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EVALUATION OF KOREA PROGRAM
(April, 1958)

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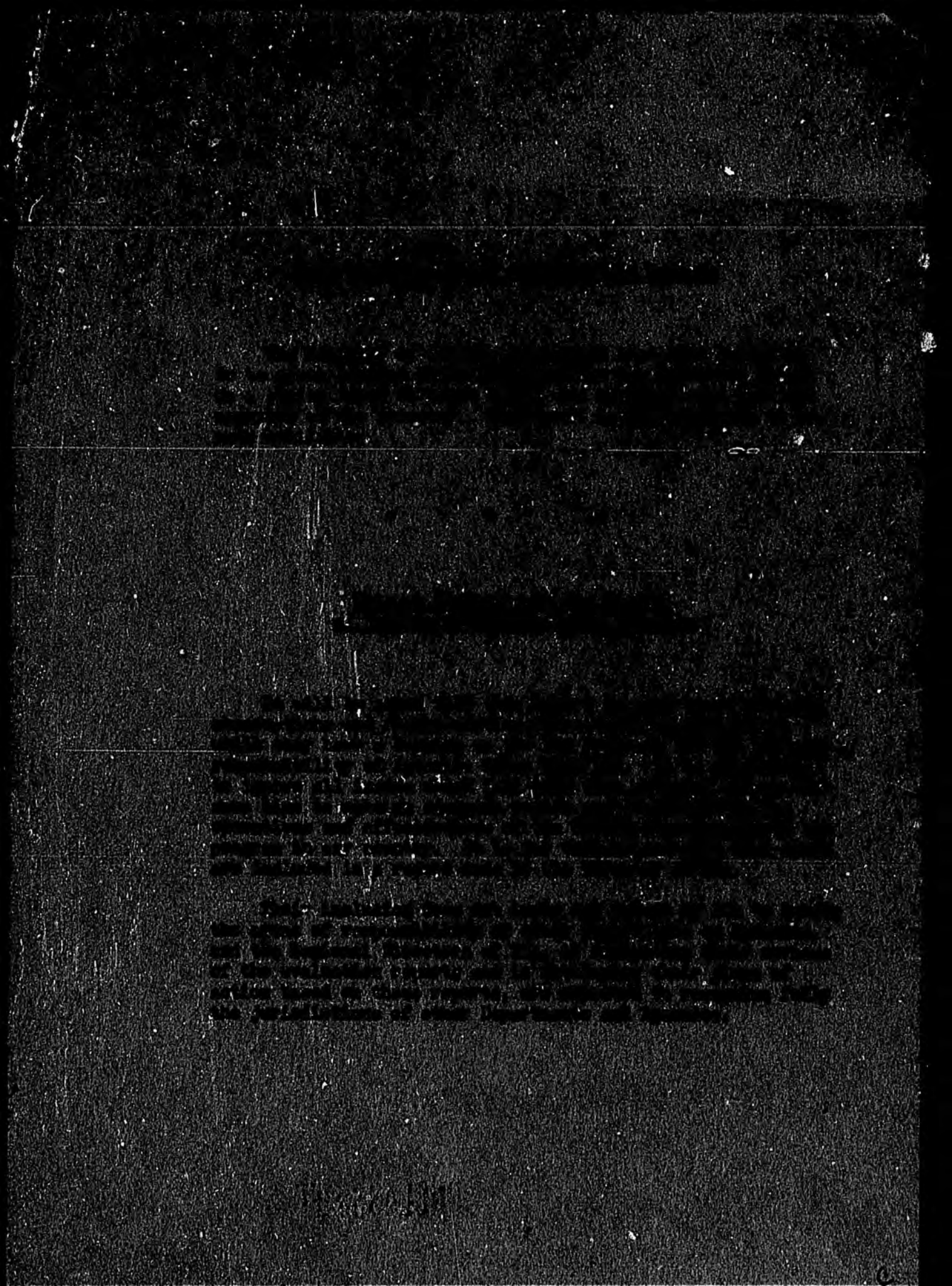
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LIST OF DOCUMENTS

1. "Evaluation of Korea Program", April 15, 1958
2. Memorandum from C. Tyler Wood, April 16, 1958, "Korea Evaluation Report"
3. Memorandum from C. Tyler Wood to J. H. Smith, May 7, 1958, re further distribution of Korea Evaluation Report
4. Memorandum from J. H. Smith to Dr. Moyer, May 9, 1958, "Korea Evaluation Report"
5. CINCREP Seoul, TOICA 3075, June 4, 1958, re Korean evaluation report
6. Memorandum from John Alexander, DD/O to Justin Williams, Korea Evaluation Report", July 16, 1958
7. Memorandum from Moyer, O/FE to J. H. Smith, D/ICA, September 12, 1958, "Review of the Korea Evaluation Report"
8. "Review of the Korea Evaluation Report"
9. Memorandum to J. H. Smith, Jr., from D. A. FitzGerald, October 7, 1958, "Korea Evaluation Report"
10. Memorandum from D. A. FitzGerald, to Dr. Moyer, O/FE, October 15, 1958, "Korea and Laos Evaluation Reports"
11. CINCREP SEOUL TOICA A-2306, January 23, 1959, "Korean Evaluation Report"
12. Memorandum from Moyer, O/FE to D. A. FitzGerald, June 1, 1959, "Status of Korean Evaluation Report"
13. Memorandum from D. A. FitzGerald to Dr. Moyer, July 6, 1959, "Status of Korean Evaluation Report"
14. "Korea - Summary of Evaluation Report Recommendations and Plans of Action"





Office Memorandum • UNITED STATES GOVERNMENT

TO : Dr. D. A. FitzGerald, DD/O
 Mr. Richard F. Cook, Acting DD/M
 Mr. John H. Ohly, DD/P

FROM : Mr. Edwin H. Arnold, DD/S
 Mr. Leonard J. Saccio, GC
 Dr. Raymond T. Moyer, Regional Director, O/FE

DATE: April 16, 1958

FROM: C. Tyler Wood, Assistant to the Director for Evaluation

SUBJECT: Korea Evaluation Report

Attached is a copy of the recently completed Korea Evaluation Report. I am sending it to you and the few other top ICA officials listed in this memorandum on an informal basis, in order that, before it is sent to Mr. Smith or to others within or outside the organization, I may have the benefit of your views as to whether it contains anything which is seriously wrong and which should be corrected before wider distribution is made.

I should appreciate it if you would let me have your answer to this question, if possible, within a week, so that further distribution can be made promptly.

As you know, this Report has been prepared by a team consisting of two experienced men who have spent about five months in studying the country and in writing their Report. This is a relatively short time in which to cover all aspects of the circumstances affecting the country and our operations there. It is therefore possible that there may be some omissions and errors in certain of the details. I should not think, however, that we would want to bother with correcting such items in the original report unless they were of considerable importance and resulted in giving a seriously wrong impression to the reader on something that really matters. In view of the care which has been exercised by the members of the team, I should think it unlikely that many cases of this nature would be found.

The Report also contains conclusions and recommendations which represent the personal judgment of the Evaluation Team. Some of these items may be wholly at variance with the views and judgments of others, including yourself and the experts in your organization. You will, of course, take issue with such items at the time of the Regional Director's review and preparation of a Plan of Action, but I suggest that you will probably not want to do so in this first quick review I am now asking you to make, except in the most unusual cases.

I feel it is important to remember that our Evaluation Reports are merely the first stage in a process designed to bring about a careful examination of our programs, and that it is the Plan of Action which is developed on the basis of the Report which is the final product.

Attachment: Korea Evaluation Report
 Copy # 2

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INTERNATIONAL COOPERATION ADMINISTRATION

Office of the Assistant to the Director for Evaluation

EVALUATION OF

KOREA

PROGRAM

**Korea Evaluation Team
Vance Rogers
Evan M. Wilson**

**Staff Assistant
Thomas Stern**

Washington, D. C.

April 15, 1958

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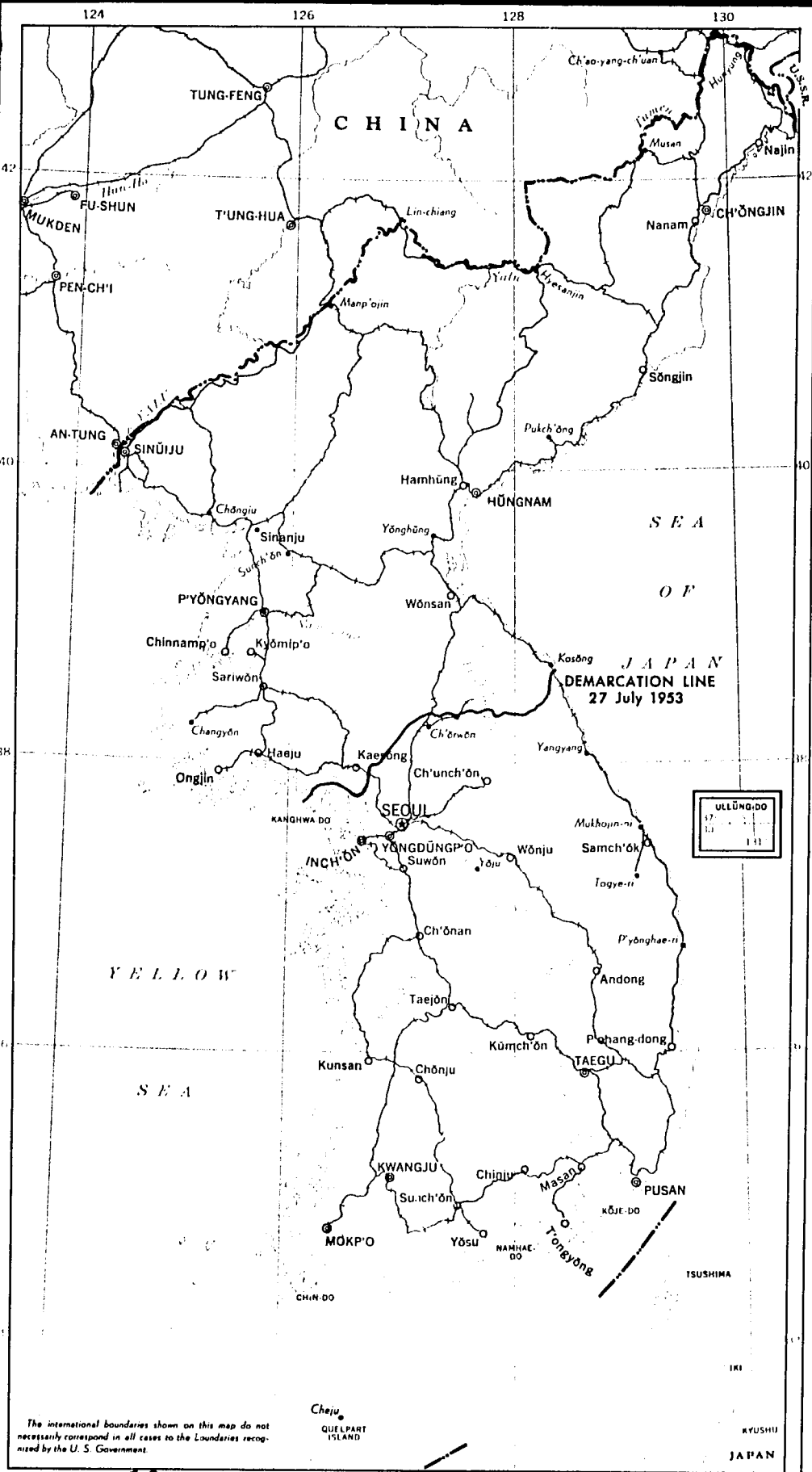
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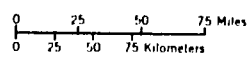


JAPAN DEMARCATION LINE
27 July 1953

ULLUNG-DO	
17	131
18	131

- Railroad (Selected)
- Road (Selected)

Scale 1:4,750,000



The international boundaries shown on this map do not necessarily correspond in all cases to the boundaries recognized by the U. S. Government.

GLOSSARY OF ABBREVIATIONS

AFAK	Armed Forces Assistance to Korea
BOK	Bank of Korea
CAA	Civil Aeronautics Administration
CEB	Combined Economic Board
CRİK	Civil Relief in Korea
DA	Department of Army
DLF	Development Loan Fund
DS	Defense Support
ECA	Economic Cooperation Administration
FOA	Foreign Operations Administration
FY	Fiscal Year
ICA/W	International Cooperation Administration/Washington
KCAC	Korea Civil Assistance Command
KEPCO	Korea Electric Power Company
KMAG	Korea Military Advisory Group
KNR	Korea National Railway
KRB	Korean Reconstruction Bank
MSA	Mutual Security Act
MT	Metric Ton
OEC	Office of the Economic Coordinator
OSROK	Office of Supply, ROK
PL	Public Law
POL	Petroleum, Oil and Lubricants
ROK	Republic of Korea
ROKA	Republic of Korea Army
TC	Technical Cooperation
UN	United Nations
UNC	United Nations Command
UNKRA	United Nations Korean Reconstruction Agency

COMPARATIVE STATISTICS

(as of mid-1957 unless otherwise indicated)
(conversion at 1,000 = \$1)

	<u>SOUTH KOREA</u>	<u>CONTINENTAL U.S.</u>
Area (e)	37,000 sq. mi.	3,022,000 sq. mi.
Population (a)	22 million	151 million (1950)
Population growth (b)	1.8% per annum	1.5% per annum
Population density (a)	570 per sq. mi.	50.7 per sq. mi.
Labor force (a)	Approx. 9 million	67 million (July 1957)
Distribution of labor force (a)	Agriculture & forestry 70%	11%
	Commerce & finance 10%	-
	Manufacturing 3%	-
	Government 3%	-
	Fishing 2%	-
	Mining 1%	-
	Other 11%	-
Unemployment (a)	1.1 million	3 million (July 1957)
Literacy rate (a)	65%	97%
Teachers (a)	One per 304 people (1956)	-
Schools (a)	Elementary 4,260	122,614 (1954)
	Secondary 1,567	29,550 "
	Univ. & colleges 71	1,852 "
	Normal schools 18	-
	Other 3,165	-
Students (a)	17% of population, of which 75% primary, 17% secondary, 2% university, 6% other	21% of population
Doctors (a)	6,400 in 1956	-
Life expectancy (e)	47 years (est.)	70 years
Hospitals (a)	2,932 hospitals and clinics and 700 dispensaries in 1955	-
Diet (a)	2,060 calories per capita	3,200
Railroads (a)	1,800 miles	221,000 miles

	<u>SOUTH KOREA</u>			<u>CONTINENTAL U.S.</u>	
Roads (a)	9,000 miles of highways			181,000 miles	
Electric power (a)	183,000 KW			696 billion KW	
Arable land (a)	5.5 million acres (23%)				
Industrial and mining production (d)	<u>1955</u>	<u>1956</u>	<u>1957 (est.)</u>		
Coal (1,000 MT)	1.3	1.8	2.4		
Tungsten ore (1,000 MT)	3.1	3.7	3.5		
Cotton cloth (m.sq.yds.)	121	147	167		
Rubber shoes (mil.pr.)	23	24	26		
Agricultural production (e)	<u>1954/55</u>	<u>1955/56</u>	<u>1956/57</u>		
Rice, rough (1,000 MT)	3,270	3,180	2,510		
Barley (1,000 MT)	980	840	730		
Soybeans (1,000 MT)	160	149	153		
Exports of principal commodities (e)	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	
Rice (1,000 MT)	-	-	-	-	
Laver (MT)	0.9	0.2	0.6	0.1	
Fish (1,000 MT)	0.6	0.4	0.7	2.3	
Agar-agar (MT)	1.2	0.8	0.9	0.6	
Raw silk (MT)	1.8	1.4	1.5	0.9	
Tungsten ore (1,000 MT)	11.4	5.2	10.0	4.5	
Other metallic minerals and metals	2.0	1.3	2.3	3.6	
Graphite (1,000 MT)	0.7	1.5	2.0	2.7	
Anthracite (1,000 MT)	0.7	0.4	-	-	
Other	<u>4.9</u>	<u>6.4</u>	<u>7.2</u>	<u>6.8</u>	
Total Exports	24.2	17.6	25.2	21.5	
GNP (a) & (d) (hwan converted 1,000:\$1)	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1957</u>
In 1955 prices	\$1,045	\$1,075	\$1,100	\$1,250	\$407 billion
Per capita	49.5	50	50.5	56	\$2,380
Cost of living (e) (1953 = 100)	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	
	135	229	285	349	105
Wholesale price index (f) (Sept. 1955 = 100)	<u>Dec '55</u>	<u>Dec '56</u>	<u>Dec '57</u>		
	81	118	110		107 (1953 = 100)
Cars (c)	One per 7,414 people			-	
Phones (c)	One per 500 people			-	

SOUTH KOREA

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Radios (c)

One per 143 people

The following footnotes apply to the Korean column only:

- (a) From Summary of Basic Data, Office of Statistics & Reports, ICA/W, August 27, 1957
- (b) From Country Data Book, Department of State
- (c) From A World of Facts, Civic Education Service, Inc.
- (d) From OEC FY 1959 Program Submission, October 8, 1957
- (e) From Office of Statistics & Reports, ICA/W
- (f) From Monthly Treasury Bulletin, ROK Ministry of Finance, November 23, 1957

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INTRODUCTION

In 1950 the United Nations, with strong U.S. support, chose to resist the invasion of South Korea by Communist troops from the North. After more than a year of fighting up and down the peninsula, armistice negotiations were initiated. Not until two years later, however, was the armistice signed. Since the signing of the armistice there has been a state of suspended hostilities on either side of the line of demarcation between North and South Korea near the 38th parallel. Massive troop concentrations are aligned on either side of the demarcation line and what amounts to a military stalemate obtains.

The Republic of Korea has the second largest army in the Free World with 21 divisions amounting to some 700,000 men under arms.

The U.S. commitment in Korea goes beyond assistance to the military forces. The United States undertook to rehabilitate war-torn Korea and this was essentially accomplished by the end of 1957 in all phases except housing. In addition, the United States has set as one of its objectives assisting the Koreans to reach and to maintain levels of essential consumption at least equal to what they were in 1949-50. Present levels of consumption slightly exceed those of 1949-50.

The accomplishment of the program has been impressive. However, this has been a costly undertaking for the United States.

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During 1957 the total cost of our military and economic programs amounted to an estimated \$1.2 billion. The reconstruction and rehabilitation since the Korean War have cost the United States \$1.5 billion. Last fiscal year the United States obligated some \$332 million in economic aid. It is expected that the cost to the United States of economic aid in Korea will be reduced over the next several years (the estimated availability for the present fiscal year is \$279 million) but it is doubtful if aid funds can be reduced much below the \$130 million dollar mark if essential standards of consumption at the 1949-50 level are to be maintained and reasonable progress in the economy achieved. In brief, even with maximum development of the economy, Korea with its present population and present resources cannot earn enough foreign exchange to take care of its requirements for essential imports and for continued modest economic development.

The Republic of Korea has a population of about 22 million people in a land area about the size of Indiana. The farm population is about 70 per cent of the total, and the number of farmers are equal to those of the United States east of the Mississippi. Development of land resources approaches the maximum, and other resources for potential economic development, such as minerals and fisheries, are limited. Short of some unforeseen discovery of new resources it seems clear that Korea cannot maintain a self-supporting economy as well as the Free World's second largest army. The contribution of Korea to its present army is the equivalent of \$60 million annually. However, it does not follow that the elimination of the

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Korean Army would result in a saving of \$60 million to the economy. Korea presently suffers from widespread underemployment as well as sizable unemployment and it is doubtful if the economy could immediately absorb more than a small proportion of the 700,000 men now under arms although it could use to very good advantage certain elements with special training. Very possibly some form of public relief would be required, at least during the transition stage.

As a matter of basic policy the United States is committed to the peaceful unification of Korea. Such a unification is likely to occur only if the over-all situation between the free and the Communist worlds changes. If such a unification were to occur and there were free access to North Korean resources, the economic position would undoubtedly improve substantially but the Evaluation Team is not competent to say whether North and South Korea together could be self-supporting.

The most outstanding feature of the U.S. aid program in Korea since the war has been its success in bringing about reconstruction of a war-devastated country. Today there is little visual evidence of destruction and the physical assets are at least as good as before the war and in many instances substantially better. The exception is housing.

The current aid program is made up of two types of activity. Non-project aid takes the form of bringing into Korea basic raw or semi-finished materials and food, the majority of which is sold to

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the public for local currency. The proceeds of these sales in local currency are used as counterpart funds. These funds then become subject to use in the project sector of the program as well as to the partial support of the Korean Army.

The project sector of the program includes a wide range of activities and in many instances combines technical cooperation with economic development activities, using defense support funds for the latter activities. Projects range throughout the conventional technical assistance field, including agriculture, education, health and sanitation, community development, housing and assistance to security forces. In addition, both development and technical assistance is given to a wide range of public utilities such as the railway, the communication system, highways, harbor development and power, as well as to selected industries. Certain basic industrial facilities have been financed by the United States. Also, dollars have been furnished, as loans repayable to the Korean Government in local currency, for the foreign exchange requirements of individuals who undertake the development of a given industrial enterprise.

In the first several years after the Korean War the country suffered from serious inflation. However, by the end of 1957, as a result of substantial quantities of aid goods being pumped into the economy, as well as an effective currency and credit control program on the part of the Korean Government, prices had levelled

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off and were only slightly higher than they were at the end of 1955. The immediate outlook for continued stabilization is good, provided the aid program continues at approximately its present level and the ROK Government maintains its present anti-inflation measures. If drastic inflation were to occur, it could easily lead to widespread economic dislocation and the discontent that might facilitate the growth of Communist influence.

The aid program was studied by the Team with a view to reducing the dependence of Korea on U.S. financing, not only because of the burden to the taxpayer but also because of the inherent danger to U.S.-Korean relations. It is therefore recommended that those phases of the economic development program not directly and immediately related to alleviating the foreign exchange situation be broadly confined to financing with technical assistance funds during the next several years. The Team believes that the present technical assistance program should be continued in the broad range of fields it now covers. This is essential, especially since Korea has had such a limited opportunity for technical development. It is recommended that defense support funds be eliminated from most of the programs of assistance to public utilities and public services, [with the exception of power plants and operation of the railway.] It is further recommended that, commensurate with Korean skills and capacity to absorb new development, defense support funds be made available in maximum amounts for projects which will either

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lead toward new export products or will reduce the need by local production for present import products, provided such projects are economically sound.

ICA has recently established procedures for administering the Development Loan Fund. The Team has studied the possibility of using such funds in Korea for economic development. It appears that it would be difficult to find uses in the direct U.S. interest for local currency paid to the United States for servicing such loans, in view of the already large accumulations of U.S.-owned local currency and the fact that conversion of Korean hwan into dollars on any substantial scale hardly seems a possibility in the foreseeable future. Such hwan could either be reloaned to the Government of Korea or held in idle balances. The problem, however, would tend to become accentuated with time.

The Office of the Economic Coordinator (OEC, the aid mission in Korea) has projected a program through fiscal year 1963. A major assumption behind this projection has been a plan for exporting Korean high-quality rice and importing cheaper coarse grains such as wheat and barley (since no true surplus of rice exists) to make up in calories for the rice exported. Such a program was actually carried out during the Japanese colonial period. OEC estimates a foreign exchange saving of some \$30 million under this plan, probably the most significant single way of developing a sizable amount of foreign exchange. The Team supports this proposal

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and recommends it as a major means of alleviating the basic exchange problem. Other fields where foreign exchange earnings are most likely to occur are fishing, mining, industrial development, and direct dollar procurement by U.S. agencies.

The level of aid projected by OEC through 1963, including PL 480 sales, contemplates the following: \$279 million for fiscal year 1958, \$273 million for fiscal year 1959, \$220 million for fiscal year 1960, \$181 million for fiscal year 1961, \$149 million for fiscal year 1962 and \$130 million for fiscal year 1963. The Team feels that some savings might be realized by the broad policy it recommends of confining to technical assistance all activities in the project sector not directly related to the earning or saving of foreign exchange. However, such savings may well be offset by increasing expenditures for projects which develop foreign exchange savings. Since the phasing out of activities presently financed by defense support funds can most appropriately be carried out by the operating organization, no attempt has been made to specify timing or to calculate savings.

The Team examined the basic policy of the United States. There may, as a purely historical exercise, be a possibility of re-examining why we find ourselves with our present commitments in Korea but, given the position we have taken before the world, withdrawal of our support from Korea would not be desirable. The present aid program is pretty much what it takes to fulfill our

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objective of assuring standards of essential consumption, at least at the 1949-50 level,^{1/} and to give such assistance as we can to bring Korea as near as possible to self-support.

The problem of self-support is likely to become accentuated in the future because of the relentless increase in population and the reduction in death rates through improved health and dietary practices and through the unwillingness of the United States to accept the thought that famine and disease should be allowed to play their traditional role of the "automatic population controller."

1/ See Program Accomplishments, Fiscal Year 1957, United Nations Command, Office of the Economic Coordinator for Korea, June 30, 1957 (UNCLASSIFIED).

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CHAPTER I - UNITED STATES POLICY OBJECTIVES IN KOREA

United States Interests and Commitments in Korea

The Evaluation Team, after examining current U.S. policy and U.S. commitments in Korea, concluded that the primary interest of the United States in Korea is political. From the strategic point of view, authorities differ on the necessity to the United States under present conditions of retaining the Korean peninsula for the forward defense of Japan and as a part of our Far Eastern defense arrangements. In any event, the Team does not feel competent to comment on this point. From the economic point of view it is evident that Korea produces very few raw materials or other products which the United States requires nor does its foreign exchange position permit it to make any substantial purchases of American goods. It can therefore not be said that the economies of the two countries are in any real sense complementary.

At the same time, our present stake in Korea, which was gained and held in a war costing over 54,000^{1/} American lives, is a very real one, and our commitments are explicit.

These commitments are principally set forth in the Mutual Defense Treaty between the United States and the Republic of Korea and the Joint Policy Declaration of the United Nations Command, both dating from the immediate post-armistice period in 1953. By the first of these documents the United States is committed to come to Korea's defense in event of an armed attack on Korean territory. The Joint Policy Declaration, to which all 16 members of the United Nations Command in Korea subscribed, pledges them to respond promptly and vigorously if there should be renewed Communist aggression in Korea and warns that in such an event it would not be possible, in all probability, to confine hostilities within the frontiers of Korea.

It will be clear from the existence of these commitments and from our basic policy objectives (as discussed below) that the United States is deeply involved in Korea. The Team in reviewing these commitments and objectives found no reason to question their general content. Unless the United States continues to provide support to the Republic, the Communists are likely to extend their control over the whole peninsula, with repercussions of the most serious nature upon the entire United States and Free World position. Korea has

^{1/} From 1957 World Almanac (including non-battle deaths).

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become so much a symbol of our determination to assist the nations of Free Asia to defend themselves against Communist aggression that it would be highly unwise for us to withdraw our support from the Republic. Moreover, the success of our programs in South Korea, as compared with the Communist effort in North Korea, will be closely watched not only on both sides of the demarcation line in Korea but throughout the Far East.

The Team is convinced that for the foreseeable future the United States has no alternative but to continue to support the Republic of Korea. It seems clear that South Korea cannot presently exist without outside support of considerable magnitude. It further seems clear that such support can only come from the United States at the present time. This is the basic reason for our economic aid program.

The foregoing means that Congress will have to face the necessity of continuing military and economic programs in Korea of some magnitude not for just a short period but, as will be developed in this report, for a considerable period to come. The current magnitude of these programs is reflected by the fact that their total in fiscal 1957 came to some \$1.2 billion, of which \$872 million went into military and \$332 million into economic aid programs, respectively. As explained on page 19, the \$872 million figure includes \$534 million for the cost of the two U.S. divisions in Korea.

U.S. Objectives

U.S. political objectives in Korea, as given in the 1959 budget presentation of the Office of the Economic Coordinator, are as follows:

"The ultimate objective of the United States in Korea is the establishment by peaceful means of a united country, friendly to the United States and the West in general, politically stable, and economically self-supporting. Until this objective can be realized, the United States is endeavoring to help the Republic of Korea build and maintain a position of strength which will deter a renewal of Communist aggression and which will create conditions in which political stability can be maintained." ^{1/}

^{1/} Source: OEC FY 1959 Program Budget Submission, p. 2 (SECRET).

