MORNING TO FINMIN WITH APPROPRIATE COMMENTS.

I AM CONFIDENT THAT FINMIN WILL CONTINUE TO REFER THIS MATTER TO PRES RHEE. THEREFORE I PROPOSE TO DISCUSS THIS MATTER WITH PRES RHEE WITHIN NEXT FEW DAYS, COVERING ARGUMENTATION SET FORTH IN LETTER. I SHOULD APPRECIATE SUGGESTIONS OR INSTRUCTIONS FROM THE DEPT PRIOR TO INTERVIEW WITH PRES.

BEGIN VERBATIM TEXT

THE BOARD OF GOVERNORS AND THE TAX COMMITTEE OF THE AMERICAN CHAMBER OF COMMERCE IN KOREA HAVE INFORMED ME ABOUT THEIR CURRENT DIFFICULTIES ARISING OUT OF THEIR TAXATION PROBLEMS, SPECIFICALLY IN CONNECTION WITH THE ASSESSMENT OF THE BUSINESS OR TRANSACTIONS TAX. I THINK IT SHOULD BE CLEARLY UNDERSTOOD AT THE OUTSET THAT THE AMERICAN BUSINESS COMMUNITY IS ALREADY PAYING THE PERSONAL INCOME TAX AND THEY ARE WILLING TO PAY ANY OTHER TAXES THAT ARE REASONABLE AND JUST AND TO WHICH THEY ARE CLEARLY LIABLE.

FROM MY CONVERSATIONS WITH THIS GROUP AND WITH OTHER INDIVIDUAL BUSINESSMEN, I CONCLUDE THAT THEY HAVE BEEN UNABLE TO OBTAIN CLARIFICATION OF THE BUSINESS TRANSACTION TAX AS IT MAY OR MAY NOT APPLY TO THEM, AFTER MANY MEETINGS WITH ROK TAXATION BUREAU. THE COMMERCIAL OFFICER OF THE EMB HAS ATTENDED THESE MEETINGS. IN VIEW OF THE DIFFERENT METHOD OF OPERATIONS AND ORGANIZATION OF AMERICAN FIRMS IN KOREA, IT IS QUESTIONABLE THAT MANY OF THE AMERICAN FIRMS COME WITHIN THE PURVIEW OF OR FIT INTO THE

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Action Assigned to: NA/SW
Action Taken: Replied
Date of Action: Aug 30, 31
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NND 867400
By [illegible], NARA, Date 4/2/24

CLASSIFICATION "WHOLESALERS" UNDER THE BUSINESS TAX LAW, WHICH SEEMS CLEARLY INTENDED TO APPLY TO THE OPERATIONS OF DOMESTIC WHOLESALE AND RETAIL BUSINESS AND NOT TO THE TYPE OF OPERATIONS IN WHICH MOST OF THE AMERICAN FIRMS ARE ENGAGED. MOST OF THEM REGARD THEMSELVES AS "LIAISON" OFFICES, TECHNICAL ADVISORS AND REPRESENTATIVES OF AMERICAN FIRMS AND NOT ENGAGED IN TRANSACTING BUSINESS OF THE SORT DEFINED IN THE BUSINESS TAX LAW. THEY NEITHER IMPORT NOR EXPORT FOR THEIR OWN ACCOUNT. MOREOVER, IT HAD FOR SEVERAL YEARS BEEN THE UNDERSTANDING OF THE AMERICAN FIRMS, CONFIRMED BY AN AGREEMENT CONCLUDED BETWEEN THE TAXATION BUREAU AND THE TAX COMMISSION ON JULY, 1955, THAT MOST OF THEM BELONGED TO CATEGORIES NOT TAXABLE UNDER THE TERMS OF THE BUSINESS TAX LAW. THEREFORE RETROACTIVE ASSESSMENT OF THIS TAX PLACES THEM IN THE POSITION OF BEING TAXED ON OPERATIONS THAT THEY HAD UNDERSTOOD WERE NOT TAXABLE AND THAT THEY HAD NOT TAKEN INTO ACCOUNT IN THEIR FINANCIAL CALCULATIONS. AS IS ALWAYS THE CASE WITH A SALES TAX, HAD THEY KNOWN AT THE TIME THAT THEY WERE SUBJECT TO THE TAX, THE TAX WOULD HAVE BEEN INCLUDED IN THE PRICING OF THE GOODS, AND THE PRICE TO THE KOREAN CONSUMER WOULD HAVE BEEN INCREASED BY THAT AMOUNT. THERE IS NO WAY BY WHICH THE AMERICAN FIRM CAN RECOVER FROM PRESENT OWNERS OF GOODS THE TAX LIABILITY ASSESSED RETROACTIVELY BY THE TAXATION BUREAU. THE ALTERNATIVES SEEM QUITE CLEAR: ASSUMPTION OF UNWARRANTED LOSSES BY HOME OFFICES OF AMERICAN FIRMS WHICH WILL IN MOST CASES RESULT IN THE CLOSING OF OFFICIES IN SEOUL OR ABATEMENT OF THE TAX ASSESSMENTS BY THE MINISTRY OF FINANCE UNDER PROVISIONS IN THE TAX LAW IN ACCORDANCE WITH STIPULATIONS OF A PRESIDENTIAL DECREE (EXCEPT AS IN SOME CASES WHERE LIABILITY IS CLEARLY DEFINED AND ACCEPTED BY SOME OF THE AMERICAN FIRMS BECAUSE OF THE CIRCUMSTANCES OF THEIR OPERATIONS).

IF IT IS THE INTENTION OF THE ROK GOVERNMENT THAT THE OPERATIONS OF AMERICAN BUSINESS FIRMS IN FUTURE SHALL BE SUBJECT TO PROVISIONS OF THE BUSINESS TRANSACTION TAX, THE LAW SHOULD BE AMENDED SO AS TO DEFINE THIS LIABILITY CLEARLY AND UNMISTAKABLY. THE

FIRMS MAY

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E.O. 12356, Sec. 3.3
NND 869409
By [illegible] NARA, Date [illegible]

0422

FIRMS MAY NOT LIKE THIS FORM OF TAXATION AND MAY ARGUE THAT THE EFFECT WILL ONLY BE TO INCREASE THE PRICE OF GOODS TO KOREA, BUT THEY CAN HAVE NO OBJECTION TO THE RIGHT OF THE ROK GOVT TO ENFORCE IT AS THE LAW. HOWEVER, IF THEY KNOW EXACTLY WHAT THEIR TAX LIABILITY WILL BE, AT THAT MOMENT AND NOT RETROACTIVELY, EACH FIRM WILL BE ABLE TO DECIDE WHETHER IT IS IN ITS COMPETITIVE OR OTHER INTEREST TO CONTINUE IN BUSINESS IN KOREA OR WITHDRAW.

THE AMERICAN BUSINESS COMMUNITY AND THE UNITED STATES FIRMS THEY REPRESENT ASSURE ME THAT THEY CONSIDER THEIR ABILITY TO REMAIN IN BUSINESS IN KOREA IS AT STAKE. THE WITHDRAWAL OF AMERICAN FIRMS, MANY OF WHOM FURNISH ENGINEERING AND OTHER TECHNICAL SERVICES CONNECTED WITH PROCUREMENT AND SPECIFICATIONS, WOULD IN MY JUDGEMENT BE A GREAT DISADVANTAGE TO KOREAN IMPORTERS AND TO THE KOREAN ECONOMY. I WOULD THEREFORE URGE YOU TO REVIEW THIS WHOLE QUESTION BOTH IN THE LIGHT OF EQUITY AND WITH DUE REGARD TO ITS EFFECT ON US-ROK COMMERICAL RELATIONS.

END VERBATIM TEXT.

LACY

LJ

0423

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E.O. 12356, Sec. 3.3
NND 867609
By [illegible] NARA, Date [illegible]

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1955 AUG 30 PM 7 58

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SENT TO: Amembassy SEOUL

YOUR 279

895B.11/8-3055
895B.05195/8-3055
800.05195/8-3055
811.05195/8-3055

Origin

Info:

Agree generally with proposed procedure and line taken in draft letter. Consulting Treasury further on technical questions. Suggest you defer letter to Finance Minister pending further comment which we expect make tomorrow. If delay not advisable request following changes.

1. Delete three sentences beginning QUOTE In view of different method of ~~xxxxxxxxxx~~ operations UNQUOTE and ending QUOTE export for their own account UNQUOTE. Treasury suggests interpretation ~~of~~ law ~~in~~ Korean matter and not profitable ~~to~~ argue on ground statutory interpretation.

2. Substitute in third paragraph QUOTE This liability should be defined clearly and unmistakably UNQUOTE for QUOTE ~~This~~ The law should be amended so as to define this liability clearly and unmistakably ~~xx~~ UNQUOTE.

3. Delete clause third paragraph reading ~~in~~ QUOTE but they can have no objection to the ~~right~~ Government of the ROK ~~Government~~ to enforce it as law UNQUOTE.

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Anal. 13
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S/S-CR
AUG 30 1955 P.M.

"DULLES
Dulles
(HT)

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Drafted by: FE:NA:HSmith:HHemmendinger:cht 8/30/55

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Clearances:

MN - Young ; L - Metzger; Treasury - Hirschtritt, Baker-Rees

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0424

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NND 867400
By Lgm, NARA, Date 1/17/29

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14461
1955 AUG 31 PM 7 40
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SENT TO: Amembassy SEOUL
Your 279
Deptel 148

Origin

Info:

Since United States does not use multi-stage transaction taxes, US practice [redacted] not directly applicable [redacted] Korean transaction tax problem. Agree your representation against retroactive enforcement [redacted] tax which places unreasonable burdens on business in violation universally accepted principles fair tax practice. On basis our familiarity with foreign transaction taxes and assuming such taxes applied fairly and nondiscriminatorily we distinguish between two situations. Where American businessman in Korea [redacted] in fact importer [redacted] would appear be some basis for holding him liable for tax attaching to transaction. If [redacted] American representative only facilitates transaction which results in US concern exporting goods consigned directly to Korean importer liability for transaction tax should not be on American concern but should attach [redacted] Korean importer.

As your able letter recognizes since a sovereign government has very wide latitude in exercising its domestic taxing powers your representation to Korean Government should not be based on questioning Korea's legal authority do so. Suggest reliance upon universally recognized sound tax practice, adverse effect on US Korean trade relations, and long-run adverse

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Anal 3
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Cat 2

DK

Drafted by: FE:NA:HSmith:prg 8-31-55

Telegraphic transmission and classification approved by: NA - Noel Hemmendinger

Clearances:
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NND 867400
By Lyn, NARA, Date 1/17/99

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effects foreign business activity Korea.

Suggest rather than deleting three sentences beginning QUOTE In view of different method UNQUOTE as suggested deptel 148 you use those arguments in letter support representation re retroactive aspects tax liability. Other changes suggested Deptel 148 stand.

You may wish your discretion attempt have tax deadlines extended pending solution current problem.

Foregoing based on inadequate knowledge tax laws involved. Appreciate summary relevant laws by telegram and if necessary greater detail despatch.

Should not letter be to Foreign Minister?

Dulles

(LM)" DULLES

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 1/17/24

(36)

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Congress of the United States
House of Representatives
Committee on Judiciary
Washington, D. C.

FRANK CHELF
4TH DISTRICT, KENTUCKY

SUBCOMMITTEE NO. 1
IMMIGRATION AND
NATURALIZATION
GENERAL JURISDICTION

31 August 1955

Mr. William G. Jones
Officer in Charge
Korean Affairs
Department of State
Washington, D.C.

Dear Mr. Jones:

Enclosed is a copy of a letter which I have written to His Excellency, Dr. Syngman Rhee which I thought might be of interest to you.

Sincerely yours,

Frank Chelf, M.C.

(1)

Downgraded by RMJR

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date 4/24/24

MRK

30 August 1955

FOR RELEASE THURS. MORN. 9-1-55

His Excellency
Mr. Syngman Rhee
President of the Republic of Korea
Kyung Mu Dai
Seoul, Korea

Your Excellency:

As a Member of Congress who voted you aid and succor even before the dastardly attack upon your brave people in June 1950 by the Communists; and as one of your many American friends who admires and respects you and your fine people, I want to object vigorously to the way and manner in which some fifty American business firms in Seoul are being treated by the assessment of "exorbitant taxes."

We here in the States are informed that this heavy tax is being levied by the South Korean Government on volume of business rather than on any real profits. Of course, this is highly discriminatory because American troops and civilians shopping in great numbers from our American merchants -- makes for a tremendous volume.

From all sections of the globe these days, be it Europe or Asia, we read daily how various countries hate the Americans and then proceed to prove their point via oral denunciations and mistreatment in some form. Maybe its only charging the American tourists a little extra or perhaps its just levying a dash of exhorbitant tax on our American business abroad. Yet in most of these same countries, our American dead lie sleeping, buried where they have fallen on foreign shores in the defense of freedom, happiness and peace.

Your Excellency, during World War II alone, this country sacrificed over a million casualties in blood and spent billions in treasure fighting to protect the peace of the world which includes all decent, freedom-loving people such as your own.

Since World War II and the Korean conflict, we have spent on the Marshall Plan and other foreign aid programs (exclusive of military aid) approximately forty-five billion dollars to help rehabilitate countries that were devastated by the war. It appears that about all we have gotten out of it has been insults and mistreatment by those very ones the sought and accepted our aid. It's rather like feeding a poor, stray, wet, helpless, hungry, half-drowned "puppy" only to have him sink his tooth into a hand after he has filled out the wrinkles in his belly. That's

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E.O. 12356, Sec. 3.3
NND 867400
By lgd, NARA, Date 1/19/89

not biting the hand that feeds - it is chewing the arm half-way out of the socket.

Your Excellency, as you full well know, the United States does not have any designs on any country whatsoever. The best possible proof and example of this is restoring to full and complete independence the Philippines. What we want out of the people of the world is peace and, if possible, their friendship.

Mr. President, this isn't any super-distilled, triple-screened, double-checked soft soap tenderly and carefully cooked up by our good State Department protocol experts. The language that you are now reading emanates ever so gently but firmly from a Representative from the foothill country of Kentucky, where we believe in calling a spade a spade. All that my good people and the great American people want - is to follow the Golden Rule and to live and let live.

While I cannot speak for the President of the United States, the Secretary of State, and the Congress, I can speak for one Member of the House of Representatives and, therefore, a segment of the American people that I have the honor to represent, when I say that I, for one, am over, above, across and beyond the regular "fed-up" stage of the treatment we Americans are receiving abroad.

Foreign countries asking us for aid tell us that they are broke. They know it and they admit it. Well, Mr. President, I've got news for you and the rest of the world. The United States is also broke, apparently doesn't know it, and won't admit it. That is the difference except that we owe a debt in excess of 275 billions.

I am glad that my Subcommittee of Immigration and Naturalization of the Judiciary Committee of the House of Representatives is going overseas next month to make a study of immigration problems. You may rest assured that while I am there in Europe that I shall step, look and listen with great care and interest.

I sincerely trust that you will personally take your Internal Revenue Chief, Mr. Kim Man Ki, off in a corner and tell him the facts of life. You know them - but it is quite obvious that he does not.

With kindest regards and best wishes to you and your great people, I am

Sincerely yours,

Frank Chelf, M.C.

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 1/24/24

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NA-2

SUBJ. FILE K.F-1.12

SEP 12 1955

OFFICIAL-INFORMAL
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Dear Bill:

Enclosed is a copy of a letter from Congressman Frank Chelf to President Rhee on the problem of ROK taxation of United States businessmen. Mr. Chelf sent us a copy August 31, with a pencilled indication it was to be released, presumably to the press, September 1, 1955. It reached the press well before it reached us.

Sincerely yours,

Robert J. G. McClurkin
Director
Office of Northeast Asian Affairs

Enclosure:

Copy of letter from
Congressman Frank Chelf.

The Honorable
William S. B. Lacy,
American Ambassador,
American Embassy,
Seoul.

UNCLASSIFIED 9/9/55

0 9 3 0

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date [illegible]

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1955 SEP 1 PM 7 04
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SENT TO: Amembassy SEOUL 160

XR 911.62
XR 895B.181

Origin

Info:

Subject is roundup developments on tax matter.

Tax question received good coverage wire services. Stories appeared N Y Times, front page Washington Post reporting arguments businessmen and playing up ROK refusal issue exit permits. Department received many calls from journalists, representatives business concerns and from Foreign Trade Council, Far East Council and Chamber Commerce.

Inquiry received from Senator Knowland. Washington Post reported September 1 Senator Carlson suggested sending Congressional staff investigating team Korea.

Sebald discussed matter Charge Han August 31. Suggested ROK Embassy fully report Seoul adverse US reactions to tax measures. Said did not have full facts but certain that possible resolve without action that appears to Americans arbitrary and capricious.

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~~Dulles~~
(2nd)
DULLES

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411816 3
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Drafted by: FE:NA:HSmith:prg 9-1-55

Telegraphic transmission and classification approved by: NA - Noel Hemmendinger

Clearances:

FE - Mr. Sebald

S/S-CR
SEP 1 1955 P.M.

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By LJM, NARA, Date 4/17/99

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16

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Info RMR SS G SP C L IO SMSA E P UOP OB SCS OCB USIA CIA OSD ARMY NAVY AIR DCL ICA

Control: 244
Rec'd: SEPTEMBER 1, 1955 8:25 AM

FROM: SEOUL

TO: Secretary of State

NO: 289, SEPTEMBER 1, 7 PM

SENT DEPT 289 RPTD INFO TOKYO 154

TOKYO PASS CINCUNC AND CAG.

REF EMBTEL 279 SENT TOKYO 149.
DEPTEL 148.

DCM, WILLARD BROWN AND PAUL HUGHES MET WITH FINMIN OVER TWO HOURS THIS MORNING. HAROLD LADY, ECONOMIC ADVISOR TO PRES RHEE, AND TAX BUREAU OFFICIALS PRESENT.

DCM PRESENTED LETTER WITH CHANGE IN SECOND PARA REQUESTED DEPTEL 148 AND THIRD PARA DELETED IN ENTIRETY. (DECISION TO DELETE THIS PARA HAD ALREADY BEEN MADE BEFORE DEPTEL RECEIVED.) CONVERSATION WITH MINISTER CAN BE SUMMARIZED UNDER THREE HEADINGS:

1. MIN EXPRESSED STRONG DISSATISFACTION WITH CHAMBER'S PRESS RELEASE REPORTED EMBTEL 263. DCM REPLIED CERTAIN FEATURES MAY WELL BE REGRETTABLE BUT POINTED OUT CHAMBER HAS BEEN UNDER STRONG PROVOCATION IN VIEW ATTACKS IN PRESS PARTICULARLY IN GOVT-CONTROLLED KOREAN REPUBLIC WHICH IN EDITORIALS, CARTOONS AND NEWS STORIES HAS PICTURED THEM AS TAX DODGERS DEFYING GOVT ON SUBJECT OF TAXES. DCM POINTED OUT TRUE SITUATION IS THAT ALL AMERICAN BUSINESSMEN HAVE BEEN PAYING PERSONAL INCOME TAXES AND WITH VERY SUBSTANTIAL JUSTIFICATION HAVE NOT THOUGHT THEMSELVES LIABLE FOR BUSINESS TRANSACTIONS TAX. IN SUMMARIZING THIS PHASE OF DISCUSSION DCM OFFERED EXTEND HIS BEST EFFORTS TO GET CHAMBER WITHDRAW ITS RELEASE IF KOREAN REPUBLIC WOULD MAKE IT PLAIN IN ITS COLUMNS THAT AMERICAN BUSINESSMEN AS A GROUP HAVE PROPERLY DISCHARGED THEIR PERSONAL INCOME TAX OBLIGATIONS TO ROK AND HAVE THEREFORE NOT TAKEN POSITION THEY WILL NOT PAY TAXES TO ROKG

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Action Taken
Date of Action
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NND 867400
By [illegible], NARA, Date 1/29/99

2. CRUX OF PROBLEM AT ISSUE BETWEEN TAX BUREAU AND CHAMBER IS LIABILITY FOR BUSINESS TRANSACTIONS TAX (SALES TAX) OF ANY AMERICAN BUSINESSMAN WHO IS IN KOREA ON A SALARY BASIS AS A BRANCH OFFICE MANAGER, FACTORY REPRESENTATIVE OR SALES PROMOTER FOR PRODUCTS OF AMERICAN FIRMS AND WHO DOES NOT PARTICIPATE IN THE ACTUAL TRANSACTING OF BUSINESS, HANDLING OF FUNDS, SIGNING CONTRACTS, ETC., EXCEPT INSOFAR AS HE MAKES OFFERS OF SALE ON BEHALF OF HIS PRINCIPALS IN THE UNITED STATES. IN THE TYPE OF BUSINESS UNDER DISCUSSION, CONTRACT FOR SALE IS COMPLETED OUTSIDE KOREA AND TITLE TO GOODS IS PASSED OUTSIDE KOREA AS WELL. ALTHOUGH REFERENCE TO THIS SUBJECT WAS DELETED FROM LETTER IT WAS TAKEN UP ORALLY. DCM STATED A FEW AMERICAN BUSINESSMEN OPERATE AS IMPORTERS AND EXPORTERS OR AS COMMISSION AGENTS AND THEY HAVE ACCEPTED THEIR LIABILITY FOR BUSINESS TRANSACTION TAX WITHOUT QUESTION; THAT MAJORITY ACT AS LIAISON OFFICERS, EXPLAINING WHAT GOODS THEIR COMPANIES HAVE TO OFFER, ASSISTING AND WRITING SPECIFICATIONS, INSTALLING AND ASSEMBLING EQUIPMENT AND OTHERWISE RENDERING ESSENTIAL TECHNICAL SERVICES TO KOREAN IMPORTERS; AND THAT AT LEAST ONE FOREIGN FIRM HAS BEEN IN THIS TYPE OF BUSINESS IN SEOUL FOR TEN YEARS AND UNTIL NOW NEITHER IT NOR ANY OTHER FOREIGN FIRM DOING THIS TYPE OF BUSINESS HAS BEEN CALLED UPON TO PAY THIS TAX. FURTHERMORE, HE SAID, AFTER LONG SERIES OF DISCUSSIONS, THE TAX COMMITTEE OF THE AMERICAN CHAMBER OF COMMERCE AND THE OFFICIALS OF THE TAX BUREAU OF THE MINISTRY OF FINANCE REACHED AN UNDERSTANDING ON JUL 5 TO THE EFFECT THIS TYPE OF BUSINESS WAS NOT SUBJECT TO BUSINESS TRANSACTIONS TAX; THAT EMB COMMERCIAL OFFICER WAS PRESENT AT MEETINGS LEADING UP TO THIS AGREEMENT AND VERIFIES FACTS OF AGREEMENT; BUT THAT THIS AGREEMENT WAS REVOKED BY THE MINISTRY IN A LETTER TO CHAMBER JUL 22.

MIN SAID THAT, SUBSEQUENT TO REVOCATION, TAX BUREAU HAD SENT TAX DECLARATION FORMS FOR BUSINESS TRANSACTION TAX RETURN TO 105 FOREIGN BUSINESSMEN BUT THAT FEW HAD FILED RETURNS. EMB OFFICIALS POINTED OUT TAX COMMITTEE OF CHAMBER RESUMED ITS DISCUSSIONS WITH TAX BUREAU AT THIS TIME AND THAT THIS CONSTITUTED GROUP RESPONSE; FURTHERMORE, THAT IT IS A GENERALLY ACCEPTED PRINCIPLE THAT NO ONE IS OBLIGATED TO FILE A RETURN IN CONNECTION WITH A TAX FOR WHICH HE IS NOT LIABLE. EMB OFFICIALS STATED IT WOULD PROBABLY HAVE BEEN WISE FOR ALL BUSINESSMEN WHO RECEIVED

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THE FORM TO RETURN IT WITH APPROPRIATE NOTATIONS CONCERNING LIABILITY FOR THE TAX BUT THAT THE ACTIVITIES OF TAX COMMITTEE WERE CLEAR INDICATION SUBJECT HAD NOT BEEN DISMISSED BY CHAMBER.

THERE FOLLOWED LONG DISCUSSION OF MAIN QUESTION AT ISSUE AS SET FORTH ABOVE. EMB OFFICIALS SAID THAT MAKING AN OFFER TO SELL DID NOT CONSTITUTE "DOING BUSINESS" IN THE SENSE THAT THE TRANSACTION WAS CONSUMMATED HERE AND THUS SUBJECT TO KOREAN TAXATION. EMB OFFICIALS SAID FURTHER ROK HAD UNDOUBTED RIGHT TO ASSESS BUSINESS TRANSACTION TAX ON GOODS IMPORTED INTO KOREA, PROVIDED IT WAS NOT MADE RETROACTIVE, AND COULD EVEN TRY TO COLLECT THE TAX WHEN CONTRACTS TO SELL WERE ENTERED INTO IN SOME OTHER COUNTRY, TITLE WAS PASSED ABROAD, AND THE COMPANY CONCERNED HAD NO REPRESENTATIVE IN ROK. MR LADY GAVE EMB OFFICIALS FULLEST POSSIBLE SUPPORT THIS PART OF DISCUSSION SAYING DETERMINATION TO ASSESS SUCH A TAX WOULD, AS FAR AS HE KNEW, BE CONTRARY TO PRACTICE OF EVERY OTHER COUNTRY OF WORLD ENGAGING IN FOREIGN TRADE AND THAT INSTITUTION OF SUCH A TAX WOULD DRIVE OUT OF KOREA MANY REPRESENTATIVES OF FOREIGN COMPANIES THAT ARE AMONG VALUABLE SERVICE TO KOREAN ECONOMY. MR LADY DISAGREED WITH TAX BUREAU CHIEF'S CONTENTION THAT AN OFFER PRESENTED IN KOREA MADE THE RESULTING TRANSACTION SUBJECT TO TAXATION UNDER THE KOREAN BUSINESS TRANSACTION LAW, WHEN THE TRANSACTION WAS CONSUMMATED OUTSIDE KOREA. HE COMMENTED THAT THE TAX BUREAU WOULD UNDOUBTEDLY BE REVERSED ON THIS POINT IF AN AMERICAN BUSINESSMAN TOOK THE ISSUE TO THE KOREAN COURTS IF IT WAS NOT, IN FACT, PREVIOUSLY COUNTERMANDED BY THE PRESIDENT. AFTER THIS POINT HAS BEEN EXPLORED FULLY IT WAS AGREED MIN WOULD REEXAMINE THE PROBLEM AND THAT GROUP WOULD RECONVENE SEPT 5 FOR FURTHER JOINT CONSIDERATION MIN VOLUNTEERED TO POSTPONE THE DEADLINE OF SEPT 5 ON PAYMENT OF TAXES THAT HAVE BEEN LEVIED. DCM PROMISED TO URGE ALL MEMBERS OF CHAMBER TO FILE INDIVIDUAL BUSINESS TRANSACTION TAX RETURNS, EXPLAINING IN APPROPRIATE CASES WHY THEY DID NOT CONSIDER THEMSELVES LIABLE TO PAY THE TAX.

3. DCM THEN RAISED THE ASSOCIATED PROBLEM CREATED BY REFUSAL FOREIGN MINISTRY ISSUE EXIT PERMITS TO CERTAIN AMERICAN BUSINESSMEN ON GROUNDS THEY HAD NOT SETTLED TAX OBLIGATIONS. AFTER SOME DISCUSSION IT WAS AGREED THIS PROBLEM WOULD BE RESTUDIED BY KOREAN OFFICIALS AND TAKEN UP AGAIN IN MONDAY'S MEETING.

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NND 867400
By [illegible] NARA, Date 1/6/94

PRESIDENT AND FOUR MEMBERS OF CHAMBER MET THIS AFTERNOON WITH ME AND OFFICERS OF EMB WHO SAW FINMIN THIS MORNING. WE INFORMED THEM OF CONVERSATION ALONG FOREGOING LINES; ASKED THEM TO GET AS MANY MEMBERS OF CHAMBER AS POSSIBLE TO FILE BUSINESS TRANSACTION TAX RETURNS BEFORE MONDAY; AND COUNSELLED THEM TO BE MODERATE AND CONSTRUCTIVE IN EXPLAINING THEIR POSITION IN ANY STATEMENTS THAT MIGHT BE MADE TO PRESS BEFORE MONDAY MEETING. THEY EXPRESSED SATISFACTION WITH PROGRESS TO DATE, ALTHOUGH THEY REQUESTED THAT DP (DEFERRED PAYMENT) BUSINESS BE EXPLAINED TO THE MIN ON MONDAY SO THAT IT IS CLEARLY UNDERSTOOD A DP TRANSACTION IS SIMILAR TO OTHER TRANSACTIONS CONCLUDED OUTSIDE THE ROK, THE ONLY DIFFERENCE BEING THAT PAYMENT IS DELAYED UNTIL ARRIVAL OF GOODS -- IN EFFECT A KIND OF DESIRABLE CREDIT SERVICE TO KOREAN IMPORTERS.

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1955 SEP 1 PM 3 35
BUREAU OF FAR EASTERN AFFAIRS
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CONFIDENTIAL

Control: 883
Rec'd: SEPTEMBER 2, 1955
6:13 A.M.

FROM: SEOUL

TO: **Secretary of State**

NO: 293, SEPTEMBER 2, 6 P.M.

Action Assigned to AMB/DC
Action Taken
Date of Action
Action Office Symbol EA
Name of Officer
Direction to DC/R

RE DEPTEL 156 AND 160.

1. APPRECIATE PROMPT HELPFUL COMMENTS AND ROUNDUP DEVELOPMENTS FOR USE MONDAY'S MEETING.

2. MINISTER FINANCE HAS EXTENDED TAX DEADLINE.

3. BACKGROUND TAX PROBLEM OUTLINED EMBDESP 317, DIFFICULTIES OF DOING BUSINESS KOREA. TEXT NATIONAL ASSEMBLY LAW 48 "BUSINESS TAX," TRANSMITTED DEPT IN "COMPILATION ROK PUBLIC LAWS (SEVEN SETS) BY EMBDESP 140 FEB 17, 1954.

4. DISCUSSION WITH MINISTER FINANCE OFFERED MOST EXPEDITIOUS AND EFFECTIVE MEANS RESOLVING PROBLEM. MINISTER FOREIGN AFFAIRS KEPT INFORMED BY COPY OF LETTER TO MINISTER FINANCE. PROCEDURE CONFORMS WITH LOCAL CUSTOM.

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1955 SEP 2 AM 11 26
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By [illegible] NARA, Date 11/21/24

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CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

ARCH N. BOOTH
EXECUTIVE VICE PRESIDENT

1615 H STREET, N.W.
WASHINGTON 6, D.C.
NATIONAL 8-2380

September 2, 1955

Reply drafted 9/7 in NA
HS

The Honorable John Foster Dulles
Secretary of State
Department of State
Washington 25, D. C.

(1)

My dear Mr. Secretary:

The following self-explanatory telegram has been received from the American Chamber of Commerce in Korea, a member in good standing of the Chamber of Commerce of the United States, which represents American businessmen doing business in the Republic of Korea:

xr
811.05/1956

"OFFICERS AND MEMBERS AMERICAN CHAMBER COMMERCE KOREA SEOUL WITH FULL CONCURRENCE ENTIRE FOREIGN BUSINESS COMMUNITY REQUESTS YOUR UTMOST URGENT COOPERATION PRESENTING STRONGEST PROTESTS HIGHEST AMERICAN OFFICIALS AND INTERNATIONAL TRADE AND COMMERCE ORGANIZATIONS INVIEW ARBITRARY IMPOSITION EXORBITANT SUMS LABELED TAX BUT NOT IMPLIED BY KOREAN TAX LAWS AND ASSESSED WITH CAPRICE AND WITHOUT REGARD TO LIMITED TO INDENT ORDERS FOR ACCOUNT OF HEAD-OFFICES ABROAD WITH BUYERS ESTABLISHING LETTERS OF CREDIT DIRECTLY NOT SUBJECT TAXATION STOP CERTAIN MEMBERS HAVE BEEN NOTIFIED OF ROK INTENT TO SEAL OFFICES AND IMPOUND ASSETS STOP APPROXIMATELY FORTY MEMBERS ARE HELD AS INDIVIDUAL HOSTAGES FOR THEIR CORPORATIONS ACKNOWLEDGE RECEIPT"

It is our understanding that the complaint of the American Chamber in Korea arises from the retroactive imposition of a substantial tax rate on gross sales, including taxation of business operations not normally subject to taxation in Korea.

Insofar as this treatment of the American business community in Korea appears to be discriminatory and will tend to harm the friendly economic relations between the United

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By [illegible] NARA, Date 4/1/01

States and the Republic of Korea, the National Chamber urges the Department of State to take whatever action would most expeditiously lead to a satisfactory settlement of the dispute involving legitimate and legal American business interests in that country.

Sincerely yours,

Arch N. Booth

Arch N. Booth
Executive Vice President

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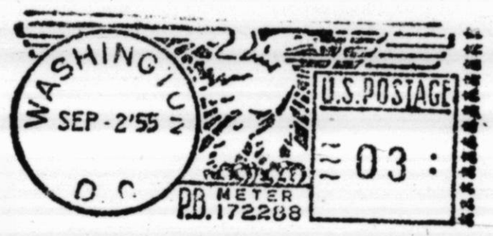
By LDW, NARA, Date 4/6/21

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA
WASHINGTON 6, D. C.



The Honorable John Foster Dulles
Secretary of State
Department of State
Washington 25, D. C.

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NND 861400
By NARA, Date 12/29/98

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In reply refer to
FE/NA 895b 11/9-255

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Dear Mr. Booth:

Your letter of September 2, 1955, to Secretary Dulles concerning the tax problem in Korea has been referred to me for reply.

The Department of State as well as the American Embassy in Seoul is following the foreign businessmen's tax problem closely. The United States Embassy in Korea and representatives of the American Chamber of Commerce in Korea are in close consultation on the problem, and the Embassy has been engaging in detailed discussions of the subject with the Korean Government. These efforts to find a reasonable solution to the problem will continue.

Sincerely yours,

Robert J. G. McClurkin
Director
Office of Northeast Asian Affairs

Mr. Arch K. Booth,
Executive Vice President,
Chamber of Commerce of the
United States of America.

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By Lyn, NARA, Date 1/17/29

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Control: 13413
Rec'd: SEPTEMBER 26, 1955
6:53 A.M.

FROM: SEOUL

TO: **Secretary of State**

NO: 409, SEPTEMBER 6, 6 P.M.

Action Assigned to NA
Action Taken Tel to Seoul 22
Action Office Symbol AA
Name of Officer
Action to DC/R

SENT DEPARTMENT 409, REPEATED INFORMATION TOKYO 216

TOKYO PASS CINCUNC AND CAG.

REF EMBTEL 402 SENT TOKYO 213.

LETTER FROM ACTFONMIN TRANSMITTED REFTEL IS ANSWER MINE SEPT 13 (EMBTEL 401 SENT TOKYO 212). IT IS DATED TWO DAYS AFTER I WROTE PRES RHEE ON SAME SUBJECT (EMBTEL 384 SENT TOKYO 200). PRES' SECRETARY WROTE ME UNDER DATE SEPT 24 SAYING PRES HAD REFERRED MY LETTER SEPT 22 TO ACTFONMIN.

THE ACRIMONY OF ACTFONMIN'S LETTER IS SO OBVIOUS IT NEEDS NO COMMENT. IT IS ALSO PERVERSE AND UNRESPONSIVE TO REPRESENTATIONS MADE BY EMB OFFICIALS TO FINMINISTRY ON THE CENTRAL ISUE OF THE PROBLEM, NAMELY THE RETROACTIVE CHARACTER OF TAX BILLSO PRESENTED TO AMERICAN BUSINESSMEN (SEE EMBTEL 322 SENT TOYO 168). IN MY SEPT 22 LETTER TO PRES I GAVE A LIST OF REFERENCES (ESSENTIALLY SAME AS ENCLOSURES TO DESP 88, SEPT 8, 1955 TO NEW CONFUSING INTERPRETATIONS OF BUSINESS TRANSACTIONS TAX LAW THAT HAVE FOLLOWED IN RAPID SUCCESSION FOR SEVERAL MONTHS. ACTFONMIN DISMISSES THIS POINT BY MERELY SAYING THAT USE OF WORD "RETROACTIVE" IS INACCURATE AND PREDJUDICIAL SAND THAT THE REFERENCES THAT WERE LISTED ARE "SUPPLEMENTARY AND CONSISTENT".

THE FACT OF THE MATTER IS THAT THEY ARE CONTRADICTORY AS EVEN A CASUAL READING BY A SEMI-LITERATE PERSON WOULD DEMONSTRATE. WHEN, AFTER MOST DETERMINED AND PATIENT EFFORTS, EMB HAS BEEN UNABLE TO BRING KOREAN OFFICIALS TO ADMISSION OF THIS PERFECTLY OBNOXIOUS PROPOSITION I FEEL MYSELF FORCED TO ADMIT THE GAME IS OVER. WHEN OUR ADVERSARIES BEHIND THE IRON CURTAIN ASSERT THAT BLA

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By NARA, Date 4/6/89

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-2- 409, SEPTEMBER 6, 6 P.M. FROM SEOUL CONTROL 13413

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CARD AND A WHITE ONE ARE BOTH WHITE WE MERELY TELL OURSELVES THAT THEY ARE PROCEEDING IN ACCORDANCE WITH THE COMMUNIST METHOD. WHEN OUR FRIENDS DO IT THERE IS GOOD REASON TO BE PERPLEXED. I HAVE, HOWEVER, CONCLUDED THAT IT IS USELESS TO PURSUE THIS PROBLEM FURTHER AND THINK IT ONLY PROPER TO INFORM THE BUSINESS COMMUNITY AS SOON AS POSSIBLE HOW MATTERS STAND. AS I SEE IT, WE MUST ADVISE THAT THEY PAY THE TAX IN THE MANNER STIPULATED OR GET OUT, UNLESS THE DEPT CAN SUGGEST SOME SANCTION THAT CAN BE APPLIED. I REQUEST THE DEPT'S INSTRUCTIONS IN THE PREMISES.

IN CONCLUSION, A COMMENT ON THE ACTFONMIN'S LIST OF FIRMS THAT PAY THEIR TAXES MAY BE HELPFUL. FROM THE START THE EMB HAS CONTENDED THAT CERTAIN FIRMS ARE CLEARLY LIABLE FOR THE BUSINESS TRANSACTIONS TAX AND HAVE PAID IT IN THE PAST. SOME OF THE FIRMS LISTED BY THE MINISTER ARE IN THIS CATEGORY. TWO FIRMS IN THE LIST HAVE BEEN UNDER SUSPICION IN CONNECTION WITH EAST-WEST TRADE. SUCH FIRMS WOULD READILY PAY A QUESTIONABLE TAX TO AVOID FURTHER INVESTIGATION INTO THEIR BUSINESS PRACTICES. ANOTHER FIRM IN THE LIST WHICH HAD A GROSS TURNOVER DURING LAST YEAR IN EXCESS OF $30 MILLION RECEIVED A BILL FOR 3 MILLION HWAN (ANOTHER FIRM WITH A SIMILAR TURNOVER WAS BILLED FOR 107 MILLION HWAN). THE MANAGER OF THE FIRM BILLED FOR 3 MILLION HWAN PAID THE TAX IN ORDER TO BE RID OF THE NUISANCE. ON THE DAY HE PAID IT HE TOLD THE EMB HE CONSIDERED THE BILL RETROACTIVE. OTHER FIRMS ON THE LIST ARE KNOWN TO HAVE SETTLED THEIR BILLS THROUGH "TEAHOUSE NEGOTIATIONS".

AFTER ABOVE WAS DRAFTED, I RECEIVED THE FOLLOWING LETTER FROM THE ACTFONMIN.

BEGIN VERBATIM TEXT

THE PRESIDENT'S OFFICE HAS FORWARDED ME YOUR COMMUNICATION OF SEPTEMBER 22, LISTING THE VARIOUS DATES MY GOVERNMENT ISSUED MEMORANDA HELPFUL TO BUSINESSMEN INTERESTED IN FULFILLING THEIR TAX OBLIGATIONS.

I APPRECIATE YOUR KINDNESS, BUT NO DOUBT YOU HAVE NOTED THAT

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DEPARTMENT OF STATE
1955 SEP 27 AM 11 35
BUREAU OF FAR EASTERN AFFAIRS

Action Assigned to NA
Action Taken Fil to Sent
Date of Action Sept 28
Action Office Symbol NA
Name of Officer [illegible]
Direction to DC/R File

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E.O. 12356, Sec. 3.3
NND 857400
By [illegible] NARA, Date 11/21/

MY LETTER OF SEPTEMBER 24TH FULLY COVERS THE POINTS YOU RAISE.