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It should be clear from the foregoing that our basic objective in Korea is the unification of the country by peaceful means. Unification is also the policy both of the Republic of Korea and of the Communists in the North, although with very different objectives in mind.

All authorities whom the Team consulted were of the opinion that there is no prospect that the unification of Korea can come about in the foreseeable future, short of an over-all change in the situation between the Communist and non-Communist worlds. There are no indications that the Communists are disposed to agree to any settlement of the Korean problem except on their own terms. From time to time they advance proposals for a settlement, which generally include the reduction of military forces on both sides of the demarcation line, the withdrawal of all foreign forces from the peninsula, and elections under so-called "neutral" supervision. Both the Republic of Korea and the United States, however, have continued to regard such proposals with the utmost suspicion. The same is true of the recent announcement by the Chinese Communists that they were withdrawing their troops unilaterally. This is because any Communist forces which might be withdrawn into China could at any time be brought back into the peninsula.

All authorities also stated that they had no reason to believe that an attack was imminent either by North Korea on South Korea or vice versa. While President Syngman Rhee at times still speaks of "marching north," such action would probably not have the support of either the President's military or his civilian advisers. Moreover, the Koreans have had it made plain to them that the United States would not look with favor on any such action. In any event the Korean Army alone would not be able to mount an all-out offensive against the North by reason of the fact that its supplies of POL and other essential commodities are closely held by the United States military authorities and rationed on a very short-term basis.

As far as the Communists are concerned, it would appear most probable that an attack by them on South Korea, if it should come, would only take place as a part of a global attack upon the Western position. In other words, the deterrent to such attack seems clearly to lie in the fact that the Communists undoubtedly appreciate that any conflict which might break out in the Korean peninsula would not remain localized, as it did in 1950. It therefore seems likely that the stalemate in Korea will continue for the foreseeable future.

The economic objectives of the United States in Korea provide the general framework within which the current ICA program is being

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carried out. They will not be discussed in detail at this point since the report itself constitutes a commentary on them. A recent publication of OEC stated these objectives in the following terms:

"The role of United States assistance to the Republic of Korea is to help that country raise living standards to approximately 1949-50 levels, which the ROK should be able to maintain with minimal U.S. economic assistance; to expand the capital investment segment of the economy as rapidly as possible without jeopardizing economic stability, emphasizing projects that will contribute directly to the expansion of agriculture and industrial productivity; and to enable the ROK to assume responsibility for financing an increasing share of the costs of maintaining its armed forces." 1/

As indicated above, the Team sees no reason to recommend modification of the general policy objectives of the United States in Korea. Moreover, the Team found that on the whole these objectives were well understood by American officials in both Washington and Seoul. This is certainly true at the policy level although, as will be brought out in this report, some American technicians still have a tendency to think more in terms of reconstructing a war-torn country even after the job has been virtually completed than of developing a self-supporting economy.

1/ Source: Program Accomplishments, Fiscal Year 1957, OEC, June 30, 1957, p. 16 (UNCLASSIFIED).

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CHAPTER II - BACKGROUND

The Historical and Cultural Setting

The Country and Its People

The strategic location of the Korean peninsula, in close proximity to China, Japan and Russia, and the physical character of the country have determined the course of Korean history and the development of Korean national characteristics. On the one hand, Korea's location on the road between Japan and China has caused it over the centuries to be invaded and subjected to devastation on repeated occasions. On the other hand, the fact that Korea is a peninsula, as well as the fact that the topography of the country is characterized by a series of mountain ridges, has contributed to the isolation of the people and has made it possible for them to retain their identity through the successive invasions to which they have been subjected.

The Country

The terrain of Korea (both North and South) is extremely rugged, although in the southwestern portion of the peninsula the land flattens out into broad valleys and plains. It is here that most of the agricultural production, as well as the heaviest concentration of people, is centered. Elsewhere the mountain ranges dominate the landscape, particularly in North Korea where they rise to a height of 9,000 feet. The south and west coasts are heavily indented with inlets and have many islands, and the west coast is characterized by extreme tides which are among the highest in the world.

The climate is dry and bracing throughout most of the year. Nearly all of the annual rainfall of approximately 40 inches falls during the summer months when intensive storms are frequent.

The area of the Korean peninsula is approximately 85,000 square miles, of which just over 37,000, or approximately 44 per cent, are in South Korea. The total population of the peninsula is approximately 30 million, of which 22 million are in the South and 8 million in the North. As will be evident from these figures the population density is much heavier in the South than in the North, being 570 per square mile in the South and 170 in the North. The pressure of population on the land in the Republic of Korea is even more evident when one considers that only 23 per cent of the land

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is cultivable, while approximately 70 per cent of the population is directly dependent on agriculture. South Korea is about the size and shape of Indiana but has as many farmers as the whole of the United States east of the Mississippi. The largest urban centers are Seoul, with approximately one and one-half million population, and Pusan, with approximately one million population.

The People

The Korean people are a distinct racial type, being the fusion of the many strains which have inhabited the peninsula since prehistoric times. According to Hrdlicka^{1/}, they "present one dominant type which differs from any surrounding types and is not quite Mongolic." He adds: "One of its main original components approached the white race." In such matters as language, dress and diet the Koreans are also distinct from their neighbors. Between North and South, however, there are virtually no differences in language or other national characteristics.

Early Historical Sketch

In assessing the Koreans today, it is important to remember that they have known real independence only since 1948 and briefly between 1895 and 1905. Throughout most of the country's history the dominant cultural influence has been that of China.

Although the Koreans claim that their history goes back over 4,000 years, the first historical reference to them dates from 194 B.C. when the Chinese first entered the peninsula (known to them as Chosen or the Land of the Morning Calm or, more correctly, Morning Freshness), and brought it under Chinese control. During the succeeding centuries the extent of Chinese control over Korea varied but Chinese cultural influences continued strong. A relationship grew up between the two countries based on the Confucian "elder brother - younger brother" concept and this set the pattern of their relations until as recently as 1895, although Korea did not formally acknowledge Chinese suzerainty until 1636. From that time until the latter part of the nineteenth century, Korea became a hermit kingdom with practically no contacts with the outside world.

In 1876 Korea's isolation ended when Japan persuaded it to sign a commercial treaty. In 1882 the United States established diplomatic and commercial relations with Korea and a number of

^{1/} See "The Koreans" by Ales Hrdlicka, in The Culture of Korea, Korean-American Cultural Association, Ed. Changsoon Kim, 1946.

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European states did the same in the next few years. Korea now became a pawn in the growing struggle between Japan and China which culminated in the Sino-Japanese War. As a result of that war, China in 1895 relinquished all claims to Korea, which thus became nominally independent although a strong Japanese influence rapidly developed. The Japanese then discovered that Imperial Russia also had designs on Korea. The Russo-Japanese War was fought largely on the Korean issue, and upon its termination in 1905 the Japanese had no difficulty in getting Korea to sign a treaty by which it became a protectorate of Japan. In 1910 they annexed the country outright.

Japanese Rule

During the 40 years that they ruled Korea, from 1905 to 1945, the Japanese exercised a very tight control over the country, which came eventually to play an important part in their "Greater East Asia Co-Prosperity Sphere." The Japanese used Korea primarily as a source of raw materials and food, mainly coal, iron ore, lumber, fish and rice, and integrated it with Manchuria and Japan itself into a closely organized economic complex. The Japanese developed the country economically, building railroads, port facilities and highways, and developing some industry, especially in the North where there are considerable hydroelectric resources. Education was greatly expanded, especially in the lower grades. The Korean population grew rapidly from an estimated 13 million in 1910 to over 24 million in 1940. The Japanese ruled with a heavy hand, repressing the liberties of the Koreans and attempting to stamp out all resistance. They were unsuccessful in this, however, and the Koreans were never totally subjugated.

Liberation

Upon the defeat of Japan in World War II, American and Soviet forces entered Korea and occupied the country with the dividing line at the 38th parallel, which was originally intended to do no more than designate the areas south or north of which, respectively, the Japanese forces in the peninsula would surrender to the United States or the Soviet Union but which became the basis of the division of the country into two halves. Failing agreement between the United States and the USSR as to the future regime for Korea, the United Nations in 1947 appointed a commission to supervise elections throughout the country with a view to the establishment of a unified independent Korea. The Soviet Union, however, refused to allow the commission to visit its zone, with the result that in 1948 elections were held under UN supervision in the South only. Syngman Rhee was elected as the first President of the Republic of Korea and in December of that year American military government came to an end.

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In June of 1949 the last American occupation troops were withdrawn. Meanwhile, the Communists set up in the North a "Democratic People's Republic of Korea" which was recognized by the Communist bloc as the legitimate government of Korea.

The Korean War

Following a period of uneasy tension, the North launched its attack across the 38th parallel on June 25, 1950, and the Korean War was on. The United Nations Command, comprising 14 nations in addition to the United States and the Republic of Korea, was formed and the tide of battle ebbed back and forth across the peninsula until July 1951, when armistice negotiations began.

Two years later, in July 1953, the armistice was signed, providing for a demarcation line which represents the present boundary between North and South Korea. The line does not conform precisely to the 38th parallel, being north of it at the eastern side of the peninsula and south of it at the western. It was contemplated at the time of the armistice agreement that there would be a high-level conference within three months to settle the Korean question but this has never taken place, owing to the Communist attitude.

Post-War Developments

Since the end of the Korean War, the attention of the Korean Government has been to a considerable extent devoted to problems of reconstruction, in which the aid program has played the leading role. The period from 1953 to date has been marked by a steady development of political and economic stability. Rhee, who had been re-elected President in 1952, was again elected in 1956.

In the North, meanwhile, it appears that a process of reconstruction has also been under way and that the regime's ties with the Communist bloc have been strengthened, although little detailed information is available regarding the situation in that half of the peninsula.

National Character

The national characteristics of the Korean people are to a very considerable extent the product of their history. From this history it is clear that, while jealously clinging to their national independence, they have nonetheless over the centuries been almost always in a position of dependence on some foreign power. This has caused them to be inexperienced in running their own affairs. Moreover, the dominant foreign influence over much of their history

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has been that of Confucian China. This has had a number of drawbacks, particularly as the Confucian way of life was already becoming sterile when the Koreans took it over some 1,000 years ago. Moreover, their absorption of Confucianism tended to distort some of its aspects, notably the excessive emphasis placed on scholastic achievement to the detriment of manual labor.^{1/} This is reflected today in the widespread need for management skills and vocational training in Korea. As will be developed elsewhere in this report, there are historical reasons, stemming from the Japanese colonial period and the Communist invasion, which have contributed to this need. An important factor, however, has been the Confucian cultural background.

At the same time, the Korean people have many admirable qualities. Their sturdiness and resilience have been amply demonstrated in the past few years, when their national character was subjected to the tremendous stresses of the Korean War. During and since that war, as well as during the whole period of Japanese rule, they have shown a remarkable degree of attachment to their national independence and a determination to preserve and strengthen it.

The Koreans are people of imagination, spirit and courage. They possess good humor, industry, and remarkable manual dexterity. At certain periods in the past their scientific and scholarly accomplishments have been remarkable. They are mentally alert and learn quickly when given an opportunity to acquire new skills. American military observers consider the Korean soldier to be one of the best in the world.

The Military Setting

Although it was not within the Team's competence to make any assessment of the military situation in Korea, the connection between our military and economic programs is so close that it is believed the following summary of the military situation will help to place the economic situation in its proper setting.

The basic fact is that at the present time the United Nations and Communist sides are each maintaining forces approximating 700,000 men on either side of the demarcation line. Details regarding the United Nations and Communist military strength are given

^{1/} See Cornelius Osgood, The Koreans and Their Culture, Ronald Press Co., New York, 1951.

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in Appendix A. It will be observed that, although the United Nations ground forces in Korea exceed the estimated Communist strength, the Communists have considerable air superiority, especially in jet aircraft. Moreover, the Communists are known to have large numbers of additional troops stationed across the border in China which could be quickly transferred to Korea. This, of course, would also be true of the troops which the Chinese Communists have recently announced they plan to withdraw from North Korea.

Cost to the United States of Military Aid to Korea

During the Korean War, and until July 1, 1955, the entire support of the Korean military establishment was provided by the United States, at an estimated total cost of \$2 billion.^{1/} In 1954, the United States and Korea agreed that the United States would continue to contribute to the support of the Korean military establishment and that the maximum strength of that establishment would be about 700,000. During the 1955 fiscal year the United States spent a total of \$420 million for this purpose, from the Department of Defense budget.

The military assistance program to Korea, in its present form, financed with Mutual Security Program funds, was inaugurated July 1, 1955. Obligations totalled \$379 million in the 1956 fiscal year and \$338 million in 1957. In the current fiscal year the program is expected to reach \$257 million, exclusive of training costs or the cost of spare parts which are programmed on a worldwide basis and not identifiable by country.

In 1957 the contribution of the ROK Government to national defense from its own revenues was the equivalent of \$60 million,^{2/} representing some 22 per cent of its budget. To this figure should be added approximately \$49 million provided by the United States through the sale of surplus agricultural commodities for local currency. The total cost of the Korean defense establishment was therefore the equivalent of \$447 million in 1957.

With a view to trying to estimate the total cost to the United States of the current military effort in Korea, the Team obtained from the Controller of the U.S. Eighth Army a figure of

^{1/} Source: Bureau of the Budget.

^{2/} - at the rate of exchange used throughout this report, of 1,000 hwan to the dollar. See page 34.

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\$534 million for the total cost in fiscal 1957 of the two U.S. divisions in Korea, plus supporting units. This covers pay and allowances for troops and civilians, supplies and equipment (including freight) and support costs.^{1/} Adding this amount to that given above for the cost of the Korean forces (\$447 million) gives a total of \$981 million.

Whereas the foregoing figures would appear large, it should be pointed out that the cost to the United States of maintaining a large American force in Korea would be substantially greater.

The total number of officers and men assigned to the various U.S. military assistance advisory groups in Korea is 1,398 at the present time. Their cost is not included in the foregoing figures.

The Korean Army

The ROK Army of 20 active and 10 reserve divisions is regarded by American military authorities as a very good fighting force. It is the fourth largest army in the world and the second largest in the Free World. Equipment and training are almost entirely of American origin. Most of the equipment, being World War II or Korean War types, is now obsolete.

It is U.S. policy that some reduction in Korean forces should take place. This has been under negotiation between the two governments in the past few months. The U.S. objective has been to obtain Korean agreement to cutting the army by 4 divisions in the near future and eventually to cut it by another 6 divisions to a total of 10. Concurrently, the U.S. troops in the peninsula are being provided with modern weapons.

The Team was not able to find any indication that the reduction contemplated for the near future will bring any saving in American aid. On the contrary, in view of the need of the ROK Army for modern equipment, especially to compensate for the loss of fire-power resulting from reduced forces, as well as the need for raising army pay (the army is in fact planning an early increase), the direct and indirect cost to the United States is not likely to be less in the immediate future.

^{1/} This figure still does not indicate the over-all cost to the United States, as it refers only to U.S. ground troops in Korea. The Team was unable to obtain a figure for the cost of the U.S. Air Force component in Korea but assumes it would not be large, compared to the cost of the two army divisions.

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There is also the problem of the absorption into the economy of the men who would be demobilized under the proposed reduction. It might be necessary, in view of the unemployment and underemployment now existing, for the Korean Government to undertake some measures to relieve this situation. Presumably the Koreans would require assistance from the aid program for an activity of this sort. It may well turn out, therefore, that the short-term cost to the United States would be as great as keeping the men in question under arms. At the same time, if the Korean Army were maintained at its present strength, the cost to the United States would undoubtedly rise because of the rising cost of equipment and the need for raising pay.

The Political Setting

Centralization of Government

The Government of the Republic of Korea is a highly centralized one, with effective power being exercised by the executive branch, i.e., by the President. There was originally a constitutional provision for a Prime Minister but in 1954 an amendment was put through by President Rhee to abolish this post. The constitution provides for a bicameral legislature but the second, or upper, house has never been established. Provincial governors are appointed by the central government which closely supervises local government activities.

Syngman Rhee

In addition to the foregoing provisions of an institutional character, the centralization of political power is enhanced by the fact that the Presidency is held by Syngman Rhee, whose personal influence is felt throughout the entire government. As the leading fighter for Korean independence throughout the Korean War, Rhee enjoys tremendous prestige, although his popularity is not as great as it was. He continues to have a great hold on the masses of the people, especially in the rural districts. At the same time, there is considerable criticism of him in the business community and among the better educated people. He is a consummate politician who remains firmly in control of the Liberal Party, which holds 132 out of 201 seats in the National Assembly. Through the party machine, through the national police, and through the personal control exercised by his immediate entourage, Rhee still manages to keep his finger in every aspect of Korean national life. As an illustration of this may be cited the statement made to the

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Team by the head of the University of Minnesota group at Seoul National University, that the President personally passes on the names of all personnel from the University who go to the United States for training.

The Problem of Succession

Although now aged 83, Rhee appears vigorous and is still firmly in the saddle. There is evidence that he is delegating more authority to subordinates and this may lead to a stronger role for the Cabinet in the future, as well as greater participation by Liberal Party leaders in the formulation of national policy. At the same time the continued dependence of the nation's entire political life on one individual is a cause for concern.

The problem of how the transition to a successor regime, in the event of Rhee's death or incapacity, could be achieved is a very real one that may arise at any moment. It was the consensus of those whom the Team consulted that the army will in all likelihood play a key role in determining the successor. Provided the army leaders can agree and provided the change-over can be effected quickly, it seems probable that the transition will take place peacefully and that the Vice President, Dr. John Chang, will succeed to the Presidency even though he happens to be a member of the opposition party. On the other hand, if the process of transition is long-drawn-out, the opportunities for intrigue will be very great and for legal succession proportionately less.

Domestic Politics

In spite of the thorough control which Syngman Rhee exercises over the entire machinery of government at the present time, the political situation in Korea has a number of aspects which suggest that democratic tendencies may grow in the future. For one thing, there is remarkable freedom of the press and considerable criticism of the government is voiced daily in the National Assembly as well as in the newspapers. The growth of a two-party system in recent years has been another favorable development. The election for the National Assembly which is taking place this spring should provide evidence of the extent to which democratic institutions have in fact taken root.

There are two major parties in Korea, the Liberal Party, which is Rhee's party, and the Democratic Party. The Liberal and Democratic Parties can best be described as essentially conservative in outlook and as differing more in personal loyalties and in the fact that one is "in" and the other "out" than in any

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fundamental approach to the country's problems. The present Vice President, Dr. John Chang, is a prominent member of the Democratic Party and was elected in 1956 over Rhee's running-mate. Since his election Rhee has kept him carefully in the background.

Besides the two main parties there has been a Progressive Party which has had some support among students and intellectuals but which has just been banned by the Rhee government, and its leader, Cho Pong-am, placed under arrest. This party has advocated a planned economy along socialist lines, has rejected both capitalism and Communism and has favored the peaceful unification of Korea.

It was the opinion of some observers that if a perfectly free election were to be held in Korea at the present time the Democratic, or chief opposition, Party would win. Other observers were not so sure. (All agreed, however, that in spite of the hopeful democratic trends noted above, President Rhee and his Liberal Party will probably manage to manipulate the forthcoming election in such a manner as to be returned to office.)

A cause for concern in connection with this spring's election is that attempts will undoubtedly be made, both by the government and by the opposition, to involve the United States aid program. On the one hand, there will be a tendency for the Liberal Party to seek to draw political capital from the accomplishments of the program. On the other hand, the United States will no doubt be accused by the Democrats of using aid funds to support the government in power. American officials in Korea are of course well aware of this danger.

At the present time the Korean Army does not appear to be a dominant factor in Korean politics although it does supply an element of stability to the political scene and, as indicated above, will probably, in alliance with some of the political leaders, determine the successor to Rhee. The national police, a force of some 40,000, represents one of the principal sources of Rhee's power, and has in the past been openly used to control elections in behalf of the Liberal Party, especially in the rural areas.

Labor in Korea is not an effective force. The Republic does not have a highly developed labor movement and in any event all unions are under the direction of the Federation of Korean Trade Unions, whose leadership is closely associated with the government, and under its control.]

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Communist Influence

Owing to the experiences which South Korea underwent at the time of the Korean War, there is a universal revulsion against Communism throughout the Republic. The Communists are not permitted to organize politically and have negligible popular support at present. Efforts at subversion and infiltration from North Korea have met with little success so far, although in recent months the caliber of agents from the North seems to have improved. It is the opinion of American police advisers that the security forces are sufficient to cope with any attempts of this nature. According to both American and Korean officials the passage of individuals in either direction between North and South Korea is on an extremely small scale. The North Koreans are carrying out a constant propaganda campaign against the South by radio but the Team was informed that this propaganda is having very little effect in spite of the fact that almost all South Koreans have family and other ties with the North. During 1957, for example, American officials estimate that not over 50 Korean soldiers defected to the North in spite of inducements offered.

Some observers are of the opinion that the anti-Communist attitude which is now so characteristic of South Korea may change as memories of the Korean War grow dim. The success which the Communists may achieve in rehabilitating the North Korean economy will of course have a bearing on the attitude of people in the South on this question. So will the success which the Rhee government, and the aid program, may achieve in developing South Korea.

U.S. Policy toward Rhee

From the point of view of the United States, we have no alternative to continuing to work with Syngman Rhee. There are many things about Rhee's regime that can be criticized but no one can impugn his patriotism or his anti-Communism or gainsay his hold over South Korea. As already indicated, the United States has a big stake in Korea. [It is therefore to our advantage not to withdraw our support from Rhee's government, since there is no alternative that could provide stability.]

This does not mean, of course, that we should not continue hammering away at our points of difference with Rhee in an effort to bring him closer to our point of view on such matters as trading with Japan or putting Korea's house in order economically. This, in fact, is current American policy.

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It often seems that Syngman Rhee is able to pursue certain courses of action not wholly commensurate with U.S. interests, despite the massive aid annually being given by the United States. Critics of the program in Korea have suggested that a good deal more quid pro quo might be in order. The truth of the matter is that the U.S. interest in Korea and in the maintenance of the military establishment is such that Rhee holds considerably more bargaining power than might be apparent from a simple examination of the size of the aid expenditure. We not only have to learn to live with Rhee but it is very much in our own interest to get him to follow our line of thinking. Threats of withdrawal of aid are likely to be less impressive to him, since he is fully aware of our direct interest, than continual pressure to accede to a given point of view.

It should not be assumed from the foregoing recital of the facts of life either that Rhee is getting all he wants or that the Team thinks he should do so. The cut in economic aid funds in the current fiscal year and the present negotiations for a reduction in Korean military forces provide evidence that the United States can say "no" to Syngman Rhee on specific issues.

North Korea

In view of the obvious relation between our aid program in South Korea and the Communist program in North Korea, it may be useful to summarize below the following material regarding the situation in the North.

Although accurate information on this subject is extremely difficult to obtain, it is clear that since World War II the Communists have been making a sustained effort to integrate North Korea economically with the Communist bloc. It is to their advantage to do so in view of North Korea's important material resources, particularly minerals and hydroelectric power. There have been frequent references in the Communist press and radio to a Three-Year Plan for North Korea, and more recently a Five-Year Plan. The extent to which these plans have been successful is not known. The Communists have recently announced, however, that pig-iron production is now running at the rate of 1,000 tons per day, that fertilizer production at the Hungnam plant is at the rate of 350,000 tons per year, that the annual fish catch is twice that of South Korea, and that in recent years there has been steady progress in such fields as electric power production, textiles, steel and chemicals. The net increase in population is reported to be over 2 per cent.

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Like South Korea, the North suffered considerable war-time devastation (in fact, more so) and its rehabilitation may be presumed to be costing a considerable sum of money. It has been announced in the Communist press that in the period 1954 to 1964 economic aid to North Korea will total the equivalent of \$808.6 million, made up as follows: China, \$325 million; USSR, \$250 million; East Germany, \$115 million, and others, \$118.6 million. Details are lacking but it is evident that the Communists regard it as worthwhile to make a substantial investment in North Korea. At the same time, it would appear, if these figures can be accepted, that the rehabilitation of the North is costing the Communists less than the rehabilitation of the South is costing us. The comparison, however, should not be pushed too far.

In addition to the economic potential of North Korea the Communists, of course, find the country useful for propaganda purposes in their constant campaign to achieve the unification of the Korean peninsula along Communist lines and the withdrawal of American forces and American economic support from South Korea.

Moreover, the North Korean regime is waging an aggressive diplomatic campaign against South Korea in an attempt to secure diplomatic recognition by Japan and some of the Asian countries. As regards Japan, the North Koreans are working through the large Korean community of some 600,000 in Japan as well as various left-wing Japanese organizations. Some commercial contacts have taken place and a number of visits have been exchanged. For instance, while the Team was in South Korea a group of five members of the Japanese Parliament visited the North. It does not appear, however, that there is any real prospect at this time of Japan's recognizing the North Korean regime. There have also been commercial feelers put out by the North Koreans to various other countries. They have signed commercial agreements with semi-official trading groups in Burma, Indonesia and India, and a North Korean cabinet minister who attended the recent pro-Communist "People's Conference" in Cairo subsequently visited Syria and signed a trade and cultural agreement with that country.

One of the factors which struck the Team most forcibly in its visit to Korea was the paucity of any factual information as to what is going on in the North. This point was discussed with numerous Korean and American officials and it is difficult for the Team to believe that additional intelligence regarding the North would not be forthcoming if more intensive efforts to obtain it were made. It appears that the appropriate agencies of the U.S. Government are well aware of this situation but at the same time the Team cannot help calling attention to it, since it seems clear that there are a

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number of lessons which the United States could draw from the experience of the Communists in the North which might help us in our South Korean programs.

Korea's International Relations

Although it is our policy to reduce Korea's dependence on the United States by encouraging its relations with other parts of the Free World, progress on this score has been somewhat disappointing. The Republic's foreign relations today are mainly with the United States and a few like-minded countries in Asia although the latter ties are growing. Korea has no relations of any kind with the Communist bloc or any of the so-called neutral or uncommitted countries.

Relations with Japan

The entire subject of Korean-Japanese relations is a complex one which is highly charged with emotional overtones in view of President Rhee's oft-expressed antipathy to the Japanese. Almost all observers who have studied the situation have come to the conclusion that closer relations between the two countries are essential. Certainly from the economic standpoint it would appear that the best prospects for an expansion of Korea's exports must come from greater trade with Japan. This is particularly true in the case of rice, as will be developed in detail later in this report. It would also be helpful, from the standpoint of training, for Koreans to be able to go to Japan freely, especially as most of them aged 30 or above speak Japanese. For the moment, however, Korea maintains an official policy of discouraging trade with Japan or the sending of Koreans there for training, although there is some deviation from these policies in practice.

The difficulties in the way of closer relations between the two countries are formidable. In the first place, although the extreme anti-Japanese attitude assumed by Syngman Rhee would appear exaggerated, there remains throughout the population a considerable legacy of antipathy from the days of the Japanese occupation (and even before) as well as a considerable feeling of inferiority on the part of many Koreans because of evident Japanese progress. Some Koreans even seem to fear that closer trade relations with Japan, taking into account the relative inexperience of Korea, would open the door to renewed Japanese economic penetration and political domination. Others realize the advantages that would result from closer contact. This is an area in which it is extremely difficult

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for an outsider to speak with precision. The Korean attitude toward Japan cannot be stated in terms of black and white. There is a considerable gray area, such as often characterizes national attitudes in the case of two countries that have lived side by side for centuries.

There is also the practical consideration that apart from some rice and marine products there is very little that Japan would especially wish to obtain from South Korea. The Japanese are not particularly anxious to press the rice question, having in mind their experience in 1954 when they were prepared to make a considerable purchase of Korean rice but when this fell through owing to President Rhee's insistence on a wholly exorbitant price. On the other hand, Japan is anxious to market processed goods in Korea and for this reason would tend to purchase any item it could use if the Koreans would in turn purchase Japanese manufactured goods.