WITH EXPECTATION OF RECEIVING YOUR SINCERE COOPERATION IN SOLVING THE SITUATION THROUGH THE PROPER CHANNELS RATHER THAN IN USELESS AND HARMFUL PRESS STATEMENTS, I REMAIN YOURS VERY TRULY, ch.

END VERBATIM TEXT

I REMIND DEPT THAT EMB HAS MADE NO STATEMENTS TO PRESS AND THAT AMERICAN CHAMBER HAS DONE SO ONLY AFTER REPEATED ATTACKS ON THEM BY KOREAN PRESS AND OFFICIALS IN COURSE SEVERAL MONTHS HAD CONVINCED THEM RESORT TO PUBLIC OPINION NECESSARY.

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(#) OMISSION. CORRECTION TO FOLLOW

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By [illegible] NARA, Date [illegible]

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CONFIDENTIAL

Control: 13413
Rec'd: SEPTEMBER 26, 1955
6:53 A.M.

FROM: SEOUL

TO: Secretary of State

NO: 409, SEPTEMBER 6, 6 P.M.

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SENT DEPARTMENT 409, REPEATED INFORMATION TOKYO 216

TOKYO PASS CINCUNC AND CAG.

REF EMBTEL 402 SENT TOKYO 213.

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LETTER FROM ACTFONMIN TRANSMITTED REFTEL IS ANSWER MINE SEPT 13 (EMBTEL 401 SENT TOKYO 212). IT IS DATED TWO DAYS AFTER I WROTE PRES RHEE ON SAME SUBJECT (EMBTEL 384 SENT TOKYO 200). PRES' SECRETARY WROTE ME UNDER DATE SEPT 24 SAYING PRES HAD REFERRED MY LETTER SEPT 22 TO ACTFONMIN.

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THE ACRIMONY OF ACTFONMIN'S LETTER IS SO OBVIOUS IT NEEDS NO COMMENT. IT IS ALSO PERVERSE AND UNRESPONSIVE TO REPRESENTATIONS MADE BY EMB OFFICIALS TO FINMINISTRY ON THE CENTRAL ISUE OF THE PROBLEM, NAMELY THE RETROACTIVE CHARACTER OF TAX BILLSO PRESENTED TO AMERICAN BUSINESSMEN (SEE EMBTEL 322 SENT TOYO 18). IN MY SEPT 22 LETTER TO PRES I GAVE A LIST OF REFERENCES (ESSENTIALLY SAME AS ENCLOSURES TO DESP 88, SEPT 8, 1955 TO NEW CONFUSING INTERPRETATIONS OF BUSINESS TRANSACTIONS TAX LAW THAT HAVE FOLLOWED IN RAPID SUCCESSION FOR SEVERAL MONTHS. ACTFONMIN DISMISSES THIS POINT BY MERELY SAYING THAT USE OF WORD "RETROACTIVE" IS INACCURATE AND PREDJUDICIAL SAND THAT THE REFERENCES THAT WERE LISTED ARE "SUPPLEMENTARY AND CONSISTENT".

THE FACT OF THE MATTER IS THAT THEY ARE CONTRADICTORY AS EVEN A CASUAL READING BY A SEMI-LITERATE PERSON WOULD DEMONSTRATE. WHEN, AFTER MOST DETERMINED AND PATIENT EFFORTS, EMB HAS BEEN UNABLE TO BRING KOREAN OFFICIALS TO ADMISSION OF THIS PERFECTLY OBNOXIOUS PROPOSITION I FEEL MYSELF FORCED TO ADMIT THE GAME IS OVER WHEN OUR ADVERSARIES BEHIND THE IRON CURTAIN ASSERT THAT A BLACK

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NND 867400
By [illegible], NARA, Date [illegible]

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SEP 29 1955

INCOMING TELEGRAM — CONFIDENTIAL — 9/27/55, 9:10 a.m.

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CARD AND A WHITE ONE ARE BOTH WHITE WE MERELY TELL OURSELVES THAT THEY ARE PROCEEDING IN ACCORDANCE WITH THE COMMUNIST METHOD. WHEN OUR FRIENDS DO IT THERE IS GOOD REASON TO BE PERPLEXED. I HAVE, HOWEVER, CONCLUDED THAT IT IS USELESS TO PURSUE THIS PROBLEM FURTHER AND THINK IT ONLY PROPER TO INFORM THE BUSINESS COMMUNITY AS SOON AS POSSIBLE HOW MATTERS STAND. AS I SEE IT, WE MUST ADVISE THAT THEY PAY THE TAX IN THE MANNER STIPULATED OR GET OUT, UNLESS THE DEPT CAN SUGGEST SOME SANCTION THAT CAN BE APPLIED. I REQUEST THE DEPT'S INSTRUCTIONS IN THE PREMISES.

IN CONCLUSION, A COMMENT ON THE ACTFONMIN'S LIST OF FIRMS THAT PAY THEIR TAXES MAY BE HELPFUL. FROM THE START THE EMB HAS CONTENDED THAT CERTAIN FIRMS ARE CLEARLY LIABLE FOR THE BUSINESS TRANSACTIONS TAX AND HAVE PAID IT IN THE PAST. SOME OF THE FIRMS LISTED BY THE MINISTER ARE IN THIS CATEGORY. TWO FIRMS IN THE LIST HAVE BEEN UNDER SUSPICION IN CONNECTION WITH EAST-WEST TRADE. SUCH FIRMS WOULD READILY PAY A QUESTIONABLE TAX TO AVOID FURTHER INVESTIGATION INTO THEIR BUSINESS PRACTICES. ANOTHER FIRM IN THE LIST WHICH HAD A GROSS TURNOVER DURING LAST YEAR IN EXCESS OF $30 MILLION RECEIVED A BILL FOR 3 MILLION HWAN (ANOTHER FIRM WITH A SIMILAR TURNOVER WAS BILLED FOR 107 MILLION HWAN). THE MANAGER OF THE FIRM BILLED FOR 3 MILLION HWAN PAID THE TAX IN ORDER TO BE RID OF THE NUISANCE. ON THE DAY HE PAID IT HE TOLD THE EMB HE CONSIDERED THE BILL RETROACTIVE. OTHER FIRMS ON THE LIST ARE KNOWN TO HAVE SETTLED THEIR BILLS THROUGH "TEAHOUSE NEGOTIATIONS".

AFTER ABOVE WAS DRAFTED, I RECEIVED THE FOLLOWING LETTER FROM THE ACTFONMIN.

BEGIN VERBATIM TEXT

THE PRESIDENT'S OFFICE HAS FORWARDED ME YOUR COMMUNICATION OF SEPTEMBER 22, LISTING THE VARIOUS DATES MY GOVERNMENT ISSUED MEMORANDA HELPFUL TO BUSINESSMEN INTERESTED IN FULFILLING THEIR TAX OBLIGATIONS.

I APPRECIATE YOUR KINDNESS, BUT NO DOUBT YOU HAVE NOTED THAT

MEB/8

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NND 867409
By [illegible] NARA, Date 12/29/94

MY LETTER OF SEPTEMBER 24TH FULLY COVERS THE POINTS YOU RAISE.

WITH EXPECTATION OF RECEIVING YOUR SINCERE COOPERATION IN SOLVING THE SITUATION THROUGH THE PROPER CHANNELS RATHER THAN IN USELESS AND HARMFUL PRESS STATEMENTS, I REMAIN YOURS VERY TRULY

END VERBATIM TEXT

I REMIND DEPT THAT EMB HAS MADE NO STATEMENTS TO PRESS AND THAT AMERICAN CHAMBER HAS DONE SO ONLY AFTER REPEATED ATTACKS ON THEM BY KOREAN PRESS AND OFFICIALS IN COURSE SEVERAL MONTHS HAD CONVINCED THEM RESORT TO PUBLIC OPINION NECESSARY.

LACY

CES

(#) OMISSION. CORRECTION TO FOLLOW

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NND 867400
By [illegible] NARA, Date [illegible]

STANDARD FORM NO. 64

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Office Memorandum • UNITED STATES GOVERNMENT

TO : FE – Mr. Robertson

DATE: September 19, 1955

FROM : NA – Mr. McClurkin RJGM

SUBJECT: Harold Lady

In answer to your question (attached) Harold Lady is the one whose return to Korea we sought to prevent. XR 811.05/9-2155 895b.11/9-155 895b.11/9-655 895b.00/9-2155 895b.181

Reports to date indicate, however, that he has been circumspect, and in the tax situation has tried to be helpful to the American side. (Seoul's 289 and 303, attached). An intelligence report (attached) indicates that he may have put himself in a bad position with the ROK Government.

Attachments:

Seoul's 289 and 303
Intelligence Report

Bureau of FAR EASTERN AFFAIRS SEP 19 1955 ASSISTANT SECRETARY Department of State

DC/R Anal 57 Rev Cat

FE:NA:HHemmendinger:vc

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Answer.

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Bureau of
FAR EASTERN AFFAIRS
SEP 19 1955
ASSISTANT SECRETARY
Department of State

DEPARTMENT OF STATE

ASSISTANT SECRETARY

Mr Hemmendinger —

Is not Harold Lady,
at present Economic Advisor to
Pres Rhee the same whom
we sought for a time to
prevent returning to Korea?
If so present Chi-Americom
may have an American
inspiration.

WSR

to be Returned to

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NND 867400
By LDJ, NARA, Date 4/21/21

INCOMING TELEGRAM 63 *Department of State*

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Date of Action Sept
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FROM: SEOUL

TO: **Secretary of State**

NO: 303, SEPTEMBER 6, 4 PM

PRIORITY

SENT DEPARTMENT 303; REPEATED INFORMATION TOKYO 162.

TOKYO PASS CINCUNC AND CAG.

REF EMBTEL 289 SENT TOKYO 154.

DCM, BROWN AND HUGHES KEPT APPOINTMENT WITH FINMIN AT 9 A.M. YESTERDAY. HAROLD LADY, MIN AND TAX BUREAU OFFICIALS ALSO PRESENT. MIN ABSENTED HIMSELF AFTER TEN MINUTES TO ATTEND CABINET MEETING. CONVERSATION LASTED OVER THREE HOURS.

IN VIEW STATEMENT ISSUED BY OPI SAT NIGHT (TWX 050730Z) ATTRIBUTED TO MIN COMMERCE INDUSTRY, DCM ASKED FINMIN IF MCI HAD NOW TAKEN OVER TAX PROBLEM AND IF EMB SHOULD TRANSFER DISCUSSIONS TO IT. FINMIN ASSERTED TAX PROBLEMS STILL HIS RESPONSIBILITY; DISAVOWED ALL PRIOR KNOWLEDGE OPI RELEASE. WHEN ASKED HOW MCI HAPPENED ISSUE RELEASE HE SAID HE HAD TELEPHONED MCI AFTER ISSUANCE AND LATTER HAD "KNOWN VERY LITTLE ABOUT IT" BEFORE IT CAME OUT. DCM THEN ASKED IF RELEASE SHOULD BE ASCRIBED TO HONG-KEE KARL. MIN SHRUGGED HIS SHOULDERS WHICH EMB INTERPRETS AS AGREEMENT. BROWN INFERS FROM STATEMENTS BY LADY RELEASE DRAFTED IN PRESIDENT'S OFFICE.

DCM REFERRED TO FACT THAT WHAT PURPORTED TO BE SUMMARY OF AMB'S LETTER OF SEPT1 TO FINMIN HAD APPEARED IN KOREAN REPUBLIC AND OTHER PAPERS SATURDAY BUT THAT PORTIONS REFERRING TO FAITHFUL DISCHARGE BY FOREIGN BUSINESSMEN OF PERSONAL INCOME TAX OBLIGATIONS HAD BEEN OMITTED. BOTH MIN AND MIN DISAVOWED KNOWLEDGE OF HOW LETTER HAD REACHED PRESS. HOWEVER KOREAN REPUBLIC CITED HIGH FINMINISTRY OFFICIAL AS SOURCE AND LOCAL AMERICAN NEWS AGENCIES CONFIRMED TO EMB OFFICERS THEY GOT THEIR INFORMATION FROM SECOND LEVEL FINMINISTRY OFFICIALS.

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By [illegible] NARA, Date 4/23/21

DCM ASKED WHAT CONCLUSION MINISTRY HAD REACHED IN LIGHT OF FRIDAY'S DISCUSSION AND AMB'S LETTER. FINMIN HAVING LEFT, MIN REPLIED THEY HAD CONCLUDED BUSINESSMEN WOULD HAVE TO PAY TAXES ASSESSED AGAINST THEM BEFORE ANY APPEAL COULD BE CONSIDERED OR ANY DISCUSSION TAKE PLACE. HE SAID THIS WAS A REQUIREMENT OF KOREAN LAW. MR. LADY ASKED IF THIS APPLIED EVEN WHEN A TAX BILL WAS SENT OUT AS A RESULT OF A CLERICAL OR OTHER ERROR IN TAX BUREAU. MIN REPLIED AFFIRMATIVELY. LADY POINTED OUT IT WOULD BE SEVERE HARDSHIP ON FOREIGN FIRM IF IT RECEIVED ERRONEOUS TAX BILL AND HAD TO BUY HWAN TO PAY IT; THAT EVEN IF COMPANY WON ITS CASE LAWS CONTAINED NO PROVISION FOR RECONVERTING REFUNDED HWAN INTO DOLLARS. MIN STILL INSISTED ON NECESSITY OF PAYING ANY TAX BILL ISSUED BY MINISTRY BEFORE DISCUSSION OF BILL COULD TAKE PLACE.

DCM THEN SAID AT VERY LEAST BUSINESSMEN NEEDED KNOW BASIS FOR ASSESSING TAXES AND THIS WAS IN FACT BASIC QUESTION OF FRIDAY'S DISCUSSION WHICH WAS TO BE CONTINUED TODAY. AFTER EXTENSIVE PROBING BY EMB OFFICIALS MIN STATED THAT ACCORDING TO KOREAN TAX LAW A BUSINESS TRANSACTION WAS TAXABLE IN KOREA IF FINAL ACT IN CONCLUSION OF CONTRACT FOR SALE TOOK PLACE IN KORE. AFTER PERSISTENT QUESTIONING MIN SHOULD NOT CITE THE PERTINENT PROVISION OF LAW AND ADMITTED THIS WAS AN INTERPRETATION OF LAW BY TAX BUREAU. DCM THEN MADE POINT THIS INTERPRETATION INTRODUCTING PRINCIPLE THAT TRANSACTIONS TAXABLE AT PLACE OF SIGNING CONTRACT WAS NEW, WHICH MIN DENIED. HOWEVER EMB OFFICIALS REFERRED TO MEMO DRAWN UP BY CHAMBER OF COMMERCE AND TAX BRUEAU OFFICIALS JULY 5 WHICH STATED THE PRINCIPLE THAT BUSINESS TRANSACTIONS OF FOREIGN BUSNESSSMEN WERE TAXABLE AT THE POINT WHERE THE PROFITS ACCRUED. DCM STATED US GOVT COULD NOT AND DID NOT OBJECT TO INTRODUCTION OF A NEW INTERPRETATION OF LAW FOR ASSESSMENT OF TAXES IN THE FUTURE BUT IN VIEW OF CLEAR EVIDENCE HAT PRINCIPLE STATED TODAY WAS NEW, ITS APPLICATION TO PAST TRANSACTIONS OF AMERICAN BUSINESSMEN WAS NOT ACCEPTABLE TO US GOVT SINCE THIS INVOLVED ASSESSMENT OF A RETROACTIVE TAX AGAINST AMERICAN CITIZENS.

AT THIS POINT MIN INTRODUCED FOLLOWING EXTRAORDINARY ARGUMENT. HE SAID TAX BUREAU HAD NOT ISSUED TAX BILLS ON ANY TRANSACTIONS PRIOR TO JAN 1, 1954, AND THAT SUCH TAXATION WAS NO MORE RETRAOACTIVE THAN THE AMERICAN PERSONAL INCOME TAX WHICH AMERICAN CITIZENS WERE

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By ____ NARA, Date 1/11/01

REQUIRED TO SETTLE IN 1955 FOR A PERIOD BEGINNING JAN 1, 1954.
HE ASSERTED ON THIS GROUND THAT AMERICAN PERSONAL INCOME TAX WAS
RETROACTIVE IN SAME SENSE THAT EMB OFFICIALS CLAIMED KOREAN TAX WAS
RETROACTIVE. EMB OFFICIALS REPLIED WITH THE OBVIOUS ARGUMENTS
BUT IT BECAME CLEAR NO PROGRESS COULD ME MADE WITH MIN. MIN SUGGEST-
ED BACKGROUND OF TWO PRINCIPLES STATED ABOVE SHOULD BE INVESTIGATED
IN SMALLER GROUP BY ONE MAN FROM EMB AND ONE MAN FROM TAX BUREAU
BUT DCM SAID HE WAS UNWILLING CARRY ON FURTHER CONVERSATIONS EXCEPT
WITH MINISTER HIMSELF. MIN PROMISED ARRANGE EARLY APPOINTMENT
FOR DCM AND TWO EMB OFFICERS WITH MIN AND TWO MINISTRY OFFICERS,
FOR CONTINUATION DISCUSSIONS, LADY SITTING AS CONSULTANT.

BEFORE TERMINATING MEETING DCM ASKED WHAT ACTION MINISTRY MIGHT TAKE
AGAINST AMERICAN BUSINESSMEN WHILE THESE DISCUSSIONS WERE STILL
IN PROGRESS. AFTER LENGTHY INTERCHANGE MIN PROPOSED "WE ENTER
INTO GENTLEMAN'S AGREEMENT" THAT MINISTRY WILL NOT TAKE ACTION
AGAINST ANY AMERICAN BUSINESSMAN ON HIS TAXES WHILE THESE DISCUSSIONS
CONTINUE.

DCM ALSO ASKED IF EXIT PERMITS WOULD STILL BE DENIED. MIN SAID
MINISTRY NOW REGARDED TAXES IN QUESTION AS DUE FROM COMPANIES AND
NOT FROM INDIVIDUAL REPRESENTATIVES OF COMPANIES IN KOREA.
DCM SAID IF THAT WAS THE CASE BUSINESSMEN WHO HAD BEEN UNABLE TO
RECEIVE EXIT PERMITS HAD IN EFFECT BEEN HELD AS HOSTAGES FOR DEBTS ROK
CONSIDERED THEIR COMPANIES OWED. WITH SOME CHAGRIN MIN ADMITTED
THIS HAD BEEN MISTAKE AND SAID POLICY WOULD BE CHANGED.

THIS CONCLUDES DCM'S REPORT ON CONVERSATION AT MINISTRY. HOWEVER I
CANNOT REFRAIN FROM INVITING DEPT'S ATTENTION TO CHARACTER OF TACTICS
USED BY ROKG AGAINST BUSINESSMEN WHICH APPEAR TO ME STRIKINGLY
SIMILAR TO THOSE WE DESCRIBE AS COMMUNIST. ROKG HAS USED ITS CONTROL
OF LOCAL NEWS OUTLET TO PICTURE AMERICAN BUSENESSMEN AS PERSONS IN
OPEN REVOLT AGAINST GOVT'S RIGHT TO TAX THEM AND HAS BEEN SUCCESSFUL
IN PREVENTING BUSINESSMEN'S SIDE OF ISSUE FROM APPEARING. MY
LETTER OF SEPT 1 TO FINMIN WAS LEAKED TO PRESS BUT MUTILATED
BY OMMISSION OF ANYTHING THAT WAS FAVORABLE TO BUSINESSMENTS
CASE.

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NND 867400
By [illegible], NARA, Date [illegible]

IN PERIOD BETWEEN DCM'S TWO APPOINTMENTS AT FIN MINISTRY GOVT ISSUED A BIASED STATEMENT ON SUBJECT OF CONVERSATIONS, ASCRIBING IT TO A MINISTRY WHO DOES NOT HAVE RESPONSIBILITY IN THE MATTER AND APPARENTLY DOING SO WITHOUT THAT MIN'S KNOWLEDGE. DEPT WILL RECALL THAT THIS TACTIC OF ISSUING OFFICIAL STATEMENT IN NAME OF A MIN WITHOUT THAT MIN'S KNOWLEDGE WAS USED ABOUT A MONTH AGO IN CASE OF ACTING FONMIN CHO.

LATER. NEXT MEETING WITH FINMIN THURSDAY 9 A.M..

LACY

MEM

DEPARTMENT OF STATE
1955 SEP 6 PM 5 06
BUREAU OF
FAR EASTERN AFFAIRS

SEP 26 1955

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By NARA, Date 4/6/04

OUTGOING TELEGRAM

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☐ CHARGE TO

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12645
1955 SEP 29
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Info:

SENT TO: Amembassy SEOUL 234

RPTD INFO: Amembassy TOKYO 691

TOKYO PASS CINCUNC AND CAG.

YOUR 409 repeated Tokyo 216; 398 repeated Tokyo 209.

Our objective should remain ROK abandonment retroactive application business tax either by general declaration or adjustment individual tax bills. But in view great acrimony pervading this issue believe desirable week cooling-off period. Unless objection adopt following course:

(1) No reply at present to latest ROK communications despite exceedingly offensive tone Acting Fonmin's letter.

(2) Embassy informally inform Foreign Minister you are awaiting further instructions from Washington before discussing problem further with him officially.

(3) Embassy inform American businessmen situation and your instructions and advise against further publicity U.S. side.

(4) Embassy quietly pursue any openings designed get Finance Ministry withdraw or modify retroactive application of tax along lines your last discussion with Finance Minister, i.e., waiver taxes prior agreed date or deferment pending effectiveness FCN treaty.

(5) If you and businessmen judge advisable, a few of them test out present Finance Ministry position by individual negotiations with tax

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Drafted by: RJGT
FE:NA:NHemmendinger:cht 9/28/55

Telegraphic transmission and classification approved by: Walter S. Robertson

Clearances:
S/S - Stutesman
OFD - Young
FE-Mr. Sebald
Commerce - Barron

S/S-CR
SEP 29 1955 P.M.

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By LJM, NARA, Date 1/17/89

authorities for settlement of bills.

(6) Brief Mr. Hoover fully on latest developments on his arrival with view to discussion by him with Rhee if advisable.

Dulles

DULLES

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By lgd, NARA, Date 11/21/94

INCOMING TELEGRAM 63 Department of State

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8:18 AM

Date of Action SEP 9

Action Office Symbol NA

Name of Officer

Direction to DC/R

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FROM: SEOUL

TO: Secretary of State

NO: 322, SEPTEMBER 8, 6 PM

SENT DEPARTMENT 322, REPEATED INFORMATION TOKYO 168.

TOKYO PASS CINCUNC AND FAG.

REF EMBTEL 303 SENT TOKYO 162.

FINMIN OPENED MEETING THIS MORNING (3 EMB OFFICIALS, 7 KOREANS PLUS LADY); PRESENTING FOUR-PAGE PAPER ENTITLED "EXPLANATION OF TAXATION OF FOREIGN FIRMS IN KORE". (COPY BEING AIR POUCHED. EXCERPTS BEING TRANSMITTED EMBTEL 321 TO TOKYO 167.) EMB HAS SO FAR GIVEN PAPER ONLY SUPERFICIAL EXAMINATION BUT IT APPEARS TO SAY BUSINESS TRANSACTIONS TAX IS PAYABLE BY A FOREIGN FIRM ON ANY TRANSACTION INVOLVING GOODS PURCHASED BY ANYONE IN KORE. (CITING TRANSACTION THAT MIGHT BE CARRIED OUT BY MAIL, EMBASSY OFFICIALS INQUIRED BUT RECEIVED NO EXPLANATION OF HOW TAX WOULD BE COLLECTED THERE WAS NO PERSON PRESENT IN KOREA FROM WHOM TAX COULD BE CLAIMED OR IF COMPANY INVOLVED HAD NO ASSETS HERE.)

EMB OFFICIALS POINTED OUT MINISTRY WAS PRESENTING ANOTHER NEW INTERPRETATION BUSINESS TRANSACTIONS LAW. (TWO OTHER EARLIER INTERPRETATIONS DISCUSSED IN EMBTEL 303.) DCM EMPHASIZED US DID NOT QUESTION ROKG RIGHT TO ENACT NEW TAX LAWS OR BRING OUT NEW INTERPRETATION OF EXISTING LAWS; THAT HE BELIEVED IT WOULD BE IN LONG-TERM ROK INTEREST IF ROK INTERPRETATIONS AGREED IN GENERAL WITH INTERNATIONAL PRACTICE IN CONNECTION WITH ASSESSMENT TAXES BUT THAT US HAD NO VALID RIGHT TO OBJECT IF ROK DECIDED IT WOULD NOT CONFORM; THAT IN any EVENT MAIN US OBJECTION WAS APPLICATION OF NEW INTERPRETATIONS RETROACTIVELY.

KOREAN OFFICIALS STATED BUSINESS TRANSACTIONS TAX LAW HAS BEEN ON STATUTE BOOKS IN UNCHANGED FORM SINCE 1948 AND THEREFORE ANY TAXES LEVIED BY GOVT UNDER IT COULD NOT BE RETROACTIVE. WHEN EMB

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By [illegible], NARA, Date 11/21/

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-2- 322, SEPTEMBER 8, 6 PM, FROM SEOUL

OFFICIALS POINTED OUT THE APPLICATION OF A NEW INTERPRETATION OF THIS LAW TO PAST TRANSACTIONS HAS SAME EFFECT AS RETROACTIVE APPLICATION OF A NEW LAW ROK OFFICIALS STUBBORNLY CLAIMED THEY HAD NOT VARIED THEIR INTERPRETATION IN ANY RESPECT. WHEN VMIN CONTINUED TO MAKE LATTER POINT DCM SAID, "MR. VMIN, AT RISK OF EBING RUDE I AM FORCED TO SAY THE VARIOUS POSITIONS YOU HAVE TAKEN ARE DIFFERENT WHETHER YOU SAY SO OR NOT". THIS MERELY LED TO STATEMENT BY FINMIN THAT HIS HANDS WERE TIED BY THE LAW AND THAT THE ONLY THING BUSINESSMEN COULD DO WAS TO COME INDIVIDUALLY TO TAX BUREAU FOR JUDICATION THEIR TAX BILLS. DCM STATED US POSITION WAS NOW AS IT HAD BEEN STATED IN PREVIOUS MEETINGS THAT BUSINESSMEN WERE ENTITLED TO A STATEMENT OF GENERAL PRINCIPLES UPON WHICH THE INDIVIDUAL ADJUDICATIONS WOULD BE BASED AND THAT A NEWLY ESTABLISHED PRINCIPLE SHOULD NOT APPLY IN ASSESSING TAXES ON TRANSACTIONS THAT OCCURRED BEFORE THE PRINCIPLE WAS ESTABLISHED. (THE DEPARTMENT WILL NOTICE THAT AT THIS POINT THE ARGUMENT COMPLETED THE CIRCLE.)

A NEW FEATURE WAS NEVERTHELESS ADDED TODAY THROUGH THE INTRODUCTION OF THE PAPER REFERRED TO AT BEGINNING THIS TELEGRAM. IN COURSE TODAY'S CONFERENCE KOREAN OFFICIALS DECIDED THEY WISHED TO MAKE CERTAIN CHANGES IN IT AND ASKED ALL COPIES BE RETURNED. DCM POINTED OUT THAT CONSTANT CHANGES IN ROK POSITION IS THE SOURCE OF MUCH OF PRESENT DIFFICULTY AND HE BELIEVED EMB ENTITLED TO RETAIN ONE COPY AS RECORD OF MINISTRY'S INTERPRETATION OF BUSINESS TRANSACTIONS TAX LAW AS OF SEPT8. REVISION WILL BE AIR POUCHED DEPT IMMEDIATELY UPON RECEIPT.

MEETING LASTED ALMOST TWO HOURS, CONDUCTED IN GOOD TEMPER ON BOTH SIDES THROUGHOUT. AT TERMINATION FINMIN ARRANGED MEET DCM ALONE SEPT 9 FOUR P.M. SAYING IN AN ASIDE, "MAYBE BY THAT TIME I WILL HAVE INSTRUCTIONS FROM THE PRESIDENT."

LACY

DEPARTMENT OF STATE
MEM
1955 SEP 8 AM 11 24
BUREAU OF
FAR EASTERN AFFAIRS

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DEC 12 1955

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NND 867400
By [illegible] NARA, Date [illegible]

September 14 1955

Penney & Company, Inc.,
50 Church Street,
New York 7, New York.

Sirs:

In the absence of Mr. Robert J. O. McClintock, I am replying to your telegram of September 8, 1955 regarding foreign businessmen's tax problems in Korea.

The foreign businessmen's tax problems in Korea are being followed closely by the American Embassy in Seoul and by the Department of State and other interested United States Government agencies. Representations have been made by the Embassy to the Korean Government, and we are glad to report that the original tax deadline has been extended to an indefinite date pending the outcome of the Embassy-Korean discussions. Also, the Korean Government promised to review its policy of refusing exit permits to those who have not settled tax accounts. Discussions are continuing on the retroactive aspect of the tax enforcement, and the Department is hopeful that an advisable solution will be reached.

Very truly yours,

Walt

Walt Sonnenhoffer
Acting Director
Office of Northeast Asian Affairs

DRAFTED: NEA:HPHayes:hb
9/13/55

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Rec'd 55 SEP 14
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S/S - CR
SEP 14 1955 P.M.

FW 895.11/9-855

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NND 867400
By LgW, NARA, Date 1/17/29

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LPB636

WU 965 NL PD CD NEW YORK NY SEP 8 1955

STATE DEPARTMENT ATTN OFFICE OF NORTHEAST ASIAN AFFAIRS

ROBERT MCCLURKIN DIRECTOR AND/OR WILLIAM C JONES OFFICER

IN CHARGE KOREAN AFFAIRS WASHDC

KOREAN GOVERNMENT HAS RECENTLY IMPOSED UNREASONABLE AND UNWARRANTED RETROACTIVE TAXES ON U. S. TRADING FIRMS DOING BUSINESS IN KOREA GIVING NOTICE THAT UNLESS TAX PAYMENTS ARE MADE BY DEADLINE DATES SET BY KOREAN GOVERNMENT U. S. TRADING FIRMS ASSETS WILL BE IMPOUNDED AND OFFICES CLOSED ALSO PERSONAL RESTRICTIONS WILL BE APPLIED TO THEIR REPRESENTATIVES IN KOREA. THIS DRASTIC TAX ULTIMATUM SERIOUSLY AFFECTS SAFETY OF U. S. TRADING PERSONNEL IN KOREA ALSO PREVENTS REASONABLE PURSUIT OF FOREIGN TRADE OPERATIONS THROUGH BRANCH OFFICES ESTABLISHED IN KOREA BY U. S. TRADING FIRMS. IN VIEW SERIOUSNESS OF SITUATION WE RESPECTFULLY REQUEST YOUR PROMPT ASSISTANCE TO APPLY WHATEVER INFLUENCE AND AID POSSIBLE SO THAT THE KOREAN GOVERNMENT CAN BE PREVAILED UPON TO RECONSIDER THEIR TAX POSITION WITH ULTIMATE AIM TO ARRIVE AT A MORE REASONABLE TAX POLICY ELIMINATING THE PERSONAL RISKS OF FOREIGN REPRESENTATIVES AND AVOIDING IMPOUNDING AND CLOSURE ACTION PARTICULARLY BECAUSE OF ALL AID RENDERED TO KOREAN GOVERNMENT BY FOA AND OTHER U. S. GOVERNMENT OPERATIONS AS WELL AS SERVICES RENDERED BY TRADING FIRMS

FRAZAR & COMPANY INC 38 CHURCH ST NEW YORK 7, NEW YORK.

FAR EASTERN AFFAIRS
1955 SEP 9 AM 9 43
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1955 SEP 8 AM 11 25
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SEP 28 1955

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FOREIGN SERVICE DESPATCH

FROM : Amembassy, Seoul

88
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

September 8, 1955
DATE

REF : CERP of March 20, 1953: Section D, Item 6.

For Dept. Use Only	ACTION	DEPT.
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	REC'D 9/17	OTHER Com-10 TR-3 FRB-2 Cia-5 OSD-4 Army-4 Navy-3 Air-3 XMB-3

Central Files

SUBJECT: Taxation of American Firms in Korea.

As has been previously reported in various WEEKAs, telegrams and in Embassy Despatch No. 317 of June 10, 1955, the American businessmen in Korea have been engaged in a long controversy with the Korean authorities concerning liability for payment of taxes. Within the last few weeks the Korean authorities have brought this issue to a head with a "get tough" policy and have threatened punitive measures against foreign businessmen who do not pay their assessed taxes.

The American businessmen acting through the American Chamber of Commerce have, for the most part, refused to pay taxes other than personal income taxes prior to receiving a clear explanation of the basis on which other Korean taxes are imposed. Many of them have maintained that they are not "doing business in Korea" while others have contended that while they may be doing business in Korea, the type of business which constitutes all or the bulk of their activities here is not taxable under existing Korean tax law.

As the Department is aware, Embassy officers are now attempting to clarify the tax picture and are steadfastly holding that whatever taxes are imposed on American business firms should be just, non-discriminatory and not retroactive in effect. The Finance Minister and his subordinates have, with equal steadfastness, refused to admit that the tax is in any way retroactive in effect.

In order that the Department may have readily available the pertinent law and explanations thereof and correspondence concerning the tax problems which have figured in these discussions, these are described briefly below and are attached as enclosures.

Action Assigned to FE/HS

FOR THE AMBASSADOR:

Action Taken

Willard O. Brown

Willard O. Brown
First Secretary of Embassy.

Date of Action

Action Office Symbol

Name of Officer

Direction to DC/R

Enclosures listed on pages 2 and 3 of this despatch.

PRHughes/r:abl
REPORTER

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Enclosure 1, "Explanation of taxation upon foreign-firms in Korea" was handed by the Finance Minister to the Deputy Chief of Mission on September 8, 1955, at the beginning of one of the meetings between Finance Ministry officials and Embassy officers. During the meeting several difficulties in the "explanation" were discovered by the Minister and at a meeting next day he handed out another version.

Enclosure 2, "Explanation of taxation upon foreign-firms in Korea", is the latest interpretation of the Korean tax laws available to the Embassy. It was given by the Finance Minister to the Deputy Chief of Mission on September 9, 1955. It will be noted that it is not entirely clear in all its details, although its intent is clear: to make the tax all-inclusive in its application to any act as a result of which any commodity arrives in Korea.

Enclosure 3, "Explanation on Korean Taxation Upon Alien Enterprise in Korea" was given by Tax Bureau officials to members of the American Chamber of Commerce in early June 1955. This "Explanation" does not touch on the all-important point of what constitutes doing business in Korea nor does it make clear just which of the 37 categories of business activities subject to business tax covers the selling activities of the American individuals and firms here. A series of meetings between representatives of American firms and Tax Bureau officials followed. At first these meetings failed to produce any coherent explanation as to who among the foreign firms is taxable in Korea, and what types of their transactions are taxable. However, a meeting on July 5 was more productive. A memorandum was prepared by the American Chamber of Commerce to announce the results of this meeting.

Enclosure 4, "Memorandum of the American Chamber of Commerce Tax Committee to the Members of the American Chamber of Commerce in Korea", summarizes the main points of agreement reached at the July 5th meeting. The text of this document was dictated by the Chief of the Tax Bureau, was written down by one of the Tax Committee members and was checked in translation by the interpreters present. The Commercial Officer of the Embassy was present and confirms that the document reflects the understanding reached at the meeting.

Enclosures 5, 6 and 7 are letters from the Chief of the Tax Bureau, dated July 22, August 6 and August 8, addressed to the American Chamber of Commerce. They constitute a repudiation of the main point of understanding reached at the July 5th meeting.

Enclosure 8 is a letter to the Tax Bureau Chief from the Chamber President, dated August 10, taking strong exception to the repudiation of the July 5 understanding.

Enclosure 9 is a letter dated August 14 from the Tax Bureau Chief replying to the Chamber's letter of August 10.

Enclosure 10, a "Brief Outline of Taxing Process" was prepared by the Tax Advisor appointed by the Ministry of Commerce to advise foreign businessmen of their tax liability. It was given to them in February 1955 as an explanation of

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their tax status and is notable in that it contains only excerpts from tax rate schedules already available in this text of the law and contains no interpretations or explanations of Korean tax laws which would enable a foreign firm to make any decision as to its tax liability in Korea.

Enclosure 11 is a translation of the Business Tax Law, Law No. 48 of August 13, 1949.

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Explanation of taxation upon foreign-firms in Korea

1. The tax liability of foreign-firms in Korea toward the Government of Republic of Korea, and Kind of taxes assessable.

   a) Any juridical person or any natural person doing such business as described in the Article 1 of the Business Tax Law in Korea shall be subject to both the business tax and the juridical person tax in the case of juridical person and to both the business tax and the income tax (classified income tax and global income tax) in the case of natural person respectively.

      * See: Paragraph IV-d (Rate of Business Tax) in the Explanation of Korean Taxation upon Alien Enterprise in Korea.

   b) Business tax shall, regardless of that profit or non-profit is made, be assessed upon respectively and the amount of gross proceed, gross receipt, compensation and/or contract price shall be the tax base concerned. Juridical person tax and income tax shall be assessed upon respectively, therein, the amount of net income shall be the tax base concerned.

   c) Income tax on earned income, such income as salary, wage, bonus, remuneration and etc. received in consideration of personal service in Korea, shall be payable in a way which the employer collect tax at the payment through withholding from the salary or wages of the employee and then the employer pays it to the National Treasury.

      * See: Paragraph III of the Explanation of Korean Taxation upon Alien Enterprise in Korea.

   d) Income derived from professional services are not subject to the business tax in Korea (such as; Doctor, Lawyer, Professional Accountant, Judicial Clerk and etc.), however, shall be subject to the juridical person tax affecting juridical person and personal income tax (both classified income tax and global income tax) affecting of natural person respectively.

   e) Any one combining through a), b) and d) above shall be subject to the tax respectively.

2. The instances of the taxable actions.

   Any person who is doing business for the purpose of gaining profit and/or making profit in Korea shall, in accordance with the provisions of the Korean Tax Laws, be liable for taxes toward the Government of Republic of Korea. And the instances of the actions which shall be deemed as doing business and/or making profit in Korea are as enumerated hereinafter.

   a) Any natural person and/or juridical person doing commercial transactions in Korea shall be subject to tax liability.

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The following actions shall be regarded as the commercial transactions occurred within Korea:

i) Action which, with the intention of assigning for profit-make, obtains real estate, personal property and/or securities for value.

ii) Action which, with the object of profit-make, is realized for the purpose of the supply contract of real estate or the securities being obtained from the other person and/or for the purpose in executing of the contract. Action with the objective of assignment of the obtained in i) above.

iii) Transaction took place on the exchange-post.

iv) Action regard to monetary documents and other commercial securities.

v) Action which, with the intention of rent, obtains, lease, or acquires the real estate or the movable property for value and which put out to release on said leased property.

vi) Action regard to the manufacturing and/or the processing for the benefit of the other person.

vii) Action regard to the supply of gas and/or power.

viii) Action regard to the transportation.

ix) Contract for work and labour.

x) Action regard to printing, publishing and photographing.

xi) Negotiating with guests dropped in the place where were established with the view of gathering guests.

xii) Exchange and other bargain with the Bank.

xiii) Insurance.

xiv) Acceptance of deposit.

xv) Intermediary or agency.

xvi) Acceptance of agency on commercial transaction.

xvii) Action performed by the merchant for the purpose of business shall be deemed as the commercial transaction.

xviii) Action of a merchant shall be assumed as the perform occurred for the purpose of the business.

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b) Any foreign-firms in Korea shall, when it makes an offer in regard to the other person's commodities and makes profit accordingly, be deemed as an agent and be subject to the business tax and the amount of gross receipt shall be the tax base. And also the juridical person income tax upon juridical person and the personal income tax upon natural person shall be assessed respectively with making the tax base of net income thereof. The amount of gross receipt includes the amount added to the offer.

c) Any foreign-firms in Korea shall, 1) when sells it's own commodities in Korea and 2) when any officer and/or any other employee of the branch office sells, as an agent in Korea, the commodities of the head office, be deemed as doing the transactions in Korea, and be subject to business tax upon the amount of gross proceed gained, and to juridical person tax affecting juridical person and natural person tax affecting natural person, upon the net income thereof. (natural person tax: both classified income tax and global income tax) The amount of gross proceed and the net income shall be the tax base respectively.