The recent talks between Korea and Japan had as their objective the obtaining of agreement on the release of certain prisoners being detained by each side, as well as on the initiation of formal negotiations respecting outstanding issues, including property claims and the so-called "Rhee Line." The latter is a line 1,600 miles in length which extends from 20 to 200 miles out from the South Korean coast, enclosing an area of roughly 145,000 square miles. The line was originally promulgated by American military authorities for military and security reasons during the post-World-War period and subsequently extended arbitrarily by Rhee with a view to closing the area to Japanese fishermen. Such Japanese fishing boats as have crossed the line have been subject to seizure and their crews arrested. This has been a constant source of irritation for Japan.

The United States has been pressing both Koreans and Japanese to come to an agreement on all outstanding issues. Meanwhile, diplomatic relations between the two countries remain on an extremely restricted basis, with Korea represented in Japan only by a chargé d'affaires and with no Japanese representative being permitted to reside in Korea.

Relations with Other Asian Nations

The Republic of Korea's relations with the other countries of Free Asia are slowly developing. Korea has diplomatic relations with the Government of the Republic of China, the Philippines, and Viet-Nam. Visits of high-ranking officials have recently been exchanged with the Chinese Nationalists and Viet-Nam, while Korea and the Philippines have just announced the raising of their

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respective diplomatic missions to Embassy level. As far as the remainder of Asia is concerned, Korea has very few contacts. The Koreans are particularly critical of India's attitude in world affairs.

Korea's participation in regional organizations in the Far East has been relatively slight although it is a member of the United Nations Economic Commission for Asia and the Far East (ECAFE).

Relations with United States

As might be expected in view of the current situation, it is with the United States that Korea maintains the closest of its foreign relations. The Koreans have traditionally been friendly with Americans, whom they got to know through the work of U.S. missionaries, starting in the latter part of the nineteenth century. Rhee himself spent a large part of his long exile in the continental United States and in Hawaii. Since the end of World War II the United States has played a very prominent role in Korean affairs and this was of course intensified during the Korean War. In the subsequent period the existence of the large American aid program has given rise to the feeling on the part of many observers that the Koreans may be developing too much of a sense of dependence on the United States. Some even referred to the development of a "philosophy of mendicancy" on the part of the Koreans. The Team, in fact, saw some evidence that Korea was becoming too dependent on the United States, as will be brought out elsewhere in this report.

The question has also been raised whether the large aid program has created, or will create, a feeling of anti-Americanism on the part of the Koreans. In this regard it is pointed out that the giver of a gift often finds himself unconsciously in a position which creates resentment on the part of the recipient. The Team queried many Koreans and Americans on this point. Their almost unanimous view was that there is no perceptible anti-American feeling at this time, although some thought that such feeling may well develop in the future.

The Team was impressed by the good working relations existing between American and Korean officials, especially at high levels, e.g., in the Combined Economic Board (CEB) and its subsidiary committees. A like situation was noted on the military side. In fact, the Team found the state of Korean-American relations to be good, with a real appreciation on both sides of the value of maintaining the relationship.

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Aside from problems arising out of the reduction in the level of economic aid, and the question of the reduction in Korean forces, the chief issue arising between the two countries in recent months has been the question of a status of forces agreement. This issue has become especially important to the Korean Government in view of the fact that the United States has negotiated such an agreement with Japan. The Korean press, under official inspiration, has played up news stories of incidents involving American servicemen and taken the line that such incidents could be avoided by the negotiation of a status of forces agreement. The United States military authorities maintain that the situation in Korea is one of a suspended state of hostilities and that the Korean legal system would not make it advisable to try American servicemen in Korean courts. The Team understands that consideration is currently being given in Washington to this entire subject, with a view to determining whether there are any steps which could be taken in the direction of regularizing the status of our forces in Korea.

The Economic Setting

The Balance of Payments Gap

The termination of hostilities in Korea left the peninsula divided near the 38th parallel. More importantly, it left most of the people (22 million) in the South with the principal resource of agricultural land. It likewise left relatively few people (8 million) north of the demarcation line with rich mineral, power and forest resources. The net result in the South is a heavily over-populated area with natural resources inadequate to support even the present very low standard of living.

During the Japanese colonial period, Korea was not only united north and south but was a part of a larger trading area including Manchuria and Japan. North Korea provided power for the whole peninsula and minerals and forest products not only for local consumption but for export to Japan. Korea was also required to export a part of its high-quality rice and to make up the calorie deficit (since rice was not in absolute surplus) by importing cheaper coarse grains such as barley, millet and wheat from Manchuria. Because of these compulsory exports Korea under the Japanese was more nearly able to achieve a balance in its export-import requirements than at present.

South Korea, in calendar year 1957, earned approximately \$61 million from exports and services and required some \$448 million

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of imports, almost all of which were financed from the U.S. aid program.^{1/} If this gap in Korea's foreign exchange position is to be closed, aid must continue to be given in order to bring in necessary supplies and equipment for the maintenance and development of the economy.

Pressure of Human on Natural Resources

South Korea is poor in natural resources. The country is predominantly agricultural, with 70 per cent of the population directly dependent upon the agricultural sector of the economy. Rice cultivation is dominant although there are other grains such as barley, as well as a limited variety of vegetables (cabbage, turnip, etc.), and some good fruit, notably apples and pears. Useful forest products are largely confined to fuel. The country lacks additional cultivable land; practically all of the acreage which is suitable for cultivation is in use. The land has been intensively farmed for centuries and requires the constant application of fertilizer. Insect pests and fungus diseases are prevalent.

The country contains some mineral resources such as anthracite coal, tungsten, graphite, gold and iron ore but all of these (with the exception of tungsten) are limited either in quantity or in quality. South Korea lacks oil or bituminous coal and its potentialities for hydroelectric power are not nearly so great as are those in the North.

South Korean production of fisheries products has fallen perceptibly since World War II. The fishing industry, which had been developed by the Japanese, suffered considerably on the withdrawal of the Japanese as they took with them not only their most skilled personnel but also a substantial part of the fishing fleet.

In addition to the lack of natural resources the economic problem is complicated by the fact that the Korean population is rising rapidly. The present net rate of increase is 1.8 per cent per annum, which is greater than that of several other countries in Asia such as India, Indonesia or Viet-Nam. The rate is also greater than that of present-day Japan although the population density is somewhat less (570 persons per square mile in South Korea as compared with 620 in Japan). The rate of increase is by no means as great as in certain other countries, including some in Latin America, but the land area of South Korea (37,000 square

^{1/} See Appendix B.

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miles) is small and almost fully developed. Over half of the population is under 20 years of age. If there were any serious prospect of unification the problem would not be so acute since the North has a population density of only 170 persons to the square mile. The situation in the South has been aggravated by the flow of refugees from the North totalling perhaps two million between 1945 and 1950 and another three to four million during the period of the Korean War. As a result of this population pressure, as well as dislocations arising from the Korean War, it is estimated that there are over one million persons unemployed in the country and that a sizable proportion of the population in the rural areas is underemployed.

The Team was greatly impressed with the gravity of the Korean population problem and believes that it should receive increasing attention in the future. In view of Korea's relatively meager prospects for industrial expansion, the ultimate solution must lie either in population control or emigration or a combination of both.

The problem, moreover, is not simply one of the pressure of a growing population on limited land and other natural resources. The problem is compounded by the overwhelming need for managerial skills and training on the part of the Koreans.

It is clear that Koreans have considerable native ability. In agricultural techniques there is probably little which they have to learn from the West in terms of their own agricultural pattern. They are, however, woefully deficient today in both training and experience in managerial and administrative techniques. This is the result of three main causes: first, their Confucian cultural background with its emphasis on book learning rather than on manual or technical skill; second, the deliberate policy of the Japanese in keeping Koreans away from positions of executive or administrative importance, both in government and industry; and third, the kidnapping by the Communists in 1950-51 of some 30,000 key technicians from government and industry. As a result of these factors, the Koreans are laboring under a tremendous handicap in developing their commerce and industry and staffing governmental positions. The need is particularly acute in the field of industrial management.

In developing their economy the Koreans are also handicapped by the relative lack of industrial development to date. Japanese efforts to develop heavy industry in Korea were largely confined to the North, and the industrialization of the South was mostly in the field of cotton textile production. The latter represents the largest single component in South Korean industry today and there is also a variety of light consumer industries such as food processing,

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beverages, tobacco, rubber shoes, paper, plastics, metal products, and the like. More recently the Koreans have launched into a number of rather ambitious industrial fields, including iron and steel. As indicated above, however, the economy remains basically an agricultural one.

Complications Arising out of the Korean War

The economy of Korea has been drastically affected by the Korean War and its aftermath. The devastation of the country was severe. Estimates of total casualties run to over one million killed and of property damage upward of \$3 billion. The railway, highways and bridges, ports and industries were severely crippled; 50 per cent of the classrooms and 75 per cent of the hospitals were destroyed or damaged. It is estimated that Seoul lost 85 per cent of its industry, transport and utilities and from 50 to 75 per cent of its buildings. In the light of this devastation, the rehabilitation of the Korean economy, in which the aid program has played an important part, has been remarkable.

In addition to immediate problems of rehabilitation and reconstruction, the war has brought with it a number of problems of a longer-range nature arising from the continued division of the country. One important consequence is that under present conditions the Korean military establishment is out of keeping with Korea's resources and out of line by far with the size of the country. Moreover, South Korea has continued to be cut off from the resources of the North, especially power. This has intensified the economic isolation of the country which began with the dissolution at the end of World War II of the former Japanese-Manchurian-Korean trading area.

An additional consequence of the Korean War has been the effect on the attitude of the people of South Korea and of foreigners toward the future prospects of the country. This is particularly noticeable in the case of capital investment. With the peninsula divided by a demarcation line only about 30 miles from Seoul and with the possibility of a renewed Communist attack at any time, most people are understandably reluctant to invest in South Korea. Although there has been some investment on the part of Koreans recently in building construction and in industry, the types of investment which remain most attractive are those which permit quick profits and the maintenance of capital in a relatively liquid condition. This has led to a tendency to use capital for trade rather than industrial development. It has also led to a substantial flight of capital from the country and to a disinclination on the part of foreign capital to come into the country. The

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problem of capital investment from abroad has been complicated by the absence of an adequate foreign investment law. The Embassy and OEC have for some time been pressing the Korean Government to enact such legislation, and ICA has supplied an adviser to the government to help it with the drafting of a law which it is hoped can be enacted in the next few months. Following the passage of a satisfactory law, it is anticipated that the customary investment guarantee agreement will be negotiated between Korea and the United States. There have been no IBRD or Export-Import Bank loans to Korea.

The situation outlined above has been intensified by the inflation which has prevailed since the Korean War. This period has been marked by a tendency to think only of day-to-day problems, to seek quick profits, and to look to the United States for massive long-term economic support.

Inflation and Stabilization

Inflation has had a marked influence on the economy since the cessation of hostilities after the Korean War. From 1954 to 1955, according to the Seoul wholesale price index, prices nearly doubled. From September 1955 until October 1957, the maximum rise in the wholesale index was to 132 in June 1957, using September 1955 as a base of 100. By November 1957 the index had fallen again to 111 and the outlook was toward increasing stabilization. In fact, the index stood at 110 in January 1958. A 10 per cent increase in money supply in November was, partially at least, a result of a large rice harvest and of military stockpiling of food. However, this has not yet caused any appreciable increase in prices.

A number of factors have contributed to the stabilization in prices but the greatest and most overwhelming factor has been the massive infusion of goods into the Korean economy from the aid program over the past several years. Without this contribution of goods it is certain that the economy could not have survived collapse. This contribution has also resulted in an absorption of local currency, a portion of which has been placed in a frozen account. The amount frozen is presently 25 per cent of the total money supply. The Koreans, especially during the last eight months of 1957, took effective measures in counteracting a tendency toward further inflation. Credits were reduced and money in circulation was controlled. The result was a levelling off of the wholesale price index.

The Koreans are very rightly proud of their accomplishment in achieving stabilization and it is a tribute to the OEC staff

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that the Koreans feel that it is "their" stabilization program. Nevertheless, special vigilance will be needed in the coming year to assure that present gains are maintained. At least two factors during the past year which contributed to stabilization cannot be depended upon to be operative in the coming year. Non-project assistance goods were pumped into the economy over and above the amounts contained in the yearly budget as a result of the reduction in the financial pipeline. The other factor was the unusually good rice harvest in 1957.

The Exchange Rate

At the present time, the rate of exchange for the Korean hwan is set at 500 hwan to one U.S. dollar. This rate was established by the Korean Government in August 1955, and it was also agreed between the U.S. Government and the ROK that it would be reconsidered if the wholesale price index rose above 125 by December 1957, using September 1955 as a base of 100. However, this did not occur.

Few people agree on the evaluation of all aspects of the official rate of exchange between the hwan and the dollar. The one point on which most observers agree at present is that the 500-to-1 rate is not a meaningful conversion rate for expressing values in terms of dollars. The free market rate of dollars approximated 1,000 hwan to \$1 at the end of 1957. For convenience and because 1,000 hwan to \$1 more nearly approximates real values, the Team has used this conversion throughout this report to express values in dollars. At this rate, for example, the value of Korean rice approximates the price of rice in the world market.

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There is very substantial resistance on the part of the Korean Government to any change in the exchange rate. This resistance is especially strong in the case of President Rhee who, among other things, feels that a change would be symbolic of a weakening of the economy. Rhee's approach to this problem is also influenced by the fact that the present rate of exchange for the Japanese yen is 620 to the dollar, from which he apparently draws the conclusion that the hwan at 500:1 is a stronger currency.

Among the many effects of the artificial rate of exchange is the amount of hwan produced as counterpart funds through the sale of commodities supplied by the aid program. If the exchange rate were changed to 1,000 to 1 this would double the amount of hwan produced. However, if the rate were changed, the total amount of goods in the program would remain the same since these are calculated in real amounts required by the economy rather than by their hwan value.

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Dollars for the import of non-project goods through commercial channels are auctioned to the highest bidder and the amount offered by the bidder above the 500-to-1 rate is taken up in Korean Government certificates. This, in effect, produces a multiple system of exchange rates since the demand for goods and therefore the bids for the dollars follow the trader's notion of the anticipated profit he can take on a specific commodity. In practice, bids range all the way from 500 to 1 to over 1,000 to 1. While this system undoubtedly leaves much to be desired, it does have the effect of limiting to some extent the windfall profits, i.e., the exchange profits which would be incidental to a fixed 500-to-1 rate, and likewise has the tendency to withdraw more hwan from circulation since the average bid is well above 500 to 1. Of some \$215 million in goods sold in 1957, \$134 million moved through commercial channels.^{1/}

It has been suggested that the 500-to-1 artificial exchange rate tends to price Korean export goods out of world markets. However, traders can easily find a way around this deterrent by simply exporting goods and taking dollar payments which in turn can be used for other imports to be sold for hwan. There also exists the possibility of bartering, say rice for fertilizer, with another country. Korea's principal problem in regard to exports at the present time is not the rate of exchange but how to produce sufficiently so that it can offer items for export.

The Team holds no brief for the maintenance of an artificial exchange rate of 500 to 1. However, various measures currently being employed by the Korean Government to circumvent some of the more disadvantageous consequences of the rate make it less of a serious problem than it might otherwise be. In practice, the rate seems to cause greatest inequities to U.S. Government, including military, employees. Since these employees depend very little on either Korean products or services, the hardship is not oppressive.

Government in Business

All observers of the Korean economic scene have commented on the extent to which the economic life of the country is controlled by the government. At the present time the government owns outright or controls through holding companies the railway, the most important coal mines, and the power companies. The government also operates shipping companies and grain warehouses although it

^{1/} Source: Korea Division, ICA/W.

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is ostensibly in the process of turning the former over to private hands.

The continuation of this situation has several unfortunate effects. The enterprises which are under government control are generally not well run. They are overstaffed and the employees are paid less than adequate wages. In addition, a situation arises as, for example, among the coal mines, the power companies and the railway, where one government-owned enterprise is unable to pay its bills to a second because a third in turn has not paid the first. Furthermore, the rates charged by the government-owned utilities, such as the railway and the power companies, are inadequate and fall short of paying even for maintenance. The only exception is the government-owned telecommunications network, which is running at a profit.

The Team is convinced of the desirability of turning over the government-operated industries and utilities to private management but realizes that progress in this direction will necessarily be slow. Any such transfer is bound to run up against a number of obstacles, both political and economic. At the same time, it should be remembered that the textile industry, which was taken over from the Japanese by the Korean Government after World War II, has now been turned over to private hands. To the extent that the government-operated utilities can be made at least financially self-sustaining, progress in the direction of turning them over to private control can be expected.

Low Salaries and Inefficiency in Government

One of the chief problems in Korea is the low level of government salaries, which range from that of the President of the Republic, who earns approximately \$75 per month, down to the 14 cents per month paid a Korean soldier. (These figures, of course, refer only to the salary itself and not to allowances and other perquisites.) The middle and lower ranking members of the civil service earn between \$50 and \$20 per month, although in addition to their salaries they usually receive an allowance of rice which may be equivalent in value to another \$20. Contrary to the practice in some other countries where government salaries are low, in Korea it is not customary for employees to hold several jobs. Obviously in this situation the temptations to pocket various illicit forms of income are almost insurmountable. To raise government salaries across the board, however, would have a sharp inflationary effect if it were carried out in the near future.

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There is also the problem of inefficiency in government. This stems largely from rapid turnover in the ministries as well as the relative lack of experience of the Koreans in running their own affairs. Among the more serious weaknesses are lack of good management processes, deficiencies in budget practices and personnel management, and failure to collect revenues and taxes. The Team was informed with regard to this last point, for example, that if the government would implement an effective tax collection system the salaries of the 200,000 government employees could be doubled with the additional revenue obtained. The Team was also informed by American officials that one of the greatest problems they face in their daily contacts with the Korean Government is the sheer incompetence of many of their Korean counterparts. In the Ministry of Agriculture, for example, all of the bureau chiefs, with one exception, have no training and no previous experience in agriculture.

It should be added that observers have noted that this situation is improving. There is less turnover in government departments and there seems to be a growing efficiency at all levels. Several persons said that the caliber of personnel dealing with economic matters in the government departments has improved noticeably. There are even signs that graft and corruption may be abating, although some corruption can be expected to remain so long as government salaries continue as low as they are. The recent remark of a cabinet minister to an American Embassy official that corruption in government is Korea's greatest problem shows that there is an awareness of the situation in high places. This same attitude was brought out in discussions of the matter with members of the cabinet. In fact, the Team was told by the Minister of Finance that the government expects to raise salaries after this spring's election. This, he said, would be financed, in part at least, by decreasing the number of employees.

Need for Data on Resources and for Planning

An additional problem in the economic sphere is the need for complete and accurate data on Korea's natural resources, to facilitate planning for the future by the Korean and American governments. The Team understands that the Japanese made extensive surveys of natural resources during the period when Korea was their colony. They obviously had extensive plans for making Korea an integral part of their Greater East Asia Co-Prosperity Sphere, and in fact by World War II had made Korea economically a part of a trading complex with Manchuria and the mother country. The Team was unable, however, to obtain either in Seoul or in Tokyo accurate information regarding the nature or extent of such surveys of Korean resources as the Japanese apparently made.

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During and immediately after the Korean War a number of studies of the Korean economy were carried out, notably the FAO Report (1952)^{1/}, the Tasca Report (1953)^{2/} and the Nathan Report (1954)^{3/}. The first and third of these studies were done for the United Nations and the second for the United States Government. They were carried out during a period when it was obviously difficult to obtain accurate data owing to wartime conditions, and in general they tended to be over-optimistic as to the prospects for Korean recovery. Nathan, for example, predicted that by fiscal 1958 the economy could become self-supporting at a cost in foreign aid totalling not over \$1.2 billion in the 5-year period 1953-58.

From time to time, ICA has had in mind sending a survey mission to Korea for the purpose of carrying out an over-all survey of the country's resources. This proposal has recently been revived and would appear to be a desirable one, since without such material on basic natural resources it is difficult to formulate future economic programs with any degree of accuracy. Although, as will be discussed in Chapter V, OEC has developed a projection of the economy through 1963, this projection would benefit from fuller data such as would come from an over-all survey.

In addition to the lack of complete data, there has been a lack of any satisfactory long-range planning on the part of the government. In March 1956 the Korean Government submitted to OEC a so-called "long-range program" which purported to be a five-year development plan in justification of a proposed expenditure of \$2.4 billion of foreign aid. This so-called plan was examined by the Team, which entirely concurs in earlier criticisms that it is a wholly superficial document which does not go into sufficient detail as to Korea's requirements and which is apparently little more than a shopping list.

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- 1/ "Report on Rehabilitation and Development of Agriculture, Forestry and Fisheries in South Korea (1952)," Food and Agriculture Organization of the United Nations, published by Columbia University Press, New York, 1954.
 - 2/ "Report of Special Representative of the President for Korean Economic Affairs (Henry J. Tasca)," Government Printing Office, 1953.
 - 3/ "An Economic Programme for Korean Reconstruction," prepared for the United Nations Korean Reconstruction Agency by Robert R. Nathan Associates, Washington, D.C., 1954.

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It should be clear from the foregoing that the Team is impressed by the need both for a survey of resources and for a long-range development plan. The Team also believes that it would be useful in this connection to make a search of the Japanese archives in Tokyo to determine what materials are available regarding Korea's natural resources during the Japanese colonial period.

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CHAPTER III - THE PROGRAM

General Criteria for Evaluation of the Program

The Evaluation Team was impressed by both the size of the U.S. responsibility in Korea and the cost to the U.S. Government of fulfilling this responsibility. The U.S. aid program in Korea is larger than any other program in the world. It amounts to several times the entire program for Latin America, for example. Korea has many times been cited as the prime example of the foreign aid "handout." At least one legislator has referred to the Koreans as "bloodsuckers." The Team does not hold with such opinion and believes that the cost of the Korean aid program can be measured only in terms of its accomplishment in achieving U.S. objectives. Measured in these terms, the program in Korea fully justifies the cost. Certain adjustments, however, are believed to be indicated at this time. These will be dealt with specifically when the program is discussed. The basic philosophy on which the recommendations are made relates all program activities, other than technical assistance, to the gap between foreign exchange earnings and foreign exchange requirements.

The specific policy which is suggested is as follows:

The Team feels that the overriding criterion for programming a level of aid in Korea is the provision of sufficient funds or materials to make up for the deficit in foreign exchange based on an economy which assures present levels of consumption. During the past fiscal year essentially this took the form of some \$215 million in raw materials, foodstuffs, and semi-finished products. These materials are the so-called "saleables" and in essence fill the gap between foreign exchange earnings and foreign exchange requirements.

It is assumed that present levels of military aid to the Korean forces will be maintained.

Aid funds to the ROK economy, over and above minimum requirements for the maintenance of a balanced foreign exchange position, should be governed by two criteria:

- (a) contribution of projects to foreign exchange earnings or to a reduction in foreign exchange requirements through increases in local production, and

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- (b) availability of technical skills in Korea for the effective and orderly prosecution of such projects.

Within the above two limitations, the Team believes that the greater the aid, the more rapidly the move toward self-support can be made. The more rapidly this move can be made, the less will be the continuing financial burden on the United States and the continuance of a position of dependence on the part of Korea. It is suggested, therefore, that maximum aid levels commensurate with the above-mentioned criteria be established.

A broad technical assistance program, without reference to foreign exchange requirements and with funding only for personal services and for sufficient resources for very limited demonstrations, should be a part of the total U.S. program in order that Korea can continue to develop the necessary skills for social and economic advancement and for the development and maintenance of a strong, democratic form of government.

In essence the Team suggests the use of defense support funds (or whatever they may be called in the future) for projects which directly and immediately affect foreign exchange and technical assistance funds on meritorious projects whether they affect foreign exchange or not.

It is recognized that there would be some deviation in application of this policy because of many exigencies. Some projects might be so meritorious in themselves or so vital to the orderly and democratic development of the country that they might merit the use of defense support funds even though the activity made no direct contribution of foreign exchange. As will be seen later in this report, recommendations are made to eliminate the use of defense support funds, which are used in addition to technical assistance funds, in many parts of the fields of agriculture, health, education, public administration and community development. No attempt has been made to make an analysis, project by project, in order to show the financial savings that would accrue from such an elimination because the timing and the final appropriateness of phasing out certain activities can be done effectively only at the operating level. However, it is suggested that substantial adherence to the policy outlined above will be in the direct interest of both the United States and Korea.

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History of the Program

United States Government economic assistance to Korea is now in its 13th year. During this period the United States will have spent over \$2.5 billion for relief, rehabilitation and economic development in Korea, as indicated in the following table:

1/

U.S. Obligations in Korea
(in thousands of dollars)

<u>FY</u>		
1945-48	American Military Government (AMG)	378,000
1949-51	Economic Cooperation Administration (ECA)	200,000
1951-53	Korean Civilian Assistance Command (KCAC)	427,000
1950-56	U.S. contribution to United Nations Korean Reconstruction Agency (UNKRA)	92,900
1954)	(International Cooperation Administration	182,037
1955)	((ICA), including Foreign Operations	250,361
1956)	(Administration (FOA)	319,484
1957)	(332,300
Title I, PL 480, Sale of Surplus Commodities to 6/30/57		81,630
Title II " " " " " " " " " "		17,000
1958 (est.)	DS - 215,000	278,944
	TC - 5,600	
	Adm - 1,344	
	PL 480 - <u>57,000</u>	
	278,944	
		2,559,656

At the time of the termination of the American military government in South Korea in 1948, responsibility for economic aid was transferred from the Department of Defense to the Economic Cooperation Administration. An economic aid agreement, which outlined the basis for economic assistance, was signed with the ROK on December 10, 1948. During the Korean War the United States initiated a civilian relief program (CRIK), first through the United Nations Civil Assistance to Korea (UNCACK), then through KCAC. The KCAC funds were supplemented by allocations from ECA and from regular military funds.

On December 1, 1950, the United Nations established UNKRA, to which the United States contributed 66 per cent of the budget.

1/ Source: Program Accomplishments, Fiscal Year 1957, OEC, June 30, 1957.

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These funds were used for relief and rehabilitation activities. Since these funds have now been almost completely spent, the United Nations has decided to terminate UNKRA as of June 30, 1958.

An agreement on economic coordination was signed by the Republic of Korea and the United States on May 24, 1952. This agreement established the basic framework within which the current ICA program has been carried out.

On August 7, 1953, by U.S. Presidential Order, there was established the Office of the Economic Coordinator under the United Nations Command (as will be explained in further detail in Chapter IV). This Office at first served as a planning and coordinating body responsible for the development of an integrated economic assistance program to the Republic of Korea.

At the beginning of OEC activities, there already were several operating agencies under U.S. Army and United Nations command. These agencies were used by OEC as the operating arm of the program, although OEC had a small planning and directive staff of its own.

The Economic Coordinator was the chief representative in Korea of the Foreign Operations Administration (later the International Cooperation Administration). With the establishment of OEC, \$200 million for relief and rehabilitation were transferred from the Department of Defense to FOA and administered by the latter agency.

Since fiscal year 1955 the reconstruction program for the Republic of Korea has been financed as a part of the mutual security program. Until late in calendar year 1955 a considerable number of technicians were provided by the Army. In addition, UNKRA, in its particular fields of responsibility, supplied many of the technicians required. KCAC itself was abolished in July 1956 with the transfer of its residual responsibilities to OEC. Although still under the jurisdiction of the United Nations Command, OEC is currently a U.S.-financed civilian organization similar to United States Operations Missions in other countries of the world.

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The Present Program

The fiscal year 1957 marked a turning point in the aid program in Korea. By the end of that year, all phases of reconstruction from war damage were essentially completed, with the major exception of housing. Levels of production had reached pre-war levels by 1955. Although they dropped in 1956, owing largely to a poor rice crop, they were up again in 1957 and had surpassed pre-war levels.

Appendix C shows a listing of all current (fiscal 1958) projects and their funding from defense support and from technical assistance funds, as well as a financial projection of projects, where applicable, to 1963. Financially, the projects fall into three classes: (1) projects funded solely from defense support funds, (2) projects funded solely from technical assistance funds, and (3) projects jointly funded from defense support and technical assistance. As will be seen, most of the recommendations in the project sector of the program relate to the suggested funding.

The following table shows expenditures for the past fiscal year by field of activity:

Project Sector of Korean Program by Field of Activity -
Fiscal Year 1957; Dollar Obligations^{1/}
(in thousands of dollars)

<u>Field of Activity</u>	<u>Defense Support</u>	<u>Technical Cooperation</u>	<u>Total</u>
Agriculture and Natural Resources	\$6,929.4	\$1,017.8	\$7,947.2
Mining and Minerals	4,247.0	---	4,247.0
Power	3,034.8	199.2	3,234.0
Communications	1,024.6	349.0	1,373.6
Industry	28,547.7	143.5	28,691.2
Transportation	45,326.8	148.6	45,475.4
Health and Sanitation	5,204.8	164.0	5,368.8
Education	4,100.0	1,645.4	5,745.4
Public Administration	1,273.0	525.2	1,798.2
Community Development, Social Welfare and Housing	8,290.4	---	8,290.4
General and Miscellaneous	<u>2,864.5</u>	<u>1,307.3</u>	<u>4,171.8</u>
TOTAL	\$110,843.0	\$5,500.0	\$116,343.0

^{1/} Source: OEC "Program Status Report," July 1957.

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The succeeding discussion will describe the project phase of the program by broad fields of activity. These fields follow the divisional organization of the OEC program which falls into two broad phases: Technical Assistance and the activities of the Office of the Rehabilitation Engineer.

Technical Assistance

Agriculture and Natural Resources (FY 1957 appropriation: \$7,947,000)

The land in South Korea is its greatest single natural resource. In keeping with practices in other parts of the Far East, the land is intensively worked and the cultivated acreage is approaching maximum development. Most of the intensively cultivated acreage is in rice paddies. A large share of the water resources has already been developed either for irrigation or for power, and the potentiality of developing new water resources for the subjugation of irrigated lands is, relatively speaking, limited. Dry land immediately adjacent to the rice paddies, the so-called uplands, is likewise intensively developed for selected grain crops and vegetables requiring less moisture and more natural drainage than the rice paddies themselves. Hillside lands are denuded of most vegetation, except in limited areas where forest control measures are in effect, and all forest products, including litter, are harvested for fuel. Animals are tethered near the farms and there is virtually no open grazing. An intensive reforestation program has been under way for several years. The size of the problem, however, is so great that only the surface has been scratched so far. Although there is some possibility of reforestation and the cultivation of grass on the steep hillsides as an alternate to the present hazardous use of these land resources for fuel, such change-over is likely to come about gradually, with long-term education and substitute fuel sources being prerequisite factors.

In short, the land resource base in Korea cannot be greatly expanded; additional production must come from more intensive use of present acreage and this intensification is likely to come about largely through the use of greater amounts of commercial fertilizer and improved seed varieties. Presently commercial fertilizer must come from foreign sources, thereby creating problems of foreign exchange.

A substantial share of the aid budget in agriculture and natural resources has in the past gone to irrigation development, mostly to the construction of reservoirs. This program follows

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essentially the same pattern as the one started by the Japanese during the colonial period.

There is presently no irrigation engineer on the staff of OEC nor has there been one during the last half of calendar 1957. For a year prior to that time, there was only one irrigation engineer on the staff and he was on loan from another agency. Some 210 projects, both large and small, (above and below 700 acres), are in varying stages of completion. ^{1/} On the average, projects are about 50 per cent complete. The total expenditure for these projects when completed will amount to the equivalent of \$140 million. ^{2/}

There is ample evidence that the Koreans are fully capable of constructing dams, especially clay-core, earth-fill dams which are the ones prevalent throughout the country. Techniques for the construction of these dams were introduced by the Japanese during the colonial period. Reportedly there have been no failures of dams through faulty design or construction. However, economic evaluations of the various reservoir projects, assessing adequately the benefits and the costs, were not available.

No silt or water studies have been made of streams which are being impounded although it is clear that silt is a serious problem. As a guide to reservoir construction, lands to be subjugated are calculated on the basis of about one acre-foot of water per acre and no reserves are made for silt storage. No power installations have been made in connection with the reservoirs constructed under the OEC program but in any event they would be useful only seasonally.

The irrigation program would tend to increase agricultural production, especially the production of rice. Insofar as it is effective this would contribute to foreign exchange by allowing greater exports of rice. However, it would seem highly desirable to get a thorough economic assessment of the program.

RECOMMENDATION NO. 1:

It is recommended that immediate steps be taken to assign to OEC one or more U.S. technicians experienced in making economic evaluations of irrigation programs, in order to determine the feasibility of the present projects.

^{1/} Source: Agriculture Division, OEC, Seoul.

^{2/} Source: Report by M. H. French, OEC, December 4, 1957.

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The Agricultural College at Suwon near Seoul, a part of Seoul National University under the Ministry of Education, is approaching completion of construction. Although the present structures are in a sense a "reconstruction," some buildings are new, larger and more elaborate than the original ones which were damaged or destroyed. Dormitories have been constructed to accommodate four students to a room, with steam heat in each room. The dining hall is circular, with a large interior patio to be used as a lounge. The corridors of the dormitories have soundproofing. The buildings would do credit to any agricultural institution in the United States. In Korea, they are well beyond local standards of adequacy.

The Agricultural College is not designed to graduate students for work on farms. Its graduates will be "too highly educated" to work the land with their own hands. About one-half of the graduates will go into the general teaching profession. Some other part of the remainder will go into government service connected in one way or another with agriculture, and some will go into commerce.

The Agricultural College is under the direction of the Ministry of Education. The reconstruction and equipping of the school have been under the direction of the University of Minnesota, a contractor of ICA, in collaboration with this Ministry.

The Institute of Agriculture at Suwon (which is under the Ministry of Agriculture) was, like the Agricultural College, heavily damaged during the Korean War. It is being reconstructed and equipped with ICA funds but essentially this is a restoration job. It has been equipped by ICA with very modern scientific and other laboratory equipment. There are no ICA technicians assigned permanently to the Institute although OEC plans to make such an assignment.

There is need for agricultural research in Korea, especially in the field of applied research. Rice and other crops suffer from both insect pests and fungus diseases. A serious disease or pest infestation in rice, not subject to control, would literally wreck the economy. Although the physical plant of the Institute of Agriculture is approaching adequate rehabilitation as to buildings and equipment, much more intensive training of Koreans in all aspects of applied research is needed.

As noted above the Agricultural College is under the direction of the Ministry of Education and the Institute of Agriculture is under the Ministry of Agriculture. Both these activities are

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closely related, are complementary in nature, and could jointly use teachers and research workers. Each organization has its own administrative division. The two institutions are about a kilometer apart.

RECOMMENDATION NO. 2:

It is recommended that OEC urge the Korean Government to combine the Suwon Agricultural College and the Institute of Agriculture in the interest of economy and more effective use of limited resources.

Agricultural credit has been a perennial problem for the Korean farmer. As a result of careful and extensive studies by OEC technicians involving several years, two basic laws had been drafted and were passed early in 1957, one for the establishment of an agricultural bank and one for the establishment of cooperatives. The bank law became inoperative by failure of the government to implement it within 90 days as required by legislation. A pilot project for making short-term agricultural production loans at 7 per cent interest through cooperatives has nevertheless been established. The amount of money available for these loans is the equivalent of \$4 million. The total agricultural credit requirements have been estimated by an ICA mission as the equivalent of \$40 to \$50 million.^{1/} The amount of money available under the loan program mentioned above, regardless of the success of the operation, can have little influence on meeting the need for agricultural credit. By and large, the Korean farmer continues to look to the local money lender for his financing.

The program includes plans for reorganizing and revitalizing the Korean agricultural extension service. Under the extension program, there have been organized over 7,000 4-H clubs in Korea and this activity has been widely acclaimed throughout the Republic.

Some work has been carried out in the livestock and the veterinary field. Poultry production has been greatly increased by the introduction of kerosene-operated incubators. Assistance has been given in the local preparation of vaccines.

The projected program of OEC includes expenditures of defense support funds in such fields as agricultural research and extension, soil conservation and irrigation development.

^{1/} A Proposal for Improving Agricultural Credit in Korea, by Edwin C. Johnson, Maurice Wieting and George B. Blair, September 1955.

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RECOMMENDATION NO. 3:

It is recommended that future agricultural projects be funded largely from technical cooperation funds and that only those projects which relate directly to improvement of the foreign exchange position be funded with defense support funds. Among the former would be agricultural extension, for example, as distinct from the control of disease and insects which might vitally affect rice production, a potential export product.

Fisheries

A program of improvement in the fisheries industry is now being conducted in collaboration with the Korean Bureau of Fisheries. The fisheries activities have taken the form of financial assistance to ocean fishermen in order to permit them to repair and to modernize their fishing fleet and equipment. The program also includes some assistance to the Marine Laboratory in Pusan and to the operation and maintenance of a small school for teaching fishermen the use of marine diesel equipment.

Most Korean fishermen are organized under a system of guilds which is a carry-over of the Japanese colonial administration. For a variety of reasons, including lack of assistance by the Korean Fisheries Bureau, the guilds are not serving the needs of the fishermen adequately. Buyers have gotten together and forced prices down and the guild managers, through whom the catch is sold, have apparently been unable to combat this effort. Shortage of funds prevents the guilds from financing fishermen's need for materials and gear.

The greatest single hindrance to the fishing industry in Korea seems to be the policy of the Korean Government toward the fishing industry and more especially toward the fishing guilds. According to estimates of OEC technicians the fisherman pays out to the government in the form of taxes, and to government officials in the form of gratuities, approximately 28 per cent of the wholesale selling price of fish at the time the catch is landed on the docks in Korea. This system, together with the present highly fluctuating market price of fish, prevents reasonable maintenance and normal replacement of many ships and much equipment, reduces reasonable income for the fishermen, and has in fact caused many fishermen to lay up their boats and equipment. Only a marked change and a vigorous prosecution of a program to stimulate more fishing can bring this industry out of its present state. The

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willingness of the Korean Government to reduce taxes and alleviate the necessity for paying gratuities will play an important part in the success of the program.

Presently most fishing is to supply the local market, as fish is the principal source of animal protein in the Korean diet. An interesting possibility lies in fishing for the export market. Outstanding examples of potential export fish are shrimp and tuna, inasmuch as the world price of these two marine products offers significantly higher returns than for the fish currently being exploited for the local market. Shrimp are known to exist in Korean waters and OEC experts feel that commercial exploitation is altogether feasible. This valuable marine product, however, has not yet been exported from Korea, in other than trial shipments, because of lack of equipment and experience. Future exploitation of shrimp will entail a program of technical assistance to fishermen in order to teach them modern practices of catching shrimp by trawling, as well as some financial assistance to acquire appropriate boats and equipment.

Koreans have traditionally done their fishing in waters close to home. Commercial fishing for tuna requires appropriate equipment and a willingness to sail away from Korean waters into world-wide fishing areas. One Korean boat recently returned to Pusan from East Indian waters, after a three months' expedition seeking deep-sea tuna, with a catch of some 60 tons of commercial tuna. This catch was not sufficient to cover the costs of the expedition but approximately 100 tons would have been sufficient to do so. OEC experts feel that there will be no difficulty in expeditions of this sort becoming commercially feasible and with catches well beyond the break-even point.

The above-cited expedition was in effect an experimental one and the crew and captain were inexperienced in this type of fishing. It is significant that the owner of the boat, who is bearing the expense of the undertaking, is both enthusiastic and willing to send the boat on another such expedition. The fishermen in the area of Pusan are enthusiastic and feel that world-wide tuna fishing offers a very real possibility for a profitable undertaking which may provide a very necessary item of export.

The Koreans have traditionally gathered from adjacent waters commercial seaweed, agar-agar and similar marine products. A significant portion of these products is for export and the exploitation of such products offers a very interesting and important activity which will contribute to the Korean economy.

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Every effort should be made to encourage the Koreans to reorganize the fishing guilds in order to make them useful stimulants for the fishing industry. Sharp reductions in taxes and gratuities will be necessary if the fishing industry is to develop its fullest potentiality. Action by the Korean Government would seem to be the only solution to this problem. OEC has in fact been pressing the Korean Government to reorganize the fishing guilds in order to make them more effective in stimulating the fishing industry.

RECOMMENDATION NO. 4:

If the necessary action is taken by the Korean Government in regard to the guilds, it is recommended that defense support funds, in addition to technical assistance funds, be employed for assisting fishermen in acquiring boats and equipment, with particular emphasis on proposals which develop fishing for the export market.

The facilities for preservation and storage of marine products in Korea are anything but adequate. However, since most of the fishing is for local markets and since local markets have no refrigeration facilities, the problem is not as critical as it might otherwise be. This is because fish spoils more rapidly once it has been under refrigeration, when it is brought back to normal temperature, than it does when it has not been under refrigeration. In the absence of refrigeration facilities in retail outlets, fresh fish simply has to be rushed to the consumer as rapidly as possible.

The present system of drying fish is the most feasible method of preservation for meeting the needs of the vast majority of the Korean population where transport and facilities for storage preclude the handling of perishable products. In population centers near the coast, for the time being at least, the program will of necessity be one of better organization against spoilage rather than improvement of facilities.

If the Koreans go into a program of fishing for the export market, present facilities will be wholly inadequate and new and more modern ones will be needed. Such facilities will be essential since the export market is very critical in the matter of quality, and quality can be maintained only with adequate refrigeration facilities.

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RECOMMENDATION NO. 5:

It is recommended that defense support funds, as well as technical assistance funds, be used to assist in the construction of modern refrigeration equipment for preparing and holding marine products when commercial fishing for export is assured.

Health and Sanitation (FY 1957 appropriation: \$5,369,000)

Immediately after the Korean War the public health program was one of an emergency nature, centering around wide-scale inoculation programs to prevent outbreaks of epidemics, and around reconstruction of water supplies, hospitals and other medical facilities damaged or destroyed by war. Thanks in large part to this program, no extensive epidemics have occurred. Indeed, the incidence of such diseases as typhoid, smallpox and diphtheria has been no higher than in the United States.

The present public health program is moving away from the emergency and rehabilitation phases toward a technical assistance program emphasizing the organization and establishment of health centers, improvement of water supplies, especially public wells, control of disposal of human wastes, especially through construction of sanitary privies, and public health education.

Many water supply systems, including water treatment plants that were damaged during the war, are still not completely reconstructed. In addition, several of the larger towns in the Republic have increased in population as a result of the influx of refugees and a general population drift toward urban centers. Water supply activities have been projected through 1963 by OEC but these projections are largely in terms of basic health requirements rather than repair of war-damaged systems.

The health and sanitation program also includes assistance in the control of diseases, especially tuberculosis, leprosy and venereal diseases, three of the most widespread and damaging diseases in Korea.

In the past the program has included assistance in the physical improvement of hospitals and other institutions contributing to public health, such as the Seoul National University Dental College, the Police Hospital, a T.B. sanitarium, and a hospital for mental health. The future program does not contemplate assistance to such institutions.

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Perhaps the greatest single problem in health is the lack of trained physicians, especially in the rural area. Such medical treatment as occurs is left largely to the herb doctors. Since it is unlikely that the economy can support the doctors needed to attend the rural population, the best solution would seem to be enlargement and intensification of a program of health centers.

An inescapable consequence of a successful health program is the increase in population. Such increase accentuates the pressure of population on an already inadequate resource base. It is hard to justify substantial sums of money in an aid program going to this type of activity in Korea. It is perfectly true in general that a healthy population is a more productive population but, with the unemployment and underemployment as serious as they are in Korea, certain activities using defense support funds could be deferred for several years and the savings thus realized applied to projects more directly affecting productivity, especially as productivity might relate to foreign exchange savings.

The future program in health and sanitation contemplates substantial expenditures of defense support funds for disease control, water works rehabilitation, city drainage, and improvement and construction of wells and sanitation facilities.

RECOMMENDATION NO. 6:

It is recommended that the health program be continued with technical assistance funds only. This would mean substantial reduction in financial support to such activities as disease control, water works rehabilitation, city drainage, and construction of wells and sanitation facilities.

Education (FY 1957 appropriation: \$5,745,000)

The education program is concentrated in the following major areas: primary and secondary teacher training, professional and higher education, vocational education and classroom construction.

A program of assistance to Seoul National University in a variety of professional fields has been carried out by a contract with the University of Minnesota. OEC has contributed material and financial assistance in the reconstruction of a number of buildings and the supply of equipment and teaching materials, but Minnesota has supervised the program. In addition, Minnesota has, through fiscal 1957, sent 25 teachers to Seoul University for

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short-term assignments and has likewise sent 103 Korean teachers from Seoul University to the University of Minnesota for training.

A teacher-training program in primary and secondary education is being carried out through a contract with Peabody College of Nashville, Tennessee. The program is concentrating on work with normal schools and special attention is being given to textbook and curriculum revision as well as to the establishment of a program in library science.

The OEC program in vocational education includes financial and material assistance for the establishment of shops as well as the construction of buildings. Special attention is being given to the P'yongt'aek comprehensive high school where 13 classrooms are being constructed. A general shop building is being added in order to make this a complete pilot school.

Vocational education in Korea, in keeping with other parts of the Far East, is faced with the deep-seated prejudice deriving from the Confucian notion of the scholar as a man whose dignity would be damaged by the use of his hands. In a country where rapid industrialization is particularly needed, this obsolete notion is especially inappropriate. This notion does exist in Korea and, to add to the dilemma, the Japanese during the colonial period pressed for more vocational education. This effort was interpreted by the Koreans as just another Japanese trick for holding Koreans to inferior status. Despite these handicaps, as has already been demonstrated by the present program, OEC technicians feel that an effective vocational education program can be undertaken.

The principal uses of defense support funds projected in the future by OEC in the field of education are for projects in the improvement of teacher training, vocational education, and assistance in higher education. With the exception of vocational education the above activities do not make a direct and immediate contribution to foreign exchange savings.

RECOMMENDATION NO. 7:

The continued use of defense support funds is recommended in educational activities that have both an immediate and a direct influence on foreign exchange. Such activities would include, for example, the training of marine diesel mechanics because of the immediate and direct effect on the fishing industry which has a substantial potential for producing export products. The recommendation would imply, likewise, not using defense support funds for such activities as classroom construction.

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Community Development, Social Welfare and Housing (FY 1957 appropriation: \$8,290,000)

The Community Development, Social Welfare and Housing Division is something of an administrative catch-all. It includes financing of the ocean freight and checking of plans of the several voluntary relief agencies, notably National Catholic Welfare, Church World Service, and CARE, which are responsible for 99 per cent of the imports for distribution to the needy. The Division is carrying out what is left of the program for the assimilation of refugees. It gives some assistance to the various welfare agencies of the Korean Government. It is assisting Koreans in carrying out a program of housing reconstruction as well as activities in housing research and development. Finally, and perhaps most importantly, it is just beginning to organize a community development program.

Housing in urban areas is still one of the critical problems in Korea. OEC has a program being carried out in Seoul for what is described as low- and moderate-cost housing. During fiscal year 1957 this project was approved for more than \$2 million in defense support funds as well as \$3 million in counterpart funds. These funds were made available to the Korean Reconstruction Bank, which bank made loans to individuals for constructing housing.

As the dollar appropriation would indicate, this project uses substantial foreign exchange, principally in the form of lumber, cement and steel. The houses now being constructed are estimated to cost nearly 2 million hwan, or \$2,000, each. Although \$2,000 might seem cheap in the United States, it represents housing for the white-collar worker in Korea. Even though housing in Seoul and other larger towns is still deficient as a result of the war, it was hard for the Team to see the validity of using substantial amounts of aid funds to help that segment of the Korean population most able to help themselves.

Of much more interest from the point of view of national welfare is the pattern followed in the so-called Miari assimilation project. This is essentially a housing project for war refugees who were stranded in Seoul. Some 1,000 families were selected and a site near Seoul was chosen. With less than \$100 worth of material per unit of housing provided by OEC, principally lumber and cement, 1,000 units of three rooms each were constructed by the refugees themselves with their own labor. Begun early in 1957 and scheduled for completion in December 1957, the project was essentially complete in October and families had begun moving in as early as August. The Team was informed that this pattern of aid is being used in a number of projects throughout the Republic.

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The Miari project is suggestive of the enormous capacity for self-help of the Koreans if they are given even a minimum of assistance. The housing problem in the urban centers could be greatly alleviated by the enlargement of these self-help programs.

Although the self-help housing project does not contribute to improvement in the foreign exchange gap it, as clearly as any other project seen by the Team, shows how a very small dollar expenditure can be made to yield very large benefits.

The present housing program includes a project of research and development of the use of native materials in construction. It is believed that this is an important project since it can easily lead to the substitution, at least in part, of such materials for cement and steel, both of which presently require foreign exchange. The projected program contemplates small amounts of defense support funds for this activity.

RECOMMENDATION NO. 8:

It is recommended that no further defense support funds be used on the "low- and moderate-cost" housing project. In keeping with the objective of assisting Korea to reach and maintain essential standards of living comparable with those of 1949-50, it is further recommended that defense support funds continue to be used for a self-help housing program for refugees. It is also recommended that defense support funds continue to be used for the project to develop the use of native materials for construction.

The economy of Korea is not able to support many of the normal public services commonly available to peoples throughout the world. In the rural areas the average farmer wants nothing more than to be let alone, to be free from the tax collector and the government inspector, to be given an opportunity to farm his land. He has little concern with ideologies. He is deeply attached to his family, his community, and his land. He is an expert farmer and produces yields of rice that are comparable with the highest in the world despite many years of taking the same crop from the same piece of land. He is adept in the use of both organic and commercial fertilizers. He is a prodigious worker. In short, the rural Korean, within the limits of the resources available to him, is a relatively self-sufficient man.

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With the support of the ROK Government, OEC has projected a plan for community development in which certain services will be available for training voluntary workers in the community. It has also projected a revitalization of an agricultural extension service patterned somewhat along the lines of such a service in the United States, as mentioned on page 48. An education system with rural school teachers has existed since Japanese colonial times. The public health service has certain workers who reach out into the rural areas teaching better public health practices. However, all of these services, because of their paucity, with the possible exception of education, have little impact on the rural Korean. They are simply scattered much too thinly to be of great significance.

Given the present development of the Korean economy, it is doubtful if public services in health, education and agriculture should be projected much beyond their present levels. The development of an agricultural extension service, no matter how unambitious, may be premature at the present level of economic development in Korea. It would appear, however, that the development of a small, modest and simple community development program may be a substitute for such services as the agricultural extension and the public health workers. This would be especially true if, as presently contemplated, it were predicated on voluntary village workers with some help from a few Korean technicians, paid by the Korean Government, but working on a gun-wide (county) basis.

RECOMMENDATION NO. 9:

It is recommended that a program of community development, including the use of voluntary workers at the village level, be undertaken with technical assistance funds.

Public Administration (FY 1957 appropriation: \$1,798,000)

Most underdeveloped countries have poorly paid, graft-ridden and politically oriented public servants. In the case of Korea a little something has been added. The Japanese never had allowed Koreans to assume positions of high responsibility. In addition, during the Korean War, some 30,000 professionals and public servants were kidnapped and taken North.

The public administration program of OEC has for the most part been operative only in a program with the police force. This program has included financial assistance in modernizing the

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communications system and equipping the police force with transportation and fire-fighting equipment. It is scheduled for completion by the end of 1958.

During 1957 a study of the major tax laws was made by a tax consultant of OEC. A number of recommendations were made by the consultant and are presently under consideration by the Korean Government. There has also been a program to improve the statistical work of the Ministry of Reconstruction.

There is contemplated a contract with Washington University for the establishment of a school of business administration at Yonsei and at Seoul National Universities. Although not as yet implemented, the University of Minnesota contract was amended to give assistance to Seoul National University in the establishment of a new school of public administration. Both these activities will meet an urgent need in training Koreans.

The Korean Government is also urgently in need of technical assistance in practically all fields of public administration. The OEC program will be expanded, especially after a public administration survey, presently planned, is completed.

Probably no single program can contribute more to future stability and to sound economic development than an effective public administration program. As in most other countries, assistance in the whole field of public administration is a delicate matter. Until recently, the Korean Government has felt little need for and has viewed with suspicion any assistance in improving its own structure of public service. More recently, however, there has been some tendency to view such efforts with less suspicion. A number of OEC technicians feel that the time has arrived when it will be possible to initiate a more vigorous public administration program.

RECOMMENDATION NO. 10:

It is recommended that an expanded public administration program be initiated in all those fields of public administration and business administration in which the Koreans show real interest in obtaining help. Such a program normally need not require the use of defense support funds but if such funds were essential to the success of the program the Team would be inclined to agree that this would be an exception to the general approach recommended in this report.

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Training

One of the most important phases of the technical assistance program is the sending abroad of Korean technicians for training. Since the inception of the program, 354 ^{1/} trainees have been sent abroad directly under the auspices of ICA. For the most part, technicians have been sent to the United States.

From two points of view the training of Koreans in Japan would be much more effective technically and very much less expensive than sending trainees to the United States. Most Koreans of 30 or more years of age speak Japanese. Japan would be especially useful in the training of Koreans in all phases of industrial development. However, the past history of Korea, as a colony of Japan, and present political considerations preclude the use of Japan as a training ground on any significant scale.

Other places where certain types of training might be obtained are the Philippines and Hawaii, and some trainees have been sent to both these places. The results are encouraging. However, the major geographic area for training will probably continue to be the United States since both the Philippines and Hawaii have limited facilities. Hawaii's geographic location also makes its usefulness limited as, for example, in the field of agriculture.

OEC is making a study of returned trainees to determine whether or not they were using to advantage the training received. The results of this survey were not available at the time of writing this report. The general impression of most OEC technicians is that those who return to Korea are going into activities for which their training fits them. For example, the Team was informed that all of the participants sent abroad under the education program who have returned are practicing their profession. There appears, however, to be a developing problem concerning trainees. Many who are sent to the United States understandably wish to remain and some appear to be finding ways and means of doing so.

It would seem that the 354 trainees sent abroad would be a very small number in comparison with the total number needed in Korea. Presently the greatest single barrier to sending more trainees abroad is the lack of a command of English. With the increasing and intense interest in the study of English, more and more Koreans should be becoming equipped to go abroad for training.

^{1/} Source: ICA/W, Training Development Staff (does not include Koreans selected for training by the University of Minnesota and the Bechtel Company).

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Office of the Rehabilitation Engineer

A major share of the physical reconstruction work financed by ICA in Korea has been supervised by the Office of the Rehabilitation Engineer. This is a section of OEC reporting directly to the Economic Coordinator.

In view of the fact that reconstruction of the country is now virtually complete, the name of the office is somewhat inappropriate. This same inappropriateness is apparent in the continued existence of a Ministry of Reconstruction in the Korean Government. Actually, both the Office of the Rehabilitation Engineer and the Ministry of Reconstruction are performing primarily economic development functions. Although the terminology in itself is unimportant, the continuation of the "reconstruction" approach in the minds of a number of the technicians is a deterrent to realistic planning and operations. The Team believes the time has come to consider that the initial phase of the ICA program has been completed. The program in Korea in the future should be one of technical assistance and selected economic development. Although this concept is fully appreciated at the directive level of OEC, not all personnel who have worked throughout the period of reconstruction seem fully aware of this important change in approach.

Discussion with the several division chiefs and other members of the Office of the Rehabilitation Engineer leads to the impression that there is need for a clearer understanding of the financial assistance rendered by ICA for the maintenance of normal public utility services. Because ICA has financed the construction or improvement of a number of facilities, there seems to be an unconscious tendency on the part of some personnel to assume that ICA has the responsibility for their maintenance and operation. The Team has the impression, in some instances at least, that there is an attitude of defeatism on the part of certain technicians, some tendency to feel that if we do not do it, it will not get done. This leads to the lack of an effective, on-the-job training program by these technicians.

In the rush of the reconstruction program it is understandable that a large share of construction was undertaken with imported steel and cement, both items constituting a drain on foreign exchange but ones which are easy to use and which speed up construction. With the reconstruction phase of the program virtually completed, there is need for careful exploration in the use of construction materials which can be obtained within the country. As mentioned above, OEC has already initiated such a

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program through the "Housing Research and Development" project to explore such possibilities in one field of construction.