The following cases shall be designated as the transactions performed in Korea:

i) When both the offer and acceptance are made in Korea.

ii) When the offer and the acceptance are made within and outside of Korea respectively, and subsequently the acceptance is made in Korea. When the offer is made in Korea and the contact (according to the custom of trade) is executed immediately without the notice of acceptance of the offer.

The conclusion of the contract shall include not only the contract which has been made for forms' sake, but also the agreement made orally and/or by means of correspondence.

3. Either representative or employee of the branch office in Korea (establish of the branch office shall be extended to an agency and a commercial traveller of the head office) shall, whenever transaction have occurred for the purpose of profit or non-profit, be liable for taxes, regardless of where the profit is deposited. Transaction defines the selling of commodities and the submitting of the offer.

4. Either the representatives or any employees of the branch office in Korea who executes contract made outside of Korea or acts as an intermediary for the purpose of the conclusion of the sale contract and receives no income other than personal salary shall be not subject to any other tax than the personal income tax on the salary.

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(Embassy Comment: This revision presented to DCM by Finance Minister on September 9, 1955)

Explanation of taxation upon foreign-firms in Korea

1. The tax liability of foreign-firms in Korea toward the Government of Republic of Korea, and kind of taxes assessable.

a) Any juridical person or any natural person doing such business as described in the Article 1 of the Business Tax Law in Korea shall be subject to both the business tax and the juridical person tax in the case of juridical person and to both the business tax and the income tax (schedular income tax and global income tax) in the case of natural person respectively.

* See: Paragraph IV-d (Rate of Business Tax) in the Explanation of Korean Taxation upon Alien Enterprise in Korea.
Article 1 of the Business Tax Law.

b) Business Tax shall, regardless of whether he raised profit or non-profit, be assessed upon the tax base (the amount of gross proceed, gross receipt, compensation and/or contract price, etc.).
Juridical person tax and income tax shall be assessed upon the tax base (the amount of net income).

* See: Article 5 of the Business Tax Law.

c) Income tax on earned income, i.e., salary, wage, bonus, remuneration, and etc., received in consideration of personal service rendered in Korea, shall be payable in a way which the employer first collects tax at the time of payment through withholding from the salary or wages of the employee and then the employer pays it to the National Treasury.

* See: Paragraph III of the Explanation of Korean Taxation upon Alien Enterprise in Korea.
Article 1 - item 2 and Article 31 of the Income Tax Law.

d) Income derived from certain professions are not subject to the business tax in Korea (such as: Physician, Dentist, Lawyer, Professional Accountant, Juridical Clerk and etc.), however, shall be subject to the juridical person tax or personal income tax (both schedular income tax and global income tax) depending upon the fact whether such professional services are rendered in the form of juridical person or natural person.

e) Any one who is engaging simultaneously in the work under a), c), and d) above shall be subject to the tax under a), b), and c) above respectively.

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See: Article 1 of the Business Tax Law.

2. The activities considered generating tax liability.

Anyone whoever is doing business or who has income in Korea shall, in accordance with the provisions of the Korean Tax Law, be liable for taxes toward the Government of Republic of Korea. The activities which shall be regarded doing business or receiving income are as enumerated below.

a) Any natural person and/or juridical person doing commercial transactions in Korea shall be subject to tax liability.

* See: Article 1 of the Business Tax Law.
Article 1 of the Income Tax Law.
Article 1 and Article 2 of the Juridical Person Tax Law.

The below are the "Definition of Commercial Transaction"

* See: Article 501 through Article 503 of the Commercial Code.

i) Activities of purchase, with an intent of later sale, thereof for the profit-seeking, of movable properties, immovable properties, and/or negotiable instruments, and activities of resale of those properties.

ii) Contract for the supply of those movable properties and/or negotiable instruments which will be acquired from the third person and activities, for the purpose of acquisition at consideration of such properties in an attempt for the performance of such contract.

iii) Transaction took place in the exchange-post.

iv) Activities with regard to note and/or other commercial (documentary) instruments.

v) Activities of purchase or lease, at consideration, movable and/or immovable properties, with an intent of subsequent lease on rental, and activities of lending those properties.

vi) Activities of manufacturing or processing for the third person.

vii) Activities with regard to the supply of gas and/or power.

viii) Activities with regard to the transportation.

ix) Contract for work and services.

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x) Activities with regard to printing, publishing and photographing.

xi) Transactions in the establishment which is set-up for the purpose invitation of the audience, guests, and customers.

xii) Money exchange and other Banking Transactions.

xiii) Insurance

xiv) Acceptance of deposit other than money.

xv) Activities with regard to brokerage, middlemenship, mediator.

xvi) Acceptance of agency on commercial transactions.

xvii) Activities performed by the merchant for the purpose of business shall be deemed as the commercial transaction.

b) The activities by alien-firms in Korea of providing commercial offer for the sale of goods of the third person in consideration of a commission is classified as brokerage whereupon subjecting to 1) business tax to be imposed on their gross receipts of commission (commission may or may not be included in the price of goods shown in such offer), and 2) juridical person tax on net earnings in case of a juridical person or income tax in case of natural person.

c) i) When an alien-firms in Korea shall have sold in Korea its own goods, and
ii) When the branch head or representative, etc., in Korea of non-resident foreign-firms shall have sold in Korea goods of their home non-resident foreign-firms on behalf of the later, such activities shall be classified as sale take place in Korea of goods whereupon subjecting to business to be imposed upon gross proceeds from such sale; and on net income, juridical person tax or personal income tax shall be imposed.

"The sale took place in Korea" shall include the following:

i) Where the offer of sale and the acceptance thereof is taken place in Korea;
ii) When the acceptance was made in Korea on offer of sale even though such offer was made outside Korea (including, in this case, such type of sale wherein the offer of sale was made in Korea, and subsequently, steps were taken, under the commercial practice, without formal notification of acceptance, to effectuate the contract for the sale of goods)and finalization of contract for sale shall be made not only in the form of written document, but also through an exchange of correspondences or through oral agreement.

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iii) When the point of delivery was within Korea in case the place where the contract was made is not known.

See: Article 176 and Article 178 of the Civil Code.

3. When the representative, staffs or employees of the resident foreign-business establishment (including branch office, representative of non-resident alien firms) executed in Korea activities (sale of goods or such offer of sale having been accepted) which resulted in loss or profit, the tax liability shall arise regardless of whether financial transactions with regard to such activities were made in Korea by such resident foreign business establishment or out side Korea by non-resident alien business firms.

4. No tax liability will arise when the representative staffs or employees of the resident alien business establishment (of non-resident alien business firms), executed such activities for the performance of a contract finalized outside Korea or for the purpose to materialize the signing sales contract wherefrom no earnings were received. But in this case earned income alone be taxable.

- End -

* Note: Though the instances of taxable transaction have specified as above, any questionable matters concerning the tax problems other than above mentioned, if occured, shall be construed in accordance with the provisions of the Law respectively.

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EXPLANATIONS ON KOREAN TAXATION UPON ALIEN ENTERPRISE IN KOREA

I. Return Reporting Business Commencement And Application for Business License

a. Anyone who is doing business (inumerated in Section 1, of Business Tax Law) within the Republic of Korea shall file with the National Tax Office a return reporting his business commencement within 14 days after the commencement (Section 8, Business Tax Law).

b. And within 30 days after the business commencement, he has to submit an application for Business License together with the payment in cash of Business License Fee (now 500 Hwan). This Business License will be valid until the end of that calender year only; for the succeeding calender year; he has again to secure new Business License by the 31st of January of the new year (Section 6-1, Business Tax Law).

II. Taxation Upon the Business Transactions and Upon Business Income

a. Every businessman has to pay his Business Tax when he is doing business in the Republic of Korea regardless of whether he raised profit or incurred loss therefrom. The term businessman includes both juridical person-businessman and unincorporated personal-businessman. Juridical person in Korea includes not only corporation, but also partnership and foundation too.

b. Income Tax and Corporation Tax:

Income Tax is meant tax upon the income of an individual, while the Corporation Tax is a tax upon the income of corporation, partnership and foundation. When income of whatever kind is accrued in the Republic of Korea, either Income Tax (in the case the income is accrued to individual) or Corporation Tax (in the case income is accrued to juridical person) will be imposed thereupon (Section 1, of Income Tax Law and Section 1, of Corporation Tax Law).

c. These alien business enterprises who officially registered in the Republic of Korea as juridical person either as headquarters or branch thereof shall be, for the purpose of taxation, classified as juridical person thus being subjected to the Corporation Tax, and, those foreign business enterprises in Korea who are not classified as juridical person shall be classified as individual being subjected to Income Tax.

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There are presently ten (10) juridical persons of alien business enterprises in Korea who, up to date, registered as juridical person. As an interim measure, it has been decided that those alien enterprises who are presently in Korea and who may wish to register but not yet officially registered as juridical person, would be considered as juridical person for the purpose of taxation provided that they would have registered as juridical person by the end of July 1955. Such juridical person as may be registered by that date will be classified as juridical person retrospectively back from their business-commencement in Korea. This interim measure will not, however, apply after July 31, from then on, the juridical personality will be recognized for the purpose of taxation upon and as from the date of registeration.

III. Taxation Upon Earned Income, And Liability for Collections Through Withholding

By the earned income is meant the payment made in consideration of personal services rendered such as salary, wage, annuity, bonus and etc.. Income Tax on earned income is payable in a way in which the payer (usually employer) collects tax at the time of payment through withholding from the salary or wages of the payee (employee) and then the former (employer) pays it to the Treasury Depositary Bank or to the National Tax Office (Section 31, Income Tax Law).

IV. How is the Business Tax Levied and Collected

a. Tax Base or taxable amount is generally gross receipts from the business transactions.

b. Taxable period (which Business Tax is imposed on business transactions made during such period) is following four quarters in a year for the unincorporated personal business enterprises:

1st taxable period: from January 1, through the end of March;
2nd taxable period: from April 1, through the end of June;
3rd taxable period: from July 1, through the end of September; and,
4th taxable period: from October 1, through the end of December.

Provided, however, that when it was deemed by the Government adequate to do so, the optional taxable period may be established for the particular business enterprise.

Taxable period for corporation exactly coincides with the fiscal period (business term) of the respective juridical person; provided, however, that if the fiscal period of any juridical person exceeds the period of six months, then the taxable period of that corporation will be six months starting from the first day of the business term thereof.

c. i. The

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c. i. The liable taxpayer for the unincorporated business enterprises must file with the National Tax Office a return reporting his taxable amount for every taxable period not later then 20th day of the following month of each taxable quarter; in other words, he has to file his return:

by April 20, for the 1st taxable period;
by July 20, for the 2nd taxable period;
by October 20, for the 3rd taxable period; and,
by January 20 of the following year, for the 4th taxable period.

ii. In the case of juridical person, the same return must be filed not later than 20 days after the last day of the fiscal period of each corporation, or after the last day of the six months taxable period in the case the fiscal period of any corporation was longer than six months wherefore six months taxable period applies (see last part of "b" above).

iii. When no return was filed within the deadline or fraudulent return was filed, the National Tax Office shall investigate the particulars to determine tax base.

d. Rate of Business Tax:

The following rates shall apply equally to both juridical person-enterprises and individual enterprises:

Kind of Business	Tax Base	Rates
1. Wholesale "A"	Gross Proceeds	0.3%
2. Wholesale "B"	"	0.6%
3. Wholesale "C"	"	0.9%
4. Retail Sale "A"	"	0.4%
5. Retail Sale "B"	"	0.9%
6. Retail Sale "C"	"	1.2%
7. Banking	Gross Receipts	0.9%
8. Insurance	Insurance Premium	0.2%
9. Mutual Financing	Gross Receipts	0.9%
10. Money Lending	"	6.0%
11. Thing Lending	"	4.5%
12. Manufacturing "A"	"	4.5%
13. Manufacturing "B"	"	0.9%
14. Electricity & Gas Supply	"	0.3%
15. Transportation	"	3.2%
16. Forwarding Agent	Compensation	3.0%
17. Warehousing	Gross Receipts	3.0%

/18. Railway

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Kind of Business		Tax Base	Rate
18.	Railway Business	Gross Receipts	0.6%
19.	Contract "A"	Amount Contracted	0.9%
20.	Contract "B"	"	1.2%
21.	Contract "C"	"	2.0%
22.	Printing	Gross Receipts	1.2%
23.	Publishing	"	0.9%
24.	Photography	"	1.8%
25.	Room (Space) Lending	"	4.5%
26.	Hotel	"	1.8%
27.	Restaurant	"	3.0%
28.	Dining Room	"	2.4%
29.	Broker, dealer, jobber, and Middleman	Compendation	5.5%
30.	Deputy	"	4.5%
31.	Trust	"	0.9%
32.	Money Exchange	"	1.5%
33.	Public Bath	Gross Receipts	1.5%
34.	Barber, Beauty Parlor	"	2.1%
35.	Dramatic Performance	"	2.4%
36.	Playing Facility	"	2.4%
37.	Excursion Facility	"	2.4%

Note: a. Wholesale "A" and Retail Sale "A" (numbered 1 and 4 above) indicate the sale of grain, salt, cigarettes and wheat flour.

b. Wholesale "B" and Retail Sale "B" (numbered 2 and 5 above) indicate the sale of coal, charcoal, petroleum products, fertilizer, sugar cotton cloth, cotton yearn, robber shoes and soap.

c. Wholesale "C" and Retail Sale "C" indicate the sale of all other items than specified in "a" and "b" above.

d. Manufacturing "A" indicates manufacture of fertilizer, yearn, raw cotton, oil, textile and rayon.

e. Manufacturing "B" represents the manufacture of all other items not falling under "d" above.

f. Contract "A" indicates any kind of contract not falling under "g" and "h" hereunder.

g. Contract "B" indicates contract for grain polishing and milling.

Note(Cont'd)

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Note(Cont'd)

h. Contract "C" indicates contract for labor supply.

i. Deputy (numbered 30 above, and which is very liberal interpretation) means such businessman who, at his own name, engages in sale or purchase of commodities on behalf of the other.

e. When tax is payable:

i. In the case of individual enterprises, Business Tax is payable during the period of:

15 - 31 May, for the 1st taxable period;
15 - 31 August, for the 2nd taxable period;
15 - 30 November, for the 3rd taxable period; and
15 - end of February of the following year, for the 4th taxable period.

ii. In the case of juridical person, it is payable within 15 days after the tax was determined.

Both for individual and juridical person, the National Tax Office shall send a tax bill (notice of payment) in order that the taxpayer may pay within the period hereabove described.

V. How is Income Tax Levied and Collected

a. The tax base for Income Tax on commercial business income is a net income, that is the gross business income received and receivable less the necessary expenditures.

b. On this net in one both the schedular income tax and global income tax are levied.

c. Schedular Income Tax on commercial business income is levied four times in a year on net income accrued during each of the four taxable periods which are same taxable periods with those of the Business Tax(see IV, b, (i), above). And income return has to be filed within the period and in a manner same as in the case of Business Tax (see IV, c, (i) above).

The tax rates for schedular income tax is flat 15% of the taxable net income. Collections will be made upon issuance of notice of payment which will specify the pay-period as follow:

for the 1st

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for the 1st taxable period: 1-30, June of the current year;
for the 2nd taxable period: 1-30, September, of the current year;
for the 3rd taxable period: 1-31, December, of the current year;
for the 4th taxable period: 1-31, March of the following year.

d. Global Income Tax on commercial business income is levied as follows:

i. Computation of tax base:

For the Estimated Income Return, tax base will be twice the amount of net income raised during six months starting from January 1 through June 30.

For the Final Income Return, taxable amount will be the amount of net income received during a calender year from January 1 up to the end of December.

ii. Taxable income has to be filed by the respective liable taxpayer by September 20 of the current year for the Estimated Income Return, and by March 20 of the following calender year for the Final Income Return.

When neither return was filed nor honest return was filed, then the tax base will be determined through the investigation by the National Tax Office.

iii. Tax Rates:

Taxable Income	Rates of Tax
Hwan 24,000 or thereunder;	No Tax.
More than Hwan 240,000 but up to Hwan 300,000;	5% or the amount in excess of Hwan 240,000.
More than Hwan 300,000 but up to Hwan 400,000;	Hwan 30,000 plus 7% of the amount in excess of Hwan 300,000.
More than Hwan 400,000 but up to Hwan 600,000;	Hwan 10,000 plus 10% of the amount in excess of Hwan 400,000.
More than Hwan 900,000 but up to Hwan 1,300,000;	Hwan 75,000 plus 20% of the amount in excess of Hwan 900,000.
More than Hwan 1,300,000 but up to Hwan 2,000,000;	Hwan 155,000 plus 25% of the amount in excess of Hwan 1,300,000.

Tax Rates (Cont'd)

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Tax Rates (Cont'd):

Taxable Income	Rates of Tax
More than Hwan 2,000,000 but up to Hwan 3,000,000;	Hwan 330,000 plus 30% of the amount in excess of Hwan 2,000,000.
More than Hwan 3,000,000 but up to Hwan 5,000,000;	Hwan 630,000 plus 35% of the amount in excess of Hwan 3,000,000.
More than Hwan 5,000,000;	Hwan 1,330,000 plus 40% of the amount in excess of Hwan 5,000,000.

The amount of tax on Estimated Income Return will be one-Second (50%) of the amount computed under the above rate table on the estimated income; and the amount of tax on Final Income Return will be the amount computed under the above rate table (on the final income) less the amount of tax already paid on Estimated Income Return.

iv. Tax on Global Income is payable upon notice of payment which will specify pay-period as follows:

Pay-period:

1 - 31, October of the current year for tax on Estimated Income Return; and,

1 - 30, April of the following year for tax on Final Income Return.

e. Earned Income is taxable only under the Schedular Income Tax:

i. Tax Base: monthly receipts; if the receipts were either in kinds or in such monetary instrument (as in the case of foreign currency) other than the legal tender of the Republic of Korea (Hwan), then the equivalent amount of Hwan through realistic conversion at the time of payment will be considered as monthly receipts.

ii. The taxpayers who are wage earners are subject to the "pay-as-you-go-system". That is, the employer has to deduct a cerrain percent from the payments made to the employees, which he then pays, not later than 10th day of the following month of payment, to the National Tax Office or to the Treasury Depositary Bank (normally the Bank of Korea) authorized under the law. On this earned income wage earners are not liable for the return or payment, but, instead, the employer is responsible for withholding and payment.

/iii. Rates

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iii. Rates of earned income tax: see table thereof.

VI. How is the Juridical Person (Corporation) Tax Levied And Collected

a. Tax base and taxable year: net income of each corporation accrued during a fiscal period thereof: provided, however, that the fiscal period of any corporation exceeds the period of twelve months, then each twelve months period shall be deemed a taxable year.

b. Declaration of taxable income:

The liable taxpayer-corporation has to file tax base with the National Tax Office within 30 days after the day on which fiscal and accounting settlement was finalized for the fiscal period immediately preceeding. If this return was dishonestly made or no return was at all filed, the National Tax Office shall determine the tax base after its own investigation.

c. Rate for Corporation Tax:

When the taxpayer-corporation paid tax based upon, and simultaneously with, the return referred to "b" above, the rate applicable is flat 35% of the amount reported in the return. However, this rate is 45%, when either no return was filed, or unjust return was filed, or, corporation has not voluntarily paid tax based upon return within the period of 30 days after the finalization of fiscal and accounting settlement for the preceding fiscal period thereof.

d. Corporation Tax which was not voluntarily paid and therefore is payable at 45% rate is payable upon notice of payment within 15 days after the day on which tax base was determined by the National Tax Office.

VII. Question of Taxation In the Case In which Alien In Korea Engages at the Request of the Others In the Introduction Certain Commodities or Services.

a. Introduction of this kinds done in Korea itself is considered as commercial activities or transactions resulting in the accrual of consideration in the form of fee or compendation which is subject to Korean taxation under the law.

b. There have been claims that mere brokerage in order to effectuate (or materialize) or cause to effectuate the sale of goods or services between or among third parties should be free from taxation, since the brokerage itself is outside of such sale. This kind of opinions can

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in no way be justified and accepted for the purpose of taxation since the brokerage itself is a commercial activity subjected to tax.

c. If there were no activity in Korea which accrues profit or compensation of whatever kind, then there will be no room for Korean taxation.

VIII. There are only ten (10) alien business enterprises of corporate form in Korea who so registered as of May 20, 1955.

IX. Required Procedures for Foreign Trade, Furnishing of "Commercial Offer", and Withdrawal from Korea

a. When foreigner in Korea goes out to other territory, it is required that he obtain from the National Tax Office a paper certifying that his tax due to the Korean Internal Revenue Agency was paid in full or was well guaranteed by a third person in Korea. Without presentation of this paper the Republic of Korea Ministry of Foreign Affairs will not issue you aexit visa.

b. When you desire to entrust the importation or exportation of the article to any other trader without your own licence which was issued —— in accordance with the ordinance or Republic of Korea - - - for the foreign trader; you have with the application for import or export, to present the paper what was issued by the National Tax Office certifying that you already have business licence under the Business Tax Act.

c. Any person who furnish "commercial offer for sale", he should attach to the "offer" the same paper referred to in "b" above. In this case, if he has already obtained Business License and the Minister of Finance of the Republic of Korea has subsequently notified respective authority concerned of that effect, he need not attach the said paper.

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ALLOWANCE TAX TABLE

Amount of Allowance/Month upward Wh	below Wh	Amount of Taxation Wh	Amount of Allowance/Month Upward Wh	below Wh	Amount of Taxation Wh	Amount of Allowance/Month upward Wh	below Wh	Amount of Taxation Wh
0	3,750	0	17,000	18,000	928	31,000	32,000	2,064
3,750	5,000	192	18,000	19,000	992	32,000	33,000	2,180
5,000	6,000	256	19,000	20,000	1,056	33,000	34,000	2,300
6,000	7,000	307	20,000	21,000	1,120	34,000	35,000	2,420
7,000	8,000	358	21,000	22,000	1,184	35,000	36,000	2,540
8,000	9,000	409	22,000	23,000	1,248	36,000	37,000	2,660
9,000	10,000	460	23,000	24,000	1,312	37,000	38,000	2,700
10,000	11,000	512	24,000	25,000	1,375	38,000	39,000	2,900
11,000	12,000	563	25,000	26,000	1,440	39,000	40,000	3,020
12,000	13,000	614	26,000	27,000	1,544	40,000	41,000	3,140
13,000	14,000	672	27,000	28,000	1,648	41,000	42,000	3,260
14,000	15,000	736	28,000	29,000	1,752	42,000	43,000	3,388
15,000	16,000	800	29,000	30,000	1,856	43,000	44,000	3,532
16,000	17,000	864	30,000	31,000	1,960	44,000	45,000	3,676
45,000	46,000	3,820	63,000	64,000	6,432	81,000	82,000	9,744
46,000	47,000	3,964	64,000	65,000	6,616	82,000	83,000	9,928
47,000	48,000	4,108	65,000	66,000	6,800	83,000	84,000	10,112
48,000	49,000	4,252	66,000	67,000	6,984	84,000	85,000	10,296
49,000	50,000	4,396	67,000	68,000	7,168	85,000	86,000	10,480
50,000	51,000	4,540	68,000	69,000	7,352	86,000	87,000	10,664
51,000	52,000	4,684	69,000	70,000	7,536	87,000	88,000	10,848
52,000	53,000	4,828	70,000	71,000	7,720	88,000	89,000	11,032
53,000	54,000	4,972	71,000	72,000	7,904	89,000	90,000	11,216
54,000	55,000	5,116	72,000	73,000	8,088	90,000	91,000	11,400
55,000	56,000	5,260	73,000	74,000	8,272	91,000	92,000	11,584
56,000	57,000	5,404	74,000	75,000	8,456	92,000	93,000	11,768
57,000	58,000	5,548	75,000	76,000	8,640	93,000	94,000	11,952
58,000	59,000	5,692	76,000	77,000	8,824	94,000	95,000	12,146
59,000	60,000	5,836	77,000	78,000	9,008	95,000	96,000	12,370
60,000	61,000	5,980	78,000	79,000	9,192	96,000	97,000	12,594
61,000	62,000	6,124	79,000	80,000	9,376	97,000	98,000	12,818
62,000	63,000	6,268	80,000	81,000	9,560	98,000	99,000	13,042
99,000	100,000	13,226	112,000	113,000	16,178	125,000	126,000	19,090
100,000	101,000	13,496	113,000	114,000	16,402	126,000	127,000	19,314
101,000	102,000	13,714	114,000	115,000	16,626	127,000	128,000	19,538
102,000	103,000	13,938	115,000	116,000	16,850	128,000	129,000	19,762
103,000	104,000	14,162	116,000	117,000	17,074	129,000	130,000	19,986
104,000	105,000	14,386	117,000	118,000	17,298	130,000	131,000	20,210
105,000	106,000	14,610	118,000	119,000	17,522	131,000	132,000	20,434
106,000	107,000	14,834	119,000	120,000	17,746	132,000	133,000	20,658
107,000	108,000	15,058	120,000	121,000	17,970	133,000	134,000	20,802

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108,000	109,000	15,282	121,000	122,000	18,194	134,000	135,000	21,106
109,000	110,000	15,506	122,000	123,000	18,418	135,000	135,415	21,330
110,000	111,000	15,730	123,000	124,000	18,642	135,416	135,417	21,420
111,000	112,000	15,954	124,000	125,000	18,866			

The tax upon the allowances which is inexcess of 135,416 Whan should be calculated as follows:

(1) In the case of the allowances per a month; 135,416Whan---208,333 Whan
Multiply (Allowances minus 135,416) Whan by 0,264 plus 21,420 Whan
(2) In the case of the allowances per a month; 208,333 Whan — 312,500 Whan
Multiply (Allowances minus 208,333) Whan by 0,304 plus 40,673 Whan
(3) In the case of the allowances per a month; upward 312,500 Whan
Multiply (Allowances minus 312,500) Whan by 0,344 plus 72,430 Whan

In the case of the allowances are paid as daily pay, weekly pay or semi-monthly pay, the amount of tax concerning shall be calculated as follow;

First Step,
To divide the gross allowances by the number of payable days and multiply by 30,

Second Step,
Find the tax amount concerning, with the result of the First Step, out of the forward table.

Third Step,
Multiply the result of second Step by the result of that the number of payable days divided by 30, then it will be the amount of tax wanted

The fraction number below Whan shall be neglected.

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By NARA, Date 11/6/01

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APPLICATION FOR BUSINESS LICENCE

Date, Apply: _____

Applicant: _____ Signature: _____

TO: Chief, National Tax Office

1. Business Address : _____

2. Proprietor's Name : _____

3. Date of Birth : _____

4. Relation with the head of the family or the householder : _____

_____

5. Propreitor's Domicile: _____

7. Kind of Business and Articles: _____

_____

8. Date, Business Commenced: _____

Tax F-2

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NND 867400
By _____ NARA, Date 11/6/04

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(Classification)

THE RETURN OF THE TAXABLE
AMOUNT FOR BUSINESS

Date, Returning:

(For the period: From Month of _____ Year _____
(To " _____ " _____

TO: Chief of National Tax Office

Business Address: _____

Proprietor's Address: _____

Firm-Name: _____ Name & Signature: _____ Phone, No. _____

Type of Business	Kind of Article	Tax Base	Amount; Returning	Remarks

Tax F-3

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SCHEDULAR INCOME RETURN

Date, Returning:

For the terms: _____

TO: Chief of National Tax Office

Address: _____

Firm-Name : _____ Name & Signature: _____ Phone, No. _____

Kind of Income	The place the income earned	Gross Receipts	Expenses	Income	Remark

Tax F-4

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From AMEMBASSY, SEOUL

GLOBAL INCOME RETURN

Date, Returning:

Estimated Income Return, For Year _____
Final Income Return, " _____

To: Chief of National Tax Office

Address: _____

Firm-Name: _____ Name & Signature: _____ Phone No. _____

Kind of income	The place the income earned	1st Jan.-30th June Gross Receipts	1st Jan.-30th June Expenses Income	1st July-31 Dec. Gross Receipt.	1st July-31 Dec. Expenses Income	Total income

Total _____ Remark. _____

Amount of taxation subjected by estimated income return: _____
Tax F-5

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By ____ NARA, Date 11/7/01

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CORPORATION'S INCOME RETURN

Date, Returning:

Business terms From Day of _____ Month _____ Year _____
To " _____ " _____ " _____

TO: Chief of National Tax Office

Corporation's address: _____

Name of Corporation: _____ Name of Representive: _____

Net income: _____ Date, Settlement of Hwan account finlized: _____ 19__

Amount of tax be voluntarily paid: _____ Hwan Date: _____ Office: _____

* Note; (a) Be appended with the copy of the settlement which will be the foundation of Net Income

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From Seoul

5 July 1955

MEMORANDUM OF THE AMERICAN CHAMBER OF COMMERCE TAX COMMITTEE
TO THE MEMBERS OF THE AMERICAN CHAMBER OF COMMERCE IN KOREA

At a meeting held in the Ministry of Finance on Tuesday, July 5, 1955 at which were present the following persons.

1. Korean Tax Officials:

Mr. Kim Manki, Chief, Taxation Bureau, Ministry of Finance
Mr. Whang Joong Yul, Chief, Tax Section, Ministry of Finance
Mr. Kim Ok Kyung, Chief, Seoul City Tax Office
Mr. Park Hi Bong, Chief, Chung-Ku Tax Office

2. American Chamber of Commerce in Korea:

Mr. Micklautz
Mr. Renfro
Mr. Cooper
Mr. Lury
Mr. Yaron
Mr. Pickett
Mr. Min) American Embassy Observers
Mr. Hughes)

The following understandings were obtained from the Korean representatives above, regarding Taxes:

CLASSIFICATION:

I. Any corporate entity which buys and/or sells commercially in Korea is subject to

a) Corporate Tax, after deduction of expenses, and

b) Business Transaction Tax.

II. Any entity acting not for its own account but as agent for others in return for commission is subject to Tax 5.5% on the gross commission.

III. Any entity which makes offers and/or signs contracts only on behalf of its head office, receiving no income for its own account, other than personal salary, is not subject to any Tax other than personal Income Tax on the salary.

IV. Any entity which engages in a combination of classifications I through III above is subject to the respective Tax of Classification I and/or II proportionately as its activities fall into classification I and/or II.

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The American Chamber of Commerce Representatives make a special point of praising the cooperative attitude of the Korean Representatives.

All inquiries for factual and specific information pertaining to individual problems on Korean Taxation, should be taken up with Mr. Kim Manki Direct at the Ministry of Finance.

NOTE: A special meeting of the Chamber Members and all foreign businessmen will be held dynasty Dining Room Bando Hotel at 12:30 Saturday, July 9, 1955.

Mr. Kim Manki will also attend this meeting.

TAX COMMITTEE
AMERICAN CHAMBER OF COMMERCE IN KOREA

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From Seoul

OFFICE OF THE DIRECTOR
TAXATION BUREAU
MINISTRY OF FINANCE, ROK

July 22, 1955
Seoul, Korea

Mr. Ferdinand Micklautz
Chairman of
American Chamber of Commerce in Korea

Dear, Mr. Micklautz:

With reference to your Tax Committee's memorandum which relates the meeting held in the Ministry of Finance on July 5, 1955 and memo of even date, we discovered the memorandum were rather simplyfied that there were several important relative facts not included also mis-interpreted, thereto, we are submitting enclose the supplymentary explanation concerning to your memorandum, whereby your Tax Committee have the opportunity informing to the foreign-firms in Korea accordingly, as such, we appreciate whatever you can assist in this matter.

Thanking for your ever-willing cooperation which you have always accorded us.

Sincerely yours,

Kim Man Ki
Director of
Taxation Bureau
Ministry of Finance

Supplementary Explanation Enclosed:

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Enclosure.
Ref: Memorandum fixed on July 5, 1955 and its supplementary.

(1) The close meaning of "which buys and/or ~~sells~~ sells commercially in Korea as indicated in (I), is that "which buys and/or sells the articles of commerce with the object of profit-making in Korea"; namely it will be applied to the case that when the place the contract concluded locating in Korea and/or the place at where one can recognize the conclusion of the contract locates in Korea; for instance, the case when the place where seller and buyer do sign the contract locates in Korea is applicable one.

(2) In according with (1) above, if one who has established a branch in Korea and the head office out of Korea does enable the branch to sell the head office's goods, it with the reason of making profit or non-profit in Korea will be authorized as the case of (1), though the head office does account accordingly.

(3) The close meaning of "not for its own account", as indicated in (II) is that "on selling not a branch's own goods and/or its head's but other's, a branch in Korea does act agent for others and receives no income other than commission in return.

(4) The close meaning of "any which makes offers and/or signs contracts only on behalf of its head office receiving no income for its own accounts" as indicated (11)-(a), is that "as the results of those transactions which took place in Korea, there were no profit made at all for the branch's own account or its head office's account.

---- END ----

1. If contract is concluded in Korea, tax applies
2. "
3. If brand sells for third party, no tax.
4. Only if no profit made by branch a head office does tax not apply.

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By [illegible] NARA, Date 11/6/97

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From Seoul

OFFICE OF THE DIRECTOR
TAXATION BUREAU
MINISTRY OF FINANCE, ROK

August 6, 1955
Seoul, Korea

Mr. James J. Wilcox
President
American Chamber of Commerce in Korea

Dear, Mr. Wilcox

As to the tax problems of foreign-firms now engaging in business within Korea, it, contrary to our anticipation, seems that some of foreign-firms have still not understood the close meaning of the tax law, notwithstanding that the English Interpretation of Korean Tax Law have already been furnished to them and every effort to clear the meaning of the interpretation was made at the meeting held several times between the officials of this Ministry and the Tax Committee of your Chamber.

It is most regrettable for us to find that the foreign-firms yet could not understand not only the meaning of the memorandum fixed at the meeting held at the office of the Vice Minister of this Ministry on July 5, 1955, but also the meaning of the supplementary explanation submitted accordingly on July 20, 1955, therefore, we are going to provide the explanation in detail as enclosed herewith.

Though, we, for a long time, have solicited foreign-firms to conform to the law and to cooperate with the tax authorities as for tax problems, most of foreign-firms would, up to the present time, not fulfit what they have to do in compliance with the law, and those necessary actions will take place before long, whereby, you and your Tax Committee have the opportunity informing to the foreign-firms in Korea accordingly, as such, we appreciate whatever you can assist in this matter.

We take this opportunity of appreciating what you and your Tax Committee have shown toward the tax authorities in the past and soliciting a continuance of the same in future.

Sincerely yours,

Kim Man Ki
Director of Taxation Bureau

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NND 867400
By [illegible], NARA, Date 11/19/21

CLASSIFICATION

I Any corporate entity or person which buys and/or sells Commercially in Korea is subject to

a) Corporate Tax or Personal Income Tax, after deduction of expenses, and

b) Business Transaction Tax.

II Any entity acting not for its own account but as agent for others in return for commission is subject to

a) Tax 5.5% on the gross commission also including

b) Corporate Tax, in the case of Corporate, after deduction of expenses

c) Both the Classified Income Tax and Gross Income Tax, in the case of person, after deducted expenses.

III a) Any entity which makes offers and/or signs contracts only on behalf of its head office, receiving no income for its own account, other than personal salary, is not subject to any Tax other than personal Income Tax on the salary.

b) Any entity coperating within Korea as a branch which makes offers and/or signs contracts only on behalf of its head office, as to the income (the income include the amount added to the offer price or the contract price) whatever profit gained, are subject to

i) Tax, Classification II,
ii) Personal Income Tax on salary, too.

c) Any corporate entity shall, whenever the evidence which indicates that the corporate entity receives no income for its own account is produced, be authorized as shown in column IIIa).

IV Any entity which engages in a combination of classification from above mentioned is subject to the respective Taxes of Classification.

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By [illegible] NARA, Date [illegible]

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From Seoul

OFFICE OF THE DIRECTOR
TAXATION BUREAU
MINISTRY OF FINANCE, ROK

August 8, 1955
Seoul, Korea

Mr. James J. Wilcox
President
American Chamber of Commerce
in Korea

Dear, Mr. Wilcox:

With reference to my letter dated August 6, 1955, out of which I found that the serious phrase were omitted from (2)--- paragraph of the Enclosure concerned, hereat I am going to revise the part as below with seeking as understanding with you about this matter anxiously.

(2) In accordance with (1) above, if one who has established a branch in Korea and the head office out of Korea does enable the branch to sell the head office's goods, it with the reason of making profit or non-profit in Korea will be authorized as the case of (I), though herein shall be extended to a person in Korea, who stays in Korea as a Korea traveller for his head office out of Korea.

Your deep comprehension would be highly appreciated.

With personal regards,

Truly yours,

Kim Man Ki
Director of
Taxation Bureau
Ministry of Finance

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NND 86400
By _____, NARA, Date 11/6/04

AMERICAN CHAMBER OF COMMERCE IN KOREA

Seoul, 10th August 1955

Mr. Kim Man Ki
Director,
Taxation Bureau,
The Ministry of Finance
The Republic of Korea

Dear Sir,

Ref: KOREAN TAX LAWS
Your letters of 6th and 8th August 1955.

For quite some time now the American Chamber of Commerce in Seoul, Korea, representing American business interests in Korea and at home, in an earnest endeavor to cooperate with the Korean Tax Authorities, has attempted to clarify understanding of the Korean TaxLaw, particularly in regard to branch offices of foreign firms in Korea representing their home offices abroad.

As far back as January of this year, various tax officials were invited to explain the Korean Tax Laws at General Meetings of the American Chamber of Commerce. Their explanations were that individuals for person income tax.

After a press campaign which reflected unfavorably against foreign firms, the Tax Committee of the American Chamber of Commerce was assigned the task of reaching a confirmed understanding with the Korean Tax Authorities. The Tax Committee held several meetings with you, and there were also numerous exchanges of correspondence. Finally, on July 5th, 1955, a basic understanding was reached among the officials of the Korea Tax Bureau and related offices, seven members of the American Chamber of Commerce Tax Committee, and two observers from the American Embassy. This basic understanding, which was gone over thoroughly with you, point by point, through the medium of a highly competent interpreter, and fully concurred in by you, was embodied in an American Chamber of Commerce memorandum dated July 5, 1955. This memorandum was then, in good faith, disseminated among the foreign firms in Korea, and distributed abroad as guidance to firms with existing or contemplated business in Korea. In this connection, we make the following specific points:

a. Extreme precaution was taken against any possible misunderstanding as to the meanings and interpretations of the terminology used in the Memorandum of Understanding.

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By [illegible] NARA, Date [illegible]

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b. It was specifically stated by the Senior Korean Tax Official that the purpose of the presence, at the meeting of representatives of each of the District Taxation Offices was to ensure their understanding of the conclusions reached and adherance thereto.

c. Your letter of July 22nd confirms the principle of our understanding of July 5th, 1955.

Your subsequent letters of August 6th and August 8th, 1955, are incompatible with all the foregoing.

We recognize the right of the Korean Government to assess tax as it sees fit. Such assessment should, however, be under the clear provisions of the statutory law. There is not, insofar as we have been able to determine any such clear provision with respect to the type of business activity of most foreign firms now in Korea. This latter point has been clearly brought out by the pronouncements of the Korea Tax representatives on several occasions back in January of this year, and subsequently, and finally, at the discussion and resultant understanding of July 5th, 1955.

Without questioning in any way the liability of foreign firms in Korea to taxation properly imposed, we cannot but feel that either appropriate legislation must be enacted or the wording of the laws presently in effect must be officially changes, so as to make absolutely clear their applicability. It, therefore, would seem perfectly clear that retroactive taxation based on the present wording of Taxlaws could not, within the intent of lawful applicability, be assessed on foreign firms for their activitieswhich cannot be shown to involve actual receipt or disbursement of commercial payment within the geographical limits of Korea, or accrual of business income other than salary direct to a company's appendage in Korea.

The member firms of the American Chamber of Commerce in Korea hold themselves ready to meet their obligations for Korean Tax under the applicability of the understanding of July 5th, 1955, taxes considered effective from that date. The member firms further stand ready to meet ensuing obligations under such Tax Laws as may be enacted in the future.

We respectfully request that you hold in abeyance all cases of tax assessment until you have been able to give the contents of this letter your earnest consideration and reply.