Substantial quantities of bituminous coal have been introduced for the operation of locomotives and, in some instances, to supply fuel for thermal plants. Korea has apparently extensive, though unproved, reserves of anthracite coal which has certain disadvantages as to quality, principally because of high ash content. However, the OEC coal specialist, as well as the coal specialist from Smith, Hinchman & Grylls, a contract service of OEC, maintains that Korean anthracite, properly mined, properly cleaned, and properly graded can be used successfully in locomotives. Some modification of grates on present coal-burning locomotives would be necessary. Nevertheless, ICA is financing a dieselization program for locomotives, in part to save foreign exchange. Diesels do use less foreign exchange if the assumption is made that the alternative is imported bituminous coal, since the dollar value of the latter is much higher per locomotive-kilometer. If, however, local anthracite can be used effectively, reconsideration of the remaining portion of the dieselization program should be undertaken. Immediate steps should be taken to determine definitively the possibility of using local anthracite. Since anthracite reserves are not precisely known, it is equally essential that a definitive survey of reserves be undertaken as soon as possible. Such a survey is included in the present program.

RECOMMENDATION NO. 11:

Although certain efforts to use Korean anthracite have been made in the past, it is recommended that a new trial on a sufficiently large scale, with proper mining, cleaning and grading, be undertaken by OEC in order to determine definitively the feasibility of using local coal in locomotives.

Power plants, the railway, telephone and telegraph systems, the ports, and airlines are all owned and operated by the Korean Government. As in many other countries, government operation of such utilities has many weaknesses, including employees' being paid less than adequate wages, failure to collect revenues for services to other government agencies, and loss of the direct use of revenues to the public treasury by the utility involved, with a consequent lack of concern for vigorous collection.

The problem of rates for public utilities is an especially serious one in Korea. With the exception of the telephone and

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telegraph system, the utilities are not collecting sufficient revenues to cover costs of operation and maintenance, let alone amortization of the investment. Part of the reason for this situation is the inflation Korea has suffered over the past several years which has prevented rate increases from keeping pace with rising costs. However, there is a general reluctance on the part of the Korean Government to face reality on the rate problem because of the political implications. An additional factor which militates against the early solution of this problem is a law which authorizes only the Korean National Assembly to set all rates, thereby making an essentially technical decision subject to political pressures. Finally, the past practice of the aid program in meeting deficits in operation and maintenance tends to build inertia. However, OEC is fully aware of this problem and continues to press for an early solution.

Power (FY 1957 appropriation: \$3,234,000)

Prerequisite to any effective rehabilitation in Korea was the development of power for industry. Formerly 85 per cent of the power used in South Korea was generated in North Korea.

ICA has financed the construction of three new thermal plants in the South, has financed the reconstruction of the hydroelectric plant at Hwachon and has financed the rehabilitation of the steam plant at Yongwol. This has given a total of 140,000 additional kilowatts to the South Korean power system. On the basis of the anticipated requirements, another additional 110,000 kilowatts will be required by 1960. Two additional power plants have been proposed by OEC in the long-range program.

Rehabilitation of old plants and construction of new plants were undertaken by ICA and the Korean Government through the use of U.S. contractors. The Pacific Bechtel Construction Company, which was responsible for the construction of the three thermal plants, was outstandingly successful in keeping to construction schedules and in training Korean operators to take over the plants after completion of construction. The reconstruction of the Hwachon hydroelectric plant by the Morrison Knudsen Company, on the other hand, failed to provide the necessary leadership in training Koreans for the operation of the plant although the physical construction of the plant was wholly adequate.

As in the case of all other Korean Government-operated public utilities, with the exception of the telephone and telegraph system, present rates are inadequate. However, an equally important factor for bringing in necessary revenue is the policing

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of the power line system in order to reduce power losses from illegal line tapping. The average line loss from all sources is 35 to 40 per cent in Korea. OEC technicians feel this can be brought down to at least 25 per cent with proper policing. So-called normal losses in more developed countries range from 15 to 18 per cent.

The Team does not feel that Korea can be expected to carry the burden of additional power development without some financial assistance from the aid program. Since industrial development is directly dependent on power development and since industrial development is one of the several hopes for closing the foreign exchange gap in the economy, it would seem wise to continue financing the needed power development.

RECOMMENDATION NO. 12:

The Team supports present OEC plans for using defense support funds for the construction of two new power plants.

Communications (FY 1957 appropriation: \$1,374,000)

OEC has spent approximately \$17 million on a communications program, largely to bring to pre-war levels some 40,000 telephone installations and to increase installations to 75,000. In addition the program has included technical assistance in all phases of telephone and telegraph operation and maintenance. This work was undertaken by some nine retired members of the Bell Telephone System in the United States under contract to ICA. Despite the age of some of these former members of the Bell System, the program appears to have been especially successful in training Koreans.

The telecommunications system presently earns sufficient foreign exchange through services paid in dollars to take care of replacement of spare parts and acquisition of new equipment. However, under present regulations both the dollar and hwan earnings revert to the Korean treasury.

RECOMMENDATION NO. 13:

Since both foreign exchange earnings and hwan earnings are sufficient to support the maintenance and development of the telecommunications system, it is recommended that Korea finance this activity from its own budget. It is suggested that ICA continue its technical assistance program in this field.

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Industry (FY 1957 appropriation: \$28,691,000)

The largest single industrial project undertaken by ICA in Korea is the nitrogenous fertilizer plant at Chong-ju which is being built for the Korean Government and which will cost approximately \$40 million, according to latest estimates, when completed. When it is remembered that Korea is currently importing \$50 million annually in nitrogenous fertilizer the importance of local production of this product will be appreciated. The present plant is designed to produce about one-third of the annual requirement and the estimated production cost is calculated to be below the imported cost. The plant will use Korean anthracite coal for power and petroleum as the raw material for producing fertilizer.

The thing that strikes the Team as the most serious problem in regard to the fertilizer plant is the complexity of the operation and the need for highly trained and experienced personnel to operate and run the plant efficiently. It must be obvious that a potentially dangerous and highly costly plant such as this one cannot be left to anyone but highly trained, experienced and very well paid employees. Only well paid employees will have a vital economic stake in the effective and profitable operation of this important industrial installation. If the staffing and training of personnel to operate the plant are left to the normal processes of government, the chances of a safe and successful operation are far from hopeful.

Present plans call for the letting of a management contract to a responsible United States firm to operate the plant over the next several years. A primary responsibility of the firm will be to train adequately Korean nationals for their own replacement.

A second plant has been planned by OEC in the 1959 program to take care of additional Korean requirements for nitrogenous fertilizer. Initiation of construction has not been authorized. An alternative proposal by a West German firm is presently before the Korean Government. This proposal entails the financing, construction and operation of a fertilizer plant financed on a loan basis. The German proposal includes using Korean anthracite coal not only as a source of fuel but also as a source of raw material for conversion to nitrates. The proposed plant is of comparable capacity to the one being built by ICA and the estimated cost is \$23 million.

No attempt was made by the Team to examine exhaustively this proposal both because the Team was not competent to do so and because details of the proposal were not available. It is perhaps

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significant that the plant financed by ICA was originally estimated to cost some \$23 million. The proposal by the German firm does have the advantage of using local resources for both fuel and raw material, thereby being less of a drain on foreign exchange.

Since there is concern, and even some doubt, about how successful will be the operation of the fertilizer plant, there is real question as to whether an additional plant should be built prior to the completion and operation of the first plant.

RECOMMENDATION NO. 14:

It is recommended that construction of any additional fertilizer plants be deferred until such time as there is sufficiently active Korean participation in the management of the plant presently under construction to indicate the ability of Koreans to take the whole responsibility for management.

Assistance by OEC to the private sector of the economy in Korea has been by making loans to individual firms. The normal process is for the borrower to submit a proposal which is reviewed by the Combined Economic Board, a joint Korean-American planning board. If approved, OEC furnishes the necessary dollars for foreign exchange requirements, and the local currency requirements are furnished through Korean channels, usually from counterpart funds.

The borrower is required to show evidence of the availability of operating capital to carry out the proposed project. He must deposit at least 20 per cent of his total dollar and local currency requirements at the time the loan is approved. He pays back in hwan interest and principal to a revolving fund in the Korean Reconstruction Bank for both the dollar and hwan requirements. There is thus created a revolving fund which is used for similar loans also subject to approval by the CEB.

The 500-to-1 rate of exchange represents in effect a subsidy for the industrialist as far as his foreign exchange requirements are concerned since this rate is substantially below the free exchange of hwan for dollars. Although there undoubtedly has been some tendency on the part of Koreans to apply for foreign exchange in order to purchase equipment with a view to resale, no evidence of widespread practices of this sort was encountered.

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OEC distinguishes between two types of industrial loans. One is the medium and large type of loan, the dollar requirements of which are in excess of \$50,000. The second is a loan for dollar requirements below \$50,000.

At the time of the visit of the Evaluation Team there were some 84 projects in the medium and large category that had been approved for financing by ICA,^{1/} the dollar requirements of which amounted to about \$80 million. The industrial projects financed by these loans were in varying stages of completion, only 13 projects being in full operation.^{1/}

The medium and large projects, carried out through the private sector of the economy, have a certain amount of built-in safeguard against unwise undertakings. In the first place, private businessmen are apt to protect their own interests somewhat better than public servants can, acting on their behalf. In the second place, the requirement of an advance deposit of 20 per cent of the total cost of the project tends to eliminate unrealistic and frivolous proposals.

In the rush of getting a program of assistance to industrial firms a good many short-cuts have had to be taken. Review of loan proposals, as far as OEC is concerned, has not been effective, owing to insufficient numbers and lack of trained personnel. Review on the ROK side has largely been a paper examination. In addition Korean personnel, often paid less than a living salary, have undoubtedly been subject to pressures of favoritism. While no evidence of response to such pressures was discovered, the combination of lack of adequate U.S. personnel and pressures on Korean personnel leaves much to be desired.

OEC had decided last fall to call a halt to new loan applications above \$50,000 until a systematic and thorough review had been made of all existing projects. A high-level committee, chaired by the Deputy Economic Coordinator, was established to review each project on an individual basis. The process of review was continuing at the time of the departure of the Team.

RECOMMENDATION NO. 15:

As OEC recognizes, the immediate enlargement of the staff of U.S.-trained technicians for the technical review of all

^{1/} Source: Program Accomplishments, Fiscal Year 1957, OEC, June 30, 1957.

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loan applications is urgently needed. This staff should be so constituted as to be useful not only in review of loan applications but also in training Koreans in review techniques.

Up to the present time, OEC has had no organized effort for training within Korea in the fields of industrial development and industrial management. Visits to various industrial establishments show clearly that Koreans are outstanding in manual skills and in industriousness but their appreciation of modern management practices, from the level of the foreman to the plant manager, is rudimentary. Introduction of modern machinery will create some problems but the Team feels that the Koreans will acquire the necessary mechanical skills rapidly if they are given an adequate opportunity for training. Training in the field of management, however, is likely to be slower and more halting in view of the lack of experience of Koreans in this field throughout the Japanese occupation and in view of the short period of time they have had to assume such responsibility under the Republic.

Because of the problem of the foreign exchange deficit the Team gave special consideration to the role that industrial development might play in alleviating this problem.

No attempt was made to examine in detail the types of industrial development which would lead to the local processing of goods presently imported or to industries that might be developed for processing goods for export in the world market. In general, Korea does not seem to have any special situations in regard to raw materials which would put it in a favorable position for developing industries that would be competitive in world markets. An exception might be the ceramic industry because clays especially adapted to this industry are available in Korea. Some of these are presently being exported to Japan. Korea has, of course, large reservoirs of incompletely employed labor. The wages paid to labor make it cheap in comparison with Western standards but they are not significantly different from those in other parts of the Orient. Lacking the background of experience for organizing the use of this labor and of experience in marketing, Korea would find it difficult to develop products which might compete with those produced in such countries as Japan and India. Gradually a certain amount of this type of industry might be developed but it would probably offer no early solution to the present problem of the foreign exchange deficit.

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A much more fruitful possibility would seem to lie in the production of goods in Korea, especially those goods with a high labor component, for the local market. Special emphasis should be given to those goods presently imported from abroad. If the public were not to suffer higher prices for goods locally produced, care would have to be exercised to see that only economically sound projects were approved. Priority should be given to the production of goods with low foreign exchange requirements for raw material. OEC is presently financing a number of such industries through its medium and large industrial program.

RECOMMENDATION NO. 16:

It is recommended that the medium and large industrial loan program, including the use of defense support funds, be expanded, with special emphasis on industries designed to achieve foreign exchange savings through local production of products presently imported. To a substantial extent increase in these loans will depend on additional training of Koreans, which would be facilitated by the assignment of additional U.S. technicians.

In certain other parts of the world, notably Europe, ICA has established what are called "productivity centers" or "industrial development centers." While it is difficult to generalize about these activities, they are all designed to promote industrial development, sometimes through government channels and sometimes through private channels.

OEC is presently giving consideration to the establishment of an industrial development center patterned somewhat after the center in the Philippines, with emphasis on organization for giving technical services to industry. In other parts of the world, where technical development is somewhat more advanced, centers have given emphasis on training through such activities as seminars, training courses, in-plant studies and plant demonstrations. In Korea there is great need for both technical services and training.

RECOMMENDATION NO. 17:

The Team recommends the early establishment of an industrial training and development center with the use of both technical cooperation funds and defense support funds, as needed.

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Transportation (FY 1957 appropriation: \$45,475,000)

The Japanese provided Korea with a good north-south railway system which remains the major element in the country's transportation network. The line from Seoul to Pusan is double-tracked. The road network is less good but is adequate for most requirements of the civilian economy. Korea possesses one fairly good international airport near Seoul which forms the headquarters for a domestic airline linking several of the principal centers of population.

The activities of the Transportation Division include assistance to the Korean National Railway, the ports and harbors, civil aviation activities, and provision of equipment for shipyards in order to improve the coastal fleet.

The Korean National Railway, heavily damaged during the Korean War, has been restored to full operation, and widespread improvements have been made in most phases of operation by the replacement of old equipment with modern equipment. About \$160 million^{1/} in U.S. aid funds have been spent in the program. Some \$60 million alone have been spent for coal to operate the railway system.^{2/}

Outstanding among the improvements has been the dieselization of locomotives, reducing locomotive per-kilometer cost from \$1.10 to 35 cents. The dieselization phase of the program has been undertaken partly to reduce foreign exchange by substituting diesel fuel for bituminous coal. This program may, however, be subject to re-examination, as was discussed on page 61.

Additional activities have included the acquisition of rolling stock and improvement in the operation and equipment of repair shops. Approximately 120 miles of new track have been constructed, chiefly to connect the coal fields of the east coast to the Seoul-Inchon area.

The Korean National Railway has a foreign exchange requirement for operation and maintenance of about \$11 million annually. Some \$10 million will also be needed for replacement of equipment. Therefore the total foreign exchange requirement amounts to \$21 million. The railway produces \$4 million in dollar revenue from United Nations forces, leaving a deficit in foreign exchange of \$17 million annually.^{2/}

^{1/} Source: OEC Transportation Division.

^{2/} Source: OEC "Program Status Report," July 1957.

^{3/} Figures supplied by OEC Transportation Division.

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RECOMMENDATION NO. 18:

Since the Korean Government clearly cannot meet its foreign exchange requirement for the operation and improvement of the railway from present revenues, it is recommended that defense support funds continue to be used for maintenance and essential development. OEC should continue to press the Korean Government for increased rates in order that the railway may earn revenues sufficient at least to cover costs of operation and the hwan equivalent of costs of development.

Substantial assistance to ports and harbors has been given by providing dredges to the Korean Government and technical assistance in their operation. While harbors could be greatly improved, they are adequate to move present tonnages and will continue to be so if the Korean Government maintains the present harbor development. It is believed that peak loads in the present major harbors of Korea were reached in the year 1957 and that in the immediate future there will be no increase in tonnages. It does not seem likely that much more improvement will be needed.

A program for installing, equipping and operating an instrument landing system at the K-14 International Airport near Seoul has been undertaken by ICA with the assistance of the U.S. Civil Aeronautics Administration. This installation is considered by the U.S. military forces to be essential to their own needs.

Public Works (FY 1957 appropriation: \$4,900,000)

The principal task of the Public Works Division since the termination of the war has been the financing and assistance in the reconstruction of major bridges and the main highways. More than a thousand bridges, damaged during the war, have not been reconstructed but these are mostly small bridges and many of them in the secondary road system.

Some 300 miles of paved road are still being reconstructed. The paving is with asphalt, a material which has to be imported.

OEC technicians feel that the ROK will be able to maintain its primary road system but that the secondary road system will probably be neglected through lack of maintenance over the next 10 to 15 years.

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In the past the Public Works Division has undertaken both downstream flood control and rehabilitation of public water works damaged during the war. No funds have been allocated for flood control after fiscal year 1957 and water supply work is being carried out under the Division of Health and Sanitation.

The program also has provided considerable financial and technical assistance for the construction and repair of Korean Government buildings.

RECOMMENDATION NO. 19:

The Team recommends the phasing out of funding through the use of defense support funds of a program of highway construction. Defense support should be concentrated on dollar requirements for materials and equipment needed for maintenance of the present road system.

Mining (FY 1957 appropriation: \$4,247,000)

The principal concern of the Mining Division has been with coal. The coal occurring in South Korea is an anthracite with a relatively high ash content. Through efforts of the Division, mining techniques have been improved and the heavily damaged mines which were put out of commission when the Japanese withdrew have been restored; production has gone steadily up. One of the serious deterrents to improved production is the practice of the ROK Government of directing shipments of coal from government-operated mines to other government agencies. The Dae Han Coal Company, a ROK Government corporation, at the time of the visit of the Team had accounts receivable from other ROK Government agencies in the amount of the equivalent of nearly \$2 million. At the same time the company lacked operating and development capital. Proven coal reserves are not yet fully known in existing mines. However, a drilling survey has been started and proven reserves data should be available in the near future.

Other minerals occurring in South Korea include tungsten, graphite, iron and gold. None constitutes a significant export at the present time but tungsten has in the past been an important earner of foreign exchange. The United States, the principal consumer, has ceased to stockpile tungsten.

An initial survey to study the feasibility of further mineral exploration was undertaken under OEC auspices during fiscal 1957.

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The ROK mining law as it presently exists is a barrier to foreign exploitation of minerals. There is some interest on the part of Korea in changing the law to encourage foreign investors but little has been done to date. OEC plans to have a technician study the law and make recommendations for improvement.

RECOMMENDATION NO. 20:

The Team supports the OEC plan for exploration work in minerals in order to stimulate further activities in mining and recommends that, if needed, defense support funds be used as well as technical assistance funds. It also supports OEC's intention to examine present laws governing mining with a view to revision which will encourage the attraction of foreign capital.

Related Problems and Recommendations

The Accumulation of Goods in Ports

One of the most recurrent criticisms of the program in Korea has been directed at the accumulation of goods in the customs houses and warehouses in the ports of Pusan and Inchon. Some part of these goods goes back to the UNKRA program over which the Economic Coordinator did not exercise detailed control. In other cases, goods ordered by private businessmen have not been claimed and no action has been taken by the ROK Government to dispose of the goods by public auction. Again, some goods have been ordered by Korean businessmen for which little or no need presently exists in the country. Finally, faulty systems of record keeping by the ROK Government add to the general confusion.

This problem of accumulation of goods in the ports was one to which OEC was giving special attention at the time of the visit of the Team. A special committee was established and directed to make a study of ways and means of moving the goods and to prepare monthly reports of progress.

Concentrated efforts on the part of the ROK Government and OEC have resulted in a decrease of goods in warehouses from a total of 49,000 metric tons in September 1957 to 21,500 metric tons in November 1957. The latest OEC progress report on this activity indicates that this problem is well on its way to being solved.

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Possibility of Using Surplus and Obsolete Equipment

In the past, large quantities of surplus materials and equipment from the military in Korea have been used in the program. At the present time apparently there are not sizable quantities of material and equipment surplus to the needs of the military.

The Team was struck by the high quality of the equipment and the fact that virtually all of it used in the aid program is new. The question arises as to whether or not used equipment might not adequately fill the need of the program in some instances. Similarly, obsolete equipment might also be of service. For example, the Team was informed that the new instrument landing installation at the K-14 International Airport near Seoul was of the latest type and had all new equipment. The possibility arises that some equipment, now obsolete in certain parts of the United States but in good working condition, might be useful in Korea.

Although OEC seems to have taken good advantage of equipment and supplies surplus to military needs in Korea, there has been little attempt to acquire military surpluses on a world-wide basis. ICA is presently better organized to assist in the location of military surpluses than formerly and certain regions are finding such surpluses from world-wide sources useful.

RECOMMENDATION NO. 21:

It is recommended that OEC explore the possibility of using obsolete equipment in the program in Korea as well as surplus military equipment acquired on a world-wide basis.

AFAK (FY 1957 appropriation: \$2,000,000)

Shortly after the termination of hostilities in the Korean War there were large numbers of U.S. soldiers stationed throughout heavily populated areas. As in other parts of the world, there developed a program that is called the Armed Forces Assistance to Korea (AFAK). Essentially this took the form of voluntary cash contribution by U.S. soldiers, with some contribution by the aid program, to create a fund for the purchase of building materials used to assist Koreans in building schools, churches and public buildings. The U.S. Army provided technical supervision of construction and Korean residents supplied labor and local material. The Team was told that this program had enormously good effects on the morale of the U.S. troops and greatly strengthened the relationship

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between the troops and local residents. Many useful and necessary buildings were constructed as a lasting monument to good relations between foreign military troops and a civil population.

Last fiscal year, the aid program contributed \$2 million to the AFAK program, most of which was devoted to the construction of schools. The present situation appears to be substantially different from the situation just after the Korean War. There are fewer U.S. troops in the area. The troops are concentrated near the demilitarized zone and have much less contact with local inhabitants than formerly. Very little contribution is now made to the program by the U.S. troops. Much of the supervision of construction is being carried out by Korean troops. Certain missionaries have recommended that no more churches be constructed under this program and state that some communities have over-extended themselves on church construction and are finding it hard to meet maintenance problems.

The present program, consisting largely of classroom construction, is not an integral part of the OEC education program and its objective is, of course, quite different from the OEC objective.

The Team was unable to evaluate adequately the beneficial effects of the AFAK program on the morale of U.S. troops and its relationship to the improvement of relations between U.S. troops and local residents. For that reason it has no specific recommendation to offer. However, it suggests that the military authorities and the OEC authorities might well reappraise this program to ascertain whether the beneficial effects to U.S. troops and their relationship to Koreans presently justify expenditures.

Korean Government Organization for Certain Activities

At present most of the public utilities and larger industrial activities in Korea are operated by one or another ministry of government. A few, such as the Dae Han Coal Company, are organized as government corporations. The complacency concerning public servants' taking bribes, combined with the recognized practice of paying less than living wages, militates against efficient operation of government services.

It does not appear feasible at this time to attract private capital and private management to acquire and operate such public utilities in Korea as the railway, power plants, the telecommunications system, or even the coal mines. A part, at least, of the reason lies in present government control of rates for utilities.

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In addition, large accumulations of capital which would be needed to acquire the enterprises do not exist at the present time. However, with proper rate adjustment and assurance of freedom from stifling government control there may be a possibility in the future of transferring such activities to the private sector of the economy.

Given the necessity for public operation of such activities at the present time, the question of appropriate governmental organization arises. When it comes to the operation of such plants as the Pusan Iron Works, the Dae Han open hearth furnace and rolling mills at Inchon, and eventually the new fertilizer plant, the problem of organization becomes especially acute because of the complexity of these operations, the size of the enterprises, and their essentially profit-making character.

In other parts of the world, technical assistance programs and economic development activities have been organized around what are called in Spanish servicios, or services. Typically these are internal divisions of a normal ministry of government but are legally established by international contract between the United States Government and the local government. This arrangement, on the one hand, gives general policy control to the local government through the responsible minister but, since the contract typically specifies a United States representative as operating head of the service, some of the evils such as political influence, inefficiency and graft can be avoided. Usually the contract specifies that operations will be conducted in accordance with rules and regulations (not necessarily following either U.S. or local government practices) jointly adopted by the two appropriate representatives of each government. Typically also, operations are conducted with a fund to which each government contributes. In fact, the joint funding is the very essence of the arrangement.

The Team studied the possibility of the use of the servicio as one means of lifting certain operations (especially public utilities and industries) out of the restrictions of typical Korean governmental operation. The principal benefit of such a proposal would seem to be to insulate operations against political influence and to allow flexibility in operating procedures, including the possibility of paying higher wages. However, the same objective of reasonable wages, flexibility and freedom from political influence could be accomplished by the use of a government corporation established under one or more politically independent boards of directors. Such an approach already has some precedent in Korea. For the public utility and industrial operations of the government the public corporation would seem more appropriate than the

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servicio, especially since, in a real sense, there is no joint funding of the activities. However, the Team does feel that the Koreans should establish more independent operations for utilities and industries now being conducted as parts of regular government services, especially such activities as the railway, telephone and telegraph system, the power plants, the Pusan Iron Works, the Dae Han open hearth furnace and rolling mill, the flat glass plant and similar government-owned enterprises. It seems especially important to get early and efficient organization in the case of these revenue-producing services.

It has been suggested that widespread increase in Korean Government pay scales would contribute to inflationary pressures unless other measures are taken concurrently to offset such a tendency. A gradual change-over to public corporations, taking industrial plants and power plants as first pilot operations primarily because they have relatively fewer employees, would seem to be a wise precautionary measure. This approach would suggest leaving such operations as the railway and communications for future consideration because of the large numbers of employees involved.

Population Problem

In Chapter II the opinion was expressed that the ultimate solution to the Korean population problem should be sought both in population control and in emigration. This question was discussed with both Koreans and Americans and it was found that an understanding of the gravity of the problem is increasing. This was true, for example, of a number of cabinet ministers.

As far as population control is concerned, the Team did not find that this would encounter any widespread opposition in Korea on religious grounds except among the relatively few Koreans of Catholic faith. Moreover, most Korean women would welcome an opportunity to obtain reliable information regarding ways of limiting their families. The Team talked with a Korean social worker who is organizing mothers' clubs for the purpose of giving information to Korean women on a number of household and family problems, including child care, home economics and similar activities. She would like to enlist the support of the aid program in financing the provision to these clubs of both planned parenthood information and contraceptive materials. The Team is fully aware of the policy considerations which would preclude the provision by ICA of either information or materials of this sort, in spite of what the Team regards as the clear desirability of doing so in the case of Korea within the appropriate framework of religious sanction. However, it

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might be possible for the OEC Community Development Division to provide financial assistance to the mothers' education program in general, such assistance to be earmarked for child care or some other specific activity of the program exclusive of planned parenthood. The Koreans would then be free to finance the latter activity from their own resources. The Community Development Division already has social welfare and child care programs which could be adapted to this purpose.

Little thought has been given by either Koreans or Americans to the possibility of emigration. One reason for this, as far as the Koreans are concerned, is that so long as there remains a possibility of unification, no matter how remote, there is a possibility of siphoning off some of the surplus population into the less crowded North. Nevertheless, the Team believes that this is a subject which should be thoroughly explored. The pressure of population on natural resources in Korea is bound to increase in the next few years as the population continues to rise. Even if the Koreans adopt measures of population control, it will be some years before these make any impact on the problem.

RECOMMENDATION NO. 22:

It is recommended that consideration be given by the U.S. and ROK Governments to making a study of the population problem with a view to developing outlets, possibly in Latin America, for Korean agricultural workers. It is also recommended that financial assistance be provided, through the OEC Community Development Division, to the mothers' education program.

Development Loan Fund

The Team studied the possibility of the use of the Development Loan Fund (DLF) to carry out some aspects of economic development in Korea. It seems clear that Korea could not repay loans in any currency other than hwan at the present stage of the development of its economy without enlarging an already critical gap in its foreign exchange earnings and requirements. Assuming, therefore, that any loans made to Korea would be repayable in hwan, certain problems would arise. The program has already generated substantial quantities of hwan in U.S. ownership. Up to now the Korean Army has been able to use large amounts of such currency. With the tendency toward reduction in forces there will be a decrease in the demand for these hwan. Only very limited quantities of hwan can be used for direct U.S. requirements in Korea. It would seem, therefore, that use of

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the DLF for loans will tend to exaggerate what is already a potential problem. In this situation large amounts of U.S.-owned hwan would probably have to be reloaned to the Korean Government for further internal use in economic development of the country. It would therefore seem that there would be very little substantial difference, as far as expenditures by the U.S. are concerned, in financing activities with DLF funds or with defense support funds. Provided the decision is made to reloan (or hold in idle balances) hwan, paid to the DLF for interest and principal charges, to the Korean Government for further use in economic development, the DLF might be useful in helping Korea in its economic development.