Very truly yours,

American Chamber of Commerce in Korea
James J. Wilcox -- President

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By ____ NARA, Date 11/6/04

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From Seoul

OFFICE OF THE DIRECTOR
TAXATION BUREAU
MINISTRY OF FINANCE, ROK

14th August, 1955

Mr. James J. Wilcox
President
American Chamber of Commerce in Korea
Seoul, Korea

Dear, Mr. Wilcox

I acknowledge the receipt of your letter dated August 10th, 1955, in which you raised several points which seemed, in my judgement, based upon the mis-understanding of the Korean Tax Laws.

I desire very sincerely that all foreign-firms recently in Korea become thoroughly acquainted with the provisions of Korean Tax Laws, and subsequently, the taxation upon them could preceed on mutual willing cooperation. It has been for this express reason that we exchanged letters and held meetingswith you on our tax problems.

I recall, as you may also remember, our satisfactory conclusion reached actually on July 5, whereby foreign-firms engaged in business within Korea fulfill voluntarily to those subject of their tax liabilities. With regard to your suggestion that the assessment now being proceeded by Korean TaxOfficials upon foreign-firms to be withheld, I consider in accordance with the applicable provisions of tax laws.

The following is the clarification to points you raised in your letters:

A. With regard to memorandum of July 5, which was submitted by your Tax Committee which were recorded parts of the particulars then dealt with, which you seemed to have misunderstood that matter therein. The truth is that those matters were already enacted into laws, and our reference thereto was merely to inform you thereof in replying to your inquiries at that time.

B. You took the position that my letter dated July 22, and August 6, respectively inconsistent with each other. Those explanation were made with the view of removing any misunderstanding which we believe contrary to your assertion, therefore, I do not find myself that they contradict each other.

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NND 867400
By_____, NARA, Date 11/2/04

C. Although you insist that there is no clear-cut provisions in the Korean Tax Laws which indicates the applicability on a type of business done by most of foreign-firms in Korea, I remember my clarification made repeatedly at several conference along with my letter (Ref: Art II and VII of the English Interpretation of Korean Tax Laws, June 7, 1955) and I believe you understood clearly on this point at meeting held on July 5.

D. It is apparent that no nation may enact a law to enforce it upon foreigners in discrimination from native citizen. It is, therefore, natural that the taxes to be collected upon aliens in Korea should also base on tax code which is to be universally applicable upon both local and alien people alike, and, in fact, Republic of Korea already enacted its tax laws applicable without prejudice depending upon the difference in nationality of the taxpayers. For this reason, I can not accept your request that separate laws be enacted applying for foreigners in Korea.

E. The universally accepted general consensus about the law is that ignorance or unfamiliarity of the law excuses no one. If we are obedient to this principle, the application of our tax laws should have occurred instantly and simultaneously with the cause, which in this case "doing business in Korea", affecting to all your surmise to be interpreted as retro-active application of the law, but apparent fact is that our tax code has been readily their businesses in Korea.

Hoping that the above clarifications may satisfy you so far as the interpretations are concerned, I remain.

Sincerely yours,

Kim Man Ki
Director
Taxation Bureau
Ministry of Finance

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NND 867400
By Cpd, NARA, Date 4/6/21

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Desp. No. _____
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Encl. No. 10
Desp. No. 88
From Seoul

Feb. 11, 1955

BRIEF OUTLINE OF TAXING PROCESS

The tax laws, in particular, the Corporation Tax, Income Tax, Business Tax and Individual Business Tax Law which vitally affect the business activities of the foreign firms engaging businesses within the Republic of Korea. Among other things of essential are the tax rates, time filing of income, and date of tax payment. For convenience, basic elements are recapitulated in precise and concise form to achieve the desired objective in accordance with the statue as enumerated below.

Type of Tax	Fiscal Year	Return filing Date	Tax payment Date
Corporation Tax	Definition by fiscal year is meant either fiscal or calendar basis which corporation adopts in conformity to their accounting system.	Within 30 days after business transactions completed. (NOTE: Pursuant to the provisions of the law, 30 days after the fiscal year is terminated are set aside to determine the actual income amount with the following thirty days preparing for the filing of returns.)	Within 15 days from the date on which the taxable amount is determined.
Business Income Tax	(This is applied only to the individual.)		
a) Classified Tax	The fiscal year is divided into four quarters:		
	The first period Jan. 1 to March 31	April 1 to 20	June 1 to 30
	The second period April 1 to June 30	July 1 to 20	Sept. 1 to 30
	The third period July 1 to Sept. 30	Oct. 1 to 20	Dec. 1 to 31
	The fourth period Oct. 1 to Dec. 31	Jan. 1 to 20 of the following year.	March 1 to 31 of the following year
b) Surtax	The fiscal year is divided into two periods:		
	The period covering the estimated returns,	Jan. 1 to June 30 — July 1 to 31	Oct. 1 to 30
	(NOTE: July to Dec. estimated returns must be filed during July.)		
	The period covering the final returns and reconciliation,		

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	Jan. 1 to Dec. 31	Jan. 1 to 31	April 1 to 30
	Any taxes paid on the estimated amount is to be credited when final returns filed.		
Corporation Business Tax	Under this category, the fiscal year which aggregates six months on whatever fiscal year the corporation adopts; however, should the fiscal year exceed six months, tax will be assessed conformably, any exceeded portion is automatically included in the next period.	Within 20 days from the date after each fiscal period is terminated.	Within 15 days from the date on which the taxable amount determined.
Individual Business Tax	The fiscal year is divided into four quarters:		
	The first period Jan. 1 to March 31	April 1 to 20	May 15 to 31
	The second period April 1 to June 30	July 1 to 20	Aug. 15 to 31
	The third period July 1 to Sept. 30	Oct. 1 to 20	Nov. 15 to 30
	The fourth period Oct. 1 to Dec. 31	Jan. 1 to 20 of the following year	Feb. 15 to 28 of the following year.

	Tax Rate
Corporation Tax	Whenever corporation files a true and correct returns and pays the taxable amount within the specified due date, the tax rate of 35% shall apply. However, should the government unilaterally determine and assess any delinquent returns, or should any discrepancy exists of audit findings due to false filing of taxable amount, the tax rate shall be 45%.
Business Income Tax	(NOTE: This is applied only to the individual.)
a) Classified Tax	Proportional Tax Rate 15%
b) Surtax	(The progressive tax rate be applied.)

			Unit Hwan
240,000	to	299,999	5%
300,000	to	399,999	7%
400,000	to	599,999	10%

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	600,000	to	899,999	15%
	900,000	to	1,299,999	20%
	1,300,000	to	1,999,999	25%
	2,000,000	to	2,999,999	30%
	3,000,000	to	4,999,999	35%
	5,000,000 or over			40%

Corporation Business Tax — The individual business tax rates be applied.

Individual Business Tax — Refer to Section 5 of the Business Tax Law.
A few of tax rates applying to some of the business classifications

Sale Business,

Wholesale	Class A	0.3%	Retail	Class A	0.4%
	Class B	0.6%		Class B	0.9%
	Class C	0.9%		Class C	1.2%

Transportation Business	1.2%	Contract Works	
		Class A	0.9%
Forwarding Business	3%	Class B	1.2%
		Class C	2%
Commission & Agent	5.5%		

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Page 1 of
Encl. No. 11
Desp. No. 88
From AMEMBASSY, SEOUL

HEADQUARTERS
UNITED NATIONS CIVIL ASSISTANCE COMMAND, KOREA
KOREAN COMMUNICATIONS ZONE
APO 59, C/O PM, SAN FRANCISCO, CALIFORNIA

JOINT UNCACK, UNKRA, UNCURK TRANSLATION SERVICE

Republic of Korea
National Assembly Law No. 48
BUSINESS TAX
Promulgated August 13, 1949

Amended on May 1, 1950
by Law No. 135

Section I. Anyone who operates one of the following enterprises in the Republic of Korea shall be under obligation to pay business tax:

1. Sales
2. Banking
3. Insurance
4. Mutual-Aid financial enterprises
5. Money Lending
6. Equipment renting
7. Manufacturing
8. Electricity or gas
9. Forwarding
10. Forwarding agents
11. Warehousing
12. Railways (Track included)
13. Contractors
14. Printers
15. Publishers
16. Photographers
17. Brothels
18. Hotels (Ledging houses included)
19. Restaurants
20. Eating houses
21. Brokers
22. Agents
23. Middlemen
24. Consignment sales
25. Trusts
26. Exchange
27. Public bath-houses
28. Barber shop and beauty parlors
29. Dramatic entertainment
30. Games operation
31. Tourist bureaus

Section II. The following are considered as sales business;

1. Persons having no factory, who sell goods manufactured by another factory, furnishing the raw materials and paying the wages thereof;

2. Persons selling goods which they manufacture without a specific factory; provided, however, that an enterpriser who pays the enterprise tax as a manufacturer and sells his manufactured goods in another business place shall not be considered a seller.

Section III.

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By ____ NARA, Date 11/6/98

Section III. The enterprise tax shall not be imposed upon one of the following enterprises:

1. Any enterprise operated by a person who is exempted from the income tax or the juridical person tax according to the income tax law on the juridical person tax Law.

2. The sale of stamps or postage stamps issued by the Government;

3. Manufacture or sale of such goods as prescribed by Presidential Decree.

4. Printing pursuant to the provisions of the Press Law;

5. Refining or sale by a mine operator (literally, the owner of mining right) of minerals he mined or gathered;

6. Sale by a person of agricultural products, forest products, livestock products, marine products or such products as may be designated by Presidential Decree, produced by himself, or manufactured by such person of goods using the aforesaid products as raw materials; provided, however, that selling or manufacturing goods in a specific factory or business place shall be excepted [i.e., is subject to tax].

Section V. The business Tax shall be imposed upon the following basis of assessment in accordance with the respective tax rates (below stated).

Type of Enterprise	Basis of Assessment	Tax-retail Wholesale	Retail
Sales	Proceeds of sale	A 1/1000	A 2/1000
		B 1.5/1000	B 3/1000
Banking	Income	C 2/1000	C 4/1000
Insurance	Amount of Premium	0.7/1000	
Mutual-Aid financial enterprise	Amt. of installment	1/1000	
Money lending	Income	20/1000	
Equipment renting	Income	15/1000	
Manufacturing	Income	A 1.5/1000	B 3/1000
Electricity of gas	Income	1/1000	
Forwarding	Income	4/1000	
Forwarding agent	Commission	10/1000	
Warehousing	Income	10/1000	
Railway	Income	2/1000	
Contractor	Amount of contract	3/1000	4/1000
Printer	Income	4/1000	
Publisher	Income	3/1000	
Photographer	Income	6/1000	
Brothel	Income	10/1000	
Hotel	Income	6/1000	
Restaurants	Income	10/1000	
Eating House	Income	8/1000	
			Brokerage,

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Brokerage, agency, middlemen	Commission	1$/1000
Consignment sale	Commission	15/1000
Trust	Commission	5/1000
Exchange	Commission	3/1000
Bath House	Income	5/1000
Barber shop or beauty parlor	Income	7/1000
Dramatic entertainment	Income	8/1000
Games operation	Income	8/1000
Tourist bureau	Income	6/1000

The business tax shall be imposed an the wholesalers and retailers of grain, salt, tobacco, out of the sales business, with tax rate A; of coal, firewood, petroleum or other daily necessities of living as prescribed B; decree in accordance with Tax Rate B; of other commodities is accordance with Tax Rate C.

The business Tax shall be imposed on fertilizer manufacturers, silk reelers, cotton-ginners, oil-manufactuers, cotton spinners and rayon manufacturers in accordance with Tax Rate A, and on the producers of other commodities in accordance with Tax Rate B.

The business Tax shall be imposed on contractors aiming at wage earning in accordance with Tax Rate B on the wage, and on other contractors in accordance with Tax Rate A.

Section VI. The basis of assessment shall be computed as follows;

1. The proceeds of sale, income received, insurance premiums, mutual aid financial installments, contract prices or commissions of a juridical person shall be the sum total of the business year.

2. The proceeds of sale, income, received contract prices or commission, of an individual, shall be the semi-annual sum total, dividing a year into two terms - the first from January 1 to June 30 and the second term from July 1 to December 31.

In case a juridical person gives up its business, or goes out of existence by merger, during the current business year, the period from the beginning of the business year up to the time of closing or merger shall be regarded as one business year of the juridical person.

Section VII. A juridical person enterpriser shall submit a report to the Government within thirty days of the close of a business year, stating the name of the enterprise and the basis of assessment computed in accordance with the provisions of the previous Section; an individual enterpriser within twenty days of the close of a business term.

Section VIII. Anyone who has commenced a new enterprise shall report it to the Government within two weeks of the date of commencement, pursuant to the provisions of presidential decree.

In case

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In case a person, who is under obligation to submit a report to the Government in accordance with the provisions of the previous Section, has closed his business, he shall submit a report of cessation of business simultaneously with the closing of the business.

When a juridical person liable to taxation has gone out of existence by merger, the juridical person which remains in existence, or is newly organized after the merger, shall immediately submit a report of merger concerning the dissolved juridical person.

A juridical person under obligation to submit a report, pursuant to the provisions of the two previous paragraphs, shall also submit a report to the Government, stating in detail the basis of assessment for the period from the beginning of the business year up to the time of closing or merger, simultaneously with the submission of the other report (Described in the previous two paragraphs).

Section IX. In case a person operates several enterprises, an enterprise tax shall be imposed on each enterprise.

Section X. The enterprise tax shall be imposed on every place of business. In case an enterpriser has no place of business, his temporary residence or domicile shall be regarded as his place of business.

Section XI. The enterprise tax on the following enterprises shall be exempted for three years from the year following commencement; Banking, trust, mutual aid financial enterprise, insurance, manufacturing, electricity and gas, forwarding, warehousing, railways, printing, publishing, dramatic entertainment and tourist bureaus.

Section XII. The enterprise tax may be reduced or waived when the enterpriser runs an important business of public character in accordance with national policy.

Section XIII. The enterprise tax on savings banks shall be reduced to half of the regular amount of the tax.

Section XIV. In case an individual has succeded another in his business, or there is an evidenced acknowledgement of the succession, the enterprise tax shall be imposed on the incumbent enterpriser.

In cases under the preceding paragraph, if there is any remaining period of exemption or non-imposition of the enterprise tax, pursuant to the provisions of Section II hereof, the present enterprise shall succeed to the remaining period (of exemption or non-imposition).

Section XV. In case an individual has succeeded to the business of a juridical person, or a juridical person to the business of an individual, or when there is an evidence to acknowledge the succession, it shall be considered that the former enterpriser has closed the business and that the successor has started the business anew.

In cases

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E.O. 12356, Sec. 3.3
NND 867406
By ____ NARA, Date ____

In cases under the preceding paragraph, the enterprise tax shall be imposed on the new enterpriser from the time of the commencement of the business, notwithstanding the provisions of Paragraph 1, Section 11, hereof.

The provisions of Paragraph 2 of the preceding Section shall be applied mutatis mutandis in cases under paragraph 1 of the same Section.

Section XVI. A juridical person remaining in existence, or newly organized as a result of merger, shall be under obligation to pay the enterprise tax imposed on the juridical person which went out of existence by the merger.

The provisions in Paragraph 2 of Section 14 hereof, shall be applied when a juridical person has succeeded to the business of another juridical person, or when there is an evidence to acknowledge the succession.

Section XVII. The basis of assessment shall be determined by the Government according to the report provided in Section VII and Paragraph IV of Section VIII: but in case no report has been submitted, or the report submitted is deemed inappropriate, decision shall be made in accordance with the investigation of the Government.

The decision provided in the previous paragraph shall be notified by the Government to the taxpayer.

Section XVIII. In case a taxpayer has an objection to the basis of assessment notified by the Government, he may request the Government, within thirty days of the receipt of notificarion, to reexamine it, stating the reasons for his protest.

The request provided in the preceding paragraph shall in no instance postpone the collection of subject tax by the Government.

Section XIX. In case a request provided in Paragraph 1 of the preceding Section is received, the Government shall make a decision after investigation.

Section XX. The provisions in Sections 48 and 49 of the Income Tax Law shall be applied to the Enterprise Tax.

The Enterprise Tax of an individual shall be divided into two periods and be collected as follows:

The first period: From the first to the thirtieth of September of the current year;

The second period; From the first to the end of March of the following year;

In case a taxpayer has closed his business, or a taxpayer has changed his address or residence to a place outside the country without reporting to his agent in charge

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By ____, NARA, Date 11/6/97

in charge of taxpayment, or in case a taxpayer has filed an application to such effect, the Enterprise Tax may be collected immediately, notwithstanding the provisions of the preceding paragraph.

21-1 In case any of the followings is applicable, the person designated by the government is required to file the statement of payment with the government:

1. In the case of paying the price of commodities.
2. In the case of paying the fee of drinking eating and others.
3. In the case of paying compensation to the contractor and other compensation.

The government may, as provided for by Presidential Decree, compensate the person who submitted the statement of payment in accordance with the provisions of the preceding paragraph.

Section XXII. Anyone who carries on an enterprise stipulated in Section 1 hereof, shall keep books of account, and record all the transactions concerning the business, in order to show clearly the accounts of receipts and expenditures.

Section XXIII. Tax officials are entitled, when it is necessary for their investigation, to ask the enterpriser, or those who had business transactions in cash or goods with him, as to amounts, quantities prices and dates of payment, or to investigate the books of account or goods concerned.

Section XXIV. In case of necessity, the Government may inquire as to matters regarding the enterprise of the guild organized by members of the same trade or similar organizations, or from people who are well acquainted with matters connected with the business.

Anyone to whom the inquiry provided in the preceding paragraph has been made shall report, according to the provisions of Presidential Decree.

Section XXV. Anyone who has not answered the questions of a public employee engaged in tax administration, pursuant to the provisions of Section 23 hereof, or answered falsely, or who has refused disturbed, or evaded an investigation of account books or goods, or showed books containing false statements shall be fined less than 100,000 won.

Section XXVI. Those who failed to file the return as provided for by the provisions of Section 7 and 8 without an acceptable reason or who filed a fraudulent return, with the government, shall be fined not more than ₩ 100,000.

Section XXVII. Anyone who is or has been engaged in investigation or examination of the enterprise tax, and who has exposed, without due reason, the secrets acquired in the course of the investigation or examination, shall be fined less than 100,000 won.

The provisions

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NND 867800
By [illegible], NARA, Date [illegible]

The provisions of Sections 54-2, 60, and 61-64-2 of the Income Tax Law shall be applicable to the Business Tax.

Supplementary provisions

Section XXVIII. This law shall be effective as from April 1, 1950.

Section XXIX. The Chosun Business Tax Regulations are hereby repealed, provided, however, that the enterprise tax to be imposed in accordance with the former regulations prior to the enforcement of this law shall be imposed in accordance with the former regulations.

Section XXX. This Law shall be applied to juridical person from the business year ending after the first of January 1949, and to individuals from the first period of the year.

Section XXXI. A juridical person whose business year ends between 1 January 1949, and the date of promulgation of this law, shall submit a report pursuant to the provisions of Section 7, hereof, within thirty days after the promulgation of this law.

Section XXXII. Any person who has commenced a new business between the first of January 1949, and the date of promulgation hereof, shall submit a report pursuant to the provisions of Section 8, hereof, within 30 days after the promulgation of this law.

Section XXXIII. This law shall be effective as from the date of promulgation.

Section XXXIV. This law shall be applicable as from the business year ending after January 1, 1950 to the corporation, and as from the first term of the said year to the individual.

Section XXXV. The provision of Section 21-1 shall be applicable to the payments made in the period, as from after January 1, 1950 through the date of the promulgation of this law.

Translation by:
Edited by: SFC. James N. Davis
Translation Date:

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 11/7/01

INCOMING TELEGRAM 63 *Department of State*

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This Document Must Be Returned to

FROM: SEOUL

TO: Secretary of State

NO: 321, SEPTEMBER 8

SENT DEPARTMENT 321 REPEATED INFORMATION TOKYO 167.

TOKYO PASS CINCUNC AND CAG.

FOLLOWING IS EXCERPT FROM "EXPLANATION OF TAXATION UPON FOREIGN FIRMS IN KOREA" BY ROK MINISTRY FINANCE SEPT 8:

"ANY PERSON WHO IS DOING BUSINESS FOR THE PURPOSE OF GAINING PROFIT AND/OR MAKING PROFIT IN KOREA SHALL, IN ACCORDANCE WITH THE PROVISIONS OF THE KOREAN TAX LAWS, BE LIABLE FOR TAXES TOWARD THE GOVERNMENT OF REPUBLIC OF KOREA. AND THE INSTANCES OF THE ACTIONS WHICH SHALL BE DEEMED AS DOING BUSINESS AND/OR MAKING PROFIT IN KOREA ARE AS ENUMERATED HEREIN-AFTER.

"A) ANY NATURAL PERSON AND/OR JURIDICAL PERSON DOING COMMERCIAL (18 SUBSECTIONS FOLLOW) TRANSACTIONS IN KOREA SHALL BE SUBJECT TO TAX LIABILITY.

"B) ANY FOREIGN-FIRMS IN KOREA SHALL, WHEN IT MAKES AN OFFER IN REGARD TO THE OTHER PERSON'S COMMODITIES AND MAKES PROFIT ACCORDINGLY, BE DEEMED AS AN AGENT AND BE SUBJECT TO THE BUSINESS TAX AND THE AMOUNT OF GROSS RECEIPT SHALL BE THE TAX BASE. AND ALSO THE JURIDICAL PERSON INCOME TAX UPON JURIDICAL PERSON AND THE PERSONAL INCOME TAX UPON NATURAL PERSON SHALL BE ASSESSED RESPECTIVELY WITH MAKING THE TAX BASE OF NET INCOME THEREOF. THE AMOUNT OF GROSS RECEIPT INCLUDES THE AMOUNT ADDED TO THE OFFER.

"C) ANY FOREIGN-FIRMS IN KOREA SHALL, 1) WHEN SELLS IT'S OWN COMMODITIES IN KOREA AND 2) WHEN ANY OFFICER AND/OR ANY OTHER EMPLOYEE OF THE BRANCH OFFICE SELLS, AS AN AGENT IN KOREA, THE COMMODITIES OF THE HEAD

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E.O. 12356, Sec. 3.3
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By ____ NARA, Date 11/6/01

OF THE HEAD OFFICE, BE DEEMED AS DOING THE TRANSACTIONS IN KOREA, AND BE SUBJECT TO BUSINESS TAX UPON THE AMOUNT OF GROSS PROCEED GAINED, AND TO JURIDICAL PERSON TAX AFFECTING JURIDICAL PERSON AND NATURAL PERSON TAX AFFECTING NATURAL PERSON, UPON THE NET INCOME THEREOF. (NATURAL PERSON TAX: BOTH CLASSIFIED INCOME TAX AND GLOBAL INCOME TAX). THE AMOUNT OF GROSS PROCEED AND THE NET INCOME SHALL BE THE TAX BASE RESPECTIVELY.

"THE FOLLOWING CASES SHALL BE DESIGNATED AS THE TRANSACTIONS PERFORMED IN KOREA:

"I) WHEN BOTH THE OFFER AND ACCEPTANCE ARE MADE IN KOREA.

"II) WHEN THE OFFER AND THE ACCEPTANCE ARE MADE WITHIN AND OUTSIDE OF KOREA RESPECTIVELY, AND SUBSEQUENTLY THE ACCEPTANCE IS MADE IN KOREA. WHEN THE OFFER IS MADE IN KOREA AND THE CONTRACT (ACCORDING TO THE CUSTOM OF TRADE) IS EXECUTED IMMEDIATELY WITHOUT THE NOTICE OF ACCEPTANCE OF THE OFFER.

"THE CONCLUSION OF THE CONTRACT SHALL INCLUDE NOT ONLY THE CONTRACT WHICH HAS BEEN MADE FOR FORMS' SAKE, BUT ALSO THE AGREEMENT MADE ORALLY AND/OR BY MEANS OF CORRESPONDENCE.

"3. EITHER REPRESENTATIVE OR EMPLOYEE OF THE BRANCH OFFICE IN KOREA (ESTABLISH OF THE BRANCH OFFICE SHALL BE EXTENDED TO AN AGENCY AND A COMMERCIAL TRAVELLER OF THE HEAD OFFICE) SHALL, WHENEVER TRANSACTION HAVE OCCURED FOR THE PURPOSE OF PROFIT OR NON-PROFIT, BE LIABLE FOR TAXES, REGARDLESS OF WHERE THE PROFIT IS DEPOSITED. TRANSACTION DEFINES THE SELLING OF COMMODITIES AND THE SUBMITTING OF THE OFFER.

"4. EITHER THE REPRESENTATIVES OR ANY EMPLOYEES OF THE BRANCH OFFICE IN KOREA WHO EXECUTES CONTRACT MADE OUTSIDE OF KOREA OR ACTS AS AN INTERMEDIARY FOR THE PURPOSE OF THE CONCLUSION OF THE SALE CONTRACT AND RECEIVES NO INCOME OTHER THAN PERSONAL SALARY SHALL BE NOT SUBJECT TO ANY OTHER TAX THAN THE PERSONAL INCOME TAX ON THE SALARY."

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DEPARTMENT OF STATE
1955 SEP 8 AM 10 21
BUREAU OF
FAR EASTERN AFFAIRS

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E.O. 12356, Sec. 3.3
NND 867409
By ____ NARA, Date 11/27/84

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RM/R

September 23, 1955

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Original handed to
Mr. Sugahara 9/23/55

Dear Mr. Sugahara:

This is in reply to your letter of September 9, 1955, about the foreign businessman's tax problem in Korea.

The American Embassy, in close consultation with the American Chamber of Commerce, has made and is continuing to make representations to the Korean Government about the tax problem. The State Department fully supports this effort. The Department is hopeful that a reasonable settlement of the retroactive taxes problem can be effected.

Sincerely yours,

For the Secretary of State:

Max W. Bishop
Operations Coordinator
Office of the Under Secretary

Mr. Ley Sugahara,
Mealey Overseas Corp. Inc.,
Eight East Forty-Ninth Street,
New York 17, New York.

Enclosure:
Memo dated 11-25-68

Ltr. to
18

J/OP:MWBishop:cb
9/23/55
(Based on reply suggested by
FE;NA:HSmith)

A true copy of the signed original

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 4/17/89

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : U/OP - Mr. Bishop

DATE: SEP 16 1955

FROM : NA - Mr. Hemmendinger

SUBJECT: Suggested ~~Reply to~~ Mr. Sugahara.

The telegram enclosed from Mr. Sugahara is identical to others that members of the American Chamber of Commerce have sent to Congressmen, Senators and others. I suggest a reply along the following lines:

"This is in reply to your letter of September 9, 1955, about the foreign businessmen's tax problem in Korea.

"The American Embassy, in close consultation with the American Chamber of Commerce, has made and is continuing to make representations to the Korean Government about the tax problem. The State Department fully supports this effort. The Department is hopeful that a reasonable settlement of the retroactive taxes problem can be effected."

FW 895.6-9/11-1555

Enclosures:

Copy of Letter dated 9/9/55
" " telegram dated 9/8/55

FE:NA:HSHeath:mhn
9/15/55

Action 18
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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 11/7/94

DEPARTMENT OF STATE

THE UNDER SECRETARY
U/OP

September 13, 1955

NA - Mr. McClurkin:

Attached is a copy of a letter which I have received from Mr. Kay Sugahara concerning the plight of American businessmen in Korea. I would appreciate your advice as to how this letter should be answered.

Max W. Bishop

Attachment:
As stated above.

cc - BP

DE/R
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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 4/24/24

September 9, 1955

State Department
Washington, D.C.

Attention Mr. Max Bishop

Dear Mr. Bishop:

I am enclosing a cable sent to me by Mr. John Ricks, formerly with the Bank of America and now with a firm representing International Harvester, St. Regis Paper and a number of major American pulp firms.

Please advise me if I can tell him whether there is anything that legitimate American businessmen can do and how they can best lend their cooperation. Everyone recognizes that the situation is very ticklish but I do not believe that it is the American policy to retreat when the going gets tough. If unfair legislation or coercive measures are permitted to reduce the sphere of American commercial activity, then American world strength and particularly "face" in the Orient will suffer. We know there is a desire by native Koreans to become the local representatives of American companies but nevertheless, my friends feel that the American principle of "equality of commercial opportunity" which has long been a basic tenet of American policy still stands and is the basis by which American traders should base their activities.

Americans have demonstrated courage militarily and I feel that the same courage and fortitude should be expressed in the political and commercial fields. I would appreciate hearing the reaction of concerned people in your department so I can advise these American representatives abroad.

Yours very truly,

Kay Sugahara

P.S. We must be cognizant of the fact that the Communists scheme to make us lose face militarily. Is it possible that plotters are capitalizing on the "grand, old man's" emotional weaknesses to make us lose face by this devious strategy?

Files

Document Must Be Returned to

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OCT 4 - 1955

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DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 1/29/21

September 8, 1955

VIA SF L702 TOKYO 87 7 1737

LT TASKMOR NEWYORK

REGARDING CURRENT TAXATION DIFFICULTIES BETWEEN AMERICAN BUSINESS FIRMS AND KOREAN GOVERNMENT ALMOST INEVITABLE WE AND OTHER KXKMX AMERICAN COMPANIES FORCED CLOSE KOREA OFFICES AND LEAVE IF KOREAN GOVERNMENT PERSISTS IN PRESENT UTTERLY UNREASONABLE ATTITUDE STOP

UNITED STATES EMBASSY SEOUL STRONGLY SUPPORTS OUR ACTION AND TRYING NEGOTIATE AT DIPLOMATIC LEVEL ALSO UNDERSTAND STATE AND TREASURY DEPARTMENTS FULLY INFORMED AND VERY SYMPATHETIC STOP THIS APPEARS ATTEMPT GET RID OF US DO THEY THINK THEY CAN RUN SHOW AS THEY PLEASE STOP SITUATION CRITICAL DO BEST HELP US OUT.

JOHN

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 861400
By [illegible], NARA, Date 1/16/24

OUTGOING TELEGRAM

INDICATE: ☐ COLLECT
☐ CHARGE TO

Department of State

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xL800.05195b
795b.343

SENT TO: Amembassy SEOUL

Your 321, 322, 336.

Origin

Info:

Can offer little further guidance to support your able efforts to date. Would appear unprofitable engage in continued discussions of technical merit Finance Ministry "explanation" of tax law. As Embassy stated to ROK US cannot challenge action on legal grounds but only grounds impact future business activity Korea, loss US goodwill and affect US ROK commercial relations.

Suggest that Embassy its discretion decide how far profitable press US position bearing in mind that legal aspect problem necessarily imposes limits on extent to which US can insist ROK accept its position. If ROK accept your suggestion that ROK "explanation" apply only transactions after September 8, 1955, this appears best solution. You can best judge locally whether advisable stand on this proposal or if reason believe Embassy representations have induced reasonable position in specific cases whether preferable ~~[illegible]~~ businessmen acknowledge ROK right as matter of principle to tax for previous years and individually negotiate best possible settlement back taxes (i.e., instead of first paying then seeking adjustment).

Dist. Desired (Offices Only)

DC/R
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Rev 1
Cat

Hoover HOOVER
(Acting)
(2G)

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CS/M

Drafted by: FE:NA:HSmith:prg 9-9-55

Telegraphic transmission and classification approved by: NA - Noel Hemmendinger

Clearances: L - Metzger OFD - Young Commerce - Baran
Treasury - Gordon

S/S-CR
SEP 9 1955 P.M.

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Classification

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895B.11/9-955

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E.O. 12356, Sec. 3.3
NND 867400
By lyw, NARA, Date 1/17/29

INCOMING TELEGRAM 63 *Department of State* **ACTION COPY**

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Control: 4412
Rec'd: SEPTEMBER 9, 1955
8:35 A.M.

Action Assigned to NA
Action Taken
Date of Action Sept 9
Action Office Symbol NA
Name of Officer FC
Direction to DC/R

This Document Must Be Returned To DC/R Central Files

895B.11/9-955

FROM: SEOUL

TO: **Secretary of State**

NO: 336, SEPTEMBER 9, 7 P.M.

NIACT

SENT DEPARTMENT 336 RPTD INFO TOKYO 173

TOKYO PASS CINCUNC AND CAG.

REF EMBTEL 322 SENT TOKYO 168.

DCM CONFERRED WITH FINMIN ALONE ONE HOUR TODAY AND RECEIVED REVISED VERSION "EXPLANATION OF TAXATION UPON FOREIGN FIRMS IN KOREA," FIRST PRESENTED EMB YESTERDAY. COPY BEING AIRPOUCHED. DISCUSSION WITH MIN COVERED GROUND PREVIOUSLY REPORTED CENTERING PRINCIPALLY ON QUESTION WHETHER APPLICATION REVISED "EXPLANATION" TO BUSINESS TRANSACTED SINCE JAN 1, 1954, WOULD BE RETROACTIVE APPLICATION OF LAW.

FINMIN EXPRESSED HIMSELF MOST ANXIOUS DISPOSE OF THIS PROBLEM (DEPT WILL RECALL HE HAS HELD THIS OFFICE ONLY SINCE JULY 12); SAID HE WAS SURE ALL CASES COULD BE SETTLED SATISFACTORILY IF BUSINESSMEN WOULD COME INDIVIDUALLY TO TAX BUREAU FOR ADJUDICATION BILLS PRESENTED THEM. DCM REPLIED HE WAS SURE BUSINESSMEN WOULD BE GLAD TO DO THAT IF PRINCIPLES THAT WOULD GUIDE BUREAU IN MAKING ADJUDICATIONS WERE MADE KNOWN BEFOREHAND AND WERE NOT NEW INTERPRETATIONS THAT WOULD BE APPLIED RETROACTIVELY.

DCM POINTED OUT HIS UNDERSTANDING DERIVED FROM HAROLD LADY, ECONOMIC ADVISOR PRES RHEE, THAT INTERNATIONAL BUSINESS TRANSACTIONS OF THE TYPE UNDER DISCUSSION WERE GENERALLY SUBJECTED TO BUSINESS TRANSACTIONS (SALES) TAX, IF ANY, AT POINT WHERE PROFIT ACCRUED; POINT WHERE PROFIT ACCRUED BEING GENERALLY CONSIDERED PLACE WHERE TITLE TO GOODS PASSED, THAT THIS WAS INTERPRETATION OF BUSINESS TRANSACTIONS TAX LAW WHICH HAD BEEN DISCUSSED IN ALL MEETINGS OF

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SEE REFTEL

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NND 867400
By [illegible], NARA, Date 11/6/97

CHAMBER AND TAX BUREAU OFFICIALS BETWEEN FEB 11, 1955 AND JUL 5, 1955 AND INCORPORATED IN MEMORANDUM OF LATTER DATE; THAT "EXPLANATION " FIRST PRESENTED YESERDAY AND REVISED TODAY WAS FIRST DOCUMENT OF THIS TYPE EVER ISSUED BY ROK FINMINISTRY.

TO ARRIVE AT EQUITABLE SOLUTION DCM SUGGESTED MINISTRY AGREE TO ASSESS TAXES ON TRANSACTIONS PRIOR TO SEPT 8, 1955, IN ACCORDANCE WITH GENERALLY ACCEPTED PRINCIPLE STATED ABOVE AND THAT GOVT'S "EXPLANATION" BE APPLICABLE TO TRANSACTIONS AFTER THAT DATE. (DCM HAD MET WITH REPRESENTATIVES OF CHAMBER EARLIER IN DAY AND OBTAINED THEIR GUIDANCE IN FORMULATING THIS PROPOSAL.)

MIN ASKED IF HE COULD SEE DCM AGAIN MONDAY, SEPT 12, AND APPOINTMENT WAS MADE FOR 9 A.M. MIN SAID HE HAD BEEN UNABLE SEE PRES RHEE LAST FEW DAYS BUT WOULD TRY SEE HIM AND OBTAIN INSTRUCTIONS BEFORE MONDAY.

DCM BELIEVES MIN SINCERE IN PROFESSING DESIRE SETTLE TAXATION PROBLEM AMICABLY AND SOONEST. MIN IS RESENTFUL OF BUSINESSMEN'S PRESS RELEASES ON TAXATION BUT DCM POINTED OUT BUSINESSMEN LIKEWISE DEEPLY RESENTFUL INJUSTICE WHICH CONTINUES TO BE DONE TO THEM IN GOVT-CONTROLLED NEWSPAPER. DCM POINTED OUT DELAY IN SETTLEMENT WILL CERTAINLY INJURE KOREA IN ESTIMATION AMERICAN PUBLIC SINCE FAIR PLAY IS LIKELY BECOME ISSUE IN AMERICAN PUBLIC MIND AND AMERICANS NOTABLY SENSITIVE ON THIS QUESTION.

EMBASSY WILL APPRECIATE RECEIVING ADDITIONAL GUIDANCE FROM DEPT BEFORE DCM MEETS FINMIN MONDAY.

LACY

DEPARTMENT OF STATE
1955 SEP 9 AM 11 25
BUREAU OF
FAR EASTERN AFFAIRS

SEP 14 1955

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date 11/6/21

1015

Congress of the United States

House of Representatives

Washington, D. C.

September 12, 1955

Sir:

The attached communication is sent for your consideration. Please investigate the statements contained therein and forward me the necessary information for reply, returning the enclosed correspondence with your answer.

Yours truly,

Robert Chiperfield

ROBERT B. CHIPERFIELD

This letter (and its enclosures, if any) Micro-filmed for DC/R records

Mr. Ben H. Brown
Deputy Asst. Secy. of State
for Congressional Relations
Department of State
Washington 25, D. C.

um

ACTION
is assigned to

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DEPARTMENT OF STATE
BUREAU OF FAR EASTERN AFFAIRS
1955 SEP 15 AM 11 03

DEPARTMENT OF STATE
INTERNAL SERVICES DIV.
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895B.11/9-1255

Draft
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FILED
SEP 28 1955

8 Pgs
A/53
9-1255

Letter from Deere & Company Export Dept. Moline, Ill. W. F. Haberen, Manager Concerning Korean tax on american business firms in Korea

285432

DC/R
Anal 53
Rev 1
Cat Class Sect

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 11/21/97

September 21 1955

In reply refer to
SEV 895B.11/9-1255

Dear Mr. Chiperfield:

I refer to your communication of September 12, acknowledged by telephone on September 16, enclosing a letter from Mr. W. F. Haberer of Moline, Illinois, concerning the tax problem in Korea.

You may wish to inform your constituent that the American Embassy in Korea, in close consultation with the American Chamber of Commerce, has been actively attempting to negotiate a reasonable settlement of the tax problem with the Government of the Republic of Korea since August 28. A letter was sent to the Ministry of Finance on September 1 in which the Embassy protested the retroactive enforcement of taxes which foreign businessmen believed not applicable to them and urged that the Korean Government review the question in the light of equity and with due regard to United States-Korean commercial relations. Since then the Embassy has undertaken a series of meetings with the Minister of Finance. One result of these efforts was to obtain Korean agreement to postpone the tax deadlines during the course of the discussions. The Korean Government also agreed to review its policy of refusing exit permits to those who have not settled their tax assessments.

These efforts by the Embassy, supported by the Department of State, are continuing. The Department is hopeful that a reasonable settlement on the retroactive tax assessment can be effected.

As you requested, I am returning Mr. Haberer's letter.

Sincerely yours,

S/S-CR
SEP 20 1955 P.M.

Florence Kirlin
Acting Assistant Secretary

SEP 21 1955

Enclosure:
From Mr. Haberer
(returned).

The Honorable
Robert B. Chiperfield,
House of Reps.

Info from NA

P:SEV:REVANS:DKP:mp 9/20/55

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E.O. 12356, Sec. 3.3
NND 867400
By lgw, NARA, Date 1/17/29

INCOMING TELEGRAM 63 *Department of State*

ACTION COPY

18

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Control: 5647
Rec'd: SEPTEMBER 13, 1955
7:34 A.M.

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FROM: SEOUL

TO: Secretary of State

NO: 343, SEPTEMBER 12, 7 P.M.

Date of Action
Action Office Symbol
Name of Officer
Direction to DC/R

SENT DEPARTMENT 343; REPEATED INFORMATION TOKYO 176

TOKYO PASS CINCUNC AND CAG.

REF EMBTEL 336 SENT TOKYO 173.

AMERICAN CHAMBER OF COMMERCE MADE PRESS RLEASE SEPT 9 (TWX 120230Z) WHICH CAUSED STRONG REACTION IN KOREAN OFFICIAL CIRCLES. CHAMBER RELEASE SAID, AMONG OTHER THINGS, THAT ANOTHER EXIT PERMIT HAD BEEN DENIED EMPLOYEE AMERICAN FIRM DESPITE ASSURANCES GIVEN THIS WOULD NO LONGER BE DONE. ACTING FONMIN WROTE ME OBJECTING TO RELEASE IN GENERAL AND TO ITEM CONCERNING REFUSAL EXIT PERMIT IN PARTICULAR. HE STATED "THE ONE BUSINESSMAN WHO HAS ASKED FOR AN EXIT VISA (WITHOUT PAYING HIS TAXES) COMBINED WITH IT A REQUEST FOR A RE-ENTRY PERMIT, AND NATURALLY THIS WAS REFUSED." ROKG ACTUALLY HAS NO TAX CLAIM AGAINST THE EMPLOYEE WHO WAS REFUSED ALTHOUGH COMPANY FOR WHICH HE WORKS HAS RECEIVED A BILL THAT HAS NOT BEEN PAID. I AM REPLYPNG THAT WITHHOLDING RE-ENTRY PERMIT IN THESE CIRCUMSTANCES IS JUST AS OBJECTIONALBE AS REFUSING EXIT PERMIT.

AMB YANG WHO IS AT PRESENT IN KOREA INJECTED HIMSELF INTO TAXATION PROBLEM BY ISSUING STATEMENT SEPT 10 RELEASED BY OPI (TWX 120235Z) WHICH CONTAINS INACCURATE STATEMENTS AND IRRELEVANT REFERENCES.

DCM MET WITH FINMIN FORTY MINUTES THIS MORNING. NO OTHERS PRESENT. FINMIN EXPRESSED HIMSELF DEEPLY CONCERNED ABOUT POSSIBLE CONSEQUENCES OF PUBLICITY TAXATION PROBLEM NOW RECEIVING IN US AND MOST ANXIOUS "QUIET THINGS DOWN". TO HIS OBJECTIONS CONCERNING CHARACTER CHAMBER'S RELEASES DCM REPLIED THEY WERE ISSUED COMPLETELY ON CHAMBER'S OWN RESPONSIBILITY WITHOUT PRIOR

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SEP 13 1955

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E.O. 12356 Sec. 3.3
NND 867400
By cml NARA, Date 4/6/94

CONSULTATION WITH EMB; THAT WHILE ROKG MIGHT FIND THEM OBJECTIONABLE EMB AND AMERICAN BUSINESSMEN HAD FOUND OPI RELEASES AND ARTICLES IN KOREAN REPUBLIC LAST FEW MONTHS ALSO OBJECTIONABLE; THAT EMB HAS MADE NO REPLY TO ANY OF THESE RELEASES AT ANY TIME AND CHAMBER MADE ITS FIRST REPLY TEN DAYS AGO.

REFERRING TO AMB YANG'S STATEMENT, FINMIN SAID HE UNDERSTOOD FCN TREATY WAS ON POINT BEING SIGNED. HE PROPOSED SETTLEMENT OF "DELINQUENT" TAXES FOR PERIOD PRIOR TO JULY 1, 1955 BE POSTPONED UNTIL TREATY SIGNED AND SETTLEMENT THEN BE MADE IN ACCORDANCE PRINCIPLES OF TREATY. AS FOR PERIOD SINCE JULY 1, FINMIN PROPOSED ASSESSMENT TAXES "IN ACCORDANCE PROVISIONS OF LAW".

DCM WELCOMED WELCOMED FIRST PART OF FINMIN'S PROPOSAL ALTHOUGH HE IS AWARE NOTHING IN LANGUAGE TREATY HAS DIRECT BEARING ON THIS PROBLEM; FURTHERMORE AWARE NEGOTIATIONS ON FCN TREATY HAVE REACHED IMPASSE AND IT MAY BE A LONG TIME BEFORE IT IS SIGNED, IF EVER. AS FOR SECOND PART PROPOSAL DCM ASKED IF FINMIN REFERRED TO "EXPLANATION OF TAXATION UPON FOREIGN FIRMS IN KOREA" ISSUED IN REVISED FORM BY FINMINISTRY SEPT 9, 1955, WHEN HE PROPOSED TO ASSESS TAXES BEGINNING JULY 1, 1955, IN ACCORDANCE PROVISIONS OF LAW". WHEN FINMIN REPLIED IN AFFIRMATIVE DCM RESTATED US POSITION ON RETROACTIVE APPLICATION OF INTERPRETATION LAW AND URGED HIM TO SUBSTITUTE SEPT 9 FOR JULY 1 IN HIS PROPOSAL, SAYING HE BELIEVED SETTLEMENT COULD BE REACHED ON THIS BASIS. AFTER SOME DISCUSSION DCM REQUESTED FINMIN MAKE HIS PROPOSAL IN WIRTING. FINMIN PROMISED SEND HIS PROPOSAL FOR SETTLEMENT LATER TODAY OR TOMORROW. DCM AND I ARE UNCERTAIN AS TO FULL IMPLICATIONS OF FIRST PART FINMIN'S PROPOSAL BUT WILL STUDY THEM WHEN LETTER IS RECEIVED.

THIS AFTERNOON FINMIN SENT ME COPY OF STATEMENT HE HAS ISSUED (TWX 129235Z) IN WHICH HE REPEATED THREE CHOICES AMB YANG SAID IN HIS RELEASE ARE OPEN TO AMERICAN BUSINESSMEN:

1) PAY TAX BILLS;

2) IF UNWILLING, APPLY INDIVIDUALLY FOR REVIEW WITHIN DEADLINES STATED;

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E.O. 12356, Sec. 3.3
NND 867404
By NARA, Date 11/6/01

1019

-3~~8~~ 343, SEPTEMBER 12, 7 P.M., FROM SEOUL

3) IF UNWILLING DO EITHER OF THESE, WITHDRAW FROM KOREA.

EMBASSY WILL INQUIRE TOMORROW BEARING OF THIS STATEMENT ON PROPOSAL FINMIN MADE ORALLY TO DCM THIS MORNING; ALSO BEARING OF CHOICE 2) ON "GENTLEMEN'S AGREEMENT" OF SEPT 5 THAT MINISTRY WOULD NOT MOVE AGAINST ANY BUSINESSMAN WHILE CURRENT DISCUSSIONS BETWEEN MINISTRY AND EMBASSY OFFICIALS WERE IN PROGRESS (EMBTEL 289 SENT TOKYO 154).

LACY

LFS

1020

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E.O. 12356, Sec. 3.3
NND 66180
By [illegible] NARA, Date [illegible]

ACTION
is assigned to
FE

RM/R

United States Senate

September 12, 1955

Respectfully referred to

Department of State

with thanks for such favorable consideration as the communication herewith submitted warrants, and for a report thereon, in duplicate to accompany return of inclosure.

By direction of
William F. Knowland

285410

Re: Retroactive tax by Govt. of Korea U. S. S.
Tel.: Brayton Wilbur, President
Connell Bros. Co., Ltd.
San Francisco, California

This letter (and its enclosures, if any) microfilmed for D/R records

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DEPARTMENT OF STATE
1955 SEP 14 PM 4 43
BUREAU OF FAR EASTERN AFFAIRS

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SEP 28 1955

FUELS SERVICES DIV. PCB
1955 SEP 16 AM 10 27
DEPARTMENT OF STATE

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Draft 9/14 ors
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E.O. 12356, Sec. 3.3
NND 867400
By NARA, Date 11/6/01

September 21 1955

In reply refer to
SEV 895B.11/9-1255

Dear Senator Knowland:

I refer to your communication of September 12, acknowledged by telephone on September 16, enclosing a telegram from Mr. Brayton Wilbur of San Francisco, concerning the tax problem in Korea.

You may wish to inform your constituent that the American Embassy in Korea, in close consultation with the American Chamber of Commerce, has been actively attempting to negotiate a reasonable settlement of the tax problem with the Government of the Republic of Korea since August 28. A letter was sent to the Ministry of Finance on September 1 in which the Embassy protested the retroactive enforcement of taxes which foreign businessmen believed not applicable to them and urged that the Korean Government review the question in the light of equity and with due regard to United States-Korean commercial relations. Since then the Embassy has undertaken a series of meetings with the Minister of Finance. One result of these efforts was to obtain Korean agreement to postpone the tax deadlines during the course of the discussions. The Korean Government also agreed to review its policy of refusing exit permits to those who have not settled their tax assessments.

These efforts by the Embassy, supported by the Department of State, are continuing. The Department is hopeful that a reasonable settlement on the retroactive tax assessment can be effected.

As you

The Honorable
William F. Knowland,
United States Senate.

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DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date 4/17/09

As you requested, I am returning Mr. Wilbur's telegram.

Sincerely yours,

For the Secretary of State:

Florence Kirlin
Acting Assistant Secretary

Enclosure:

From Mr. Wilbur
(returned).

S/S-CR

SEP 21 1955 P.M.

SEP 21 1955

P:SEV:NEVANS:DKP:mr 9/19/55 Info. from NA

1023

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 4/24/98

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HERBERT H. LEHMAN, N. Y.
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GORDON ALLOTT, COLO.

STEWART E. MC CLURE, STAFF DIRECTOR

United States Senate

COMMITTEE ON
LABOR AND PUBLIC WELFARE

ACTION
is assigned to
FE

September 13, 1955

RM/R

Honorable Thruston B. Morton
Assistant Secretary of State
Department of State
Washington 25, D. C.

Dear Mr. Morton:

I am enclosing a letter I have received from the Deere & Company Export Department of Moline, Illinois which relates a problem of interest to the State Department.

I would greatly appreciate your looking into the matter with a view toward furnishing me with sufficient information to intelligently reply to the letter.

With appreciation and with warm best wishes,

Very sincerely,

Paul H. Douglas

PHD:HB:v
enclosure

Enc. Att'y Ltr

This letter (and its enclosures, if any) microfilmed for DC/R records

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SEP 28 1955
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E.O. 12356, Sec. 3.3
NND 60749
By NARA, Date

In reply refer to
SHV 895B.11/9-1355

September 21 1955

Dear Senator Douglas:

I refer to your letter of September 13, acknowledged by telephone on September 16, enclosing a letter from Mr. W. F. Haberef of Moline, Illinois, concerning the tax problem in Korea.

You may wish to inform your constituent that the American Embassy in Korea, in close consultation with the American Chamber of Commerce, has been actively attempting to negotiate a reasonable settlement of the tax problem with the Government of the Republic of Korea since August 25. A letter was sent to the Ministry of Finance on September 1 in which the Embassy protested the retroactive enforcement of taxes which foreign businessmen believed not applicable to them and urged that the Korean Government review the question in the light of equity and with due regard to United States-Korean commercial relations. Since then the Embassy has undertaken a series of meetings with the Minister of Finance. One result of these efforts was to obtain Korean agreement to postpone the tax deadlines during the course of the discussions. The Korean Government also agreed to review its policy of refusing exit permits to those who have not settled their tax assessments.

These efforts by the Embassy, supported by the Department of State, are continuing. The Department is hopeful that a reasonable settlement on the retroactive tax assessment can be effected.

I am

The Honorable
Paul H. Douglas,
United States Senate.

895B.11/9-1355 CS/S

DC/R
20
MS

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By lgd, NARA, Date 4/29/24

I am returning Mr. Eaberer's letter for your records.

Sincerely yours,

Florence Kirlin
Acting Assistant Secretary

Enclosure:

From Mr. Eaberer
(returned).

S/S-CR

SEP 20 1955 P.M.

SEP 21 1955

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 11/9/21

HOUSE OF REPRESENTATIVES U. S.
WASHINGTON, D. C.

ACTION
is assigned to

13 September, 1955

Respectfully referred to

IN REPLY: WILBUR, Brayton
C STATE C-92

Honorable John Foster Dulles
Secretary of State
Department of State
Washington 25, D. C.

Dear Sir:

The enclosed self-explanatory telegram from Mr. Brayton Wilbur, President, Connell Brothers Company Ltd. of San Francisco, has been received in this office during Congressman Mailliard's absence on official Committee business in Europe.

It would be very much appreciated if you would provide this office with any information, as well as any comments you may care to make, which would be of assistance to Mr. Mailliard in his reply. Return of Correspondence is requested.

Very respectfully,

285540

Margaret A. Mahoney

Miss Margaret A. Mahoney
Secretary to
Congressman Mailliard

This letter (and its enclosures) M. C. 4th District. CALIFORNIA filmed for DC/R records

895B.11/9-1355

DEPARTMENT OF STATE
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BUREAU OF FAR EASTERN AFFAIRS

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DEPARTMENT OF STATE
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FILED
SEP 28 1955

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A/38/9-1355

1027

September 21 1955

895.11/9-1355

Dear Mr. Maillard:

I refer to Miss Mahoney's letter of September 13, acknowledged by telephone on September 16, enclosing a telegram from Mr. Brayton Wilbur of San Francisco, concerning the tax problem in Korea.

You may wish to inform your constituent that the American Embassy in Korea, in close consultation with the American Chamber of Commerce, has been actively attempting to negotiate a reasonable settlement of the tax problem with the Government of the Republic of Korea since August 28. A letter was sent to the Ministry of Finance on September 1 in which the Embassy protested the retroactive enforcement of taxes which foreign businessmen believed not applicable to them and urged that the Korean Government review the question in the light of equity and with due regard to United States-Korean commercial relations. Since then the Embassy has undertaken a series of meetings with the Minister of Finance. One result of these efforts was to obtain Korean agreement to postpone the tax deadlines during the course of the discussions. The Korean Government also agreed to review its policy of refusing exit permits to those who have not settled their tax assessments.

These efforts by the Embassy, supported by the Department of State, are continuing. The Department is hopeful that a reasonable settlement on the retroactive tax assessment can be effected.

As requested, I am returning Mr. Wilbur's telegram.

Sincerely yours,

For the Secretary of State:

Florence Kirlin
Acting Assistant Secretary

Enclosures
From Mr. Wilbur (returned).

The Honorable William S. Maillard,
House of Representatives.

P:SEV:MEVans:DLP:bc 9/19/55

S/S-CR
SEP 20 1955 P.M.
SEP 21 1955

Info from NA

895.11/9-1355 CS/S

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DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By lym, NARA, Date 4/17/99

STANDARD FORM NO. 64

OFFICIAL USE ONLY

Office Memorandum • UNITED STATES GOVERNMENT

TO : FE - Mr. Robertson

THROUGH : FE - Mr. Jones

FROM : NA - Mr. Hemmendinger

Bureau of
FAR EASTERN AFFAIRS
SEP 13 1955
ASSISTANT SECRETARY
Department of State

DATE: SEP 13 1955

This Document Must Be Returned to Central Files

SUBJECT: Summary Background of Foreign Businessmen's Tax Dispute with the Republic of Korea.

For several months the Korean Government has been concerned with the problem of taxation of foreign businessmen in Korea. Until August this concern was focused upon the personal income taxes of businessmen. The American Chamber of Commerce organized a Tax Committee to discuss the tax problem with the ROK. In July an understanding was reached between the Tax Committee and the Ministry of Finance on the details of income taxation. At the same time the Tax Committee believed it had reached an understanding with the Ministry of Finance that foreign businessmen would not be subject to the transactions tax.

During the last week of August the Korean Government suddenly presented the foreign business community with tax assessments based upon the transactions tax. Tax deadlines, which seemed to center around September 5, were established after which a 10% penalty was imposed, and in some cases it was stated that the assets and records of the business offices in Korea would be seized if settlement were not effected. There is no clear picture of the amount of tax involved. The American Chamber of Commerce states that taxes of "up to 4%" on gross sales are involved.

The transactions tax is a gross sales tax at varying rates upon 31 types of business. The legal basis for the tax is the Business Tax law promulgated August 13, 1949 and made effective April 1, 1950. Apparently the classification under which trading activity falls is "sales" which are taxed at the rate of .15% (15 hundreds of one per cent). There is no explanation for the discrepancy between the apparent rate at which gross sales should be taxed under the law and the reports that taxes actually range "up to 4%". Probably the explanation is that the Ministry of Finance is basing its tax assessment upon erroneous sales data. Also it is possible that the higher tax rates are imposed with the expectation that negotiated settlements at a lower figure will be made.

Why has the Korean Government imposed this tax without notice when it has been upon the books for more than five years? The American Embassy believes that it is an effort to seek additional sources of dollar revenue to compensate for reduced revenues from U.S. Army purchases of hwan and

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NND 867400
By [illegible], NARA, Date 1/17/94

reduced exports. Ambassador Yang, in a public statement in Korea, states that the government has not demanded taxes in previous years because "business conditions were less stable". It is possible that the Korean Government, aware that Japan is imposing more severe taxes on foreign businessmen, also desires to assert its sovereignty in this respect.

The American Chamber of Commerce has protested the tax vigorously, both privately and publicly. Their arguments are along the following lines: the tax law involved and the tax regulations are ambiguous in their application to foreign businessmen; the Chamber has been attempting for several weeks to obtain a clarification of the tax responsibilities of businessmen and was under the impression that an understanding had been reached in July that foreign businessmen are not subject to the transactions tax; in accordance with common tax practice, the great majority of foreign businessmen in Korea are not subject to the transactions tax because they are merely agents of companies in the United States which conclude the transaction and collect the profits; in any case, it is grossly unfair to apply the tax retroactively since businessmen were unaware of their tax liabilities at the time the transactions occurred; the tax assessments themselves are excessive and in many cases would more than wipe out the narrow profit margins.

The Embassy has from the outset been active in this dispute. It has consulted closely with representatives of the American Chamber of Commerce, sent a letter to the Ministry of Finance, and has had several meetings with the Minister of Finance. The Embassy has emphasized the unfairness of the retroactive aspect of the tax assessments and has suggested that the transactions tax be applicable beginning at the present. So far the Embassy has been unsuccessful in persuading the ROK to accept this solution. The ROK insists that the businessmen pay their bills and later seek adjustments. However, as a result of the Embassy's efforts, the ROK under a "gentlemen's agreement" has extended the tax deadline while the discussions are underway and has agreed to review its policy of refusing exit visas to those who have not settled tax bills. NA has examined closely the legal aspects of the problem with L and the Treasury and has learned that there is no question but that the ROK is within its taxing authority in imposing this tax. Treasury states, however, that ordinarily, as a matter of tax administration, foreign governments would not tax foreign business agents in their country on a gross

sales

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NND 867400
By [illegible], NARA, Date 11/21/21

sales basis if the agents merely facilitate a transaction and do not import on their own account. The Embassy has been advised to emphasize the effects of the tax dispute upon foreign business activities in general in Korea, upon US-ROK commercial relationships, and upon the loss of goodwill in the United States.

The Embassy has presumably concluded another meeting with the Ministry of Finance and we anticipate a telegram momentarily describing the latest developments.

HLP

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9/13/55

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E.O. 12356, Sec. 3.3
NND 867400
By lgm, NARA, Date 1/27/99

RMR
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fill

September 15, 1955

Dear Mr. Younger: 895b.11/9-1455
9-2656

Thank you for your telegram of September 14 regarding the tax matter involving Brayton Wilbur's firm in Korea.

I have known Mr. Wilbur for many years as one of the most responsible business leaders in California.

I am taking immediate action within the Department to run this matter down and will keep you advised of developments.

Sincerely yours,

Herbert Hoover, Jr.

The Honorable
J. Arthur Younger,
25 Second Avenue,
San Mateo, California.

S/S-RO
SEP 15 1955
A true copy of
signed original

U:HHoover,Jr:mm

cc: FE - Mr. Smith

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895A.11/9-1455

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date 1/10/24

RMR
file

SEP 21 1955

RMR

Dear Mr. Younger:

With further reference to your telegram of September 14, I have now had a report on the tax question which you raised.

The Department does, of course, share your serious concern and, through our Embassy in Seoul, is actively pursuing this question with the Korean authorities. Ever since August 26, in close consultation with the American Chamber of Commerce, the Embassy has been actively attempting to negotiate a reasonable settlement of the tax problem with the Government of the Republic of Korea. A letter was sent to the Ministry of Finance on September 1 in which the Embassy protested as unfair and inequitable the retroactive enforcement of taxes which foreign businessmen believed not applicable to them and urged that the Korean Government review the question in the light of equity and with due regard to United States-Korean commercial relations.

One result of these efforts to date has been to obtain Korean agreement to postpone the tax deadline during the course of the discussions. The Korean Government also agreed to review its policy of refusing exit permits to those who have not settled their tax assessments.

These efforts by the Embassy, supported by the Department of State, are continuing, and we are hopeful that a reasonable settlement on the retroactive tax assessment can be effected.

Sincerely yours,

HERBERT HOOVER, JR.

Acting Secretary

The Honorable
J. Arthur Younger,
23 Second Avenue,
San Mateo, California.

DC/R
Anal 39
Rev
Cat

S/S-RO
SEP 21 1955
A true copy of
signed original.

FE:NA:HSmith:mhn 9/15/55
S/S:RGBarnes:jmr 9/20/55

HRJ

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895B.11/9-1455

A/S 39 895B.11/9-1455

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E.O. 12356, Sec. 3.3
NND 867400
By lgm, NARA, Date 4/17/99

This is in reply to your telegram of September 14, 1955, about the tax problems of Connell Brothers Company in Korea.

The American Embassy in Korea, in close consultation with the American Chamber of Commerce, has been actively attempting to negotiate a reasonable settlement of the tax problem with the Government of the Republic of Korea since August 26. A letter was sent to the Ministry of Finance on September 1 in which the Embassy protested as unfair and inequitable the retroactive enforcement of taxes which foreign businessmen believed not applicable to them and urged that the Korean Government review the question in the light of equity and with due regard to United States-Korean commercial relations. Since then the Embassy has undertaken a series of meetings with the Minister of Finance. One result of these efforts was to obtain Korean agreement to postpone the tax deadlines during the course of the discussions. The Korean Government also agreed to review its policy of refusing exit permits to those who have not settled their tax assessments.

These efforts by the Embassy, supported by the Department of State, are continuing. The Department is hopeful that a reasonable settlement on the retroactive tax assessment can be effected.

Sincerely yours,

Under Secretary

The Honorable
J. Arthur Younger,
23 Second Avenue,
San Mateo, California.

FE:WAdams:HSmith:ljm
9/15/55

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FE W.J.S

Bureau of
FAR EASTERN AFFAIRS
SEP 16 1955
ASSISTANT SECRETARY
Department of State

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E.O. 12356, Sec. 3.3
NND 867600
By [illegible] NARA, Date 11/6/24

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UNDER SECRETARY

SEP 14 1955

DEPARTMENT OF STATE

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HERBERT HOOVER JR

SECRETARY OF STATE DEPT

(2) MR BRAYTON WILBUR, PRESIDENT OF CONNELL BROS CO LTD. AND A RESIDENT OF OUR DISTRICT HAS INFORMED ME TTAT THEIR OFFICE IN SEOUL KOREA HAS BEEN ASSESSED AN EXORBITANT RETROACTIVE TAX BY THE GOVERNMENT OF KOREA AND GIVEN UNTIL THE 15TH OF SEPTEMBER TO COMPLY. NO PRIOR NOTICE HAD BEEN GIVEN OF A TAX LIABILITY THE ASSESSMENT IS IN EXCESS OF THE TOTAL EARNINGS OF THAT OFFICE AND THE KOREAN GOVERNMENT THREATENS TO IMPOUND ALL ASSETS OF THE COMPANY. EVEN THE PERSONNEL HAVE BEEN DENIED VISAS AND ARE TO BE CONFINED TO KOREA UNTIL THE PAYMENT IS MADE. IF THIS IS THE RECIPROCAL ACTION WHICH KOREA PROPOSES IN THE PAYMENT FOR AMERICAN BLOOD SPILLED IN THEIR BEHALF I AS ONE CONGRESSMAN WILL NEVER VOTE FOR ANY FURTHER CONSIDERATION OF AMERICAN AID TO THEM. PLEASE ADVISE WHAT STEPS THE STATE DEPARTMENT ARE TAKING TO REMEDY THIS SITUATION

CONGRESSMAN J ARTHUR YOUNGER 9TH DISTRICT

CALIFORNIA 23 SECOND AVE SAN MATEO CALIFORNIA 327PME.

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OCT 6 - 1955

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E.O. 12356, Sec. 3.3
NND 867400
By lgm, NARA, Date 1/17/99

DEPARTMENT OF STATE

EXECUTIVE SECRETARIAT

Date: Sept 14, 1955

Bureau of
FAR EASTERN AFFAIRS
SEP 1 5 1955
SECRETARY
Department of State

2092

TO: FE

The attached correspondence is forwarded to your office for the indicated action:

XXXXX (1) Preparation of a reply for the Under Secretary's signature.

(2) Preparation of a reply for signature by reference from the Under Secretary.

Either the original or a copy of a reply, as indicated above, must be sent to the Office of the Under Secretary through S/S-RO, Mr. by September 16

RGB

Robert G. Barnes
Director
Executive Secretariat

Attachment:

Telegram 9/14/55 from Congressman J. Arthur Younger to Mr. Hoover protesting action Govt of Korea re taxing American businessmen.

Special Instruction:

Salutation: Leave salutation open.

Complimentary close: Sincerely yours

CC: S/S-RO Suspense File
Office of the Under Secretary

FW 894.4-9/11-1455

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E.O. 12356 Sec. 3.3
NND 867400
NARA, Date 12/22/98

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895B.11T/9-1555

September 27 1955

In reply refer to
NA 895B.11/9-1555

Dear Senator Tyre:

This is in reply to your letter of September 15, 1955, acknowledged by telephone September 19, 1955, in which you requested information about the taxation problems of foreign businessmen in Japan and Korea.

The current tax problem in Japan does not relate to taxation of business enterprises, but only to the taxation of individual income. During the early part of the Allied occupation of Japan foreign nationals were completely exempt from Japanese taxation. In 1950 the exemption was removed, but the Japanese Government, in order to ease the impact of Japanese taxation upon foreign nationals, granted certain tax privileges to extend to the end of 1955. It is the anticipated expiration of these privileges, relating to the Japanese tax on personal income, which has caused concern.

The tax privileges were not granted on the basis of nationality but were extended to all persons resident but not domiciled in Japan. They consisted of: (1) exemption from tax on income from sources outside Japan; (2) exemption from tax on income earned in Japan but not remitted to Japan; and (3) the privilege, extended only to designated categories of persons whose presence in Japan was considered beneficial to the Japanese economy, of a deduction of 50% from taxable income up to a maximum of about $10,000. The expiration of the privileges cannot be regarded as unfair discrimination against American nationals since American nationals are placed on an equal footing with Japanese nationals. Nor can the expiration of the privileges be regarded as unjust because the United States does not extend any comparable tax privileges to persons resident but not domiciled in the United States. Nevertheless the resulting tax burden may be serious for American nationals because their incomes are considerably higher than

The Honorable
Edwin A. Tyre,
United States Senate.

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E.O. 12356, Sec. 3.3
NND 867400
By LJW, NARA, Date 1/17/89

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DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 11/6/94

[redacted]

Sincerely yours,

For the Secretary of State:

[redacted]

[redacted]

(See attached blue for initials)

S/S-CR

SEP 26 1955 P.M.

SEP 27 1955

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date 11/18/04

CARL HAYDEN, ARIZ., CHAIRMAN

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LISTER HILL, ALA.
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EVERETT MC KINLEY DIRKSEN, ILL.
CHARLES E. POTTER, MICH.

EVERARD H. SMITH, CLERK
THOMAS J. SCOTT, ASST. CLERK

United States Senate

COMMITTEE ON APPROPRIATIONS

Washington, D. C.
September 15, 1955

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DEPARTMENT OF STATE
Replies drafted
1955 SEP 16 PM 3 53
9/21/55

R M/R

The Honorable John Foster Dulles
Secretary of State
Department of State
Washington 25, D. C.

Dear Mr. Secretary:

I have been following with a great deal of interest recent news reports coming out of Korea and Japan dealing with certain actions by the governments of those two countries relating to American business firms located in both countries.

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The gist of the stories, as you know, is that the taxing of American firms has increased substantially within past months, and in certain cases, there are reports of possible confiscation of property and detention of American citizens based upon so-called tax delinquencies.

We realize that following World War II and the Korean War, both Japan and South Korea were most interested in having American firms invest in those two countries to assist in economic recovery and stability. American enterprise responded and has substantial investments tied up in the economy of Korea and Japan.

I have received letters recently from American firms protesting the action of the two countries and indicating that if such action continues, it may be necessary for them to retire from those areas. We know that Russia would be, in all probability, more than anxious to step into an economic vacuum and invest in this part of the world where we have a most vital interest. This, to me, is a most serious ramification which might develop in the future. It would not only jeopardize private investment in the Far East but it would also jeopardize our position as a world leader.

I am requesting any information which your department has for my enlightenment and further study. I am deeply concerned about this matter and feel very strongly about the possibility of unjust and unfair discrimination against American free enterprise operating in this part of the world.

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This letter (and its enclosures, if any) micro-filmed for DC/R records

DEPARTMENT OF STATE
1955 SEP 16 PM 3 53
OFFICE OF FAR EASTERN AFFAIRS

FILED A/39

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OCT 6 1955

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E.O. 12356, Sec. 3.3
NSC MEMO, 11/24/98
BY NARA, DATE 12/31/99

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Your co-operation in this request is greatly appreciated.

With kindest personal regards,

Sincerely yours,

EJT:f:kh

Edward J. Thye, U.S.S.

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E.O. 12958, Sec. 3.5
NND 969078, By NARA, Date 12/22/09

United States Senate

Washington, D. C., September 19, *19*55

Respectfully referred to

Hon. John Foster Dulles
Secretary of State
Department of State
Washington 25, D. C.

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PUBLIC SERVICES DIV.
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1955 SEP 22 AM 10 23
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This letter (and its enclosures, if any) microfilmed for DC/R records

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DC/R RECORDS BRANCH
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Encl: att. g/c
Letter from W. F. Haberer, Manager, Deere and Co., Moline, Ill., regarding taxation difficulties between American business houses and the Korean Government.

Everett McKinley Dirksen U.S.S.

U. S. GOVERNMENT PRINTING OFFICE 16—45102-2

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NND 969078, By NARA, Date 12/19/96

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895B.11/9-1955

CS/S

894-11/9-1955

September 26 1955

In reply refer to
SEV 895B.11/9-1955

Dear Senator Dirksen:

I refer to your communication of September 19, acknowledged by telephone on September 22, enclosing a letter from Mr. W. F. Haberer of Moline, Illinois, concerning the tax problem in Korea.

You may wish to inform your constituent that the American Embassy in Korea, in close consultation with the American Chamber of Commerce, has been actively attempting to negotiate a reasonable settlement of the tax problem with the Government of the Republic of Korea since August 28. A letter was sent to the Ministry of Finance on September 1 in which the Embassy protested the retroactive enforcement of taxes which foreign businessmen believed not applicable to them and urged that the Korean Government review the question in the light of equity and with due regard to United States-Korean commercial relations. Since then the Embassy has undertaken a series of meetings with the Minister of Finance. One result of these efforts was to obtain Korean agreement to postpone the tax deadlines during the course of the discussions. The Korean Government also agreed to review its policy of refusing exit permits to those who have not settled their tax assessments.

These efforts by the Embassy, supported by the Department of State, are continuing. The Department is hopeful that a reasonable settlement on the retroactive tax assessment can be effected.

I am

The Honorable
Everett M. Dirksen,
United States Senate.

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E.O. 12356, Sec 3.3
NND 867400
By [illegible] NARA, Date 1/11/94

I am returning Mr. Haberer's letter for your records.

Sincerely yours,

For the Secretary of State:

Florence Kirlin
Acting Assistant Secretary

Enclosure:

From Mr. Haberer
(returned).

HMC/W
P:SEV:MEvans:DKP:dlo Info. from NA 9/22/55

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S/S-CR
SEP 23 1955 P.M.
SEP 26 1955

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867800
By [illegible] NARA, Date 11/6/01

December 8 1955

In reply refer to
NA

Dear Mr. Heironimus:

As you requested, I am returning herewith the enclosures to your letter of September 19, 1955, on the Korean tax problem. We have found your translation of the tax law useful in our work on the foreign businessman's tax problem in Korea.

I am sure you share our pleasure at the successful conclusion of the tax problem.

Sincerely yours,

Neal Hammerdinger
Deputy Director
Office of Northeast Asian Affairs

Enclosures:

To American Trading Co., September 9, 1955.
From American Trading Co., September 10, 1955.
Translation of Korean Tax Law.

Mr. R. A. Heironimus, Vice President
American Trading Company, Inc.,
96 Wall Street,
New York 5, New York.

FE:NA:HSmith:mlm
12/7/55

DC/R
Anal 31
Rev
Cat

FW 894.10/11-1955

DE/S-CR
DEC 8 1955 P.M.

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DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By NARA, Date

AMERICAN TRADING COMPANY, INC.

96 WALL STREET

CABLE ADDRESS:
"AMTRACO"

NEW YORK 5, N.Y.

NA SUB. FILE

K-F-1.12

September 19, 1955

Mr. Noel Hemmendinger, Deputy Director,
Office of Northeast Asian Affairs
Department of State
Washington, D.C.

Dear Mr. Hemmendinger:

Korea Tax Problem

Pursuant to our telephone conversation today, we wish to bring you up to date on what we have received to date pertaining to the subject matter.

Our Mr. F.C. Taylor in Tokyo cabled on September 12:

57/28 KAUFFMANS OPINION MAILED SEPTEMBER TENTH OUR OBJECTION TO EXORBITANT TAX LEVIES NOW BEING MADE BY KOREAN GOVERNMENT IN APPLYING BUSINESS TAX WHICH IN FACT SALES TAX TO SALES MADE OUTSIDE KOREA AFTER KOREAN GOVERNMENT SEVERAL MONTHS AGO INTERPRETED LAW AS NOT APPLYING SUCH SALES STOP HAD WE KNOWN TAX APPLICABLE COULD HAVE PROTECTED OURSELVES BY ADDING SALES TAX TO SALES PRICE STOP FOREGOING WORDED BY KAUFFMAN AND APPROVED BY OTHER INTERESTED FIRMS STOP TAYLOR WITH CALHOUN KAUFMANNS APPOINTEE ARRIVING SEOUL THIRTEENTH WILL KEEP YOU ADVISED

We enclose herewith:

Item 1. Copy our Mr.F.C. Taylor's letter 949-K of September 10, 1955

" 2. Copy McIvor, Kauffman & Yamamoto letter of September 9 to ATC.

" 3. Copy Business Tax Law. Law No.48, August 13, 1949

" 4. Copy Corporation Tax Law. Law No.62, Nov.7, 1949

" 5. Copy Business Tax Law Enforcement Order, Presidential Order No.176, Sept. 1, 1949

895B.11/9-1955 CSBM
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E.O. 12356, Sec. 3.3
NND 987400
By NARA, Date 12/29/98

Item 6. Copy Corporation Tax Law Enforcement Order, Presidential Order No.338, Dec. 16, 1949

On September 16 our Seoul office cabled:

45/65 TAX SITUATION STILL UNRESOLVED TALKS CONTINUING THROUGH EMBASSY IMPERATIVE MAINTAIN STEADY PRESSURE STATESIDE THROUGH JOINT REPRESENTATION WASHINGTON SUPPORTED BY CHAMBER COMMERCE AND TRADE ORGANIZATIONS WITH ADEQUATE PUBLICITY ALSO IMPORTANT ENLIST SUPPORT RESPECTIVE MANUFACTURERS SUPPLIERS STOP PUBLICIZE FACT THAT MEMBERS CHAMBER PAYING ALL RECOGNIZED TAXES SUCH AS PERSONAL INCOME AND TAXES ON COMMISSIONS LOCALLY EARNED STOP BASIC ISSUE RETROACTIVE APPLICATION OF NEW INTERPRETATION SALES AND CORPORATE INCOME TAXES DESPITE CONTRARY PREVIOUS WRITTEN ASSURANCES COUPLE ORAL ASSURANCES KOREAN TAX AUTHORITIES

We would appreciate your returning the enclosures to us after they have served their purpose, since we would like to retain them in our file here for possible future reference.

Very truly yours,
AMERICAN TRADING COMPANY, INC.

R.A.Heironimus, Vice-President.

RAH/CS

Encs.

DECLASSIFIED
E.O. 12958, Sec. 3.5
NND 60160
By NARA, Date 12/17/08

INCOMING TELEGRAM 63 *Department of State* ACTION COPY

15

CONFIDENTIAL

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Control: 9535
Rec'd: SEPTEMBER 19, 1955
8:22 A.M.

FROM: SEOUL

TO: **Secretary of State**

NO: 376, SEPTEMBER 19, 7 P.M.

Action Assigned to DC/R

Action Taken NOTED

Date of Action SEP

Action Office Symbol NA

Name of Officer HB

Direction to DC/R FILE

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893.11/9-1955

SENT DEPARTMENT 376, REPEATED INFORMATION TOKYO 191 TOKYO PASS CINCUNC AND CAG.

REF EMBTEL 303 SENT TOKYO 162.
EMBTEL 343 SENT TOKYO 176.

EMB STILL WAITING FOR WRITTEN PROPOSAL FOR SETTLEMENT BUSINESSMEN TAX PROBLEMS WHICH FINMIN PROMISED ON SEP 12 TO PRESENT IN WRITING "TODAY OR TOMORROW".

WE FIND THAT EXIT PERMIT PROBLEM AMERICAN BUSINESSMEN HAS NOT BEEN SOLVED. EMPOLYEE AMERICAN COMPANY MENTIONED EMBTEL 343 HAS NOW RECEIVE BOTH EXIT AND REENTRY PERMITS BUT ONLY BECAUSE HIGHER RANKING COMPANY ENGINEER REMAINS KOREA. MANAGER SWISS COMPANY HAS BEEN REFUSED EXIT PERMIT BECAUSE OUTSTANDING TAX BILL AGAINST HIS COMPANY. IN SPITE ASSURANCE MINFIN SEP 5 REPORTING EMBTEL 303, COL LEE FONMIN BUREAU CHIEF IN CHARGE EXIT AND REENTRY PERMITS CONFIRMED TO DCM THIS AFTERNOON THAT CHIEF FINMINISTRY TAX BUREAU HAD RULED THAT HEAD OF FOREIGN COMPANY IN KOREA COULD NOT RECEIVE EXIT PERMIT IF TAX BILL IS OUTSTANDING AGAINST COMPANY. FOR PRESENT LEE IS APPARENTLY GOING BE GUIDED BY THAT RULING IN ISSUING PERMITS.

THIS IS ANOTHER EXAMPLE OF CONTRADICTORY RULINGS AND ADMINISTRATIVE CONFUSION WHICH MAKES PROGRESS TOWARD SOLUTION BUSINESS TAXATION PROBLEM DIFFICULT. EMB WILL PURSUE QUESTION WITH FINMINISTRY TOMORROW.

MESSAGE UNSIGNED

MEM

FILED DEC 15 1955

Confidential File HO

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E.O. 12356, Sec. 3.3
NND 969078
By [illegible] NARA, Date 12/6/01

HS - action (if NH required)
RM/R -

ORIENTAL EXPORTERS, INC.

EMPIRE STATE BUILDING
NEW YORK 1, N. Y.

MEMBERS OF
N.Y. COFFEE & SUGAR EXCHANGE
IMPORTERS · EXPORTERS
INVESTMENTS · FINANCING
CABLE ADDRESS: ORIENTEX, N.Y.
TELEPHONE LONGACRE 5-5260

AFFILIATED OFFICES
TOKYO, JAPAN
OSAKA, JAPAN
HONG KONG
HAVANA, CUBA
SAO PAULO, BRAZIL
BRUSSELS, BELGIUM

September 20, 1955

U. S. Department of State
Washington, D. C.

Attention: Mr. N. Hemmendinger

See 895t.11/9-2255

Gentlemen:

Reference is made to the recent action taken by the Republic of Korea against American Trade Representatives in Korea in reference to Taxes, and to copy of the legal opinion submitted to you through American Trading Co., by Messrs. McIvor, Kauffman & Yamamoto, well-known American law firm of New York and Tokyo.

While our diplomatic representatives in conjunction with the American Chamber of Commerce in Seoul, and in cooperation with the U. S. Department of State in Washington, are presently doing their utmost to obtain specific rulings and clear details from the Korean Government, our representatives are individually held liable pending payment of presented bills for retroactive taxation.