Agricultural Surplus

The use of the agricultural surpluses of the United States in the past several years has been an effective part of the aid program. Fortunately many of the products needed by the economy of Korea were in surplus in the United States. This past year, however, found the United States looking for markets for rice and Korea with a bumper crop of rice, a part of which OEC has been urging Korea to export in order to earn foreign exchange. For a while it looked as though certain U.S. interests would insist on giving aid to Korea in the form of grants of rice. At the present writing, this proposal appears to be dormant. Had the United States, in its anxiety to dispose of rice, insisted on Korea's receiving a part of its grant aid in rice, a major element on which the aid program has been projected to relieve Korean dependence on the United States would have been at stake. This example serves to illustrate possibilities of conflict between disposal of surpluses and the need of the aid program in Korea.

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CHAPTER IV - ADMINISTRATIVE AND ORGANIZATIONAL RELATIONSHIPS

Mission Organization

The present organization of the OEC staff, as shown in Appendix D, includes three broad functional divisions besides the usual staff divisions. There are some 350 American positions on the staff at present, as noted in the table shown as Appendix E. The functional divisions are the Office of the Assistant Economic Coordinator for Program Planning and Economic Policy, the Office of the Rehabilitation Engineer, and the Office of the Assistant Economic Coordinator for Technical Cooperation. Planning for all activities resides in the Office of Program Planning and Economic Policy, as the name would imply. The Rehabilitation Engineer is responsible for major construction activities and assistance in the operation of the public utilities, as well as such training and technical assistance activities as pertain to these efforts. This Office also includes mining and industrial activities. The Technical Cooperation Office is concerned with the conventional fields of health, agriculture, education, and public administration, as well as a Division of Community Development which includes activities in the fields of housing and social welfare.

This organizational structure does not appear to require any particular discussion on the part of the Team, except that for reasons discussed in Chapter III it would seem desirable to change the name "Rehabilitation Engineer" to "Chief Engineer" and to give recognition to the growing importance of industrial development by building up the staff of the Industry Division under that Office.

The one factor which struck the Team about the personnel organization of OEC was the concentration of personnel in Seoul. There are very probably a number of historical reasons why this is true. Nevertheless, it is difficult to see how technicians in the Office of the Rehabilitation Engineer and in the Office of Technical Cooperation could be fully effective by operating out of Seoul as a geographical base.

Certainly, accommodations and living conditions outside Seoul are well below standards to which U.S. technicians are accustomed. Appropriate educational facilities for children are almost non-existent. Any attempt to station families in various areas throughout Korea would, as a practical matter, have to entail provision of minimum requirements for living, including appropriate health measures. In most instances it would not be practicable to establish appropriate educational facilities. This problem for

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families with children would have to be met at the time of recruitment, with the understanding that the responsibility for educational facilities would lie with the parents. The added effectiveness of being able to station a reasonable proportion of technicians away from the capital would seem to offset the added cost of providing minimum facilities for living.

OEC has been giving consideration to various ways and means of bringing about a decentralization of the staff in Korea. While these plans had not crystallized fully at the time of the Team's visit, beyond the establishment of a skeleton staff at Pusan, it seems that any proposal which would have the effect of taking technicians out of the capital and bringing them into closer contact with people throughout the country would be advisable. Similar plans are in effect for other American government agencies in Korea. Not only are officers and men of the MAAGs stationed throughout the country but USIA has three local branches (at Pusan, Kwangju and Taegu). The Department of State is understood to be thinking of opening a consulate at Pusan.

It might be argued that in a country the size of Korea it should be possible to work effectively out of Seoul. In practice, however, there is always a tendency in cases of this sort for technicians stationed in a capital not to travel and come into contact with local people as much as when they are stationed away from the capital.

Recruitment

Recruitment of personnel for Korea has never exceeded 80 per cent of the established ceiling. Given the rate of turnover of personnel and the difficulty of recruitment, it seems unlikely that personnel actually at work at any given time will ever exceed 80 per cent. Every effort should therefore be made to promote recruitment as much as possible. If the recommendations of this report are accepted it may well be that reductions in personnel in such staffs as the Agriculture and Transportation Divisions will permit augmenting other staffs.

Americans in Korea

The ICA employees form so small a portion of the total number of Americans in Korea that their presence is not obtrusive. At the time of the Team's visit, there were approximately 270 employees in OEC as compared with over 60,000 American military personnel (most of whom of course are stationed at the front) and 120 employees in the Embassy and in related activities, including

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USIA. The foregoing figures do not include dependents. In addition, it is estimated that there are some 965 non-official Americans (including dependents) in the country, of whom the majority are missionaries.

During the past year the tour of service for OEC personnel has been put on a regular two-year basis and employees have been authorized to have their dependents join them in Korea, provided housing is available. Four new dormitory-type residential halls and some 50 houses have been constructed and, with the completion anticipated for this spring of an additional 57 houses, it is expected that all employees of the staff who wish to have their dependents in Korea will be able to do so. The construction of this housing and of the OEC club where many of the employees take their meals has been a tremendous boost to morale. The Economic Coordinator said that, with the completion of the employee housing program this spring, morale of ICA employees in Korea should be as good as that obtaining elsewhere in the Far East.

The OEC housing, while very comfortable and a great improvement over previous accommodations, is located either at the U.S. Army post at Seoul or in a separate compound nearby. This has advantages from the standpoint of security against theft (a very real problem in Korea) but has disadvantages as far as relations of the staff with the local population are concerned. Although members of the staff conceded this in conversation with the Team, only a handful, about 5, mainly those with Korean wives, have chosen to live "on the economy." The associations of the remainder with Koreans are limited and so is their knowledge of Korean culture and history, although OEC is seeking to improve this situation by organizing sightseeing tours and occasional lectures. As far as language study is concerned, a very small number of employees, amounting to 6 or 7, are currently studying Korean. Admittedly this is a difficult language which is useful only in this one country but it does appear that more effort could be made by members of the staff to study it. In view of the widespread use of English in Korea and the difficulty and limited usefulness of the Korean language, it is not the Team's suggestion that all members of OEC should attempt to become proficient in Korean. From the standpoint of relations with the Koreans, however, it would appear worthwhile for all members of the staff to be able to say a few words of Korean as well as to know something about Korea and its history.

At the time of the Team's arrival, the office quarters occupied by OEC were also in the army compound but the disadvantage of attempting to transact business with Korean officials in these

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circumstances caused the Economic Coordinator in November to move his office and those of his principal subordinates downtown into quarters where Koreans could be admitted without passing the scrutiny of MPs. The Team feels that this move, in spite of some discomforts that were caused, should prove distinctly advantageous from the point of view of improving relations between Koreans and Americans.

Integration

The question of the integration of OEC and the Economic Section of the Embassy does not arise at this time. Owing to the large size of the aid program in Korea and the consequent size of the aid mission, the Team does not see how any useful purpose could be served by merging OEC with the Embassy. The matter could hardly come up in any event until the question of a Country Team is settled (see below).

Contractors

Appendix F shows the contractors now operating in Korea, the fields in which they give services, and the amounts of the respective contracts. There has been extensive use of U.S. contractors in Korea, especially in some of the larger construction activities. There are likewise presently current two university contracts with Minnesota and Peabody. In January 1957, a contract was negotiated with an engineering concern called Smith, Hinchman & Grylls to render technical services to OEC in a variety of technical fields.

It is doubtful if the OEC program could be operated without the use of contractors. However, the effectiveness of the use of contractors varies. The University of Minnesota, for example, does not seem to function effectively as a part of the OEC organization, while Peabody College functions very well. The reason for Minnesota's failure to function as an effective part of OEC is, in all probability, historical. When the contract was originally signed, the Washington office of ICA gave assurance to a number of the land-grant colleges that they would be given substantial freedom of action in carrying out programs. In a number of areas throughout the world, situations of conflict developed between the regular ICA organization and the representatives of the land-grant colleges. In the case of Korea the representative of Minnesota did not clearly recognize his responsibility to the Education Division and his need of functioning as an integral part of this Division. The head of the Education Division confirmed that he has little association with the Minnesota group. It is not planned

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that the Minnesota contract will be renewed, inasmuch as the present program will be completed by the time the contract expires. It appears to the Team, however, that it would be desirable for OEC to make a study to determine if more effective organizational arrangements can be made with a view to further use of this contractor.

The new contract with Smith, Hinchman & Grylls fills a needed gap. In many individual fields it has not been possible to recruit technical personnel through U.S. Government channels. Thus, for example, no OEC personnel were competent to evaluate the facilities of the Pusan Iron Works. Smith, Hinchman & Grylls is undertaking such an evaluation and has been able to recruit the necessary personnel. The Team feels this type of contract, which will bring to the program technicians not otherwise available, is essential and likely to become more important as the industrialization program grows in importance.

As brought out earlier, the contractors for the thermal plants and for the Hwachon hydroelectric plant were not equally effective in training Koreans for operation of the several facilities for which they were responsible for construction.

In discussing the contract question with members of OEC, the Team was told that one serious deterrent to the operation of the program in Korea had been the delay in Washington negotiation and approval of contracts. The Team made an attempt to verify this assertion while in Seoul but the files of OEC were so incomplete that simple factual data as to when a request for a contract was made by the field and when it was finally approved by Washington could not be ascertained. On returning to Washington the Team pursued this matter with ICA/W and there is given below a table showing the information available from the Washington files on this subject.

<u>Name of Contract</u>	<u>Date of Receipt by ICA/W of PIO or PA</u>	<u>Date of Receipt by Contract Office</u>	<u>Date of Signature of the Contract</u>
McGraw-Hydrocarbon	6/15/54	not available	7/15/55
Minnesota	6/24/54 (issued)	not available	10/28/54
Morrison-Knudsen	6/10/54	not available	7/31/55
Utah Construction	2/25/57	12/28/56	5/24/57
Pacific Far East	4/25/55	3/28/56	6/ 6/57
Philco	4/25/56	not available	6/12/56
Smith, H. & G.	not available	7/18/56	1/18/57
Peabody	8/21/56 (issued)	not available	8/26/56

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In the case of two of these contracts (Minnesota and Peabody) the relevant PIO was issued in Washington rather than in the field, so the data appearing in the table are not really meaningful. In the remaining cases it will be observed that the lag between the receipt of the PIO or PA by Washington and the signature of the contract varies from a month and a half to over two years. Delays as long as two years are of course insupportable but a delay of a month and a half is certainly reasonable.

The Team has no general comment to make regarding the use of contractors in Korea. It believes this is an indispensable device for operating programs in Korea but its effectiveness can be determined only in specific cases.

Absence of Country Team

In Korea the organizational relationship of OEC with the Embassy and USIA, like many other things, is unique. There is no Country Team. The aid program is administered by an Economic Coordinator who, as explained above, is the principal representative in Korea of ICA but is responsible to the Commander in Chief, United Nations Command. The Economic Coordinator carries the rank of Minister and is appointed by the Director of ICA, subject to the approval of the Secretary of State, the Secretary of Defense and the UN Commander in Chief. The precise relationship between OEC and the Embassy is nowhere defined. Normal communications between OEC and ICA/W go through military channels, although clearance by the military authorities is not required for such messages. In addition, some messages of more than routine character, involving coordination with the Embassy in the field or the Department of State in Washington, are sent through the Department's channels.

At the time that OEC was set up, there was apparently considerable logic in placing this activity under the Commander in Chief in view of the state of suspended hostilities obtaining in Korea immediately after the armistice and in view of the fact that the Army was carrying out a number of activities in the field of relief and rehabilitation. Also it was an active theater of military operations and the best means of giving the necessary authority and facilities to the Economic Coordinator was to have him derive these from the top military commander, speaking as a staff officer in his name. With the passage of four and one-half years, however,

1/ See Appendix G for Presidential Directive of August 7, 1953 setting up OEC.

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it has been argued by a number of observers that the retention of the aid program under military control is no longer appropriate. There is still a state of suspended hostilities in Korea but it is difficult to argue that, as a practical fact, Korea is any more of a war zone, for example, than West Germany. The military authorities themselves have begun to recognize this in various ways, notably by permitting dependents of the MAAG personnel to reside in Korea.

It is the view of the Department of State, of ICA/W and of the Embassy that the time has come to normalize ICA-Embassy relationships in Korea and establish a Country Team. This subject is now being discussed in Washington and it is understood that the Pentagon, which has up to the present time resisted the establishment of a Country Team, will probably agree so long as the MAAGs in Korea are retained under military control. The precise division of responsibilities has still to be worked out. The Team feels that these proposed arrangements have merit but would emphasize that a point of more importance than the organizational arrangement is the fact that the present system is working remarkably well. The Ambassador, the Commanding General and the Economic Coordinator have evolved a most effective working basis. Contacts at lower levels also appear to be very good and there is satisfactory exchange of information. Some officials in discussing the matter, in fact, took the position that there already was a Country Team in spirit while others stated that they did not feel its absence. The Team therefore believes that the question of the nature of the organizational set-up is a secondary one.

Relations of OEC with Embassy

The Team found a good working relationship at all levels between personnel of OEC and the Embassy. In this regard it is evident that the example set by the Ambassador and the Economic Coordinator has been followed by the members of their respective staffs. The head of the Embassy's economic section devotes a great deal of his time to liaison with OEC and clearly has a good grasp of the objectives and the operating details of the aid program.

Relations with USIA

An unusual situation obtains in Korea whereby three members of the staff of USIA are permanently stationed in OEC headquarters in order principally to deal with problems having to do with information regarding the aid program. In addition, the head of USIA told the Team that approximately 20 per cent of the

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over-all work of his staff is devoted to the aid program. Relations between OEC and USIA appeared to be very good.

There appears to be adequate coordination between the ICA participants program and the Department of State's exchange-of-persons program which is administered by the Embassy. Regular meetings are held to discuss matters arising under the two programs and the Team was informed that there is no duplication or lack of liaison.

Relations with Private Organizations

The Team held interviews with both American businessmen and missionaries in Seoul. Both groups had a number of suggestions to make regarding the aid program and both seemed to feel, especially in the case of the U.S. businessmen, that they were not enjoying sufficiently close contacts with OEC. The businessmen were particularly critical of OEC, claiming that it was not supporting private American enterprise in Korea. Their chief complaint is against the system of bidding and insistence on the acceptance of lowest bids which does not always conform to the products which they represent. The Team is not impressed with the arguments advanced by the businessmen, who in any event appear to be primarily traders. It does not appear that this group has much to contribute in the way of constructive comment regarding the aid program, although OEC might find it worthwhile to consult some of the more knowledgeable of them from time to time.

As far as the American missionaries are concerned, they had some helpful comments to make with regard to some details, particularly the lack of close contact between OEC personnel and Koreans, the need for decentralization of the OEC organization, and the operation of the AFAK program.

From the foregoing it would seem that, while the relations of OEC with private interests (both American and Korean) are relatively slight, this fact is not of much importance at the present time in view of the particular circumstances prevailing in that country.

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CHAPTER V - ACCOMPLISHMENTS OF PROGRAM AND FUTURE PROSPECTS

In Chapter III of this report the Evaluation Team has attempted to describe the present program and to show how that program is coping with the basic economic problems of the country as outlined in Chapter II. The Team has also given, in Chapter III, its recommendations regarding specific aspects of the program and certain related problems. In the present chapter, after touching on the accomplishments of the program to date and on levels of aid, the Team will discuss Korea's future economic prospects in the light of certain specific proposals which have been put forward with a view to increasing the country's export potential.

Accomplishments of the Program

The initial and most fundamental accomplishment of the aid program in Korea has been the physical restoration of the war-torn country to an active, though not self-supporting, economy with little physical evidence of war damage. By the end of 1957 the rehabilitation job in Korea was essentially completed, with the major exception of housing reconstruction.

It seems to the Team that this accomplishment of the program in bringing virtually complete restoration to Korea in a period of four years is striking. Unquestionably, a few ill-advised activities were undertaken. Some of these have been mentioned elsewhere in this report, and are an inevitable consequence of a vigorous crash program to bring Korea physically back to normal. The Team feels that minor shortcomings should not be allowed to obscure a major accomplishment which assures the continuance of Korea as an integral part of the Free World.

Furthermore, the reconstruction of Korea and the maintenance of its economy as a going concern, albeit with substantial outside assistance, have had repercussions well beyond the U.S. fulfillment of its undertaking. The existence of the aid program, together with the U.S. military commitment to the UN Command in Korea, serves clear and unequivocal notice to the Communist world that the United States is in Korea and intends to remain there as long as need exists. It likewise is a clear demonstration to the world at large, and particularly the Far Eastern nations on the periphery of the Communist world, that the United States faces up to its commitments and to its moral obligations.

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Aid Levels

As brought out in Chapter III, the Evaluation Team feels that many fields of aid effort should as soon as possible operate with technical assistance funds only. The Team's recommendations are not based on saving money per se but on getting a maximum return from defense support funds in a direct contribution to the narrowing of the foreign exchange gap, especially over the next several years. This approach would seem to be logical not only in order to reduce future levels of aid but also, from the Korean point of view, to reduce financial dependence on the United States. Dependence on the United States in the long run, the Team believes, can become a serious barrier to the relationship between the two countries.

The aid level projected for fiscal year 1958 is probably adequate for meeting the major objectives because of the backlog of funds in the financial pipeline in the project sector of the program, which amounted to \$146.5 million as of June 30, 1957. ^{1/} However, increased appropriations in the project sector of the program may be indicated in the succeeding several years, especially for projects contributing to alleviation of the foreign exchange problem. Progress in these projects, assuming the availability of funds, should depend largely upon the ability of individual Korean enterprises to bring to such activities the necessary training and experience.

Mention has already been made of the projection prepared by OEC with a view to estimating the magnitude of Korea's foreign exchange deficit over the next few years. This projection shows a continuing net deficit, which by 1963 is estimated at \$117 million, representing the size of the saleables component (comprising non-project assistance and PL 480) in the aid program. The \$117 million would be over and above the provision of technical assistance and project assistance for economic development, estimated by OEC at a level of \$4 million and \$8 million, respectively, for fiscal year 1963.

When adequate statistics are available the projection of economic trends is at best an uncertain undertaking. In Korea, where statistics and factual data are limited, the projection of production of the entire Korean economy is an exercise of taxing proportions. In 1953-54 Mr. Robert R. Nathan attempted to project the trend of production in the Korean economy and concluded that,

^{1/} Office of Statistics and Reports, ICA/W.

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with a substantial aid program, foreign exchange earnings would approximate foreign exchange requirements in 1958. It was clear at the time of writing the present report that Mr. Nathan's forecast was several hundred million dollars per year in error, although a substantial aid program had been carried on.

The Team does not consider itself competent to make a precise projection of the rate of growth of the economy and feels that the OEC projection is probably as good as can be made. Whether the exchange gap will be \$100 million or \$200 million in 1963 is, in one sense, not important. What seems important to the Team is that there is substantial likelihood of Korea's not being able in 1963 and for some time in the future to earn its foreign exchange requirements, and the clear implication is that the U.S. will therefore have to continue its aid program indefinitely, or at least until there is a major change in the world situation.

Future Prospects

There are given below the comments of the Team with respect to certain estimates prepared by OEC in an attempt to forecast Korea's export position over the next few years. Some of these estimates are reflected in the 1959 program presentation of OEC and some were furnished separately to the Evaluation Team.

Rice

In the field of agriculture, the Team has examined the proposals of OEC for exporting rice and importing coarse grains to replace the rice. Specifically, these proposals call for gradually increasing imports of wheat and barley to some 500,000 tons annually by fiscal year 1963, at a cost of \$33.2 million, and for exporting 450,000 tons of rice by that time to earn a gross of \$63.6 million, or a net of \$30.4 million. The Team believes that this offers a feasible course of action for Korea to pursue but points out that the most likely market for Korean rice, Japan, may entail internal political repercussions, especially in view of the difficulty that was experienced when the Japanese forced a similar arrangement on the Korean public during the colonial period.

Marine Products

The Team has also examined the proposals of OEC for increasing Korean fisheries exports over the next three to five years to, say, \$14 or \$15 million per annum. This would be done by concentrating on high-priced items such as tuna and shrimp as well as seaweed and other marine products. These proposals appear to the

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Team to be feasible but it would add that the amount of foreign exchange which could be earned is relatively small and that there are certain remedial measures which the Korean Government should first take to assist the fishing industry, as explained in Chapter III.

Minerals

Although the Team believes that there are some prospects for expanding Korean exports of minerals, more information is required regarding Korea's basic mineral resources before the export potential can be accurately assessed. The Team has already suggested (page 72) that further exploration with respect to these resources be carried out in accordance with the existing plan of OEC. Tungsten and graphite might offer some possibilities but the immediate outlook is not hopeful because of depressed world prices. It may also be that Korea could export anthracite coal, possibly in exchange for bituminous coal or other products from Japan, provided the current survey being undertaken of Korea's coal reserves indicates that these are sufficient to permit export. Certainly immediate steps should be taken (as suggested in Chapter III) to ascertain if Korean anthracite coal can be used in locomotives to replace imported bituminous coal. The Team concludes that until additional information is available regarding all of the country's mineral resources, it is impossible to be more precise with regard to potential exports.

Industries

Considerable stress in this report has been laid on stimulating a program of industrial development. The Team believes, however, that there are few processed items that can be produced in Korea which can become competitive products for export. For the most part, Korea has few basic raw materials in sufficient quantity and quality to allow this development. The development of specialty items with large components of labor cost, which is the commonly suggested panacea for underemployed populations, would not seem promising in view of competition from such experienced countries as Japan and India, although certain limited products, such as ceramics and certain handicraft products, may be developed for export in the future. Meanwhile most of the industrial development should be oriented toward the local market. Special emphasis should be given to the production of products presently imported, especially to those items having relatively high labor cost components. Even though many such products may be dependent in part on the importation of some raw materials, encouragement should be given to their production when it is economically feasible and when there is a net saving in foreign exchange.

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Purchase of Goods and Services for Dollars

The Korean Government has been pressing for the privilege of selling all products and services to the United States for payment in dollars rather than in hwan. As a matter of world-wide policy the United States has insisted on payment for services and goods in local currency. In Korea this policy has been modified to allow payment for certain services in U.S. currency, especially for such public utility services as power and railway transportation. The payment for such services by the United States in dollars, rather than hwan, gives the ROK Government valuable, urgently needed foreign exchange. Furthermore, certain purchases, especially by the U.S. military, could be advantageously made in Korea from the point of view of cost. Notable among these would be uniforms and shoes for the Korean Army. However, there are certain manifest disadvantages to modification of a policy of local purchase for dollar currency. In the case of Korea, such a change would remove one of the principal incentives for the Koreans to reconsider their position of resistance to changing the exchange rate. While, as this report has attempted to show, any additional earnings of foreign exchange by Korea (and such dollar receipts would be very much a case in point) are of primary importance, there would be no automatic assurance that dollars so earned would be put to a use which would tend to reduce aid funds now being pumped into the economy. The incentive of selling goods and services to the armed forces by the private sector of the economy would, in part at least, be to obtain scarce dollars for use in profitable foreign trade.

On the other hand, Korea, largely through the unwillingness of its government to make its present exchange rate more realistic, is losing the opportunity of manufacturing and selling goods presently acquired by the U.S. Government elsewhere, as well as the opportunity of selling services which would earn foreign exchange. It seems to the Team that this dilemma can only be solved either by (a) insistence on a change in the exchange rate or, failing that, (b) sale of goods and services for dollars which would be subject to use by joint approval of the U.S. and the ROK Governments in order to assure their use for essential imports.

Conclusion

It should be clear that the goal of completely closing the dollar gap in the foreign exchange of Korea can be achieved only with outside assistance. Realistically, this assistance must come from the United States. If the recommendations contained in this report are followed, it is probable that there may eventually be a

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substantial reduction in the requirement for U.S. assistance. However, it is equally probable that some assistance will be needed as long as Korea remains a divided country, with the second largest army in the Free World, and as long as present world conditions obtain. The rapidly increasing population in an area the size of Indiana, with the number of farmers equal to those of the United States east of the Mississippi, will tend to accentuate and complicate an already difficult problem.

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APPENDIX A

Military Strength in Korea^{1/}

United Nations Command Forces

Ground Forces

Republic of Korea	660,000 ^{2/}
United States	60,000
Other UN	5,900 ^{3/}
TOTAL	725,900

Air Forces

Republic of Korea	225 aircraft, including 84 jets, 16,325 men.
United States	1 fighter-bomber wing with 27 squadrons.

Navy

Republic of Korea	71 ships, including 62 combat types, 17,000 men.
United States	U.S. naval forces in the Western Pacific are available for deployment to Korea if needed.

Communist Forces

Ground Forces

North Korean	350,000
Chinese Communist	290,000 (Large numbers of Chinese troops are also available in nearby areas for rapid introduction into Korea.)
TOTAL	640,000

Air Force

North Korean	750 aircraft including at least 455 jets, 17,000-20,000 men. At least 40 airfields, 626 aircraft within immediate supporting distance including 596 jets.
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Navy

North Korean	About 100 small craft; 6-12 PT boats and other small armed craft 7,000 men
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^{1/} Source: Department of State.

^{2/} Includes 25,000 marines.

^{3/} Includes 5,400 Turks and 270 Thais; remainder in British, French, Greek and Ethiopian liaison detachments.

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APPENDIX B

BALANCE OF PAYMENTS^{1/}

(In millions of dollars)

	<u>Calendar Year</u>			
	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957 (est.)</u>
Exports (FOB)	24.0	17.6	25.2	23.0
Imports (CIF)	-248.0	-338.9	-378.2	-447.5
Trade balance	-224.0	-321.3	-353.0	-424.5
Non-monetary gold movements		0.1	0.1	0.1
Foreign travel	-1.0	-1.3	-0.9	-0.5
Transportation & insurance		0.8	1.0	1.2
Investment income	1.0	1.2	1.1	1.2
Gov't, not included elsewhere	31.0	36.7	28.4	32.0
Other services & remittances	15.0	3.0	4.1	3.0
Balance on goods and services	-173.0	-280.8	-319.2	-387.5
<u>Grants</u>				
MSP	82.0	205.9	271.1	317.0
PL 480 - Title I			6.0	50.0
PL 480 - Titles II & III		12.0	14.0	14.0
GRIK and U.S. Army	36.0	19.9		
UNKRA	15.0	29.4	21.5	20.0
Total grants	133.0	267.2	312.6	401.0

1/ From OEC FY 1959 Program Submission, Oct. 8, 1957

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APPENDIX C-1

FISCAL YEARS 1958 AND 1959: PROJECTS FUNDED FROM DEFENSE SUPPORT AND TECHNICAL COOPERATION FUNDS

(In Thousands of Dollars)

Proj. No.	Project Title	Source of Funds	FY 1957 and Prior		FY 1958		FY 1959		FY 1960 & Subsequent		Total		
			Dollar	Loc. Currency In \$ Equiv.	Dollar	Loc. Currency In \$ Equiv.	Dollar	Loc. Currency In \$ Equiv.	Dollar	Loc. Currency In \$ Equiv.	Dollar	Loc. Currency In \$ Equiv.	Total
206	Agricultural Research and Extension Development	TC	393.4	-	275	-	406	-	1,600	-	3,874.4	-	-
209		DS	1,403.4	-	950	-	-	-	-	-	1,333.4	-	-
		TOTAL	1,796.8	210	1,205	1,606.3	406	25.8	1,600	1,500	5,007.8	3,342.1	8,349.9
217	Land and Water Use	TC	246.3	-	162	-	189	-	760	-	1,377.3	-	-
		DS	731.5	-	-	-	1,900	-	4,750	-	7,361.5	-	-
		TOTAL	977.8	391.5	162	2,565	2,089	5,600	5,510	14,100	8,738.8	22,656.5	31,395.3
214	Livestock Improvement	TC	-	-	53	-	70	-	280	-	403	-	-
		DS	324.4	-	-	-	-	-	-	-	324.4	-	-
		TOTAL	324.4	129	53	94.5	70	25	280	75	727.4	323.5	1,080.9
215	Crop Soil Improvement	TC	187.6	-	58	-	70	-	280	-	595.6	-	-
		DS	-	-	600	-	600	-	1,300	-	2,500	-	-
		TOTAL	187.6	-	658	50	670	540	1,580	1,130	3,095.6	1,720	4,815.6
431	Crop Disease, Insect Control	TC	61.4	-	58	-	70	-	280	-	429.4	-	-
		DS	-	-	220	-	220	-	-	-	440	-	-
		TOTAL	61.4	-	278	50	290	125	280	75	929.4	250	1,179.4
439	Agricultural Co-operatives and Rural Credit Development	TC	-	-	88	-	88	-	340	-	516	-	-
		DS	654.3	-	-	-	-	-	-	-	654.3	-	-
		TOTAL	654.3	-	88	4,000	88	50	340	175	1,170.3	4,225	5,395.3
281	Fisheries Development	TC	-	-	58	-	227	-	900	-	1,185	-	-
		DS	3,313.7	-	61	-	280	-	900	-	4,574.7	-	-
		TOTAL	3,313.7	-	139	715.5	507	625	1,800	1,900	5,759.7	3,240.5	9,000.2
455	Small Industries Development	TC	-	-	25	-	-	-	-	-	25	-	-
		DS	1,500	-	2,000	-	2,000	-	5,500	-	11,000	-	-
		TOTAL	1,500	-	2,025	900	2,000	225	5,500	2,375	11,025	3,500	14,525
459	Medium Industry Development	TC	-	-	96	-	-	-	-	-	96	-	-
		DS	13,400	-	-	-	2,780	-	2,000	-	18,180	-	-
		TOTAL	13,400	-	96	1,049.6	2,780	2,000	2,000	500	18,276	3,549.6	21,825.6

Source of Data: FY 1957 and Prior - Dollar Obligations from "Program Status Report" (July 1957).
 Local Currency Counterpart funds released as of June 30, 1957 from "Counterpart Requirements of ICA Financed Projects - U.S. FY 1954-FY 1957".
 FY 1958 Estimates and FY 1959 Estimates: Dollar - From FY 1959 Program Budget Submission dated October 8, 1957. Local currency estimated requirements from "Counterpart Requirements of ICA Financed Projects, etc. FY 1960 and Subsequent Estimates - Dollar and Dollar Equivalent - from GEC Long Range Plan.