Such bills gave such short notice that they were equivalent to a request for immediate payment. They did not supply explanations as to how the tax amounts were computed, nor was reference made to applicable tax laws. In no case, did they allow sufficient time for representatives to consult with their home offices in the United States.

Amounts assessed to various American (and European) firms were apparently arbitrarily arrived at and they vary from a few thousand dollars to $240,000. -. They also were in complete disregard and out of proportion to the volume of business done by various firms. For instance, a company doing business amounting to $30,000,000. - during the past twelve months was assessed only $6,000. -, which it readily agreed to pay in three installments. In the case of our firm, the assessment was $240,000. - on an estimated volume of business of only $6,000,000. -.

We wish to emphasize here that there is no desire nor attempt whatsoever on our part to evade just and fair taxes applicable to income derived by individuals in Korea, or such business taxes as are commonly customary in most countries based on established tax laws and regulations. The primary problem in Korea is that heretofore no English translations nor clear interpretations of applicable tax laws and regulations were made available, and even now, our representatives are left without information as to how to govern themselves in their business

(over)

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1/9-2055
CS/E
DC/R 68
FILED JAN 19 1955
895t.11/9-2055
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E.O. 12958, Sec. 3.5
NSC Memo, 11/24/98
By NARA, Date 12/22/99

activities in regard to the tax situation. Not knowing which taxes are applicable nor at what rates they will be assessed, it is entirely impossible for us to correctly calculate the cost and charges of goods sold to Korean importers. This is equivalent to forcing us into the suspension of all exports to Korea until the tax problem has been properly cleared up. Neither can we intelligently, satisfactorily, and equitably settle past transactions which are presently involved in the tax controversy.

As in the case of other American (and European) firms, our activities in Korea consist of a branch operation which is part of the home office operations in the United States. No stocks or inventories of any kind are carried at any time in Korea, neither are imports or exports nor customs entries made by the branch for its own account. All transactions are exclusively for account and risk of the Korean importer who is the ultimate consignee and who buys either on a C&F or CIF Korean port basis and assumes all further charges and, also, derives the profit on selling the goods in the market.

Our branch does not collect any charges nor does it derive any further income whatsoever, for which reason the branch and our representatives should be exempt from taxes on sales made by us to the Korean importer. Naturally, it is and always was anticipated that our personnel would be subject to local individual income taxes for such personal income as salaries, etc.

The unprecedented and arbitrary action taken by the Korean Government has created a very unhealthy state of mind and uncertainty, mingled with the feeling of lack of security, on the part of those stationed in Korea as sales representatives as well as on the part of Korean importers, exporters and businessmen who all feel their laboriously developed and now established relationship to be in serious jeopardy.

There is a strong, seemingly well founded, feeling among competent and reputable circles trading in Korea that the action taken by certain Korean governmental agencies denotes a policy of purposeful discrimination towards American (and European) representatives and their firms in order to discourage them from trading and thereby giving certain privileged Korean firms the opportunity of taking over the various foreign agencies irrespective of the technical or commercial needs of the principals involved, or their desire to have their own representatives stationed in Korea for mutually advantageous efficiency, for generating trade and for establishing closer relationships.

(over)

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DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 60780
NARA, Date 7/27/01

U. S. Department of State
Washington, D. C.

September 20, 1955

Inasmuch as the discriminatory and arbitrary action taken by the Korean governmental agencies in this tax issue is possibly liable to create similar unpleasant repercussions in other Asian countries, we urge you most sincerely that the strongest possible action be initiated through the good offices of our Department of State for transmission to the Republic of Korea urging that in the spirit of our treaty of amity and friendship such occurrences be avoided, that drastic action be delayed and that the issue be clarified on the basis of specific tax regulations to be promulgated in conjunction with the American Chamber of Commerce and/or legal advice available through our mission to Korea so as to re-establish a healthier relationship based on an unprejudiced and non-discriminating attitude.

Very truly yours,

ORIENTAL EXPORTERS, INC.

J. Ashkenazi, President

JA:er

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 969078, By NARA, Date 12/22/09

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON 25, D. C.

DEPARTMENT OF STATE
WASHINGTON

September 21, 1955

Dear Mr. Younger:

With further reference to your telegram of September 14, I have now had a report on the tax question which you raised.

The Department does, of course, share your serious concern and, through our Embassy in Seoul, is actively pursuing this question with the Korean authorities. Ever since August 28, in close consultation with the American Chamber of Commerce, the Embassy has been actively attempting to negotiate a reasonable settlement of the tax problem with the Government of the Republic of Korea. A letter was sent to the Ministry of Finance on September 1 in which the Embassy protested as unfair and inequitable the retroactive enforcement of taxes which foreign businessmen believed not applicable to them and urged that the Korean Government review the question in the light of equity and with due regard to United States-Korean commercial relations.

One result of these efforts to date has been to obtain Korean agreement to postpone the tax deadlines during the course of the discussions. The Korean Government also agreed to review its policy of refusing exit permits to those who have not settled their tax assessments.

These efforts by the Embassy, supported by the Department of State, are continuing, and we are hopeful that a reasonable settlement on the retroactive tax assessment can be effected.

Sincerely yours,

Herbert Hoover Jr.

Acting Secretary

The Honorable
J. Arthur Younger,
23 Second Avenue,
San Mateo, California.

795.B.11/9-2155

16

1052

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 947400
By [illegible], NARA, Date 4/6/29

DEPARTMENT OF STATE

THE UNDER SECRETARY

September 28

FE - Mr. Robertson

No more action required, I think. R.V.G.

Couldn't we use this as a counter-attack on Rhee, if need be? RMR

H.

Herbert Hoover, Jr.

3 1955

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Bureau of
FAR EASTERN AFFAIRS
SEP 28 1955
ASSISTANT SECRETARY
Department of State

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 11/16/01

September 28, 1955

Dear Brayton:

This is just a brief note to thank you for your telegram of yesterday. It was indeed thoughtful of you to send it.

As I wrote Congressman Younger, we're doing our best to correct the situation.

With all best wishes,

Sincerely,

9-1355
9-1455
9-2655
10-1955
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sy Herb

Herbert Hoover, Jr.

Mr. Brayton Wilbur,
Connell Bros. Co., Ltd.,
320 California Street,
San Francisco 4, California.

U:SChaconas:smm

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E.O. 12356, Sec. 3.3
NND 969030
NARA, Date 1/31/11

COPY

NL PD WUX SANFRANCISCO CALIF SEP 27

HERBERT HOOVER JR, SECRETARY OF STATE

DIDNT REALIZE CONGRESSMAN YOUNGER WOULD APPEAL TO YOU PERSONALLY REGARDING KOREAN SITUATION BUT GREATLY APPRECIATE YOUR ANSWER TO HIM. MEANWHILE SITUATION REMAINS UNCHANGED. WE CONSIDER THEIR ATTITUDE ARBITRARY AND UNJUST. REGARDS

BRAYTON WILBUR

CONNELL BROS CO LTD
320 California St., San Francisco

WALTER F. GEORGE, GA., CHAIRMAN
THEODORE FRANCIS GREEN, R. I.
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GEORGE D. AIKEN, VT.
HOMER E. CAPEHART, IND.
FRANCIS O. WILCOX, CHIEF OF STAFF

United States Senate

COMMITTEE ON FOREIGN RELATIONS

ACTION
is assigned to
FE

Acknowledged by phone on 9/27/55 mtr SE: na

September 22, 1955.

Honorable Thruston B. Morton
Assistant Secretary of State
Department of State
Washington, D.C.

Dear Mr. Morton :

Enclosed is a letter addressed to the Chairman by J. Ashkenazi, President, Oriental Exporters, Inc., Empire State Building, New York 1, N .Y. Mr. Ashkenazi attaches copy of his letter of September 20, 1955 to your Department, referring to the Korean Tax Controversy.

It will be appreciated if we may have your advice with the return of the enclosures.

Sincerely yours,

C.C. O'Day

C.C. O'Day, Clerk
Committee on Foreign Relations.

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DEPARTMENT OF STATE
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This letter (and its enclosures, if any) microfilmed for DC/R records

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DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 60750
By NARA, Date 11/6/01

September 30 1955

In reply refer to
NA 895D.11/9-2255

Dear Senator George:

The Department has received Mr. C. C. O'Day's letter of September 22, 1955, which enclosed a letter addressed to you from Mr. J. Ashkenazi, President of Oriental Exporters, Inc., New York, New York, concerning the tax problem of American businessmen in Korea. Mr. O'Day's letter was acknowledged by telephone on September 27, 1955.

The tax controversy in Korea between the American businessmen and the Republic of Korea concerns the imposition of the transactions tax--a type of sales tax--on gross value of imports into Korea. This tax has been imposed upon businessmen for transactions since January 1954, despite the fact that an apparent understanding was reached between the businessmen and the Ministry of Finance in July 1955, that foreign businessmen would not be liable for the tax. Ordinarily, foreign countries would not tax foreign businessmen if the businessmen represent foreign companies and do not import on their own account. While Korea is not exceeding its taxing authority by imposing this tax on American businessmen since the tax law has been effective since 1950, the enforcement of the tax on a retroactive basis has created hardships for the business community.

The American Embassy at Seoul has been actively engaged in seeking a solution to the problem, as Mr. Ashkenazi points out. These efforts are continuing, and the Department is hopeful that a reasonable solution will be effected.

The enclosures forwarded with Mr. O'Day's letter are returned herewith.

Sincerely yours,

For the Secretary of State:

Florence Kirlin
Acting Assistant Secretary

Enclosures:
From Mr. J. Ashkenazi, September 20, 1955, with enclosure.

The Honorable
Walter F. George,
Chairman, Committee on Foreign Relations,
United States Senate.

FE:NA:HSmith:mhn
9/29/55

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date 11/6/09

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INCOMING TELEGRAM *Department of State* ACTION COPY

CONFIDENTIAL

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Action
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Control: 11554
Rec'd: SEPTEMBER 23, 1955
6:30 AM

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FROM: SEOUL

TO: **Secretary of State**

NO: 384, SEPTEMBER 22, 5 PM (SECTION ONE OF TWO)

Action Taken Noted

Date of Action

Action Office Symbol UA

Name of Officer HS

Direction to DC/R FE

SENT DEPARTMENT 384, REPEATED INFORMATION TOKYO 200.

TOKYO PASS CINCUNC AND CAG.

BOTH EMBASSY AND FINANCE MINISTRY HAVE TAKEN TIME OUT FROM DISCUSSION OF FOREIGN BUSINESSMEN'S TAX PROBLEMS PENDING MINISTER FINANCE CONSULTATION WITH PRESIDENT. FOLLOWING NON-PRODUCTIVE EFFORT BY LETTER TO FOREIGN MINISTER DESIGNED TO OBTAIN IMPROVEMENT GENERAL LOCAL ATMOSPHERE THAT HAS OBSCURED MAIN ISSUE, I DECIDED SEND FOLLOWING LETTER TO PRESIDENT RESTATING THE CENTRAL ISSUE IN TAX PROBLEM AND EMBASSY'S ANALYSIS OF JUST AND EQUITABLE BASIS ON WHICH SETTLEMENT COULD BE MADE:

Letter from Ambassador Hacy to President [illegible]

BEGIN VERBATIM TEXT

DURING PAST THREE WEEKS OFFICERS EMBASSY HAVE CONFERRED WITH OFFICIALS FINANCE MINISTRY CONCERNING PROBLEM TAXATION AMERICAN AND OTHER FOREIGN BUSINESSMEN BY ROKG. THESE DISCUSSIONS HAVE BEEN CONCERNED MAINLY WITH LEVYING BUSINESS TRANSACTIONS TAX, MORE COMMONLY KNOWN IN ENGLISH AS SALES TAX. HOWEVER, CENTRAL ISSUE DISCUSSIONS HAS BEEN OBSCURED, ESPECIALLY IN ARTICLES AND EDITORIALS THAT HAVE APPEARED PUBLIC PRESS. I BELIEVE THAT SOLUTION PROBLEM SATISFACTORY BOTH SIDES CAN BE FOUND IF CENTRAL ISSUE IS NOT LOST SIGHT OF. I HAVE DECIDED ADDRESS THIS LETTER TO YOUR EXCELLENCY WITH PURPOSE DEFINING CENTRAL ISSUE AND SO CONTRIBUTING TO MUTUALLY SATISFACTORY SOLUTION.

FINANCE MINISTRY HAS REPEATEDLY ASSURED EMBASSY THAT IT DOES NOT HAVE ANY UNPAID CLAIMS AGAINST AMERICAN BUSINESSMEN FOR PERSONAL INCOME TAXES, FOR TAXES ON COMMISSIONS, OR FOR ANY OTHER TAXES FOR WHICH THEIR LIABILITY IS CLEARLY DEFINED. THIS

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date 11/6/01

CONTRARY TO IMPRESSION CREATED BY WIDE PUBLICITY GIVEN THIS QUESTION LOCAL PRESS TO EFFECT THAT THESE BUSINESSMEN DO NOT PAY TAXES. AMERICAN BUSINESSMEN HAVE PAID AND ARE PAYING VARIETY OF TAXES TO KOREAN GOVERNMENT. THEY HAVE NOT AT ANY TIME QUESTIONED RIGHT OF ROKG TO TAX THEM NOR HAVE THEY QUESTIONED THEIR OBLIGATION TO PAY TAXES THAT ARE IMPOSED BY LAW. FAITHFUL PAYMENT OF PERSONAL INCOME TAXES AND DISCHARGE OF CERTAIN OTHER TAX OBLIGATIONS BY AMERICAN BUSINESSMEN IS CLEAR EVIDENCE OF FACT THAT THEY ARE NOT IN DEFIANCE OF GOVERNMENT ON THIS GENERAL ISSUE.

CURRENT DISPUTE HAS ARISEN IN CONNECTION WITH PAYMENT OF BUSINESS TRANSACTIONS TAX WHICH IS SUBJECT OF LAW NO. 48, PROMULGATED AUGUST 13, 1949. HISTORY OF THIS STATUTE SHOWS CLEARLY IT WAS ENACTED AS DOMESTIC SALES TAX. THIS IS VERIFIED BY FACT THAT, UNTIL THIS YEAR, NO MEASURES WERE TAKEN BY TAX BUREAU TO APPLY IT TO TRANSACTIONS IN INTERNATIONAL TRADE. HOWEVER, TAX BUREAU RECENTLY DECIDED THAT THIS TAX SHOULD BE LEVIED NOT ONLY ON DOMESTIC BUSINESS TRANSACTIONS BUT ALSO ON INTERNATIONAL BUSINESS TRANSACTIONS IN WHICH MOST AMERICAN AND OTHER FOREIGN BUSINESSMEN ARE ENGAGED. ON SEPTEMBER 9, 1955, TAX BUREAU OF FINANCE MINISTRY ISSUED AN "EXPLANATION OF TAXATION OF FOREIGN FIRMS IN KOREA" TO EXPLAIN BASIS ON WHICH FOREIGN BUSINESSMEN WERE TO PAY BUSINESS TRANSACTIONS TAX IN FUTURE. INTERPRETATION

LACY

DEPARTMENT OF STATE
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NARA, Date 12/1/04

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Control: 11555
Rec'd: SEPTEMBER 22, 1955
9:09 A.M.

Action Assigned to AID
Action Taken
Date of Action 9/22
Action Office Symbol
Name of Officer
Direction to DC/R

FROM: SEOUL

TO: Secretary of State

NO: 384, SEPTEMBER 22, 5 P.M. (SECTION TWO OF TWO)

SENT DEPARTMENT 384, REPEATED INFORMATION TOKYO 200.

BUSINESS TRANSACTION TAX IN FUTURE. INTERPRETATION OF LAW CONTAINED IN THIS DOCUMENT COMPLETELY REVERSES INTERPRETATIONS THAT HAVE BEEN GIVEN IN PAST. SUCCESSIVE INTERPRETATIONS, INCONSISTENT AMONG THEMSELVES, HAVE BEEN PRESENTED BY CHIEF TAX BUREAU IN FOLLOWING: (HERE FOLLOWED CITATION OF TEN DOCUMENTS SUFFICIENTLY ILLUSTRATED BY ENCLOSURES TO DESP 88, SEPT 8, 1955)

AS RESULT THESE NUMEROUS AND DIFFERENT INTERPRETATIONS OF BUSINESS TRANSACTIONS TAX LAW THERE HAS BEEN NO CLEAR STATEMENT OF LEGAL LIABILITY OF AMERICAN AND OTHER FOREIGN BUSINESSMEN TO PAY THE TAX. TAX BUREAU RECENTLY PRESENTED TAX BILLS TO NUMEROUS COMPANIES ON TRANSACTIONS SINCE JAN 1, 1954, BUT IN VIEW OF MANY CONFLICTING INTERPRETATIONS OF THE LAW LISTED ABOVE, RECIPIENTS OF BILLS HAVE NOT BEEN ABLE TO ASCERTAIN ANY LEGAL BASIS FOR THEM. PRESENT DISPUTE IS CONCERNED WITH SETTLEMENT THESE BILLS. IN ITS REPRESENTATION INTERESTS AMERICAN COMPANIES INVOLVED, EMB HAS MAINTAINED THAT SETTLEMENT SHOULD BE MADE IN ACCORDANCE WITH FOLLOWING UNIVERSALLY ACCEPTED PRINCIPLES OF EQUITY:

1. TAX BILLS SHOULD BE COMPUTED IN ACCORDANCE WITH INTERPRETATIONS OF LAW CLEARLY DEFINED AND MADE AVAILABLE BY TAXING AUTHORITY TO TAXPAYER.

2. NO INTERPRETATION OF LAW SHOULD HAVE RETROACTIVE EFFECT.

RECOGNITION OF THESE TWO PRINCIPLES IS CENTRAL ISSUE IN PRESENT DISPUTE.

I WISH TO ASSURE YOU, MR. PRESIDENT, THAT MY ONLY PURPOSE IN MAKING ABOVE ANALYSIS IS TO CONTRIBUTE TO SOLUTION OF PROBLEM OF LEVYING BUSINESS

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-2- 384, SEPTEMBER 22, 5 P.M., (SECTION TWO OF TWO) FROM SEOUL.

BUSINESS TRANSACTIONS TAX ON FOREIGN FIRMS THAT WILL BE JUST AND EQUITABLE BOTH TO FOREIGN BUSINESSMEN AND TO ROKG. OFFICERS OF EMB AND I REMAIN AT YOUR SERVICE IN WORKING TOWARD THAT END.

END VERBATIM TEXT.

KOREAN REPUBLIC SEPT 20 CARRIED REPRINT FROM PYONG WHA SHINMUN EDITORIAL "US EMB AND TAX CASE" CRITICIZING EMB IN CRUDEST AND PMOREST TAST: TWX 220700Z. ARTICLE WAS WRITTEN IN SAME VEIN AND USING SAME LANGUAGE AS APPEARS DAILY IN KOREAN REPUBLIC AND WAS OBVIOUSLY PLANTED IN PYONG WHA SHINMUN. ALTHOUGH INCENSED BY THIS OFFENSIVE TACTIC, I CANNOT OBJECT TO THE CHARGE, LEAST OF ALL BY THE KOREAN REPUBLIC, THAT THE EMB IS LOOKING OUT FOR THE INTERESTS OF AMERICAN BUSINESS. I HAVE THEREFORE REFRAINED FROM RETALIATING IN KIND AND THUS WASTING ENERGY ON PERIPHERAL ISSUES.

FONMINISTRY OSTENSIBLY ACTING ON ADVICE CHIEF TAX BUREAU STILL WITHHOLDS EXIT REENTRY PERMITS FROM INDIVIDUAL REPRESENTATIVES OF FOREIGN FIRMS UNLESS SOME RESPONSIBLE SUBSTITUTE REPRESENTATIVE REMAINS KOREA. HOWEVER, FINMIN PERSONALLY ASSURED DCM TAX BUREAU CHIEF ACTING WITHOUT AUTHORITY AND THAT RESPONSIBILITY FOR ISSUANCE EXIT-ENTRY PERMITS SOLELY FONMINISTRY RESPONSIBILITY. EMB HAS REQUESTED CLARIFICATION AND COORDINATION BETWEEN FONMIN AND FINMIN.

LACY

MEM

FAR EASTERN AFFAIRS
BUREAU OF

1955 SEP 23 PM 12 38

DEPARTMENT OF STATE
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DEC 18 1956

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NND 867409
By LJ NARA, Date 11/6/09

ACTION
is assigned to

SEV

United States Senate

Washington, D. C., September 23, *19*55

Respectfully referred to

Honorable John Foster Dulles
Secretary of State
Washington 25, D. C.

For a report or available information on question raised in the attached copy of letter from Mr. Sweatt on which I may base a reply.

Thanks for your cooperation.

H. M. Sweatt
Korean Desk

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DEPARTMENT OF STATE
1955 SEP 24 PM 46
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SEP 19 1955

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NND 63400
By NARA, Date 11/6/97

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MINNEAPOLIS-HONEYWELL REGULATOR CO.
Executive Offices
Minneapolis, Minnesota, U. S. A.

COPY

Harold W. Sweatt
Chairman of the Board

September 7, 1955

Senator Hubert H. Humphrey
Senate Office Building
Washington, D. C.

Dear Senator Humphrey:

It has been brought to our attention that the Korean government is bringing a great deal of tax pressure to bear on foreigners living and doing business in that country. Our distributor cables from Seoul that the attitude of the Korean government may force his and other American companies there to close their offices.

Apparently a similar situation, whereby taxation regulations on foreigners are to be tightened, is under consideration by the Japanese government. If Japanese taxation of resident Americans, and of wholly or partially owned American companies doing business in Japan, is increased, it is going to make it more difficult for us to do business in Japan.

We know that the State and Treasury Departments are very sympathetic to the obstacles being thrown in front of American companies in Korea and Japan in the form of new tax regulations. However, we also want you to know, that these regulations will affect Minneapolis-Honeywell's business in those two countries, and we hope you can bring it to the attention of the appropiate State and Treasury Department officials.

Sincerely yours,

/s/ H. W. Sweatt
/t/ H. W. Sweatt
Chairman Of The Board

HWS/mm

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NND 867400
NARA, Date 11/19/01

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In reply refer to
SEV 895B.11/9-1255

October 11 1955

Dear Senator Humphrey:

I refer to your communication of September 23, acknowledged by telephone on September 26, enclosing a copy of a letter from Mr. H. W. Sweatt of Minneapolis, concerning the tax problem in Korea and Japan.

You may wish to inform your constituent that the American Embassy in Korea, in close consultation with the American Chamber of Commerce, has been actively attempting to negotiate a reasonable settlement of the tax problem with the Government of the Republic of Korea since August 28. One result of these efforts has been to obtain Korean agreement to postpone the tax deadlines during the course of the discussions. The Korean Government also agreed to review its policy of refusing exit permits to those who have not settled their tax assessments.

These efforts by the Embassy, supported by the Department of State, are continuing. The Department is hopeful that a reasonable settlement on the retroactive tax assessment can be effected.

The current tax problem in Japan arises out of the anticipated expiration of the following tax privileges accorded to persons resident but not domiciled in Japan: (1) exemption from tax on income from sources outside Japan; (2) exemption from tax on income earned in Japan but not remitted to Japan; and (3) the privilege, extended only to designated categories of persons whose presence in Japan was considered beneficial to Japanese economy, of a deduction of 50 percent from taxable income up to a maximum of about $10,000. The expiration of the privileges

The Honorable
Hubert H. Humphrey,
United States Senate.

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E.O. 12356, Sec. 3.3
NND 867400
By NARA, Date 1/6/94

privileges cannot be regarded as unfair discrimination against American nationals since American nationals are placed on an equal footing with Japanese nationals. Nor can the expiration of the privileges be regarded as unjust because the United States does not extend any comparable tax privileges to persons resident but not domiciled in the United States. Nevertheless the resulting tax burden may be serious for American nationals because their incomes are considerably higher than the incomes of Japanese nationals and, consequently, they are in the highest tax brackets in Japan.

The American Embassy in Tokyo reports that the Japanese Government is considering possible ways of reducing the impact of termination of the tax privileges. Officers of the Embassy have been holding discussions with representatives of the Japanese Government on the subject. The Department, working with other interested agencies of the United States Government recently completed a study of possible forms of tax relief, and provided the Embassy with guidance in efforts to assist American nationals who would be affected. It is hoped that as a result of efforts of both the Japanese and United States Governments ways will be found to prevent the problem from hampering the expansion of commercial relations between Japan and the United States.

Sincerely yours,

For the Secretary of State:

Florence Kirlin
Acting Assistant Secretary

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date [illegible]

In reply refer to
SEV 8958.11/9-1255

Retype please

Dear Senator Humphrey:

I refer to your communication of September 23, acknowledged by telephone on September 26, enclosing a copy of a letter from Mr. H. M. Swatt of Minneapolis, concerning the tax problem in Korea.

You may wish to inform your constituent that the American Embassy in Korea, in close consultation with the American Chamber of Commerce, has been actively attempting to negotiate a reasonable settlement of the tax problem with the Government of the Republic of Korea since August 28. A letter was sent to the Ministry of Finance on September 1 in which the Embassy protested the retroactive enforcement of taxes which foreign business men believed not applicable to them and urged that the Korean Government review the question in the light of equity and with due regard to United States-Korean economic relations. Since then the Embassy has undertaken a series of meetings with the Minister of Finance. One result of these efforts was to obtain Korean agreement to postpone the tax deadlines during the course of the discussions. The Korean Government also agreed to review its policy of refusing exit permits to those who have not settled their tax assessments.

These efforts by the Embassy, supported by the Department of State, are continuing. The Department is hopeful

The Honorable
Hubert H. Humphrey,
United States Senate.

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E.O. 12356, Sec. 3.3
NND 867400
By LGW, NARA, Date 4/17/24

hopeful that a reasonable settlement on the retroactive tax assessment can be effected.

Sincerely yours,

For the Secretary of State:

Florence Kirlin
Acting Assistant Secretary

9/28/55

1067

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
NARA, Date 12/6/01

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United States Senate

COMMITTEE ON THE JUDICIARY

ACTION
is assigned to
SCH

September 23, 1955

RM/K

Mr. Thruston B. Morton
Assistant Secretary of State
Department of State
Washington 25, D. C.

Dear Thruston:

I shall appreciate receiving such information as you can provide regarding the situation mentioned in the attachments, as well as the return of the correspondence from Mr. Yontz with your reply.

With every good wish,

Everett McKinley Dirksen

Everett McKinley Dirksen

Merle R. Yontz
re. Korean lap

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E.O. 12356, Sec. 3.3
NND 968130, By NARA, Date 11/21/96

In reply refer to
SKV 895B 11/9 2355

September 30 1955

Dear Senator Dirksen:

I refer to your letter of September 23, acknowledged by telephone on September 26, enclosing correspondence from Mr. Merle Yontz of Peoria, Illinois, concerning the tax problem in Korea.

You may wish to inform your constituent that the American Embassy in Korea, in close consultation with the American Chamber of Commerce, has been actively attempting to negotiate a reasonable settlement of the tax problem with the Government of the Republic of Korea since August 28. A letter was sent to the Ministry of Finance on September 1 in which the Embassy protested the retroactive enforcement of taxes which foreign businessmen believed not applicable to them and urged that the Korean Government review the question in the light of equity and with due regard to United States-Korean commercial relations. Since then the Embassy has undertaken a series of meetings with the Minister of Finance. One result of these efforts was to obtain Korean agreement to postpone the tax deadlines during the course of the discussions. The Korean Government also agreed to review its policy of refusing exit permits to those who have not settled their tax assessments.

These efforts by the Embassy, supported by the Department of State, are continuing. The Department is hopeful that a reasonable settlement on the retroactive tax assessment can be effected.

As you

The Honorable
Everett M. Dirksen,
United States Senate.

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DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By Lyn, NARA, Date 1/17/89

As you requested, I am returning the correspondence from Mr. Yontz.

Sincerely yours,

Florence Kirlin
Acting Assistant Secretary

Enclosure:

From Mr. Yontz (returned).

AKP
FMG
F:KIRLIN:EVERETT:AKP:bc 9/28/55 Info. from EE HS NA

H Q Y

✓S/S-CR
SEP 28 1955 P.M.
SEP 30 1955 P.M.

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E.O. 12356, Sec. 3.3
NND 867400
By [illegible] NARA, Date 11/21/96

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Control: 13183
Rec'd: SEPTEMBER 25, 1955
1:45 A.M.

FROM: SEOUL

TO: **Secretary of State**

NO: 396, SEPTEMBER 24, MIDNIGHT

SENT DEPARTMENT 396; REPEATED INFORMATION TOKYO 207 TOKYO PASS CINCUNC AND CAG.

AS YET NO REPLY RECEIVED MY LETTER TO PRESIDENT RHEE SEPTEMBER 22 CONCERNING TAXATION AMERICAN BUSINESSMEN. PRESIDENT DEPARTED YESTERDAY FOR CHINHAE.

COLONEL LEE, FONMIN, CONFIRMED YESTERDAY THAT FINMIN HAD AUTHORIZED ISSUANCE EXIT AND REENTRY PERMITS TO EMPLOYEES AMERICAN COMPANIES REGARDLESS COMPANIES TAX STATUS; DECISION WITH RESPECT HEADS OF COMPANIES "PENDING".

LACY

LFS

Action Assigned to 20 / #5

Action Taken noted

Date of Action SEP 25

Action Office Symbol AA

Name of Officer #5

Direction to DC/R EM

BUREAU OF FAR EASTERN AFFAIRS

1955 SEP 26 AM 8:19

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DEC 31 1955

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NND 60760
By [illegible] NARA, Date 12/4/20

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Control: 13220
Rec'd: SEPTEMBER 25, 1955
7:29 A.M.

Date of Action
Action Office Symbol
Name of Officer
Direction to DC/R

FROM: SEOUL

TO: **Secretary of State**

NO: 402, SEPTEMBER 25, 6 P.M. (SECTION TWO OF TWO)

SENT DEPARTMENT 402, REPEATED INFORMATION TOKYO 213

ROM COMMIN, BANK OF KOREA AND OFFICE OF SUPPLY TRANSACTIONS CONSUMMATED BY THESE FOREIGN FIRMS SINCE SOME OF THESE FIRMS FAILED PRESENT REPORTS ON THEIR TRANSACTIONS.

"SINCE JULY 30 TAX NOTICES HAVE BEEN SENT OUT TO 50 FIRMS, THE NUMBER ON WHICH INVESTIGATIONS WERE COMPLETED. FIRMS WHICH HAVE PAID ARE ANDREW WIER, FOHAG, LECKIE, PACIFIC BUSINESS SERVICE, WILCOX, TRADE SHIP, KORAMA, U.S. SUMMIT, EVERETT, INTERNATIONAL ASSOCIATES, WOODWARD & DICKERSON, PACIFIC EASTERN AND MATIN TAYLOR. IT WILL INTEREST YOU TO KNOW DATES TAX PAYMENTS WERE MADE: AUG 30, AUG 30, AUG 31, SEPT 1, SEPT 2, SEPT 12, SEPT 5, SEPT 5, SEPT 6, AUG 31, SEPT 12, SEPT 9 AND SEPT 13, RESPECTIVELY.

"TAX NOTICES WERE BASED UPON FACT THAT OFFERS OF THESE FIRMS PRESENTED TO COMMIN FOR LICENSES CONTAINED SIGNATURES BOTH KOREAN BUYER AND FOREIGN FIRM'S REPRESENTATIVE KOREA, THUS SHOWING CONCLUSIVELY THAT TRANSACTIONS HAD BEEN COMPLETED KOREA AND WERE SUBJECT TO TAX LAW.

YOU WILL NOTE THAT JAMES J. WILCOX, CHAMBER CHAIRMAN AND LEADING AGITATOR IN TAX DISPUTE, PAID TAXES ASSESSED AGAINST WILCOX & CO. ON SEPT 2, LONG AFTER WORLDWIDE CIRCULATION OF PUBLICITY DEROGATORY THIS GOVERNMENT. PERHAPS YOU HAVE RELIABLE EVIDENCE HIS CITIZENSHIP. WHEN HE REGISTERED AT BANDO HOTEL HE DESIGNATED THAT HE WAS U.S. CITIZEN. IN CENSUS REGISTRATION HE FILLED OUT JUNE 3, 1955, HE GAVE NATIONALITY AS PANAMANIAN.

"IN YOUR LETTER YOU DISCUSS CASE OF JACK H. DIMON, EMPLOYEE HENNINGSEN & CO., LTD. IT IS TRUE MR. DIMON PERSONALLY OWES NO TAXES TO KOREAN GOVERNMENT. AS REPRESENTATIVE HIS FIRM IT IS ENTIRELY PROPER

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Control: 13224
Rec'd: SEPTEMBER 25, 1955
8:57 P.M.
Date of Action Sept 27
Action Office Symbol FA
Name of Officer HS
Direction to DC/R Ed

FROM: SEOUL

TO: Secretary of State

NO: 402, SEPTEMBER 25, 5 P.M. (SECTION 1 OF 2)

TOKYO PASS CINCUNC AND CAG

REFERENCE: EMBTEL 399 SENT TOKYO 210, TEXT LETTER SEPTEMBER 24 RECEIVED FROM ACTING FOREIGN MINISTER:

BEGIN VERBATIM TEXT: Letter from Acting Foreign Minister to Ambassador

"IN REPLY YOUR LETTER SEPTEMBER 13, WHICH CONCERNS ALMOST ENTIRELY YOUR DESIRE FOR FURTHER NEWSPAPER PUBLICITY ON WHAT WE VIEW AS A INCONSEQUENTIAL POINT IN TAX DISPUTE SITUATION, I MUST SAY AGAIN THAT WE FEEL THE ENTIRE MATTER IS PURELY LEGAL AND TECHNICAL AND SHOULD BE SETTLED THROUGH PROPER CHANNELS RATHER THAN TURNED INTO A POLITICAL ISSUE OR PUBLICITY CONTEST CAUSING BAD RELATIONS.

"DESPITE EMPHASIS YOU WISH PLACE UPON IT, WE FEEL FACT THAT PERSONAL INCOME TAXES AGAINST AMERICAN BUSINESSMEN ARE NOT INVOLVED IN THE CURRENT DISPUTE IS INCIDENTAL AS WOULD BE FACT THEY HAVE PAID CUSTOMS FEES, AUTOMOBILE LICENSES OR OTHER OBLIGATIONS. MATTER AT ISSUE IS CLEARLY UNDERSTOOD BY ONLY PARTIES CONCERNED--THE BUSINESS REPRESENTATIVES THEMSELVES AND OUR GOVERNMENT. YOUR COUNSELOR, MR. STROM, ALREADY HAS MADE PUBLIC DISTINCTION YOU MENTION. (KOREA TIMES SEPT. 15)."

~~EMBASSY COMMENT: REFERS DCM REMARKS ROTARY CLUB. SEE EMBTEL 353 SENT TOKYO 184.~~)

"WE WOULD HOPE, MR. AMBASSADOR, THAT RATHER THAN TAKING PARTISAN INTEREST IN MATTER YOU WOULD FOLLOW POLICY SO EFFECTIVELY OBSERVED BY YOUR PREDECESSORS. BOTH AMBASSADORS MUCCIO AND BRIGGS GAVE OUR GOVERNMENT FULL COOPERATION IN HANDLING INSTANCES IN WHICH AMERICAN CITIZENS WERE INVOLVED. WHEN THOROUGH, QUIET INVESTIGATIONS PROVED SUSPICIONS THAT CERTAIN AMERICAN CITIZENS WERE ENGAGED IN ILLEGAL BUSINESS PRACTICES, OFFENDERS WERE SENT HOME AS QUICKLY AND QUIETLY AS POSSIBLE

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NND 867409
By [illegible] NARA, Date 11/6/24

AS POSSIBLE. NATURALLY WE EXPECT YOU TO CARE FOR AMERICAN INTERESTS, BUT IN COOPERATION, NOT OPPOSITION, TO GOVERNMENT TO WHICH YOU ARE ACCREDITED.

"I FEEL USE SUCH WORDS AS 'HOSTAGES' AND 'RANSOM' ARE UNJUSTIFIED AND I AM SURE STATE DEPARTMENT WOULD REGARD SUCH TERMS CONNECTION WITH FRIENDLY GOVERNMENT NOT IN KEEPING WITH ITS HIGH STANDARDS OF HONOR AND FAIRNESS. YET YOU ARE SUPPORTING MR. STROM'S ALLEGATION OF SEPTEMBER 2 THAT DENIAL OF EXIT PERMITS TO AMERICAN BUSINESSMEN AND EMPLOYEES AMERICAN FIRMS ON GROUND THAT TAX BILLS PRESENTED TO FIRMS HAD NOT BEEN PAID AMOUNTED TO HOLDING PRIVATE INDIVIDUALS AS RANSOM.

"PERHAPS IT WAS OVERSIGHT, BUT YOUR LETTER DID NOT REPLY TO MY QUESTION ASKING YOU WHETHER ALLEGATION BY AMERICAN CHAMBER OF COMMERCE THAT 'HOSTAGES ARE STILL HELD' WAS TRUE OR UNTRUE. FACTS ARE READILY AVAILABLE THIS ALLEGATION HAS NOT BEEN CORRECTED.

"I APPRECIATE YOUR DENIAL RESPONSIBILITY FOR CHAMBER PRESS RELEASES BUT MUST VIEW YOUR LETTER AS AN ENDORSEMENT THEIR POSITION SINCE YOU WRITE THAT EMBASSY'S AND CHAMBER'S POSITIONS ARE IDENTICAL: 'AS YOU KNOW THE CHAMBER'S.....PRINCIPLES OF EQUITY.' ~~(SEE PARA 2 EMBTEL 401 SENT TOKYO 212)~~.

"LET ME POINT OUT THE TAX LAW IS NOT NEW, NOR IS INTERPRETATION OF IT NEW. A REQUEST FOR DELINQUENT TAX PAYMENTS HAS BEEN MADE AND USE OF WORD 'RETROACTIVE' IS INACCURATE AND PREJUDICIAL. BUSINESSMEN FIRST PLEADED 'IGNORANCE' OF LAW AS REASON FOR THEIR DELINQUENCIES, SO IT APPEARS THAT 'RETROACTIVE' DISTORTION WAS CONCEIVED BY A SUBSEQUENTLY INTERESTED PARTY.

"IN A SPIRIT OF COOPERATION AND HELPFULNESS THIS GOVERNMENT, WITHOUT OBLIGATION TO DO SO SINCE IT IS RESPONSIBILITY OF FOREIGN FIRMS TO KNOW LAWS, HAS ISSUED FROM TIME TO TIME MEMORANDA EXPLAINING TAX LAWS, TO MEET QUESTIONS RAISED BY BUSINESSMEN. THESE ARE SUPPLEMENTARY AND CONSISTENT, AND HAVE EVOKED EXPRESSIONS OF APPRECIATION FROM SOME OF PARTIES CONCERNED.

"FOR YOUR INFORMATION, LET ME SAY THAT SINCE 1951 SEVEN FOREIGN FIRMS HAVE REGULARLY PAID BUSINESS TAXES AND ALL OTHER TAXES IN KOREA. THE NUMBER OF FOREIGN FIRMS HERE ACTUALLY SHOWED MARKED INCREASE BEGINNING WITH LAST YEAR. BY AUGUST 1954 THE NUMBER HAD BECOME SO SIGNIFICANT

TAX BUREAU

1073

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NND 60780
By [illegible] NARA, Date 11/6/01

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3- 402, SEPTEMBER 25, 5 P.M. (SECTION 1 OF 2) FROM SEOUL

TAX BUREAU VOLUNTARILY CALLED TO ATTENTION OF FOREIGN FIRMS EXISTENCE OF TAX LAWS. THIS, I WISH TO REMIND YOU, WAS NOT OBLIGATORY. AT PRESENT THERE ARE 112 FOREIGN FIRMS. THE TAX BUREAU HAS SOUGHT TO ASCERTAIN FROM COMMIN, BANK

LACY

WVC

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NND 867480
By cgd, NARA, Date 4/6/21

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Control: 13220
Rec'd: SEPTEMBER 25, 1955
7:29 A.M.

FROM: SEOUL

TO: **Secretary of State**

NO: 402, SEPTEMBER 25, 6 P.M. (SECTION TWO OF TWO)

Date of Action
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Direction to DC/R

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SENT DEPARTMENT 402, REPEATED INFORMATION TOKYO 213

ROM COMMIN, BANK OF KOREA AND OFFICE OF SUPPLY TRANSACTIONS CONSUMMATED BY THESE FOREIGN FIRMS SINCE SOME OF THESE FIRMS FAILED PRESENT REPORTS ON THEIR TRANSACTIONS.

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YOU WILL NOTE THAT JAMES J. WILCOX, CHAMBER CHAIRMAN AND LEADING AGITATOR IN TAX DISPUTE, PAID TAXES ASSESSED AGAINST WILCOX & CO. ON SEPT 2, LONG AFTER WORLDWIDE CIRCULATION OF PUBLICITY DEROGATORY THIS GOVERNMENT. PERHAPS YOU HAVE RELIABLE EVIDENCE HIS CITIZENSHIP. WHEN HE REGISTERED AT BANDO HOTEL HE DESIGNATED THAT HE WAS U.S. CITIZEN. IN CENSUS REGISTRATION HE FILLED OUT JUNE 3, 1955, HE GAVE NATIONALITY AS PANAMANIAN.

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NND 969400
By NARA, Date 12/29/11

THAT HE BEAR RESPONSIBILITY FOR UNPAID TAXES AND COME TO AN EQUITABLE AGREEMENT BEFORE REMOVING HIMSELF FROM AUTHORITY OF THIS GOVERNMENT. AND SINCE THIS GOVERNMENT WOULD AND STILL WILL PERMIT HIS DEPARTURE IT IS OBVIOUS HIS FREEDOM NOT BEING RESTRICTED IN ANY WAY. IF HIS FIRM WISHES HIS SERVICES KOREA FUTURE IT CAN ASSURE HIS RETURN BY SETTLING ITS FINANCIAL OBLIGATIONS AT TAX BUREAU BEFORE HIS DEPARTURE. A FIRM UNWILLING TO MAKE SUCH SETTLEMENT NEEDS NO REPRESENTATIVE KOREA.

"YOUR OBJECTIONS TO PRESS 'MISREPRESENTATIONS' OF TAX MATTER COME A LITTLE LATE. THE CHAMBER, INSTEAD OF ALLOWING THOSE OF ITS MEMBERS WHO FELT THEIR TAX BILLS ARBITRARY OR EXORBITANT TO UTILIZE NORMAL CHANNELS FOR RELIEF SOUGHT TO FORCE THIS GOVERNMENT, BY THREATS AND UNFAVORABLE PUBLICITY, TO BOW DOWN HUMBLY, BECAUSE OF OUR FEELING OF GRATITUDE FOR UNITED STATES' AID, BEFORE 'SOLID FRONT'. I CAN ONLY REITERATE WE STILL DISAPPROVE OF DRAGGING TAX ADJUSTMENT DETAILS BEFORE PUBLIC. JUSTICE, NOT PUBLIC PREJUDICED, SHOULD GOVERN. THIS CONNECTION IT IS INTERESTING TO NOTE THAT CHAMBER ATTEMPTED TO WIN SYMPATHY IN AMERICA AND NOT IN KOREA WHERE THEY WERE DOING BUSINESS. OF COURSE, ANOTHER ALTERNATIVE TO BERATING US IN PRESS COULD HAVE BEEN TO ASK YOU OR ONE OF YOUR COMPETENT ASSISTANTS TO INTERCEDE.

"PLEASE LET ME ASSURE YOU AGAIN THAT ANY BUSINESSMAN UNWILLING TO PAY OR DISSATISFIED WITH TAX CHARGES CAN DISCONTINUE HIS BUSINESS AND LEAVE WITHOUT PAYMENT OF TAXES DUE. IF TAXES HAVE ALREADY BEEN PAID THEY WILL BE REBATED.

"IT IS UNFORTUNATE IF BUSINESS FIRMS OR THEIR REPRESENTATIVES OPERATING KOREA ARE ANTI-KOREAN. SUCH MISFITS ARE NOT WANTED HERE. WE WOULD APPRECIATE IT, MR. AMBASSADOR, IF YOU WOULD DETERMINE THOSE WHO ARE RESPONSIBLE FOR CREATING TROUBLE AND DISSATISFACTION AND PROVIDE US WITH THEIR NAMES. WE WOULD GLADLY REBATE THEIR TAXES OR CANCEL THEIR TAX OBLIGATIONS AND BID THEM GOODBY.

"WE MUST REMEMBER THAT KOREA IS COUNTRY AT WAR. TRUE, FIGHTING HAS STOPPED TEMPORARILY, BUT ENEMY IS WORKING UNDERGROUND AND THROUGH JAPAN TO PUT OUR GOVERNMENT IN BAD LIGHT AS REFLECTION BOTH ON IT AND ON DEMOCRACY. INSTEAD OF AIRING OUR GRIEVANCES IN PUBLIC WE SHOULD PUT

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E.O. 12356, Sec 3.3
NND 867490
By [illegible] NARA, Date 11/6/01

OUR BEST FOOT FORWARD. AND IN THIS REGARD, I HOPE HENCEFORTH, MR. AMBASSADOR, WE WILL HAVE YOUR FULL COOPERATION."

END VERBATIM TEXT.

LACY

CES

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E.O. 12356, Sec. 3.5
NND 867400
By [illegible] NARA, Date [illegible]

NND 877408
BOX 5119

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File Designation 895B.11/9-2555
TEL 400

Date 9/25/55

From SEOUL

To SEC STATE

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NND 867400
By [illegible], NARA, Date 4/29/99

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Control: 13203
Rec'd: SEPTEMBER 25, 9
5:14 A.M.

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FROM: SEOUL

TO: **Secretary of State**

NO: 399, SEPTEMBER 25, 3 P.M.

SENT DEPARTMENT 399; REPEATED INFORMATION TOKYO 210

TOKYO PASS CINCUNC AND CAG.

IN EMBTEL 279 (SENT TOKYO 149) I TRANSMITTED TEXT OF LETTER I PLANNED SEND FINMIN ON BUSINESSMEN'S TAXES. IT WAS DELIVERED SEPTEMBER 1 WITH CHANGES DISCUSSED DEPTELS 148 AND EMBTEL 289 (SENT TOKYO 154). NO REPLY RECEIVED THIS LETTER.

UNDER DATE SEPTEMBER 9 I RECEIVED LETTER FROM ACTFONMIN MOST IMPORTANT PART WHICH REPORTED EMBTEL 343 (SENT TOKYO 176). LETTER FROM ACTFONMIN DATED SEPTEMBER 24 NOW MAKES DESIRABLE TRANSMIT FULL TEXT THIS LETTER, MY REPLY DATED SEPTEMBER 13 AND FONMIN'S REPLY DATED SEPTEMBER 24. (SEE THREE FOLLOWING TELEGRAMS.) MY COMMENTS ON THIS CORRESPONDENCE WILL FOLLOW LATER THIS WEEK.

LFS

Action Assigned to NP/FS

Action Taken

Date of Action 9/27/55

Action Office Symbol NP

Name of Officer FS

Direction to DC/R FE

DEPARTMENT OF STATE
SEP 26 AM 7 58
LACY

BUREAU OF FAR EASTERN AFFAIRS

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NND 867400
By lgej, NARA, Date 1/17/29

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8:50 A.M.

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Action Taken

Date of Action

Action Office Symbol NEA

Name of Officer

Direction to DC/R

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RM/R 895B.11/9-2555

FROM: SEOUL

TO: **Secretary of State**

NO: 398, SEPTEMBER 25, 1 P.M.

SENT DEPARTMENT 398, REPEATED INFORMATION TOKYO 2009

TOKYO PASS CINCUNC AND CAG.

KOREAN REPUBLIC SEPTEMBER 23 CONTAINED REPRINT WASHINGTON PRESS STATEMENT ON BUSINESSMEN'S TAXATION MADE BY PYO WOOK HAN, KOREAN CHARGE D'AFFAIRES ON SEPTEMBER 3, CONTAINING BIASED AND IRRELEVANT STATEMENTS, UNTRUTHS AND UNPROVABLE INNUENDOES.

FROM PARAGRAPH A IT APPEARS HAN IS UNAWARE DISPUTE CONCERNS SALES TAXES LEVIED AGAINST AMERICAN FIRMS AND NOT INCOME TAXES LEVIED AGAINST INDIVIDUALS. HE SHARES THIS CONFUSION WITH AMBASSADOR YANG, WHO IN HIS STATEMENT (TWX 120235Z) CITED DICK HAYMES' CASE, WHICH HAS NO RELATION TO THIS ISSUE.

IN PARAGRAPH B HAN SAYS SINCE ESTABLISHMENT ROK IN 1948 FOREIGN TRADERS HAVE NEGLECTED TO PAY TAXES WITH EXCEPTION CUSTOMS AND IMPORT DUTIES. FINMIN VICE FINMIN AND CHIEF TAX BUREAU HAVE REPEATEDLY ASSURED EMBASSY OFFICIALS DURING LAST WEEKS THEY HAVE UNPAID CLAIMS AGAINST AMERICAN BUSINESSMEN FOR PERSONAL INCOME TAXES, TAXES ON COMMISSIONS, AND CERTAIN OTHER TAXES THEIR LIABILITY FOR WHICH IS NOT IN QUESTION. THESE ARE BEING PAID FAITHFULLY. HAN'S STATEMENT IS PATENTLY UNTRUE. IN PARAGRAPH C HAN DRAGS IN A RECENT SMUGGLING CASE IN PUSAN INVOLVING AN AMERICAN WITH NO STANDING WHATEVER IN AMERICAN BUSINESS COMMUNITY (FORMERLY EMPLOYED BY A LIQUOR SALES COMPANY). BERGER SMUGGLING CASE HAS NO BEARING WHATEVER ON MERITS TAXATION PROBLEM.

IN PARAGRAPH D HAN DISCUSSES QUESTION OF REGISTRATION OF FOREIGN FIRMS. IT IS STILL QUESTIONABLE WHETHER COMPANY REPRESENTATIVES SENT TO KOREA ON SALARY BASIS ARE UNDER THE LEGAL REQUIREMENT OF REGISTERING IN KOREA. HAN REFERS REPEATEDLY TO MINFIN IN THIS PARAGRAPH WHEREAS

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1080

-2- 398, SEPTEMBER 25, 1 P.M., FROM SEOUL

BUSINESSMEN'S DEALINGS ON THIS POINT WERE WITH DISTRICT COURT AND MINISTRY JUSTICE.

LIKE AMBASSADOR YANG, MINISTER HAN GROSSLY DISTORTS THE MOST ELEMENTARY FACTS IN THIS CASE. THE RELEASE OF HIS STATEMENT WAS A SERIOUS BREACH OF DIPLOMATIC COURTESY. I REQUEST THE DEPARTMENT TO CALL HIM IN AND REQUIRE HIM TO MAKE A RETRACTION OR, FAILING THIS, I REQUEST DEPARTMENT TO MAKE ITS OWN STATEMENT OF THE FACTS. IT IS INCREDIBLE TO ME THAT A FOREIGN DIPLOMAT IN THE UNITED STATES SHOULD BE PERMITTED TO SAY, "I THINK THE AMERICAN PEOPLE ARE ENTITLED TO KNOW SOME OF THE MORE IMPORTANT BACKGROUND FACTS ON THE CONTROVERSY" AND THEN PROCEED TO ISSUE FALSE STATEMENTS TO THE DETRIMENT OF AMERICAN BUSINESSMEN. THE ISSUANCE OF ERRONEOUS AND MISLEADING STATEMENTS OF THIS SORT (E.G. BY HAN AND AMBASSADORS YANG AND LIMB) ARE POISONING CLIMATE OF PUBLIC OPINION AND OF NATIONAL ASSEMBLY HERE TO AN EXTENT THAT WILL MAKE IT ALMOST IMPOSSIBLE TO REACH A SETTLEMENT OF THIS SERIOUS PROBLEM. THIS IS PARTICULARLY TRUE OF STATEMENTS MADE BY KOREAN OFFICIALS IN U.S. WHICH GO UNCHALLENGED BY U.S. AUTHORITIES.

LACY

CES

DEPARTMENT OF STATE
1955 SEP 26 AM 7 59
BUREAU OF
FAR EASTERN AFFAIRS

DEC 12 1955

DECLASSIFIED
E.O. 12356, Sec. 3.3
NSC MEMO, 11/24/98
BY NARA, DATE 12/17/98

INCOMING TELEGRAM *Department of State*

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Control: 13190
Rec'd: SEPTEMBER 25, 1955
2:12 A.M.

FROM: SEOUL

TO: **Secretary of State**

NO: 397, SEPTEMBER 25, 1 P.M.

SENT DEPARTMENT 397; REPEATED INFORMATION TOKYO 208

TOKYO PASS CINCUNC AND CAG.

GENERAL VAN FLEET ARRIVED SEOUL SEPTEMBER 23. KOREA TIMES YESTERDAY PRINTED AP DESPATCH FROM HONOLULU QUOTING GENERAL AS SAYING US BUSINESSMEN IN KOREA "MUST LEARN TO CONDUCT THEMSELVES LIKE DECENT AMERICANS WHILE ABROAD". REFERRING TO AMERICAN BUSINESSMEN, GENERAL ADDED "THOSE ARE THE PERSONS I HOLD TO BLAME FOR OUR TROUBLE IN KOREA".

LACY

LFS

Action Assigned to 20/85
Action Taken Noted Sept 26
Date of Action
Action Office Symbol NA
Name of Officer HS
Direction to DC/R File

This Document Must Be Returned to RM/R Central Files 895B.11/9-2555

HO Confidential File

DEPARTMENT OF STATE
DEC 15 1955
1955 SEP 26 AM 8 32
BUREAU OF FAR EASTERN AFFAIRS

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1082

INCOMING TELEGRAM

Department of State

ACTION COPY

CONFIDENTIAL

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Control: 13209
Rec'd: SEPTEMBER 25, 1959
6:18 A.M.

Action Assigned to NA

Action Taken

Date of Action Sept 25

Action Office Symbol NA

Name of Officer IB

Direction to DC/R

This Document Must Be Returned to RM/R 895R.11/9-2555 Central Files

FROM: SEOUL

TO: **Secretary of State**

NO: 401, SEPTEMBER 25, 4 P.M.

SENT DEPARTMENT 401; REPEATED INFORMATION TOKYO 212.

TOKYO PASS CINCUNC AND CAG.

RE EMBTEL 399 SENT TOKYO 210, TEXT MY LETTER SEPTEMBER 13 TO ACTFONMIN:

BEGIN VERBATIM TEXT:

Letter from Ambassador Lacy to Acting Foreign Minister, September 13, 1959

"I HAVE RECEIVED YOUR LETTER SEPTEMBER 9 OBJECTING TO PRESS RELEASE CONCERNING TAXATION FOREUGN FIRMS KOREA MADE BY AMERICAN CHAMBER COMMERCE AND IN PARTICULAR TO STATEMENT, 'HOSTAGES ARE....~~(SEE EMBTEL 400 SENT TOKYO 211, PARA 2)~~.....POWER OF DECISION'.

"AS FOR THIS PRESS RELEASE AND OTHERS ISSUED BY CHAMBER COMMERCE ON SUBJECT TAXATION FOREIGN FIRMS, I WISH ASSURE YOU THESE HAVE BEEN ISSUED UNDER RESPONSIBILITY OF CHAMBER WITHOUT PRIOR CONSULTATION WITH ME OR ANY OFFICER OF EMBASSY. I HAVE BEEN ADVISED BY OFFICERS OF CHAMBER THAT THEY HAVE CONSIDERED THEIR POSITION HAS BEEN SO GROSSLY MISREPRESENTED IN ARTICLES IN KOREAN PRESS DURING LAST FEW MONTHS, PARTICULARLY IN GOVERNMENT-CONTROLLED KOREAN REPUBLIC, AND IN RELEASES BY OFFICE OF PUBLIC INFORMATION THAT THEY BELIEVED EVENTUALLY THEY HAD NO ALTERNATIVE BUT PLACE THEIR CASE BEFORE PUBLIC. THIS CONNECTION, I INVITE YOUR ATTENTION TO FACT THAT NONE OF THESE SOURCES HAS EVER MENTIONED, FOR EXAMPLE, THAT TAX BUREAU HAS NO CLAIMS FOR PERSONAL INCOME TAXES AGAINST AMERICAN BUSINESSMEN. AS YOU KNOW, CHAMBER'S AND EMBASSY'S POSITION THIS DISPUTE IS THAT TAX BILLS THAT HAVE BEEN PRESENTED TO BUSINESSMEN ARE BASED ON RETRO-ACTIVE APPLICATION OF A NEW INTERPRETATION OF THE TAX LAW. IT IS THE POSITION OF MY GOVERNMENT THAT SUCH AN ACTION IS CONTRARY TO PRINCIPLES OF EQUITY. FAR FROM MAKING THIS CLEAR, AMERICAN BUSINESSMEN HAVE BEEN LABELED TAX DODGERS AND SMUGGLERS AND HAVE BEEN REPRESENTED BY

NEWS

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1083

NEWS OUTLETS AVAILABLE TO GOVERNMENT AS REFUSING TO PAY ANY TAXES AND EVEN AS QUESTIONING GOVERNMENT'S RIGHT TO TAX THEM AT ALL. NEEDLESS TO SAY, THEIR FAITHFUL PAYMENT OF THEIR PERSONAL INCOME TAXES AND THEIR DISCHARGE CERTAIN OTHER TAX OBLIGATIONS ARE EVIDENCE THEY HAVE NOT ADOPTED THIS POSITION.

"AS YOU KNOW, EXIT PERMITS WERE RECENTLY DENIED NUMBER OF AMERICAN BUSINESSMEN AND EMPLOYEES AMERICAN FIRMS ON GROUND THAT TAX BILLS PRESENTED TO FIRMS HAD NOT BEEN PAID. IN DISCUSSION THIS SUBJECT AT MINFIN SEPTEMBER 2, COUNSELOR OF EMBASSY, CARL W. STROM, POINTED OUT THIS ACTION AMOUNTED TO HOLDING PRIVATE INDIVIDUALS AS RANSOM FOR TAXES THAT HAD BEEN LEVIED AGAINST THEIR EMPLOYERS. ON SEPTEMBER 5, VICE MINFIN ADVISED MR. STROM THAT MIN HAD DECIDED MISTAKE HAD BEEN MADE AND THAT EXIT PERMITS WOULD NO LONGER BE DENIED ON THESE GROUNDS. ON RECEIVING COUNSELOR'S REPORT, I ASSUMED THIS PROBLEM HAD BEEN DISPOSED OF. HOWEVER, APPEARS ONE DETAIL REMAINS TO BE SETTLED.

"IN YOUR LETTER YOU STATE, 'THE ONE BUSINESSMAN.....THIS WAS REFUSED.' ~~(SEE PARA 2 EMBTEL 400 SENT TOKYO 211)~~. FROM INQUIRIES BY OFFICERS OF EMBASSY, I HAVE CONCLUDED THAT YOU REFER TO APPLICATION FOR EXIT AND REENTRY PERMIT ON SEPTEMBER 8 BY JACK H. DIMON, EMPLOYEE OF HENNINGSEN & CO., LTD. I AM ADVISED, CONTRARY TO STATEMENT IN YOUR LETTER, THAT TAX BUREAU HAS NO CLAIM FOR UNPAID TAXES AGAINST DIMON. AS FOR REFUSAL OF EXIT PERMIT ON THE GROUND THAT DIMON ALSO ASKED FOR REENTRY PERMIT, I SHOULD APPRECIATE YOUR REEXAMINING THIS POSITION IN LIGHT OF DECISION MADE WITH RESPECT TO EXIT PERMITS. THE EFFECT OF REFUSING REENTRY PERMIT IN DIMON'S CASE IS TO EJECT HIM FROM COUNTRY ON GROUND THAT COMPANY FOR WHICH HE WORKS HAS BEEN PRESENTED WITH TAX BILL WHICH HAS NOT YET BEEN ADJUDICATED. WHILE I DO NOT QUESTION RIGHT YOUR GOVERNMENT TO MAKE ITS OWN DECISIONS ON ISSUANCE REENTRY PERMITS, IT APPEARS TO ME THAT IN THIS CASE SAME PRINCIPLE OF EQUITY IS INVOLVED IN ISSUANCE EXIT PERMITS AND REENTRY PERMITS. I SHOULD VERY MUCH APPRECIATE YOUR REEXAMINING THIS SUBJECT ON THIS BASIS AND ADVISING CONCERNING YOUR CONCLUSIONS.

"I AM SURE, MR. MINISTER, THAT YOU SHARE MY WISH TO CREATE AN

ATMOSPHERE

DEC 12

1084

ATMOSPHERE IN WHICH SOLUTION OF THE VEXATIOUS PROBLEM OF TAXING FOREIGN BUSINESSMEN CAN BE WORKED OUT. TO THIS END I WISH TO SUGGEST A COURSE OF ACTION TO YOU WHICH WILL GO FAR, IF ACCEPTED, TOWARD CREATION SUCH ATMOSPHERE. I RESPECTFULLY SUGGEST THAT YOU CAUSE TO BE PRINTED IN KOREAN REPUBLIC AT EARLIEST POSSIBLE DATE A STATEMENT TO EFFECT THAT AMERICAN BUSINESSMEN HAVE FAITHFULLY PAID THEIR PERSONAL INCOME TAXES AND CERTAIN OTHER TAXES, THEIR LIABILITY FOR WHICH IS NOT IN QUESTION. I REQUEST THAT THE STATEMENT MAKE IT CLEAR PRESENT DISPUTE ARISES FROM DISAGREEMENT OVER APPLICATION OF BUSINESS TRANSACTION TAX TO THEIR SPECIAL TYPE OF OPERATION. A FORTHRIGHT STATEMENT OF THIS KIND BY A HIGHLY PLACED OFFICER OF YOUR GOVERNMENT, GIVING AMERICAN BUSINESSMEN THEIR JUST DESERTS, WOULD REMOVE MUCH OF ACRIMONY WHICH IS MAKING SOLUTION OF PROBLEM SO DIFFICULT."

END VERBATIM TEXT.

LACY

LFS

DEPARTMENT OF STATE
1955 SEP 26 AM 7 58
BUREAU OF
FAR EASTERN AFFAIRS

1085

DECLASSIFIED
E.O. 12958, Sec. 3.5
NND 969239
By NARA, Date 12-18-06

OUTGOING TELEGRAM

INDICATE: ☐ COLLECT
☐ CHARGE TO

Department of State

CONFIDENTIAL
Classification

02784
1955 OCT 7 PM 6 21

For DC/T use only.

DC/T

SENT TO: Amembassy SEOUL 255

895B.11/9-2655

Origin

Info

October 6

Department received from Vice President's Office two telegrams from Chamber Commerce Seoul to Vice President dated September 9 and 12. One telegram requested congressional investigating committee be despatched Korea determine whether taxes designed expel businessmen from Korea and asked suspension aid program until ICA determines whether ROK has authority impose what amounts to sales tax on aid goods. Other telegram stated ROK insists her tax sphere includes US as indicated recent ROK interpretation tax laws which states sales taxable when ~~accepted~~ acceptance of offer made in Korea even though offer made outside Korea.

Embassy may its discretion reply Chamber along following lines: acknowledges Office Vice President/~~acknowledged~~ receipt telegrams noting recommendation with respect congressional investigating committee and implications ROK interpretation tax law. In respect question of authority ROK impose sales tax on aid imports informed that ICA expects privately imported goods financed by ICA to be treated accordance tax laws and regulations same as any other imports with exception goods imported pursuant project agreements on which ROK would pay taxes. [redacted]

Dist. Desired (Offices Only)

DC/R
Anal
Rev
Cat

Drafted by: FE:NA:HSmith:mhn 10/6/55

Telegraphic transmission and classification approved by: FE - William J. Sebald

Clearances:
ICA - Nathan
S/S-CR

OCT 7 1955 P.M.

CONFIDENTIAL
Classification

Bureau of FAR EASTERN AFFAIRS
OCT - 7 1955
ASSISTANT SECRETARY
Department of State

2:00 p.m.

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Confidential File

895B.11/9-2655

1086

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 4/17/89

Memo from Pres
President

October 11 1955

895.11/9-2655

This Document is the property of DC/R Central Files

Dear Mr. Wilbur:

Your telegram of September 9, 1955, to Vice President Nixon about your tax problem in Korea was recently referred to the Department of State for reply. Under Secretary Hoover wrote to you on this subject on September 23 and to Representative Younger on September 21.

The American Embassy in Seoul has been making a reasonable solution to the tax problem in Korea for several weeks. While the Embassy has succeeded in having the tax declines extended (but not enforced) during the disruption, it has not as yet succeeded in solving the part-issue problem. These efforts by the Embassy, supported by the Department of State, are continuing.

You will be interested in the enclosed statement by Under Secretary Hoover on the tax problem made on October 7, 1955, during his recent visit to Korea. Also enclosed is a Department of State press release of October 3 on the same subject.

Sincerely yours,

For the Secretary of State:

Walter S. Robertson
Assistant Secretary

Enclosures:

Statement by Mr. Hoover
Press Release No. 585

Mr. Reuben Wilbur,
320 California Street,
San Francisco 4, California.

RJCH
FE:WA:EMacChesney 10/10/55
EA:RHCleveland:mb 10/10/55

DC/R
Attn. 47
Copy
WG

S/S - CR
OCT 11 1955 A.M.
Mail Room

CS/E

FE - Mr. Sebald

895.11/9-2655

1087

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By LGW, NARA, Date 1/17/29

CLASS OF SERVICE
This is a fast message unless its deferred character is indicated by the proper symbol.

WESTERN UNION
TELEGRAM

W. P. MARSHALL, PRESIDENT

1201

SYMBOLS
DL = Day Letter
NL = Night Letter
LT = International Letter Tel...

The filing time shown in the date line on domestic telegrams is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination

89 895a.11/9-265

OA510

1955 SEP 9 PM 8 25

O ASB005 NL PD=AS SAN FRANCISCO CALIF 9=

THE HONORABLE RICHARD M NIXON VICE PRESIDENT OF THE UNITED STATES=SEANTE OFFICE BLDG WASHDC=

CONNELL BROS CO IS A SAN FRANCISCO EXPORT ORGANIZATION WITH OFFICES THROUGHOUT FAR EAST. OUR OFFICE IN SEOUL KOREA HAS JUST BEEN ASSESSED AN EXORBITANT RETROACTIVE TAX BY GOVERNMENT OF KOREA ON AN UNDISCLOSED BASIS AND WITH NO PREVIOUS NOTIFICATION. SAME HAS BEEN ASSESSED UPON OTHER U.S. COMPANIES. NO PRIOR NOTICE HAD BEEN GIVEN AS TO A TAX LIABILITY. THE AMOUNT OF ASSESSMENT

Received in NA 10/6/55. by note dated 9/26 to VP's office from VP's office 10/5/55

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

1 0 8 8

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By lgm, NARA, Date 1/17/89

O ASB005/2=

SEP 9 PM 8 25

WOULD FORCE US TO CLOSEOUR OFFICE THERE AND IS IN EXCESS OF THE TOTAL EARNINGS OF THAT OFFICE. DEADLINE FOR PAYMENT ARBITRARILY SET MIDSEPTEMBER WITH THREAT OF IMPOUNDING ASSETS CLOSURE OF OFFICE AND PERSONAL RESTRICTION OF AMERICAN STAFF IF PAYMENT NOT MADE. OUR MANAGER AN AMERICAN CITIZEN AND OTHER U.S. LOCAL MANAGERS HAVE BEEN DENIED EXIT VISAS UNTIL PAYMENT MADE. STATE DEPARTMENT IS AWARE OF THIS BUT HAVE LODGED ONLY MILD PROTEST. WOULD APPRECIATE YOUR BRINGING MATTER FORCIBLY TO ATTENTION OF STATE AND ASKING THAT

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

1089

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By LJW, NARA, Date 4/17/99

OASB005/3

1955 SEP 9 PM 8 25

OUR EMBASSY REGISTER WITH GOVERNMENT OF KOREA ITS
STRONG OBJECTION TO THIS HIGHLY DISCRIMINATORY
CONTENTIOUS ACTION=

BRAYTON WILBUR PRESIDENT CONNELL BROS CO LTD=..

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

1090

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By LyeJ, NARA, Date 4/17/89

This was attachment to Vice Presidents transmitted memo Sept 26 1955

Ans. 47
Rev.
Cat.

FW 895 U11/9-26-55

1091

H-ASSISTANT SECRETARY FOR CONGRESSIONAL RELATIONS
1955 SEP 28 PM 4

OFFICE OF THE VICE PRESIDENT
WASHINGTON
September 26, 1955

ACTION is assigned to SEV

DIVISION OF NORTHEAST ASIAN AFFAIRS
OCT 6 1955

DEPARTMENT OF STATE

MEMORANDUM

TO: The Honorable Thruston Morton

FROM: Robert L. King, Assistant to the Vice President

(3)

The attached two letters are referred to you for whatever action you may deem appropriate.

Also, the three attached wires on Korea tax problems are sent for your decision as to action.

RECEIVED DEPARTMENT OF STATE 1955 SEP 28 PM 1 O
DC/R RECORDS BRANCH

RLK:lmg
~~Enclosures: Ltr from Paul Jones, Australia~~
~~Also untranslated letter from Hamburg, Germany~~
Three telegrams, one from American Chamber Commerce Korea, another from same group, and one from Brayton Wilbur, Connell Bros Co. Ltd., San Francisco, Cal.

Concerning Korean tax on U.S. business firms.

286870

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1955 SEP 20 AM 10 09
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FILES DIV. OCT 19 1955

(Not rec'd in RM/R - see below)

10 NA 9/30 RE

Encl. attached

Ltr drafted 10/7 to Mr. Wilbur for Robertson's signature. HS

Called to Sec'y drafted with suggested To Robertson 10/7 Comments

A/4 P 10/7/55

895B.11/9-2655

1092

CLASS OF SERVICE
This is a fast message unless its deferred character is indicated by the proper symbol.

WESTERN UNION
TELEGRAM

W. P. MARSHALL, PRESIDENT

1201

SYMBOLS
DL = Day Letter
NL = Night Letter
LT = International Letter

The filing time shown in the date line on domestic telegrams is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination

CDU090 124 PD INTL =CD KOREA VIA WUCABLES 9 1835=

LT PRESIDENT OF THE SENATE OF THE UNITED STATES=
WASHDC=

1955 SEP 9 PM 12 13

THE AMERICAN CHAMBER OF COMMERCE IN KOREA RESPECTFULLY REQUESTS YOUR ASSISTANCE IN THE IMMEDIATE DESPATCH OF A CONGRESSIONAL COMMITTEE OR COMMITTEES TO KOREA TO INVESTIGATE DETENTION OF AMERICAN CITIZENS AND TO INVESTIGATE ILLEGAL KOREAN TAX ASSESSMENTS ON AMERICAN FIRMS AND DETERMINE WHETHER THEY ARE DESIGNED TO EXPEL=

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

1093

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By Lgm, NARA, Date 4/17/09

CLASS OF SERVICE

This is a fast message unless its deferred character is indicated by the proper symbol.

WESTERN UNION TELEGRAM

W. P. MARSHALL, PRESIDENT

SYMBOLS

DL = Day Letter

NL = Night Letter

= International Letter Telegram

(07)

The filing time shown in the date line on domestic telegrams is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination

CDU090 SHEET TWO=

1955 SEP 9 PM 12 13

AMERICAN BUSINESS FROM KOREA STOP WE ALSO REQUEST CONGRESSIONAL RECOMMENDATION OF IMMEDIATE SUSPENSION OF ICA FUND FOR USE IN OR BY KOREA UNTIL OFFICIAL ICA DECISION CAN BE ANNOUNCED AS TO WHETHER THE KOREAN GOVERNMENT MAY ASSESS WHAT AMOUNTS TO A SALES TAX OF UP TO FOUR DECIMAL FOUR PERCENT ON EXPORTS FROM THE UNITED STATES TO KOREA FUNDED BY ICA=

AMERICAN CHAMBER OF COMMERCE IN KOREA=

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

1094

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By lgw, NARA, Date 4/17/09

CLASS OF SERVICE

This is a fast message unless its deferred character is indicated by the proper symbol.

WESTERN UNION

TELEGRAM

W. P. MARSHALL, PRESIDENT

1220 (KII-54)

SYMBOLS

DL=Day Letter

NL=Night Letter

LT=International Letter Telegram

The filing time shown in the date line on domestic telegrams is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination

1955 SEP 12 PM 9 57

CDU197 114 PD INTL=CD SEOUL KOREA VIA WUCABLES 12=

LT PRESIDENT OF THE SENATE OF THE UNITED STATES=

WASHDC=

KOREA NOW INSISTING HER TAX SPHERE INCLUDES UNITED STATES STOP IN WRITTEN INTERPRETATION OF KOREAN TAX LAWS GIVEN OFFICIALLY TO AMERICAN EMBASSY SEPTEMBER NINTH SHE "INCLUDES AMONG TAXABLE SALES QUOTE WHEN THE ACCEPTANCE WAS MADE IN KOREA ON OFFER OF SALE EVEN THOUGH SUCH OFFER WAS MADE OUTSIDE KOREA UNQUOTE THUS SUBJECTING ANY COMPANY IN UNITED STATES MAKING EXPORT TO KOREA TO BOTH KOREAN SALES TAX ON GROSS TURNOVER AND KOREAN TAX ON NET PROFIT STOP SUCH COMPANY CONSIDERED BY KOREA TAXABLE UNDER KOREAN LAW AND THEREFORE REQUIRED TO SHOW ITS BOOKS OR BE TAXED AT ANY RATE KOREA CHOOSES=

AMERICAN CHAMBER COMMERCE KOREA••

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

1095

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By ____, NARA, Date 11/7/21

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

NA

RA

TO : FE - Mr. Robertson

FROM : NA - Mr. McClurkin RJGM

Bureau of FAR EASTERN AFFAIRS DATE: OCT 10 1955
OCT 10 1955
ASSISTANT
Department

7610

Central Files

SUBJECT: Reply to Telegram on Korean Tax Problem.

The enclosed telegram to Vice President Nixon from Mr. Brayton Wilbur, President of Connell Brothers, San Francisco, reached NA on October 6. In the interim, Under Secretary Hoover corresponded with Mr. Wilbur on this subject on September 28 and with Congressman Younger on September 21.

Recommendation:

That you sign the enclosed letter to Mr. Wilbur.

letter signed by W.B.H.

FE:NA:HSMcIlvain:mhn
10/10/55

DC/R
Anal 17
Rev
Cat 24

This Document Must Be Returned to Central Files

FW895B.11/9-2655 CS/S FW895B.11/9-2655

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867809
By NARA, Date 12/2/21

HAROLD H. VELDE
18TH DISTRICT, ILLINOIS

COMMITTEE ON
UN-AMERICAN ACTIVITIES

COMMITTEE ON
EDUCATION AND LABOR

Congress of the United States
House of Representatives
Washington, D. C.

HOME ADDRESS:
PEKIN, ILLINOIS

PEORIA ADDRESS:
FIRST NATIONAL BANK BLDG.
PEORIA 2, ILLINOIS

ROBERT H. MICHEL
ADMINISTRATIVE ASSISTANT

September 27, 1955

ACTION
is assigned to
SEV
-DA
RM/R

(1)

DIVISION OF
NORTHEAST ASIAN AFFAIRS
OCT 3 1955
DEPARTMENT OF STATE

Reply drafted
10/4/55
File
FE 7A
Howard Smith

Hon. John Foster Dulles
Secretary of State
Washington, D. C.

Dear Mr. Secretary:

I have been asked by the President of LeTourneau-Westinghouse Company here in Peoria, Illinois to inquire as to just what our Government is doing with respect to alleviating the unbearable taxes imposed upon American businesses doing business in Korea. As I understand it, the Korean Government has actually threatened to impound assets of American businessmen, closing of offices and refusing individuals permission to leave the country.

It seems to me that in view of all the help this country has given the Republic of South Korea, there is no justification for this kind of treatment.

Would you be so kind as to favor me with a reply as to just what our Government is doing to rectify this situation? I would appreciate your directing your reply to my home office, Suite 1119 First National Bank Building, Peoria, Illinois, at your earliest convenience.

Sincerely,

Harold H. Velde

Harold H. Velde, M.

HHV:sf

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DEPARTMENT OF STATE
SEP 29 1955
DC/R RECORDS BRANCH

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SEP 29 1955
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Rev 1
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286826

This letter (and its enclosures, if any) micro-filmed for DC/R records

FROM AND TYPE OF DOCUMENT

Velde, Harold H. Ltr.

DATE DUE

DATE 10/5/55

NO. 10/3/55

DATE

FILED

SUBJECT 9/28/55

Re: Ltr fro m Velde re Tax Question Korea.

TO: [redacted]

DATE

TO: NH

DATE 10/355

TO:

DATE

TO:

DATE

ANSWERED

NO REPLY NECESSARY

FROM AND TYPE OF DOCUMENT

[redacted]

DATE DUE

DATE [redacted]

NO. [redacted]

DATE

FILED

SUBJECT [redacted]

Re: Ltr fro m Velde re Tax Question Korea.

TO: [redacted]

DATE

TO: NH HS

DATE [redacted]

TO:

DATE

TO:

DATE

ANSWERED

NO REPLY NECESSARY

FORM DS-10
2-10-47

DEPARTMENT OF STATE

REFERENCE SLIP

DATE: 9/30/55

TO:
NA - Mr. Smith

☐	ADVISE	☐	NOTE & FORWARD
☐	APPROVE & RETURN	☐	NOTE & RETURN
☐	AS YOU REQUESTED	☐	PER TELEPHONE TALK
☐	ATTACH FILE	☐	PREVIOUS CORRESPON.
☐	ATTENTION	☐	PRIORITY ACTION
☐	COMMENT & RETURN	☐	RECONSIDER
☐	CONSIDER	☐	RECOMMEND ACTION
☐	COPYING	☐	RECORD
☐	CORRECT	☐	REPLY
☐	FILE	☐	RETURN TO SENDER
☐	FOLLOW-UP	☐	REWRITE
☐	FOR YOUR INFORMATION	☐	SEE ME
☐	HOLD	☐	SIGNATURE REQUIRED
☐	INITIALS NEEDED	☐	TAKE ACTION
☐	INSTRUCT	☐	TRANSFER
☐	INVESTIGATE & REPORT	☐	TYPE
☐	JUSTIFY	☐	VERIFY
☐	KEEP ME ADVISED	☐	REPLY FOR SIGNATURE OF
☐	LEGAL MATTER		
☐	MEMO REQUIRED		
☐	NOT INTERESTED		
☐	NOTE & DESTROY		
☐	NOTE & FILE		

REMARKS: Per telephone conversation, letter from Congressman Velde re Korean tax problem. Mr. Velde's office would like a copy of our reply: Att: Miss Powers
Room 236
House Office Bldg.

I would like a copy also for SEV files.

FROM
SEV - Marian Evans

DECLASSIFIED
E.O. 12958, Sec. 3.3
NND 969078
NARA, Date 12-18-06

This Document Must Be Returned to
OC/R
Central
Files
895B.11/9-2755
CS/ CVE

October 7 1955

In reply refer to
MA 895B.11/9-2755

Dear Mr. Velde:

This is in reply to your letter of September 27, 1955, acknowledged by telephone September 30, 1955, in which you requested information on action taken by the United States Government in the foreign businessmen's tax controversy in Korea.

The enclosed Department of State press release Number 536, October 3, 1955, entitled "Korean Tax Problem" contains a statement on the background of the tax problem and the specific issue involved. When the tax bills in question were issued to the businessmen, they were in some cases accompanied by statements that company assets would be seized if taxes were not paid by a given deadline. As yet there has been no asset seizure by the Korean Government. Also, the Korean Government at the outset refused to issue exit permits to those who had not settled their tax assessments. While the Korean Government's statements in this respect are not consistent, apparently the policy now is to permit anyone except principal representatives of firms to leave freely and only to permit principal representatives to leave without settlement of a tax assessment if it is understood that these individuals will not be permitted to re-enter.

The American Embassy in Seoul, supported by the Department of State, has from the outset of the tax disagreement been actively seeking a reasonable settlement. A series of meetings have been held with the Minister of Finance, and letters have been written to the President and to the Ministers of Finance and Foreign Affairs. The matter has also been discussed by the Department with Chargé d'Affaires Ad of the Korean Embassy. These efforts have resulted in the non-enforcement of the deadlines, but they have not succeeded in settling the back taxes issue. The efforts of the Department and the Embassy to settle the problem continue, and it is hoped that a satisfactory settlement can be effected.