NOTE: Local currency releases and estimates expressed in dollar equivalents computed on 1,000 Hwan: \$1 Exchange Rate.

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FISCAL YEARS 1958 AND 1959: PROJECTS FUNDED FROM DEFENSE SUPPORT AND TECHNICAL COOPERATION FUNDS

(In Thousands of Dollars)

Proj. No.	Project Title	Source of Funds	FY 1957 and Prior		FY 1958		FY 1959		FY 1960 & Subsequent		Total		
			Dollar	Loc. Currency In \$ Equiv.	Dollar	Loc. Currency In \$ Equiv.	Dollar	Loc. Currency In \$ Equiv.	Dollar	Loc. Currency In \$ Equiv.	Dollar	Loc. Currency In \$ Equiv.	Total
278/9	404/6 Highway and Bridge Construction	TC	-	-	278	-	52	-	100	-	430	-	-
		DS	7,636	-	750	-	2,000	-	6,500	-	16,936	-	-
		TOTAL	7,636	2,545.7	1,028	3,293	2,052	1,007	6,600	4,250	17,366	11,095	28,461.7
240	KMR Support	TC	-	-	20	-	14	-	60	-	94	-	-
		DS	75,653.4	-	145	-	165	-	660	-	76,623.4	-	-
		TOTAL	75,653.4	-	165	-	179	-	720	-	76,717.4	-	76,717.4
257	CAA Operation Improvement	TC	145.1	-	85	-	65	-	672	-	965.1	-	-
		DS	132.4	-	100	-	200	-	400	-	832.4	-	-
		TOTAL	277.5	74.5	185	106	263	100	1,072	180	1,797.5	460.5	2,258
451	Disease Control	TC	-	-	71	-	116	-	522	-	709	-	-
		DS	1,254	-	650	-	400	-	900	-	3,204	-	-
		TOTAL	1,254	-	721	60	516	15	1,422	45	3,913	118	4,031
249	Water Works Rehabilitation	TC	-	-	51	-	15	-	36	-	80	-	-
		DS	2,865.1	-	650	-	400	-	2,750	-	6,665.1	-	-
		TOTAL	2,865.1	2,254.4	681	1,073	413	795.7	2,786	1,376	6,745.1	5,498.1	12,243.2
405	City Drainage Improvement	TC	-	-	13	-	7	-	18	-	38	-	-
		DS	1,685	-	250	-	200	-	1,500	-	3,635	-	-
		TOTAL	1,685	2,325	263	1,095	207	714	1,518	750	3,673	4,884	8,557
251	Construction of Walls and Sanitation Facilities	TC	-	-	20	-	30	-	365	-	415	-	-
		DS	1,209.4	-	500	-	900	-	240	-	2,449.4	-	-
		TOTAL	1,209.4	238	520	234.8	530	100	605	50	2,864.4	622.8	3,487.2
255	Vocational Education	TC	856.6	-	413	-	310	-	1,193	-	2,772.6	-	-
		DS	800	-	500	-	500	-	1,000	-	2,800	-	-
		TOTAL	1,656.6	80	913	196.8	810	100	2,193	200	5,572.6	576.8	6,149.4
260	Improvement of Teacher Training	TC	978.4	-	293	-	570	-	1,661	-	3,502.4	-	-
		DS	500	-	849	-	500	-	1,400	-	3,249	-	-
		TOTAL	1,478.4	22	1,142	281	1,070	103.5	3,061	1,775	6,751.4	2,181.5	8,932.9

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FISCAL YEARS 1958 AND 1959: PROJECTS FUNDED FROM DEFENSE SUPPORT AND TECHNICAL COOPERATION FUNDS

(In Thousands of Dollars)

Proj. No	Source of Funds	FY 1957 and Prior		FY 1958		FY 1959		FY 1960 & Subsequent		Total			
		Dollar	Loc. Currency In \$ Equiv.	Dollar	Loc. Currency In \$ Equiv.	Dollar	Loc. Currency In \$ Equiv.	Dollar	Loc. Currency In \$ Equiv.	Dollar	Loc. Currency In \$ Equiv.	Total	
271	Improvement of Government Fiscal Management	TC	274.7	-	252	-	328	-	1,070	-	1,924.7	-	-
		DS	-	-	200	-	-	-	150	-	350	-	-
		TOTAL	274.7	-	452	4.6	328	12	1,220	1	2,274.7	17.6	2,292.3
270	Resettlement and Assimilation	TC	-	-	18	-	20	-	20	-	58	-	-
		DS	1,328.5	-	240	-	-	-	-	-	1,568.5	-	-
		TOTAL	1,328.5	81.6	258	1,405	20	50	20	50	1,626.5	1,586.6	3,213.1
446	Home Cottage Industry Development	TC	-	-	46	-	60	-	582	-	688	-	-
		DS	500	-	240	-	252	-	475	-	1,467	-	-
		TOTAL	500	-	286	109	312	50	1,057	-	2,155	159	2,314
469	Com. Development - Pilot Project	TC	-	-	194	-	170	-	500	-	864	-	-
		DS	-	-	95	-	47	-	40	-	182	-	-
		TOTAL	-	-	289	155	217	123	540	505	1,046	783	1,829
407	Welfare Institution Rehabilitation	TC	-	-	62	-	120	-	402	-	584	-	-
		DS	155	-	-	-	28	-	30	-	211	-	-
		TOTAL	155	-	62	51	148	147.5	432	305	795	483.5	1,278.5
449	Housing Research and Development	TC	-	-	57	-	75	-	300	-	432	-	-
		DS	50.8	-	75	-	75	-	125	-	325.8	-	-
		TOTAL	50.8	25	132	25	150	50	425	63	757.8	163	920.8
261	Port and Harbor Rehabilitation	TC	181.4	-	-	-	-	-	-	-	181.4	-	-
		DS	1,389.8	-	137	-	300	-	950	-	2,756.8	-	-
		TOTAL	1,571.2	895.3	137	3,991.8	300	2,000	950	300	2,938.2	15,224.8	18,163
-	Higher Education	TC	-	-	-	-	-	-	337	-	337	-	-
		DS	-	-	-	-	300	-	800	-	1,100	-	-
		TOTAL	-	-	-	-	300	250	1,137	750	1,437	1,000	2,437
-	Secondary Education	TC	-	-	-	-	-	-	348	-	348	-	-
		DS	-	-	-	-	200	-	650	-	850	-	-
		TOTAL	-	-	-	-	200	200	998	650	1,198	850	2,048
		TC	\$ 22,784.9										
		DS	171,573.7										
		GRAND TOTAL	194,358.6										

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FISCAL YEARS 1958 AND 1959: PROJECTS FUNDED SOLELY FROM DEFENSE SUPPORT FUNDS

(In Thousands of Dollars)

Proj. No.	Project Title	FY 1957 and Prior		FY 1958		FY 1959		FY 1960 & Subsequent		Total		Total
		Dollar	Loc. Currency In \$ Equiv.	Dollar	Loc. Currency In \$ Equiv.	Dollar	Loc. Currency In \$ Equiv.	Dollar	Loc. Currency In \$ Equiv.	Dollar	Loc. Currency In \$ Equiv.	
211	Irrigation Development	3,356.9	9,228.6	500	8,787.6	-	-	-	-	5,856.9	18,016.2	23,873.1
-	Coal	-	-	75	24	2,000	900	5,050	1,650	7,125	2,574	9,699
-	Other Manufacturing	-	-	100	19	2,000	250	2,900	750	5,000	1,019	6,019
220	Rehabilitation Tung Wal	2,283	-	600	1,734	500	301	-	-	3,383	2,035	5,418
221	Rehabilitation Transmission	2,841.5	-	700	100	-	490	1,800	162	5,341.5	752	6,093.5
222	Rehabilitation of Ch'angp'yong Dam and Hydro Plant	2,000	-	200	210	-	190	-	-	2,200	400	2,600
336	Electric Power Distribution System	1,500	-	300	70	1,000	25	400	55	3,200	150	3,350
-	Fertilizer Plant Tie In	-	-	100	25	-	-	-	-	100	25	125
-	Thermal Plant	-	-	2,000	25	6,000	250	-	-	8,000	275	8,275
-	Hydro Gen. Plant	-	-	-	-	8,000	1,250	22,000	2,000	30,000	3,250	33,250
131/2	Fertilizer Plant Construction	21,126.5	2,000	5,000	1,178.5	-	-	-	-	26,126.5	3,178.5	29,305
414	Fertilizer Plant Management	1,000	-	-	.5	1,000	75	3,000	150	5,000	225.5	5,225.5
-	End Fertilizer Plant	-	-	-	-	9,000	300	21,000	1,250	30,000	1,750	31,750
273/325	Diesel Locomotives	14,380	-	4,000	24	3,000	5	1,600	2.5	22,980	31.5	23,011.5
-	Fertilizer Plant Line	-	-	1,555	-	-	-	-	1,500	1,555	1,500	3,055
233	Tank Cars	4,320.5	34.4	500	24	-	10	-	-	4,820.5	88.4	4,908.9
429	Inchon Port Rehabilitation	997.3	-	863	412	-	-	-	-	1,860.3	412	2,272.3
-	Ulsan Port Unloading	-	-	300	100	-	-	-	-	300	100	400
252	Public Health Facility Improvement	1,323.3	121.3	600	250	100	75	200	9.5	2,223.3	455.8	2,679.1
433	Police Hospital Improvement	25	-	20	1.5	20	-	40	-	105	1.5	106.5
259	Improvement to SNU Operating Facilities	8,708	1,047.3	500	842.8	-	287.5	-	-	9,208	2,177.6	11,385.6
263	Classroom Construction	2,135.2	417.8	500	231.8	-	-	-	-	2,635.2	649.6	3,284.8
421	National Police Modern	843.2	-	1,130	-	980	1.9	3,000	4	5,953.2	5.9	5,959.1
411	Transportation Charges (Vol. Agencies)	2,200	615.5	1,000	884.5	700	600	2,500	2,000	6,400	4,100	10,500
457	Milk Feeding Support	111	-	111	239.5	-	-	-	-	222	239.5	461.5
448	Housing Construction Materials	2,055.6	-	2,084	1,560	1,500	2,000	5,000	3,750	10,639.6	7,310	17,949.6
-	Development Dam Bldg. Materials Plant	-	-	-	-	400	100	800	150	1,200	250	1,450
-	APAK	4,000	-	1,500	-	1,000	-	4,000	-	10,500	-	10,500
	TOTAL	77,207	13,484.9	24,238	16,743.7	37,200	7,310.4	73,290	13,433	211,935	50,972	262,907

Sources of Data: FY 1957 and Prior - Dollar Obligations from "Program Status Report" (July 1957).
 Local Currency Counterpart funds released as of June 30, 1957 from "Counterpart Requirements of ICA Financed Projects - U.S. FY 1954-FY 1957".
 FY 1958 Estimates and FY 1959 Estimates: Dollar - From FY 1959 Program Budget Submission dated October 8, 1957. Local currency estimated requirements from "Counterpart Requirements of ICA Financed Projects, etc." FY 1960 and Subsequent Estimates - Dollar and Dollar Equivalent - from OEC Long Range Plan.

NOTE: Local currency releases and estimates expressed in dollar equivalents computed on 1,000 Hwan: \$1 Exchange Rate.

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APPENDIX C-3

FISCAL YEARS 1958 AND 1959: PROJECTS FUNDED SOLELY FROM TECHNICAL COOPERATION FUNDS

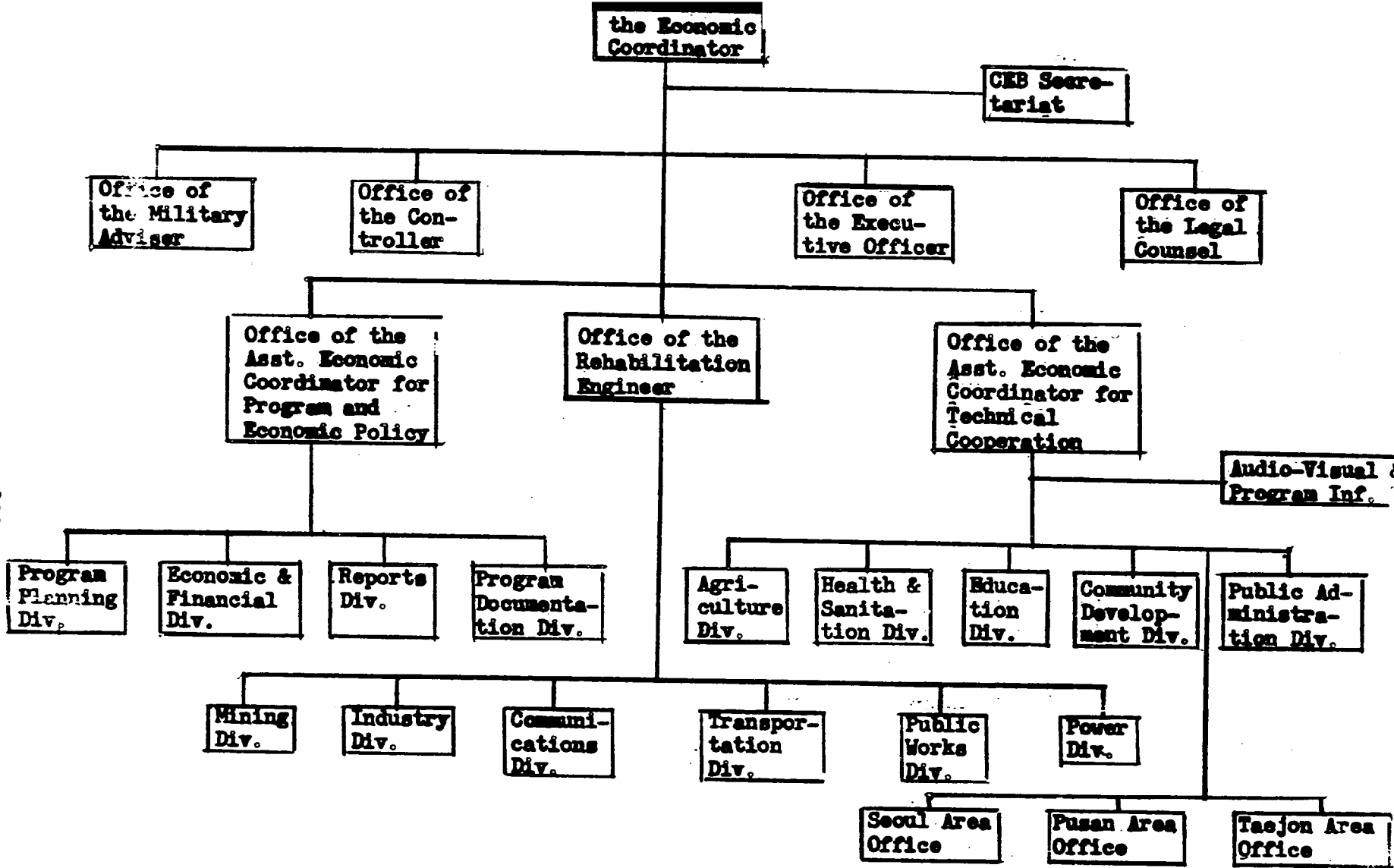
(In Thousands of Dollars)

Proj. No.	Project Title	FY 1957 and Prior		FY 1958		FY 1959		FY 1960 & Subsequent		Total		Total
		Dollar	Loc. Currency In \$ Equiv.	Dollar	Loc. Currency In \$ Equiv.	Dollar	Loc. Currency In \$ Equiv.	Dollar	Loc. Currency In \$ Equiv.	Dollar	Loc. Currency In \$ Equiv.	
428	Agricultural Statistics Improvement	90.1	-	13	25	35	12.5	35	12.5	175.1	50	225.1
424	Agricultural Engineering Development	-	-	20	19	35	12.5	80	35	135	66.5	901.5
-	Mining and Geological Training	-	-	78	-	76	2.5	280	25	434	27.5	461.5
206	Communications Technical Improvement	708	-	155	18	346	6.5	750	36	1,953	60.5	2,013.5
230	Power System Operation Improvement	254	-	223	-	205	-	550	-	1,211	-	1,211
-	Industrial Development Center	-	-	364	20	380	12.5	1,920	175	2,694	207.5	2,901.5
295	Korean Handicraft	248	-	-	15.7	124	4	375	12	747	31.7	778.7
285	Marine Transportation Improvement	59.5	-	20	-	20	-	80	-	159.5	-	159.5
436	SWU Dental College Improvement	180	-	26	4.5	26	-	78	-	280	4.5	284.5
430	Nursing Education	14	-	193	6.5	178	6.5	535	16.5	920	29.5	949.5
-	Health Education	-	-	-	-	80	1	100	1.5	180	2.5	182.5
-	Technical Assistance in Public Admin.	-	-	-	-	165	-	435	4	600	4	604
-	Long Range Economic Coun.	-	-	125	-	-	-	-	-	125	-	125
413	Improvement Government Management and Personnel Administration	131	3	133	5.1	168	-	750	-	1,182	8.1	1,190.1
480	Public Administration Survey	100	2	-	7	50	6	100	3	250	18	268
438	Improvement of Technical Information Services	497.4	-	91	129	328	20	568	23	1,482.4	172	1,654.4
-	Dem. Audio-Visual	-	-	98	3	82	3	89	3	269	9	278
282	Engineering Advisory Services (SEAC)	-	-	500	67	559	62	3,000	300	4,050	429	4,479
	TOTAL	<u>2,202</u>	<u>5</u>	<u>2,058</u>	<u>312.8</u>	<u>2,846</u>	<u>149.0</u>	<u>2,705</u>	<u>646.5</u>	<u>16,845</u>	<u>1,180.3</u>	<u>17,965.3</u>

Source of Data: FY 1957 and Prior - Dollar Obligations from "Program Status Report" (July 1957).
 Local Currency Counterpart funds released as of June 30, 1957 from "Counterpart Requirements of ICA Financed Projects - U.S. FY 1954-FY 1957".
 FY 1958 Estimates and FY 1959 Estimates: Dollar - From FY 1959 Program Budget Submission dated October 8, 1957. Local currency estimated requirements from "Counterpart Requirements of ICA Financed Projects, etc. FY 1960 and Subsequent Estimates - Dollar and Dollar Equivalent - from OSU Long Range Plan.

NOTE: Local currency releases and estimates expressed in dollar equivalents computed on 1,000 Hwan: \$1 Exchange Rate.

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APPENDIX D

November, 1957

APPENDIX E

AMERICAN POSITIONS IN FISCAL YEAR 1958 OEC STAFFING PATTERN

(Excludes Contract Personnel)

Administrative Funds

76

Office of the Economic Coordinator	4
Legal Adviser	2
Executive Office	24
Assistant Economic Coordinator for Program	19
Controller	27

Program Funds

273

CEB Secretariat	4
Executive Office	8
Assistant Economic Coordinator for Program	15
Office of the Rehabilitation Engineer	9
Power Division	10
Communications Division	4
Public Works Division	11
Industrial Development Division	13
Mining Division	4
Transportation Division	49
Assistant Economic Coordinator for Technical Assistance	3
Training Division	4
Communications Media Division	8
Public Administration Division	23
Education Division	16
Public Health Division	15
Community Development Division	19
Agriculture Division	52
Area Offices	6

Total:

349

APPENDIX F

MAJOR CONTRACTORS IN KOREA

(in effect during Team visit)

- | | | |
|----|--|---------------|
| 1. | <u>McGraw-Hydrocarbon</u> | \$ 30,550,000 |
| | Sub-contracts: Texaco Development Co.
Vulcan Copper and Supply Co. | |
| | Construction of urea fertilizer plant | |
| 2. | <u>University of Minnesota</u> | 4,105,600 |
| | Teacher training of Seoul University
faculty members in fields of agriculture,
engineering, medicine, law and public
administration | |
| 3. | <u>Morrison Knudsen Company</u> | 8,979,600 |
| | Rehabilitation of Hwachon Dam | |
| 4. | <u>Utah Construction Company</u> | 190,000 |
| | Test drilling of the Hambaek coalfield | |
| 5. | <u>Pacific Far East Lines</u> | 190,000 |
| | Maritime training | |
| 6. | <u>Philco Corporation</u> | 300,000 |
| | Rehabilitation and development of
communications system | |
| 7. | <u>Smith, Hinchman & Grylls</u> | 3,500,000 |
| | Engineering surveys and studies | |
| 8. | <u>George Peabody College for Teachers</u> | 176,000 |
| | Teacher training in education | |

APPENDIX G

MEMORANDUM ON THE UNITED STATES ORGANIZATION FOR ECONOMIC AID
ACTIVITIES IN KOREA

August 7, 1953.

1. The development and supervision in the field of an integrated program of economic aid as a basis for Korean relief, rehabilitation, and stabilization is a responsibility of the Commander-in-Chief of the United Nations Command (CINCUNC) until such date as the Unified Command may determine. During this period, CINCUNC will be responsible for the coordination of military activities with the economic aid operations of the United States Government in Korea, those of the United Nations Korean Reconstruction Agency, and donations from voluntary agencies, and he will, in turn, assure the coordination of the foregoing activities with the activities of the Government of the Republic of Korea pursuant to existing or future agreements. (It is understood that during this period a significant portion of the program will be provided through the utilization of services and facilities of United States military units.) With reference to UNKRA, the supervision or coordination referred to above and in 4(a) below shall be consistent with any agreement or understanding between the Agent General of UNKRA and the Unified Command.

2. An Economic Coordinator will be established on the staff of CINCUNC in Korea, as his senior economic staff member.

3. The Economic Coordinator, who will carry the personal rank of Minister, will be appointed by the Director of the Foreign Operations Administration, subject to the approval of the Secretary of State, the Secretary of Defense, and CINCUNC. The salary of the Economic Coordinator will be paid by the Foreign Operations Administration.

4. In the execution of his responsibility, CINCUNC will look to the Economic Coordinator as his economic advisor, and will delegate to the Economic Coordinator functions including but not limited to the following:

a. Development and supervision of integrated programs of relief, rehabilitation, and stabilization, and coordination between military and civilian assistance programs.

b. Representation of CINCUNC on international or joint bodies dealing with Korean economic matters.

c. Representation of CINCUNC in consultations and negotiations with UNKRA and other appropriate United Nations bodies.

d. Representation of CINCUNC and, as may be agreed, the UNKRA in consultations and negotiations with the Republic of Korea on economic matters.

e. Development of United States proposals for economic stabilization, including those which may be necessary conditions to the provision of expanded United States aid to Korea.

f. Collaboration with the Republic of Korea in the implementation of agreed stabilization measures.

g. Development and negotiation of policies for controlling the use of local currency in all aid programs, including priorities and allocations of such currency for the various projects and operating agencies, and the sale of local currency -- generating commodities.

h. Development, jointly with appropriate military staffs, of an agreed allocation plan for the use of available transport facilities.

i. Coordination of the procurement channels and delivery schedules for the various commodities and projects. (It is understood that all procurement, funds allocation and expenditure, project and contractual methods inherent in appropriations language or procedures of the various United States and international agencies will apply as prescribed.)

j. Development of policies for the payment of all United States and United Nations local employees, and for any non-monetary assistance given them.

5. The Foreign Operations Administration is designated as the agency of principal interest within the Unified Command for Korean relief, rehabilitation and stabilization, and is assigned the development and direction in Washington of Korean relief, rehabilitation, and stabilization policy and programs, subject to the responsibilities of other departments and agencies as set forth in the President's letter of June 1, 1953. Consistent with paragraph 6, below, FOA also will operate FOA-financed activities under its current instrumentalities and procedures.

6. The Economic Coordinator will be the representative of the Foreign Operations Administration for projects undertaken by that agency in Korea. He will have: (1) the legal responsibility of assuring performance of operations in accordance with the provisions of the Mutual Security Act; and (2) authority to make administrative determinations normally required by FOA of its field representatives.

7. The Foreign Operations Administration will have communications with the Economic Coordinator, using Unified Command channels, except that CINCUNC may comment on any such message.

8. The responsibilities of the Secretary of State and the Director of the Foreign Operations Administration regarding UNKRA and its assistance program shall be those set forth in sections 2 and 4 (c) of Executive Order No. 10458, of June 1, 1953, as amended.

9. The Economic Coordinator, in carrying out his responsibilities, shall have full authority to deploy Foreign Operations Administration and Department of Defense staff, and persons made available by UNKRA, in a manner designed to avoid duplication in the planning or operation of economic assistance programs.

APPROVED:

Department of State	/s/ John Foster Dulles
Department of the Treasury	/s/ G. M. Humphrey
Department of Defense	/s/ C. E. Wilson
Foreign Operations Administration	/s/ Harold E. Stassen

APPROVED:

/s/ D. E. (August 7, 1953)

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MEMORANDUM

To: Mr. J. H. Smith, Jr.
Director

Date: May 7, 1958

From: C. Tyler Wood, AD/E

Subject: Korea Evaluation Report

Dr. D. A. FitzGerald, Mr. John Ohly, Mr. William FitzGerald, Mr. Edwin Arnold, and Dr. Raymond Moyer, after a quick review, have indicated they see no objection to further distribution of the Korea Evaluation Report within ICA, to a few people in State and to the ICA Mission Director. I recommend that the following additional distribution now be made:

- Mr. Edwin Arnold 4 copies
- Mr. William FitzGerald 3 copies
- Mr. Walter Schaefer 1 copy
- Dr. Raymond Moyer 2 copies
- ICA Mission Director 3 copies (to be sent by Dr. Moyer)

I suggest postponing the distribution of copies of the report to State until Dr. FitzGerald and I have had an opportunity to talk with you about discussing the changes in distribution with Mr. Dillon.