The Honorable
Harold H. Velde,
Suite 1110,
First National Bank Building,
Peoria, Illinois.

DC/R
Acq 65
Rec
Cvl

895B.11/9-2755

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By NARA, Date

A copy of this letter is being sent to your office in the House Office Building, as requested by your office staff.

Sincerely yours,

For the Secretary of State:

Florence Kirlin
Acting Assistant Secretary

Enclosure:

✓ Press Release No. 586

✓ cc: Rep. Vieder, Washington
attention: Miss Powers
Rm 236, House Office Bldg.

FE:NA:HSWitch:mhn
RJGM
10/4/55

FE - Mr. Sebald
Mr. Robertson

S/S-CR
OCT 6 12 1955 M.
to N to sign 10/7
OCT 7 1955

Bureau of
FAR EASTERN AFFAIRS
OCT - 6 1955
ASSISTANT SECRETARY
Department of State

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By [illegible], NARA, Date 4/17/89

September 29, 1955

TO : The Under Secretary

THROUGH: S/S

FROM : Walter S. Robertson

SUBJECT: Statement by Korean Charge Kim

895.00/9-2855

Attached is Seoul's 322 giving text of statement by Korean Charge Kim which created such a storm of protest from Lacy (Seoul's 398). Lacy requests that we call in Minister Kim and "require him to make a retraction or, failing this, I request Department to make the contradictory statement of the facts".

I suggest that you read Kim's statement. Whatever the disagreement as to the facts I see nothing objectionable in tone. In the context it would seem to indicate that the controversy is regrettable which I believe to be the case.

Attachments:
Seoul's 322
Seoul's 398

DRR
A 39

Rev

Cat

1102

DECLASSIFIED
E.O. 12356, Sec. 3.3
NND 867400
By LyN, NARA, Date 1/17/99

STANDARD FORM NO. 64

CONFIDENTIAL

Office Memorandum • UNITED STATES GOVERNMENT

TO : FE - Mr. Robertson

FROM : NA - Mr. McClurkin RJM

DATE: September 28, 1955

RMR

Bureau of F... SEP 28 1955 1411

SUBJECT: Recommended Action on Korean Tax Controversy.

This Document Must Be Returned to OCB Central Files

89 D 895B.11/9-2855

Embassy Seoul sent in over the weekend a series of telegrams (Tab B) on the status of the tax controversy. The telegrams repeat two letters from the Acting Foreign Minister and a letter from the Embassy to the Acting Foreign Minister. These letters go over the same points that have been discussed many times -- the retroactive aspect of the tax enforcement, the problem of the exit and re-entry permits, the fact that only the transactions tax is involved. The undesirability of the press releases by the Korean Government and by the American Chamber of Commerce were emphasized by Ambassador Lacy and the Acting Foreign Minister respectively. Ambassador Lacy states in his final telegram (No. 409) that he believes it is futile to pursue this problem further and requests instructions. He suggests that he inform the business community of the situation and advise them to pay the tax as stipulated or get out.

A cooling-off period apparently is now needed. Both sides have taken their cases to the press and positions have hardened. It is unlikely that the Korean Government will publicly back down on the principle of the right to collect the back taxes. It would seem unwise either to press the ROK for a complete waiver in principle of back taxes, or to throw in the sponge. Between these extremes a possible solution is for the Korean Government, pursuant to an informal understanding, to settle back taxes reasonably on a case-by-case basis. Another possible solution would be for the back taxes to be held in abeyance pending the conclusion of an FCN treaty, as suggested by the Foreign Minister about two weeks ago. It might be helpful, in view of the acrimony that has arisen, for you to write a personal letter to President Rhee.

Recommendation:

That you sign the attached telegram (Tab A).

Concurrences:

FE - Mr. Sebald; Mr. Jones. OFD S/S Commerce

FE:NA:HSmith:mhn:cht

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DECLASSIFIED E.O. 12356, Sec. 3.3 NND 867400 By [illegible], NARA, Date 1/6/21

1103

895 b.11/9-2855

INCOMING TELEGRAM

Department of State

UNCLASSIFIED

28
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FE

Info
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ND
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OCB
USIA
CIA
DCL
ICA

Control: 14902
Rec'd: SEPTEMBER 28, 1955
11:29 AM

FROM: SEOUL

TO: Secretary of State

NO: 422, SEPTEMBER 28

OCT 10 1955

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CONTROL COPY

SEPTEMBER 3 PRESS STATEMENT BY KOREAN CHARGE' HAN WHICH WAS PUBLISHED SEOUL SEPTEMBER 23 TRANSMITTED BELOW IN RESPONSE SEBALDS TELEGRAPHIC REQUEST TO SEOUL SEPTEMBER 28.

BEGIN VERBATIM TEXT:

"RECENT PRESS REPORTS FROM SEOUL REGARDING CHARGES MADE BY AMERICAN CHAMBER COMMERCE THERE, AND BY SEVERAL AMERICAN BUSINESSMEN HAVE CREATED SOME CONFUSION AND MUCH MISUNDERSTANDING. I THINK AMERICAN PEOPLE ARE ENTITLED TO KNOW SOME OF MORE IMPORTANT BACK-GROUND FACTS ON CONTROVERSY.

"BEFORE GOING INTO DETAILS, HOWEVER, I WOULD LIKE TO POINT OUT THAT AS OF MOMENT, CONVERSATIONS LEADING TO JUST SOLUTION ARE NOW BEING HELD, AND I AM SURE PROGRESS BEING MADE STEADILY. NO USE-FUL PURPOSE CAN BE SERVED BY OVERPLAYING POINTS OF DISAGREEMENT. CERTAINLY USE OF SUCH TERMINOLOGY AS 'HOSTAGES' CREATES DISTORTED PICTURE OF SITUATION AND HAMPERS ANY POSSIBILITY OF EQUITABLE ADJUSTMENT FOR ALL PARTIES.

"PUBLIC RECORD OF PRESIDENT RHEE'S PAST SEVEN YEARS ADMINISTRATION WILL REVEAL THAT HE AND REPUBLIC OF KOREA HAVE REPEATEDLY ENCOURAGED EXPANSION AMERICAN INVESTMENTS AND LEGITIMATE BUSINESS INTERESTS KOREA. AS MATTER FACT, DURING 1954, KOREAN PURCHASED NEARLY $17 MILLION WORTH COMMODITIES FROM UNITED STATES. ROK GOVERNMENT, FURTHERMORE, HAS REPEATEDLY MADE AVAILABLE KOREAN TRADERS SUBSTANTIAL AMOUNT GOVERNMENT-HELD DOLLARS FOR PURPOSE EXPANDING PRIVATE KOREAN-AMERICAN TRADING. UNDER THIS SPECIAL DOLLAR LOAN SYSTEM, BEGUN LATTER PART OF 1952, THREE MAJOR LOANS OF DOLLARS TO KOREAN TRADERS -- AMOUNTING $20,175,035.90, $3,752,594.34 AND $2,304,871.00 EACH CASE -- WERE MADE DURING 1954.

"THESE EVIDENCES

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"THESE EVIDENCES GOOD INTENT TOWARD EXPANDED KOREAN-AMERICAN PRIVATE, COMMERCIAL TRADING ARE SUPPLEMENTED BY PASSAGE ENCOURAGING LEGISLATION. FOR EXAMPLE, DECEMBER 20,1952, NEW "COMMERCE LAW" (LAW NO. 274) PROMULGATED, ITS GOAL BEING THAT OF IMPROVING AND DEVELOPING AND FORMALIZING CHAMBER OF COMMERCE AS NATIONAL INSTITUTION. ALSO, EARLY 1954, SERIES OF SWEEPING AMENDMENTS TO ROK CONSTITUTION (MODIFYING ARITCLES 85, 87, 88 AND 89) WAS ADVANCED BY ADMINISTRATION. THEY WERE DESIGNED TO MAKE ROK FREE ENTERPRISE COUNTRY AND ATTRACT FOREIGN CAPITAL INVESTORS.

"CURRENT DISPUTE, THEN, IS ONE OVER PARTICULARS OF TAXATION PROGRAM OF ROK, NOT ONE OF BASIC SUBSTANTIVE DIFFERENCES. ONLY NATURAL THAT THERE SHOULD BE SOME DISAGREEMENT OVER TAXATION PARTICULARS. BUSINESS CONCERNS IN EVERY COUNTRY OF WORLD ARE CHRONICALLY DISSATISFIED WITH THEIR TAX STATUS. WE URGE THAT POINTS DISAGREEMENT NOT BE MADE INTO SPRINGBOARD OF PUBLIC RECRIMINATION OR WEAPON OF UNFAIR PUBLICITY. WITH REASONABLENESS AND UNDERSTANDING, NASCENT ROK TAXATION PROGRAM CAN BE MADE WORK.

"ON ROK SIDE OF ISSUE, FACTS ARE AS FOLLOWS:

"A. IN U.S., AS IN KOREA, NO ALIEN RESIDENT IS PERMITTED TO LEAVE COUNTRY WITHOUT FIRST FULFILLING HIS TAX OBLIGATIONS. DOING BUSINESS IN FOREIGN COUNTRY IS PRIVILEGE, NOT RIGHT. BUSINESSMAN IN ANY FOREIGN SOVEREIGN STATE MUST ACCEDE TO RULES AND REGULATIONS OF HOST COUNTRY. TAXES MUST BE PAID IN FULL BEFORE DEPARTURE BECAUSE EX POST FACTO COLLECTION AFTER DEPARTURE WOULD REQUIRE EXTRADITION IN MOST CASES. EXTRADITION IS CUMBERSOME IN ALL CASES AND IMPOSSIBLE IN CASE OF ROK BECAUSE IT HAS NOT YET BEEN PROVIDED FOR BY TREATY.

"B. SINCE ESTABLISHMENT ROK IN 1948, FOREIGN TRADERS HAVE NEGLECTED TO PAY TAXES (WITH SINGLE EXCEPTION OF CUSTOMS AND IMPORT DUTIES.)

"C. SOME FOREIGN TRADERS HAVE REPEATEDLY ABUSED THEIR PRIVILEGES. ONE FIRM, HEADQUARTERED IN TOKYO, FOR EXAMPLE, WAS SUSPECTED OF HAVING USED APO CHANNELS TO FUNNEL LUXURY CLASS GOODS INTO BLACK MARKET IN

MARKET IN KOREA. ALSO, NUMBER OF FIRMS HAVE USED EXTRA-PEGAL MEANS OF OBTAINING LOCAL CURRENCY FOR THEIR OPERATING AND LIVING EXPENSES. IN JULY THIS YEAR, MR. JOSEPH BERGER -- WHO FALSELY CLAIMED TO BE REPRESENTING 'WILLIAMS INTERNATIONAL, INC.' -- WAS ACCUSED BY ROK CUSTOMS OFFICE OF SMUGGLING $400,000 WORTH OF GOODS FROM JAPAN. BERGER BROUGHT IN 1,769 BOXES OF CIGARETTES, 6,000 TOOTHBRUSHES, AND 67 BAGS OF SUGAR IN EARLY JUNE. IT IS FOR PURPOSE OF ELIMINATING SUCH ABUSES THAT ROK REGULATIONS HAVE BEEN FORMULATED.

"D. FULL REGISTRATION AND TAX DECLARATIONS HAVE BEEN REPEATEDLY AVOIDED BY FOREIGN BUSINESS FIRMS. IN JUNE THIS YEAR, ROK FINANCE MINISTER ADMONISHED MEMBERS OF AMERICAN CHAMBER TO OBTAIN THEIR BUSINESS LICENSES AND TO COMPLY WITH TAX LAWS OF KOREA. THEN MINISTER OF FINANCE, LEE JOONG-JAI, SENT A NOTE TO AMERICAN CHAMBER WARNING THAT GOVERNMENT WOULD REFUSE EXIT VISAS TO FOREIGN BUSINESSMEN WHO FAILED TO MEET THEIR FULL TAX OBLIGATIONS. AN ENGLISH TRANSLATION OF ROK TAX CODE ACCOMPANIED NOTE. THIS WARNING WAS RECEIVED AND AMERICAN CHAMBER HELD MEETING ON JUNE 17TH, ACKNOWLEDGING RECEIPT.

"MINISTER LEE GRANTED AN EXTENDED DEADLINE OF JUNE 30TH TO THOSE WHO HAD EITHER FAILED TO OBTAIN BUSINESS LICENSES UNDER THE BUSINESS TAX LAW OR WHO HAD FAILED TO PAY TAXES. ANOTHER EXTENSION OF DEADLINE WAS GRANTED TO JULY 31ST. AND EVEN THEN, ONLY 27 OF 91 FOREIGN TRADEING FIRMS OPERATING KOREA COMPLETED REQUIRED REGISTRATION. SUCH A SITUATION WOULD BE UNTHINKABLE IN UNITED STATES; IT WAS COMMERCIAL ANARCHY IN KOREA. SUBSTANTIAL NUMBER OF FIRMS PURPORTING TO DO BUSINESS IN KOREA ARE UNKNOWN BY INTERNATIONAL REPUTATION TO US. SOME FOREIGN FIRMS HAVE BEEN REPORTED BEING ENGAGED IN BLACK MARKET OPERATIONS. IT IS TO PROTECT INNOCENT, LEGITIMATE TRADERS THAT ROK GOVERNMENT HAS DRAWN UP, AND SOUGHT TO INFORCE, BASIC REGULATIONS.

"IN CONCLUSION, ROK GOVERNMENT SOLICITS COOPERATION OF OUR FRIENDS IN ESTABLISHMENT OF ORDERLY, EQUITABLE COMMERCIAL AND TAXATION SYSTEM. WE SHALL ENDEAVOR TO DO OUR UTMOST. WE HOPE THAT OUR GOOD WILL SHALL BE MATCHED BY HONESTY AND COOPERATION ON PART OF FIRMS OPERATING KOREA." -END- VERBATIM TEXT.

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INCOMING TELEGRAM 6 v *Department of State*

ACTION COPY

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Control: 4980
Rec'd: SEPTEMBER 30, 1955
12:38 A.M.

Action FE

Info RMR SS G SP C L IO E P ND OLI IOP DCLC ICAH

FROM: SEOUL

TO: Secretary of State

NO: 434, SEPT 29, 6 P.M.

Action Assigned to NA

Action Taken

Date of Action SEP 30

Action Office Symbol

Name of Officer

Direction to DO/R

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SENT DEPT 434 RPTD INFO TOKYO 228.

TOKYO PASS CINCUNC, CG AFFE/ARMY EIGHT (REAR) AND CAG.

EMBTEL 422 TRANSMITTED TEXT HAN'S STATEMENT AS REQUESTED DEPTEL 225.

WITH SPECIAL REFERENCE LAST PARA EMBTEL 398 SENT TOKYO 209 EMB TRANSMITS BELOW TEXT STATEMENT DEPT MIGHT ISSUE CORRECTING HAN'S STATEMENT. I HAVE GOOD REASON TO BELIEVE AMBASSADORS LIMB AND YANG ARE RETURNING TO US WITH INSTRUCTIONS TO PROCEED ENERGETICALLY IN PRESENTING KOREAN CASE ON BUSINESSMEN'S TAXATION TO AMERICAN PUBLIC. DEPT MAY WISH TO USE HAN'S RELEASE AS OCCASION FOR ISSUING RELEASE PROPOSED BELOW AT SAME TIME FORESTALLING EFFORTS OF LIMB AND YANG:

ON SEPT 3, MR. PYO WOOK HAN, KOREAN CHARGE' WASHINGTON ISSUED PRESS RELEASE WITH THE PURPOSE OF ENABLING THE AMERICAN PEOPLE "TO KNOW SOME OF THE MOST IMPORTANT BACKGROUND FACTS ON THE CONTROVERSY" CONCERNING THE TAXATION OF AMERICAN AND OTHER FOREIGN BUSINESSMEN IN KOREA. ON SEPT 10, 1955, KOREAN AMB TO US, YU CHAN YANG, ISSUED A SIMILAR STATEMENT IN SEOUL. IT IS TO BE REGRETTED THAT NEITHER OF THESE STATEMENTS DEALT WITH THE PRINCIPAL ISSUE IN CONNECTION WITH THE CONTROVERSY.

CONTRARY TO THE IMPRESSION CREATED BY BOTH RELEASES, THE FINMIN OF ROK HAS REPEATEDLY ASSURED OFFICERS OF THE AMERICAN EMB IN SEOUL THAT AMERICAN BUSINESSMEN ARE PAYING AND HAVE IN THE PAST PAID PERSONAL INCOME TAXES, TAXES ON AGENT'S COMMISSIONS, AND CERTAIN OTHER TAXES, THEIR LIABILITY FOR WHICH IS CLEARLY ESTABLISHED. THE CURRENT CONTROVERSY DOES NOT INVOLVE PERSONAL TAX OBLIGATIONS.

THE TAX IN QUESTION IS THE "BUSINESS TAX" LEVIED UNDER KOREAN LAW NO. 48 OF AUG 13, 1949. IN AMERICAN TERMINOLOGY THIS TAX IS KNOWN AS A SALES

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NND 969078
By KBH, NARA, Date 12/29/06

A SALES TAX. EXPLANATIONS OF THE LAW MADE PUBLIC BY THE TAX BUREAU OF THE FINMINISTRY OF ROK AS RECENTLY AS JUNE, 1955, INDICATE CLEARLY THAT IT WAS UP TO THAT TIME REGARDED AS A TAX TO BE LEVIED ON GOODS AND SERVICES IN KOREAN DOMESTIC TRADE ONLY AND THIS IS VERIFIED BY THE WAY IN WHICH THE LAW WAS IMPLEMENTED. NO EFFORT WAS MADE BY THE TAX BUREAU BEFORE JUL 1955 TO COLLECT THIS SALES TAX ON TRANSACTIONS IN INTERNATIONAL TRADE IN WHICH THE SALES WERE MADE OUTSIDE KOREA AND TITLE TO THE GOODS INVOLVED WAS TRANSFERRED OUTSIDE KOREA.

IN JUL AND AUG 1955 THE KOREAN TAX BUREAU SENT BILLS TO REPRESENTATIVES OF CERTAIN AMERICAN FIRMS IN KOREA FOR AMOUNTS THAT WERE DECLARED TO BE DUE THE ROK BY THOSE FIRMS AS TAXES UNDER LAW NO. 48. THEY WERE TAXES ON GOODS THAT HAD BEEN BROUGHT INTO KOREA BUT THE SALES TRANSACTIONS HAD IN THE GREAT MAJORITY OF CASES BEEN COMPLETED OUTSIDE KOREA AND THE TITLE TO THE GOODS INVOLVED HAD ALSO BEEN TRANSFERRED OUTSIDE KOREA. THE BILLS WERE IN VARYING AMOUNTS BUT IN THE CASE OF ONE FIRM AMOUNTED TO $214,000. AT THE CURRENT RATE OF EXCHANGE. IN REPRESENTING THE INTERESTS OF AMERICAN BUSINESSMEN BEFORE THE KOREAN TAX BUREAU, THE AMERICAN EMBASSY AT SEOUL HAS NOT DISPUTED THE RIGHT OF THE KOREAN GOVT TO LEVY A SALES TAX ON GOODS IN INTERNATIONAL TRADE UNDER THE PROVISIONS OF LAW NO. 48 (THE EMBASSY, HOWEVER, QUESTIONED THE ADVISABILITY OF INSTITUTING THIS TYPE OF TAXATION WHICH IS SO WIDELY AT VARIANCE WITH THE PRACTICE OF OTHER COUNTRIES GENERALLY.)

THE SOVEREIGNTY OF THE KOREAN GOVT IN TAXATION MATTERS IS THEREFORE NOT THE ISSUE IN THE PRESENT TAXATION CONTROVERSY. THE ISSUE IS RATHER THE EQUITY OF A RETROACTIVE APPLICATION OF AN INTERPRETATION OF LAW NO. 48 TO TRANSACTIONS THAT TOOK PLACE BEFORE THE INTERPRETATION WAS MADE PUBLIC. THE EMB HAS HELD THAT A TAXPAYER SHOULD NOT AS A MATTER OF EQUITY BE LIABLE FOR TAXES THAT ARE LEVIED ON THE BASIS OF AN EX POST FACTO INTERPRETATION OF THE LAW.

MOST OF THE AMERICAN BUSINESSMEN IN KOREA ARE NEITHER IMPORTERS NOR EXPORTERS OF GOODS. IN THE VAST MAJORITY OF CASES THEY ARE ON A

SALARY BASIS

DEC 12 1955

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BY: ... NARS, DATE 12-...

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SALARY BASIS AND ARE ENGAGED IN PROMOTING SALES RATHER THAN MAKING THEM. AT NO TIME DO THEY HOLD TITLE TO THE GOODS WHOSE SALES THEY PROMOTE NOR DO THEY HANDLE THE MONEY WHICH IS INVOLVED. IN THESE CIRCUMSTANCES A SALES TAX LEVIED ON GOODS WHOSE PURCHASE THEY PROMOTE CANNOT BE CONSIDERED A PERSONAL TAX OBLIGATION OF THE BUSINESSMAN. THE TAX, IF PAYABLE AT ALL, IS AN OBLIGATION OF THE COMPANY WHICH THE BUSINESSMAN REPRESENTS AND NOT OF THE BUSINESSMAN PERSONALLY. NEVERTHELESS, THE KOREAN MINISTRY OF FOREIGN AFFAIRS HAY INFORMED THE EMB AT SEOUL THAT IT WILL NOT ISSUE AN EXIT PERMIT TO THE PRINCIPAL REPRESENTATIVE OF A FIRM FROM WHICH THIS SALES TAX IS CONSIDERED DUE UNTIL THE TAX HAS BEEN PAID.

IN REPRESENTING THE INTERESTS OF AMERICAN BUSINESSMEN ON THIS SCORE, THE AMERICAN EMB HAS HELD THAT IT IS CONTRARY TO THE PRINCIPLES OF EQUITY TO LIMIT THE FREEDOM OF MOVEMENT OF AN INDIVIDUAL ON ACCOUNT OF SUMS THAT MAY BE DUE FROM HIS EMPLOYERS.

LACY

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DEPARTMENT OF STATE

1955 SEP 30 AM 7 01

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NND 60878
BY ... DATE ...

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OUTGOING TELEGRAM

INDICATE: ☐ COLLECT
☐ CHARGE TO

Department of State

UNCLASSIFIED
Classification

13264
1955 SEP 30 PM 5 58
DC/T

SENT TO: Amembassy SEOUL 238

Origin

Info:

AP reports Dept. in letter to Senator Thye QTE says no RPTno evidence American businessmen or others discriminated against in tax assessments Japan or Korea. UNQTE.

Department letter stated tax burden American firms increased substantially this year, ROK examined closely tax responsibilities foreign businessmen and enforced income tax more rigorously, Current dispute centers on transactions tax.

Reference discrimination letter stated: QTE no RPT no evidence ROK discriminating against foreign businessmen vis-a-vis Korean businessmen, in levying transactions tax. Nor is there doubt imposition tax within taxing authority ROK Government since tax existed since 1950. Is in area tax administration businessmen believe ROK Government been inequitable. UNQTE.

Noted American Chamber July understanding with MinFin that most foreign businessmen not subject transactions tax but following month tax levied on transactions back to 1950 and this retroactive enforcement to which businessmen object. Letter also stated active role Embassy supporting businessmen this dispute, and that ROK postponed tax deadlines and promised review exit permit policy.

Dulles (Clarton)

Dist. Desired (Offices Only)

DC/R
Anet
Rsv

Drafted by: CatER/R:THurfin:bmm 9/30/55

Telegraphic transmission and classification approved by: FE/P - E. R. Mosman

Clearances:
H - Mr. Clarton.
RSG/NA - Mr. Smith
Mr. McClurkin

S/S-ER
SEP 30 1955 P.M.

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CS/DLS

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E.O. 12356, Sec. 3.3
NND 867400
By lgm NARA, Date 4/17/89

Handed to me Oct 3 by Goldmanzi & Kramer. WK

BMC/R

ORIENTAL EXPORTERS, INC.

EMPIRE STATE BUILDING
NEW YORK 1, N. Y.

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N.Y. COFFEE & SUGAR EXCHANGE
IMPORTERS · EXPORTERS
INVESTMENTS · FINANCING
CABLE ADDRESS: ORIENTEX, N.Y.
TELEPHONE LONGACRE 5-5260

AFFILIATED OFFICES
TOKYO, JAPAN
OSAKA, JAPAN
HONG KONG
HAVANA, CUBA
SAO PAULO, BRAZIL
BRUSSELS, BELGIUM

September 30, 1955

U.S. Department of State
Washington, D. C.

895B.11/9-2055

Attention: Mr. N. Hemmendinger

Gentlemen:

We wish to supplement our letter of September 20th, and we also want to thank Messrs. Parsons and Smith for the cordial cooperation which they gave our Mr. Kramer during his recent visit to your department.

The "Explanations on Korean Taxation Upon Alien Enterprise in Korea" which your office received last week is identical to the first English translation made available to the members of the American Chamber of Commerce in Seoul by Minister of Finance, Lee Joong Chai, on June 5, 1955.

A study of these explanations makes it clear that the regulations actually do not apply to branch operations by American firms with head offices in the United States. This interpretation was confirmed as being correct in a subsequent meeting held on July 5 at the Ministry of Finance. The memorandum covering this meeting, which was attended by Messrs. Hughes and Min as U.S. Embassy observers, clearly states under classification III:

> "Any entity which makes offers and/or signs contracts only on behalf of its head office, receiving no income for its own account, other than personal salary, is not subject to any Tax other than personal Income Tax on the salary".

When it became apparent that most American (and European) firms were only operating branches in Korea and that, consequently, there would be no or little tax income from such sources, it appears that new "interpretations" were read into existing regulations and announced in a letter by Mr. Kim Man Ki, director of the Taxation Bureau of the Ministry of Finance, dated July 22nd and addressed to the American Chamber of Commerce, Seoul.

Our Korean friends were ill-advised in this complete reversal of interpretations as they are far-fetched and can not with the best of intentions be conceded to be only interpretations. Actually, they are equivalent to far-reaching new laws and regulations, but they were called interpretations to permit retroactive and extremely unreasonable taxation.

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JAN 13 1956
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For instance, on such vital commodities as fertilizer and sugar, which are mostly ICA financed, taxes would add up as follows:

1.	Business Tax	:	0.6% of sales amount
2.	Classified Income Tax	:	0.45% " "
3.	Composite Income Tax (40% of 3%)	:	1.2% " "
		Total:	2.25%

It should be borne in mind here that with increasing amounts the rate increases too and goes as high as over 5% (in our case to 3.45% plus $22,000.00 penalty). Similar unrealistic rates apply to other commodities. From experience, you are aware that on such commodities the customary gross profit is only a fraction of the above given tax rate, and its retroactive enforcement would force American firms not only to give up all their profits and lose the benefit of organizational and promotional investments made under difficult enough conditions in the past two years, but also to go heavily into the red.

It is not our intention to dispute the right of our Korean friends to make any sort of tax laws and enforce them, and we expect to abide by such laws. If the Republic of Korea wishes to enforce high sales taxes, we will handle them in the usual way by adding them to our sales prices and pay them without any hesitation. However, the present tax structure under discussion is unrealistic and discriminatory beyond understanding.

Your kind continued cooperation in keeping us informed of developments is greatly appreciatedand we ask that you do not hesitate to call on us for any information which you may desire to have.

Very truly yours,

ORIENTAL EXPORTERS, INC.

J. Ashkenazi, President

JA:er

AUTHORITY
E.O. 12356, Sec. 3.4
BY NARA, Date

INCOMING TELEGRAM 67 *Department of State*

ACTION COPY

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18-14
Action FE

Control: 301
Rec'd: OCTOBER 4, 1955 11:12 PM

FROM: SEOUL

Info RMR

TO: Secretary of State

SS G SP C L IO E P ND OLI IOP DCLC ICAH

NO: 439, OCTOBER 2, 1 A.M.

NIACT

SENT DEPARTMENT 439 REPEATED INFORMATION TOKYO 229

TOKYO PASS CINCUNC, CG AFFE ARMY EIGHT REAR AND CAG.

AP DISPATCH (REF DEPTEL 238) APPEARED FRONT PAGE NIPPON TIMES TODAY AND WILL UNDOUBTEDLY MAKE SEOUL PAPERS MONDAY. IT WILL BE A TRIUMPH FOR KOREAN REPUBLIC AS SEQUEL TO EDITORIAL "US EMB AND TAX CASE" (TWX 220700Z).

PROSPECTS FOR WINNING BUSINESSMEN'S TAX CASE WERE ALREADY POOR. DEPARTMENT WILL REALIZE THIS AP DISPATCH WAS COLOSSAL SNAFU THAT UNDERCUTS MY POSITION COMPLETELY AND GIVES DECISION TO ROK ON SILVER PLATTER.

I APPRECIATE DEPARTMENT'S PROMPT REALIZATION THAT SOMETHING HAD GONE WRONG AND ARE THEREFORE RELUCTANT POINT OUT THAT PUBLICATION CORRECT TEXT KIRLIN LETTER WOULD HAVE BEEN JUST AS DAMAGING AS GARBLED REWRITE IN FIRST PARA AP DISPATCH. PUBLICATION STATEMENT "NO RPT NO EVIDENCE ROK DISCRIMINATION AGAINST FOREIGN BUSINESSMEN VIS-A-VIS KOREAN BUSINESSMEN IN LEVYING TRANSACTIONS TAX" WOULD HAVE LEAD TO ACCUSATION BY ROKS THAT AMERICAN BUSINESS MEN WANT PREFERENTIAL TREATMENT WITH OVERTONES OF IMPERIALISM ET CETERA. DISCRIMINATION IS NOT (REPEAT NOT) THE ISSUE.

IN MY SEPT 22 LETTER TO PRES RHEE (EMBTEL 384 SENT TOKYO 200) I ATTEMPTED TO DEFINE THE ISSUE IN SIMPLE TERMS. FROM PRESIDENT'S REPLY VIA ACT FONMIN (EMBTEL 402 TOKYO 213 AND 409 TOKYO 216) IT IS CLEAR I FAILED WITH HIM. DEPTEL 238 MAKES IT CLEAR I FAILED EQUALLY WITH DEPT. I HAVE REREAD EMBTEL 384 AND FIND IT IS AS CLEAR

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895B.11/10-255

DECLASSIFIED Authority NND 60750 By NARA Date 1956

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AS CLEAR AS ANYTING I COULD SUBMIT IF I MADE ANOTHER ATTEMPT. I CAN ONLY ASK DEPARTMENT READ IT AGAIN.

IF WE ARE STILL TO HAVE SLIM CHANCE TO WIN, RECORD MUST BE SET STRAIGHT PUBLICLY. CORRECTION WILL NEVER CATCH UP WITH STORY BUT I MUST BE GIVEN SOMETHING TO SAY, I SUPPLIED TEXT FOR PRESS RELEASE IN EMBTEL 434 TOKYO 228 THAT CAN BE USED FOR THIS PURPOSE WITH ONLY SLIGHT CHANGES. I MOST EARNESTLY REQUEST PROMPT ISSUANCE AND FROM WASHINGTON.

LACY

AB

Note: Mr. Robertson's office (FE) notified 2:10 pm 10/1/55 (DES)

DEPARTMENT OF STATE
1955 OCT 3 AM 7 35
BUREAU OF
FAR EASTERN AFFAIRS

DEC 12 1955

OUTGOING TELEGRAM

INDICATE: ☐ COLLECT
☐ CHARGE TO

Department of State

CONFIDENTIAL
Classification

00453
1955 OCT 3 PM 6 54
DC/T

SENT TO: Amembassy SEOUL PRIORITY 244
RPTD INFO Amembassy TOKYO

Origin

Info:

Tokyo also pass CINCUNC and CAG
Your 439 and 440 repeated Tokyo 229 and 330

Department issued statement today based your 440. It being seperately transmitted.

Regret confusion caused by AP quotation Thye letter out of context. Upon rereading in light what has happened believe it susceptible unfortunate misinterpretation which has occurred. No misunderstanding here what problem is and fully support your position.

DULLES

Dist. Desired (Offices Only)

DC/R
ADS 62
REV
Cat

Drafted by: FE:NA:NHemmendinger:emb 10/3/55

Telegraphic transmission and classification approved by: NA - Robert J. G. McClintock

Clearances:

FE - Mr. Robertson (in draft)

S/S-CR

OCT 3 1955 P.M.

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NND 867400
By Lyod, NARA, Date 4/17/29

FE
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DEPARTMENT OF STATE

Telephone

Memorandum of Conversation



Bureau of FAR EASTERN AFFAIRS OCT 5 - 1955 ASSISTANT SECRETARY Department of State

RECEIVED OCT 7 1955 DEPARTMENT OF STATE RM/R

DATE: October 3, 1955

SUBJECT: Korean Tax Problem

Action Assigned to NA

Action Taken

PARTICIPANTS: Mr. John W. Fleming, Washington Representative of Woodward and Dickerson.
Mr. Noel Hemmendinger, Deputy Director, NA

Date of Action

Action Office Symbol

Name of Officer

Direction to DC/R

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Embassy Seoul-cc
NA-5-cc

HD-1
OLI-2

OCT 5 - 1955

(6)

1—1402

(3)

Mr. Hemmendinger received a telephone call from Mr. Fleming on October 3. Mr. Fleming said that Woodward and Dickerson is the largest supplier in Korea under the ICA program. The firm was not sympathetic to the approach which had been taken to the tax problem by the American Chamber of Commerce in Korea. The firm was the only firm that had registered with the Korean court as required by Korean law before the present controversy arose. When it received a tax bill, it had negotiated privately with the tax bureau and then had paid. The amount was reasonable or at least manageable. They thought that the American Chamber of Commerce was making a mistake in taking a united stand and carrying the case to the newspapers because that only made it impossible for the Koreans to reach adjustments. Mr. Fleming believed that their manager, George Purdy, had been forced to resign from the American Chamber of Commerce because of this disagreement. Mr. Fleming said he had talked during the past few weeks with Mr. Howard Smith of NA and was under the impression that the Department was generally in sympathy with their view that the case should not be tried in the newspapers.

Mr. Fleming said that the foregoing was all by way of background and that the reason for his call was that he had just had a telephone call from their man in Korea who said that there were indications that the American Embassy there was in accord with the American Chamber's views as to the necessity for publicity. This disturbed him so that he thought it desirable to bring their views to the attention of the Department. Mr. Hemmendinger explained that the Department had a specific problem relating to the Thye letter and he did not know what action might be taken on it. In general Mr. Hemmendinger said the Department did agree that public controversy was not helpful. Mr. Hemmendinger asked

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By NARA, Date 12/22/11

asked why most of the firms in Korea had seen fit to make an issue of the matter rather than make arrangements with the tax authorities as Woodward and Dickerson had done, and suggested that perhaps their bills were so big that they did not see any possibility of a reasonable adjustment until the principles were reviewed. Mr. Fleming said that he did not know, but supposed that this was the case.

FE:NA:MHemmendinger:cht

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00487
1955 OCT 3 PM 7 21
Central Files
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DC/T

SENT TO: Amembassy SEOUL 245

Origin

Info:

Following is full text portions relating Korea of letter dated September 27 from State to Senator Thye which released by Senator September 30. Unnecessary words omitted.

"In respect Korea it is true that tax burden American firms increased substantially this year. For several months Korean Government examined closely tax responsibilities foreign businessmen and enforced more rigorously income tax. The current dispute centers upon transactions tax, tax upon gross proceeds, similar to sales tax.

No evidence that Korean Government discriminating against foreign businessmen, vis-a-vis Korean businessmen, in levying transactions tax. Nor is there doubt imposition of tax is within taxing authority Korean Government since tax existed since April 1, 1950. It is in area tax administration that businessmen believe Korean Government inequitable. Representatives American Chamber of Commerce Seoul understood after discussions July 1955 with Minister Finance that most foreign businessmen not subject transactions tax. Nevertheless following month Korean Government levied transactions taxes on transactions back to 1950 (most businessmen, however, arrived during past two years).

It is this retroactive enforcement aspect of problem to which businessmen mostly object.

"It is

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Drafted by: FE:NA:NHemmendinger:emb 10/3/55

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"It is reported that tax deadlines fixed subsequent to which books and assets would be seized if settlement not effected, and exit permits denied those whose taxes not paid.

"American Embassy has been active this dispute from outset. Several meetings between Embassy and Minister of Finance have been held and Embassy has supported businessmen in letter written to Minister Finance. Korean Government postponed tax deadlines during discussions and promised review exit permit policy. These efforts reach reasonable settlement continue.

DULLES
(RJGA)

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By [illegible] NARA, Date [illegible]

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October 7, 1955

Dear Mr. Heirendimos:

Referring to your letter of October 3rd, enclosed is a copy of the Department's letter of September 27, 1955 to Senator Edward J. Thye concerning the taxation problems in Japan and Korea. The Department's Press Release No. 526, dated October 3, 1955, is also submitted for your information.

Sincerely yours,

FK

Florence Kirlin
Acting Assistant Secretary

Enclosures:

1. Copy of letter to Senator Thye
2. Copy of Press Release No. 526

October 7 1955

Mr. E. A. Heirendimos,
Vice President,
American Trading Company, Inc.,
25 Hall Street,
New York 3, New York.

S/S-CR/
OCT 7 1955 P.M.
Received signed

HE:MMoyte:ag

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E.O. 12356, Sec. 3.3
NND 867400
By NARA, Date

DEPARTMENT OF STATE
FOR THE PRESS

OCTOBER 3, 1955 NO. 586

KOREAN TAX PROBLEM

The taxation of American businessmen in Korea has recently been the subject of discussions between our Embassy in Seoul and the Government of the Republic of Korea. There has been so much confusion about the problem that the Department of State considers it desirable to clarify the issues.

The Korean Minister of Finance has repeatedly assured officers of the American Embassy in Seoul that American businessmen are paying and have in the past paid personal income taxes, taxes on agent's commissions, and certain other taxes, their liability for which is clearly established. The current controversy does not involve personal tax obligations.

The tax in question is the "Business Tax" levied under Korean law No. 48 of August 13, 1949. In American terminology this tax as applied to the businessmen involved is known as a sales tax. Explanations of the law made public by the Tax Bureau of the Finance Ministry of the Republic of Korea as recently as June, 1955, indicate clearly that it was up to that time regarded as a tax to be levied on goods and services in Korean domestic trade only, and this is verified by the way in which the law was implemented. No effort was made by the Tax Bureau before July 1955 to collect this sales tax on transactions in international trade in which the sales were made outside Korea and title to the goods was transferred outside Korea.

In July and August 1955 the Korean Tax Bureau sent bills to representatives of certain American firms in Korea for amounts that were declared to be due the Republic of Korea by those firms as taxes under Law No. 48. They were taxes on goods that had been brought into Korea, but the sales transactions had in the great majority of cases been completed outside Korea and the title to the goods involved had also been transferred outside Korea. The bills were in varying amounts but in the case of one firm amounted to $214,000 at the current rate of exchange. In discussing this subject with the Korean Government, the American Embassy at Seoul has not disputed the right of the Korean Government to levy a sales tax on goods in international trade under the provisions of Law No. 48. However, it has, on instructions from the Department of State, discussed the advisability of taxing sales transactions which are largely international in character, contrary to the practice of most countries, and has raised questions with respect to the fairness of applying a new interpretation of the law retroactively to past transactions.

The sovereignty of the Korean Government in taxation matters is therefore not the issue in the present discussions nor is it a question of discrimination. The issue is rather the

equity

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equity of the application of a new interpretation of Law No. 48 to transactions that took place before the interpretation was made public when there had been good reason to expect that the law would not be so construed.

Most of the American businessmen in Korea are neither importers nor exporters of goods. In the vast majority of cases they are on a salary basis and are engaged in promoting sales rather than making them. At no time do they hold title to the goods whose sales they promote nor do they handle the money which is involved. In these circumstances a sales tax levied on goods whose purchase they promote cannot be considered a personal tax obligation of the businessmen. The tax, if payable at all, is an obligation of the company which the businessman represents and not of the businessman personally. Nevertheless, the Korean Ministry of Foreign Affairs has informed the Embassy at Seoul that it will not issue an exit permit to the principal representative of a firm from which this sales tax is considered due until the tax has been paid.

In representing the interests of American businessmen on this score, the American Embassy has held that it is contrary to the principles of equity to limit the freedom of movement of an individual on account of sums that may be due from his employers.

* * *

State--FD,Wash.,D.C.

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