This limited distribution of the report will of necessity change the character of the review to be undertaken by the Regional Director in the preparation of a Plan of Action for your consideration. I suggest that this Plan of Action be developed without consultation except, where necessary, on an informal basis with the Departments of State and Defense and that the Plan of Action recommend to you the necessary steps for the agency to take regarding either State or Defense in order that it may be put into effect. The Regional Director will need comments from the field in order to develop a Plan of Action and I suggest that he request our Mission Chief to submit his comments and seek such advice as seems desirable from the Ambassador, the MAAG and USIS but that no attempt be made to develop a formal Country Team position at this time. The Plan of Action would be developed in the first instance as an ICA working paper. Following its submission to you, such formal interagency consultation as is necessary either in Washington or in the field should be undertaken. This method of handling the Evaluation Reports is in accordance with my understanding of the conclusions reached at the recent meeting on the subject.

Attached is a proposed memorandum for your signature which contains instructions to the Regional Director on the subject of the review he will be required to make.

I attach a copy of the report.

Attachments

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FOR: MOYER

REFERENCE KOREAN EVALUATION REPORT RECEIVED TODAY.
SUGGEST E. C. BRYANT, ASST. ECONOMIC COORDINATOR TECHNICAL
COOPERATION, NOW IN WASHINGTON FOR CONSULTATION, GIVEN OPPORTUNITY
MAKE VERBAL COMMENTS ON PART OF REPORT COVERING T/C ACTIVITIES.
BRYANT TO AIRGRAM SUCH COMMENTS TO OEC FOR INCORPORATION IN OVER-
ALL REPORT TO BE SENT IN TIME REACH WASHINGTON PRIOR JULY 1.

WARNE

PK/22

OTHER AGENCY

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MEMORANDUM

To: Dr. Raymond T. Moyer
Regional Director, O/FE

Date: MAY 9 1958

From: J. H. Smith, Jr.
Director

Subject: Korea Evaluation Report

I have authorized a second, but limited, distribution of the Korea Evaluation Report. A list of those to whom copies of this Report have been sent is attached to this memorandum. The Report is not being made available to the Department of State until I have had an opportunity to talk with Mr. Dillon about the changes in distribution.

I would like you now to undertake a review of the ICA program in Korea in the light of the conclusions and recommendations of this Report but not limiting yourself only to what is presented in the Report.

The Plan of Action which you will develop as a result of your review should set forth the policies and principles which, in your judgment, should govern the conduct of our operation in Korea and provide the bases for programming and administrative action. This Plan of Action should be presented to me not later than August 8, 1958.

Your review should be regarded as an agency, and not as an inter-agency, undertaking. You should enlist the help of other elements in ICA/W and of our USOM in this task. The Plan of Action should be developed as an ICA paper and, along with the recommendations which you propose regarding matters lying wholly within the province of ICA, it should contain recommendations as to what this agency ought to do regarding those matters which require our consultation with or action on the part of State and Defense, or of any other U. S. Government agency. In this Plan of Action you should treat in detail only of those things which require action beyond your province or that of the Mission Director, though you may wish to record in it the actions which have been taken in your office or in the field to improve the Korea program during the course of the review. Copies of the Report should be sent to the Mission Director so that he may participate in the review. You should instruct him that this review is an internal matter and that, though he may want to consult with the Ambassador and other U. S. officials in the country, he is not requested to develop an official Country Team position.

Copies of the Report will be sent in due course to the Ambassador from State.

I am aware that this memorandum is not in accord with the provisions of Manual Order 311.1 which sets forth the procedures for the conduct of the Regional Director's review. I believe it is important at this time to depart

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- 2 -

from the provisions of that Order. The Manual Order will be revised in the light of our experience in conducting the present series of Regional Directors' Reviews.

If additional copies of the Report are needed for your review, they should be requested through my office.

Attachment

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TOTAL DISTRIBUTION OF KOREA EVALUATION REPORT

Mr. J. H. Smith, Jr.	1 copy
Dr. D. A. FitzGerald	1 copy
Mr. John H. Ohly	1 copy
Mr. William FitzGerald	4 copies
Mr. Leonard Saccio	1 copy
Mr. Edwin H. Arnold	5 copies
Dr. Raymond T. Moyer	3 copies
Mr. Walter Schaefer	1 copy
The Mission	3 copies

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Dr FitzGerald, DD/10
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Reg
July 16, 1958

Mr. Justin Williams, Korea

John Alexander, DD/O

Korea Evaluation Report

A completed draft of the Regional Director's response to the Report is hereby submitted. Dr. Chawner has gone over it and approves the substance. The few changes he suggested were of a stylistic nature.

A copy of this memo, (but not the draft) is also being sent to Dr. Moyer so that he may have some indication of where we stand.

You will notice that this draft is rather brief compared to past responses. I believe this is necessary if we are to conform to Mr. Smith's instruction not to treat in detail matters which fall within the province of the Regional Director and/or USOK. Moreover, I would recommend, in reviewing and revising this draft, that we avoid the temptation to settle in detail program matters which would ordinarily be decided as a matter of routine communication between ICA/W and OEC.

CC: Dr. Moyer, O/FE
Dr. FitzGerald, DD/O
Mr. Nathan, KOREA

JAlexander:pan/7/16/58

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MEMORANDUM TO:

J. H. Smith, Jr.

SUBJECT:

Korea Evaluation Report

Attached is the response to the evaluation of the Korea program, together with a brief memorandum from the Regional Director in which I concur. Like the Lees response, it requires no action on your part and unless you advise to the contrary, the Regional Director will proceed with the Plan of Action indicated.

cc: Mr. Wood
Mr. Moyer

GMN:pt:DD/O
10/7/58

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Dr. FitzGerald

Mr. J. H. Smith, Jr., Director

September 12, 1958

THRU : Dr. D. A. FitzGerald, DD/O
Raymond T. Moyer, O/FE

Review of the Korea Evaluation Report

Enclosed is my review of the "Evaluation of Korea Program", April 15, 1958, which was prepared in accordance with your May 9 memorandum to me. Inasmuch as the Evaluation Team's 22 specific recommendations can be implemented at the level of my Office and the Mission, no action by you or interagency negotiation is required. Although I concur in most of the recommendations made by the Team, I have certain reservations with regard to some of them and to its conclusions on the aid level projection FY 1959-1963 and the proposed restriction of the program to activities which would directly and immediately narrow the balance of payments gap. These are explained in the introduction to my review. In an examination of each of the Team's recommendations, I have analyzed briefly the factors involved and have added my recommendation with the plan of action indicated. My review, therefore, covers the main principles and operations of the Korea aid program and the position of my Office regarding them.

Enclosure

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REVIEW
of the
KOREA EVALUATION REPORT

Office of Far East Operations
International Cooperation Administration

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KOREA EVALUATION REPORT

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INTRODUCTION

General

Impressed with the accomplishments of economic aid to Korea, the Evaluation Team concluded that the program has generally met the U. S. objectives of maintaining essential Korean consumption levels and advancing that country toward self-support to the extent feasible. Along with this broad approval, the Team suggested that U. S. assistance to public utilities (excepting power and railways), public services in general, and other activities not directly alleviating Korea's foreign exchange situation be limited henceforth to technical assistance. Of equal significance was the Team's endorsement of OEC's 1957 sharply declining five-year aid level projection, based in part on assumption that increased U. S. surplus grain imports will be provided to permit the export of substantial amounts of Korean rice.

Action by the Director

The Team's general approval of present operations and future planning is reflected in its twenty-two specific recommendations, most of which support existing policies and programs in whole or in part. No issue of such consequence as to require action by the Director or inter-agency negotiations is raised. The body of this response, therefore, consists of comments on each of the Team's recommendations together with an O/FE recommendation and plan of action. All actions proposed can be implemented at the level of the Regional Office and the Mission.

Program Principles

U. S. economic assistance serves the two broad objectives of assuring Korea's survival by helping to maintain its military forces and shore up its civilian economy, and of increasing its productive capacity in order to reduce its dependence on foreign aid. These objectives are accomplished through the use of defense support, technical cooperation, and Development Loan Fund Corporation financing.

Trend of Aid Requirements

OEC's October 1957 projection of an aid level that would decline non-project commodity-wise from \$210 million in FY 1959 to \$117 million in FY 1963 (including annual \$40 million P. L. 480 programs), and project-wise from \$100 million in FY 1960 to \$29 million by FY 1963 (including TC and DLF components), in which the Team concurred, is considered on the basis of information now available to be too drastic. This projection is believed to have given insufficient weight to such factors as the growing use of non-project funds for investment commodities, obstacles to substantial Korean rice exports, overoptimistic assumptions regarding import reductions through expanded ROK industrial production, and the unrealistic exchange rate. It is believed that U. S. policy objectives will permit only a gradual annual decline in the level of dollar aid.

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Balance of Payments Gap

I cannot agree with the Team's sweeping recommendation "that those phases of the economic development program not directly and immediately related to alleviating the foreign exchange situation be broadly confined to financing with technical cooperation funds during the next several years." Although a principal aim of U. S. aid is to narrow Korea's wide balance of payments gap, the Team's recommendation in its application to the agriculture, health, education, and community development programs, would, I believe, be injurious to the objectives of the aid program as a whole. These objectives could not be achieved by financing only projects that directly and immediately produce or save foreign exchange while neglecting to strengthen basic institutions, installations, and facilities. This exception to the Team's overly restricted concept is not to imply that there should be any letup in the search for ways and means to close Korea's extreme balance of payments gap. On the contrary, the need for closing this gap is reflected in the comments and plans of action that follow.

Exchange Rate Problem

While concentrating on the balance of payments problem, the Team has paid little attention to the overvalued hwan. The harmful effects of the unrealistic exchange rate have been ameliorated somewhat by authorizing exporters to import high profit commodities with their dollar earnings, permitting missionaries to auction their dollars, and requiring purchases of government bonds by importers of certain aid goods. Legislation just enacted substituting an exchange tax of 150 hwan per dollar for the bond purchases will help further but will not compensate for the unrealistic exchange rate sufficiently to encourage exports, discourage imports which hamper domestic development, increase the impact of U. S. aid imports, support the price stabilization effort, and avoid the warping of the entire economy. The existing exchange rate agreement does not permit precipitate, unilateral action on the part of the U. S. Nevertheless, even granting that the existing exchange rate agreement provides an incentive for sound fiscal management, the harmful consequences otherwise are justification for an early U. S.-ROK re-examination of the rate.

Long Range Planning

The Team was impressed by the need both for a survey of resources and a long range development plan. With the shift in emphasis from rehabilitation to economic development, the advent of new capital from the Development Loan Fund Corporation, and pending measures to improve the investment climate, these steps are in order. The projected Korean Economic Development Council will aid the Korean Government's economic planning processes. To satisfy the equally important need to reassess the Korean aid program for the guidance of Washington agencies concerned, a U. S. Government-directed study would be useful.

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IRRIGATION PROGRAM

1. Problem: Need for economic and technical evaluation of irrigation projects.

2. Team Recommendation No. 1:

"...that immediate steps be taken to assign to OEC one or more U. S. technicians experienced in making economic evaluations of irrigation programs, in order to determine the feasibility of the present projects."

3. Comment:

Considerable difficulties have been experienced in providing the necessary personnel for economic and technical examination of the Korean irrigation program and for supervision of the dollar and counterpart assistance furnished. ICA inherited this large-scale program from other U. S. and U. N. agencies. The difficulties will soon be overcome by the Agricultural Engineer Advisor on Irrigation recently added to the OEC staff and by the team of three irrigation specialists to be supplied by the U. S. Bureau of Reclamation to advise on projects now under construction and plan the future course of irrigation development.

4. O/FE Recommendation:

Concurs in Team recommendation.

5. Plan of Action:

Recruitment of the U. S. Bureau of Reclamation team will be expedited and OEC will be urged to defer new irrigation projects until an overall plan of development can be drawn up and approved.

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AGRICULTURAL INSTITUTIONS

1. Problem: Integration of agricultural teaching and research.

2. Team Recommendation No. 2:

"...that OEC urge the Korean Government to combine the Suwon Agricultural College and the Institute of Agriculture in the interest of economy and more effective use of limited resources."

3. Comment:

Although it would be more logical to have the agricultural teaching, experimentation, and extension functions carried out at Suwon by a single institution similar to the land grant colleges in the U. S., Korea and other Far East countries traditionally subordinate their colleges of agriculture to the Ministry of Education and their experiment stations to the Ministry of Agriculture and Forestry. The action of the U. S. Military Government in 1947 in uniting the College of Agriculture, the Experiment Station, and the Extension Bureau was reversed by the new government of Korea in 1949 when it restored the College of Agriculture to its previous status. A similar consolidation was attempted but not achieved in the Philippines during the nearly 50-year U. S. tenure there. Short of far stronger pressure than is justified or warranted, the Korean Government could not at this time be persuaded to combine the College of Agriculture and the Institute of Agriculture under either of the ministries concerned. More is to be gained by exertions to coordinate the resources of the two institutions.

4. O/FE Recommendation:

That OEC efforts to bring about the closest possible coordination between the two Suwon institutions be continued.

5. Plan of Action:

OEC will be urged to intensify efforts to improve coordination between the two Suwon institutions, possibly through a Korean advisory body for joint planning and programming of agricultural teaching, experimentation, and extension.

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AGRICULTURAL PROGRAM FUNDING

1. Problem: Support and funding of agricultural program.

2. Team Recommendation No. 3:

"...that future agricultural projects be funded largely from technical cooperation funds and that only those projects which relate directly to improvement of the foreign exchange position be funded with defense support funds. Among the former would be agricultural extension, for example, as distinct from the control of disease and insects which might vitally affect rice production, a potential export...."

3. Comment:

This recommendation would apply to the agricultural program the Team's general proposal to restrict the use of defense support funds to activities which directly improve Korea's foreign exchange position. As explained in the Introduction under the "Balance of Payments" heading, such a limitation could have the effect of hindering rather than facilitating Korea's economic growth. Moreover, activities such as agricultural extension actually relate directly to increased production and thereby potentially to improvement of Korea's foreign exchange position. It is inconsistent to advocate, as the Team does, dollar aid for the control of plant disease and insects in order to improve rice production - a potential export - and simultaneously oppose aid for agricultural extension, the instrument for carrying out disease and insect control.

4. O/FE Recommendation:

That balance of payments effects be broadly considered in planning agricultural aid projects in Korea.

5. Plan of Action:

No action needed.

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FISHERIES

1. Problem: Support of fisheries program.

2. Team Recommendation No. 4:

"If the necessary action is taken by the Korean Government in regard to reorganization of the guilds, it is recommended that defense support funds, in addition to technical assistance funds, be employed for assisting fisherman in acquiring boats and equipment, with particular emphasis on proposals which develop fishing for the export market."

3. Comment:

Since Korea's fisheries production has lagged behind that of other sectors of the economy, this recommendation would make further defense support aid for fisheries contingent, first, on reorganization of the guild system now oppressing Korean fishermen, and second, on emphasizing development for export. The Government has already decided to make a detailed study of the fishing industry which, upon completion, will constitute, among other things, a blueprint for investing new aid funds more effectively.

Fisheries development in the view of OEC should place the main emphasis on increasing the domestic food supply. The Team takes the position that, as production is stepped up, exports should take precedence over increasing home consumption. (The rice export proposal is a move in this direction.) If the Team recommendation is acted upon favorably, aid funds for fisheries would be used mainly for such things as refrigeration equipment, canning facilities, and specialized vessels and gear.

4. O/FE Recommendation:

That encouragement be given to the projected ROK fisheries study preparatory to arriving at a comprehensive joint U. S.-ROK understanding in this field and that potentialities of fisheries production for export be more fully explored.

5. Plan of Action:

OEC will be urged to proceed along the lines of O/FE's above recommendation.

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FISHERIES PROGRAM

1. Problem: Need for refrigeration equipment for export fish products.

2. Team Recommendation No. 5:

"...that defense support funds, as well as technical assistance funds, be used to assist in the construction of modern refrigeration equipment for preparing and holding marine products when commercial fishing for export is assured."

3. Comments:

Modern refrigeration is among the various facilities needed for development of fisheries exports. Commercial refrigeration, canning, and packing could be financed as part of the industrial development program, aided with defense support and Development Loan assistance and through fishermen's co-operatives following reorganization and strengthening of fishing guilds.

4. O/FE Recommendation:

That the need for auxiliary facilities such as refrigeration be included in the overall fisheries promotion plan mentioned in connection with Team recommendation No. 4.

5. Plan of Action:

OEC will be urged to include commercial and cooperative development of necessary auxiliary facilities in joint U. S.-Korean planning of the fisheries program.

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HEALTH PROGRAM

1. Problem: Support and funding of public health program.

2. Team Recommendation No. 6:

"...that the health program be continued with technical assistance funds only. This would mean substantial reduction in financial support to such activities as disease control, water works rehabilitation, city drainage, and construction of wells and sanitation facilities."

3. Comment:

The Team considered the use of defense support funds for a health program unjustified because of the resulting increased population pressure on an already inadequate resource base. Since overpopulation in relation to economic resources is a worldwide problem, health matters in Korea should be treated within the framework of overall U. S. policy, not in terms of conditions in a single country. An important factor in the case of Korea is the presence of U. S. troops and the resulting concern about the prevention of epidemics. Moreover, important felt needs of the people have to be taken into account as a means of helping to combat unrest and communist propoganda. Nevertheless responsibility for the health program is being increasingly assumed by the Korean Government and defense support aid for health projects is already on the decrease.

4. O/FE Recommendation:

Transfer of responsibility for administering and financing public health activities to the Korean Government should continue.

5. Plan of Action:

No action needed.

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EDUCATION PROGRAM

1. Problem: Support and funding of education program .

2. Team Recommendation No. 7:

"The continued use of defense support funds is recommended in educational activities that have both an immediate and a direct influence on foreign exchange. Such activities would include, for example, the training of marine diesel mechanics because of the immediate and direct effect on the fishing industry which has a substantial potential for producing export products. The recommendation would imply, likewise, not using defense support funds for such activities as classroom construction."

3. Comment:

Few, if any, education projects could qualify for defense support funds under the Team's recommendation, which is in conflict with ICA and specific NSC policy on aid to education in underdeveloped countries. The scarcity of administrative, managerial and technical skills and the need for major changes in habits and thinking are recognized as the two most basic problems for accelerated economic development of Korea. Their solution, according to the Director's May 16, 1958 memorandum on "Development of the FY 1960 Mutual Security Program", requires a major effort in the fields of training and education. In keeping with this policy, the Korea aid program emphasizes general education and vocational training. However, no additional dollar aid, except possibly small amounts in the AFAK program for public relations purposes, is earmarked for classroom construction.

4. O/FE Recommendation:

That the present realistic program of aid to education be continued.

5. Plan of Action:

No action needed.

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HOUSING PROGRAM

1. Problem: What type of housing program should be financed from defense support funds?

2. Team Recommendation No. 8:

"...that no further defense support funds be used on the 'low-and moderate-cost' housing project. In keeping with the objective of assisting Korea to reach and maintain essential standards of living comparable with those of 1949-50, it is further recommended that defense support funds continue to be used for self-help housing program for refugees. It is also recommended that defense support funds continue to be used for the project to develop the use of native materials for construction."

3. Comment:

Housing, as confirmed by the Team, is the only major area in which Korea's restoration of the pre-war consumption level has seriously lagged behind. The present program is designed to develop, with defense support funds, a sound system of home mortgage financing as well as efficient housing construction and domestic building materials industries. Under the "low and moderate cost" housing project, loans for defense support-financed building materials imports are repaid in local currency with interest, and the revolving fund thus created is the source of funding for a continuing housing program. As the domestic building materials industry expands along with facilities for financing housing construction, it is expected that defense support aid will be correspondingly reduced to the point where the remaining import needs can be met under the salable commodities program.

Present plans call for continuing defense support aid to the aided self-help housing program both for refugees and unemployed migrants from rural areas.

As part of the industrialization program aiming at reducing Korea's trade imbalance, technical and financial assistance in the development of the building materials industry will be furnished from both defense support and the Development Loan Fund.

4. O/FE Recommendation:

That ICA aid to the rehabilitation phase of the Korea housing project be gradually phased out. Continuing support should be given the aided self-help housing program and development of indigenous building materials.

5. Plan of Action:

ICA comments and recommendation will be conveyed to OEC.

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RURAL SERVICES AND COMMUNITY DEVELOPMENT

1. Problem: Can the community development program serve as a substitute for agricultural extension and rural health services?

2. Team Recommendation No. 9:

"...that a program of community development, including the use of voluntary workers at the village level, be undertaken with technical assistance funds."
(As "a substitute for the agricultural extension and the public health workers.")

3. Comment:

A broad community development program is now being initiated in Korea, supplementing other programs previously launched in the fields of rural health and agricultural extension. Concerning the latter program, exception is taken to the Team's view that Korean farmers are sufficiently expert to dispense with technical assistance. Improved farming is the one means of preventing Korea's food deficit from growing with the growing population. It also is essential that the Korean Government develop sound institutions to carry out agricultural and health programs on a long-range basis. An agricultural extension organization along with a minimum number of rural health centers is therefore essential. But since resources are not adequate to support proper governmental field forces in health and agricultural extension, and their effectiveness will develop slowly, the community development program is intended to supplement the work of the specialized technical services in the villages. This requires a carefully coordinated program in extension, rural health and community development to guard against costly duplication of field forces. While aid will consist in the main of technical assistance, some defense support-financing of materials is justified to increase the effectiveness of these services.

4. O/FE Recommendation:

That development of rural health and agricultural extension services be closely coordinated with the community development organization to assure maximum integration at minimum cost without duplication of effort.

5. Plan of Action:

O/FE's recommendation will be conveyed to the field.

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PUBLIC ADMINISTRATION PROGRAM

1. Problem: Necessity for expanding the public administration program.

2. Team Recommendation No. 10:

"...that an expanded public administration program be initiated in all those fields of public administration and business administration in which the Koreans show real interest in obtaining help. Such a program normally need not require the use of defense support funds but if such funds were essential to the success of the program the Team would be inclined to agree that this would be an exception to the general approach recommended in this report."

3. Comment:

The Team endorses the expansion of the public administration program which is now underway. The Korean Government is receptive to more assistance in this field. In the past six months, advisors in customs, banking, foreign investment, and supply management have arrived in Korea together with three contract groups which will carry out programs in statistical reorganization and in development of schools of business and public administration. During FY 1959 it is expected that three more contracts will be signed to provide advisory services for overhauling the tax structure, surveying the organization and administration of governmental services, and assisting the projected Economic Development Council.

4. O/FE Recommendation:

Concurs in the Team recommendation.

5. Plan of Action:

No action needed.

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KOREAN COAL FOR RAILWAY USE

1. Problem: Development of Korean coal as rail locomotive fuel.

2. Team Recommendation No. 11:

"Although certain efforts to use Korean anthracite have been made in the past, it is recommended that a new trial on a sufficiently large scale, with proper mining, cleaning and grading, be undertaken by OEC in order to determine definitively the feasibility of using local coal in locomotives."

3. Comment:

Studies are being made under the continuing ICA mine development program concerning the beneficiation of indigenous coal for many purposes, including its use as locomotive fuel. However, the fact that the aid-financed oil burning diesel locomotives in Korea are now operating far more economically than the displaced steam engines, which consumed large quantities of imported bituminous coal, decreases the prospect of using more local coal in locomotives. Nevertheless, the search for improved methods of mining and utilizing Korean anthracite coal continues, with a view to expanding its use for industry, electric power generation, and household purposes. Exporting anthracite to Japan and elsewhere is also a possibility when production outgrows domestic needs.

4. O/FE Recommendation:

That the program of developing Korean anthracite resources be systematically pursued without interfering with the dieselization program for the railroads.

5. Plan of Action:

No action needed.

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ELECTRIC POWER

1. Problem: ICA support for additional electric power generation.

2. Team Recommendation No. 12:

"The Team supports present OEC plans for using defense support funds for the construction of two new power plants."

3. Comment:

Funding for one (thermal) of two power plants referred to by the Team has been provided under the FY 1958 defense support program. The other power plant (hydro-electric) was eliminated from the defense support program when the Development Loan Fund, to which the Korean Government applied for a \$25 million loan for this purpose, indicated that it was giving favorable consideration to the ROK application.

4. O/FE Recommendation:

That assistance in financing Korea's electric power needs be furnished from all aid sources as appropriate.

5. Plan of Action:

No action needed.

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COMMUNICATIONS PROGRAM

1. Problem: Financing maintenance and development of the Korean telecommunications system.

2. Team Recommendation No. 13:

"Since both foreign exchange earnings and hwan earnings are sufficient to support the maintenance and development of the telecommunications system, it is recommended that Korea finance this activity from its own budget. It is suggested that ICA continue its technical assistance program in this field."

3. Comment:

No defense support financing of telecommunications is included in the FY 1959 program or contemplated for later years. Technical assistance is being continued.

The ROK Government, however, has obtained DLF approval of a loan for further improvement of Korean communications facilities. It is too early, in the face of the huge balance of payments gaps, to deny U. S. aid financing to exchange earning projects as suggested by the Team. Such a policy would not necessarily assure the best possible use of Korea's limited exchange earnings in meeting the dollar needs of its economy.

4. O/FE Recommendation:

That no objection be interposed to the DLF loan for Korean telecommunications, and that the programming of Korean dollar earnings and available dollar aid resources be closely coordinated. (A policy of withholding U. S. capital aid from exchange earners should not be adopted at this time.)

5. Plan of Action:

No action needed.

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FERTILIZER PRODUCTION

1. Problem: Financing of additional fertilizer plants.

2. Team Recommendation No. 14:

"...that construction of any additional fertilizer plants be deferred until such time as there is sufficiently active Korean participation in the management of the plant presently under construction to indicate the ability of Koreans to take the whole responsibility for management."

3. Comment:

This recommendation reflects current ICA planning. In late 1957, ICA financing of a second major fertilizer plant was deferred indefinitely. This decision should not, however, preclude consideration of proposals for financing small, specialized plants, such as for fused phosphate, under the medium industry loan program.

4. O/FE Recommendation:

Concurs in Team recommendation, with respect to large plants.

5. Plan of Action:

No action needed.

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INDUSTRIAL DEVELOPMENT PROGRAM

1. Problem: ICA support of industrial investment in Korea.

2. Team Recommendation No. 15:

"As OEC recognizes, the immediate enlargement of the staff of U. S.-trained technicians for the technical review of all loan applications is urgently needed. This staff should be constituted as to be useful not only in review of loan applications but also in training Koreans in review techniques."

Team Recommendation No. 16:

"...that the medium and large industrial loan program, including the use of defense support funds, be expanded, with special emphasis on industries designed to achieve foreign exchange savings through local production of products presently imported. To a substantial extent increases in these loans will depend on additional training of Koreans, which would be facilitated by the assignment of additional U. S. technicians."

Team Recommendation No. 17:

"...the early establishment of an industrial training and development center with the use of both technical cooperation funds and defense support funds, as needed."

3. Comment:

The Team endorses ICA's policy of assisting Korea's industrialization and recommends that the program be expanded.

It is axiomatic that the rate at which economically sound and effective industrialization can proceed in an underdeveloped country is governed by its institutional framework, human and material resources, and availability of foreign capital. In the case of Korea, there are involved such factors as the shortage of skills and resources, an unfavorable investment climate, unorthodox credit and fiscal policies, and market limitations. Technical assistance may be able to provide managerial and engineering skills in a relatively short period but it takes longer to develop entrepreneurial experience. Consistent with the Team's recommendations, Korea's capacity to plan and implement industrial projects is gradually being increased with the help of a major U. S. engineering advisory group under contract with the Korean Government, OEC's expanding staff of industrial engineers and project officers, the Korean Reconstruction Bank, and the projected Industrial Development Center. Simultaneously Korea's access to foreign capital sources is growing. Investment funds are becoming available from the Development Loan Fund Corporation. The prospective Investment Guarantee Agreement and enactment of pending foreign investment legislation promise to improve the climate for investment of private foreign capital.

Even though replacement of imports with domestically produced goods is a prime objective of U. S. aid, only those industries that meet essential commodity needs of the economy should receive such aid.

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(Industrial Development Program)

4. O/FE Recommendation:

That present programs for Korean industrialization be continued to the extent that this will help obtain maximum utilization of available domestic and foreign capital resources.

5. Plan of Action:

No action needed at this time.

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TRANSPORTATION

1. Problem: Financing transportation improvement.

2. Team Recommendation No. 18:

"Since the Korean Government clearly cannot meet its foreign exchange requirement for the operation and improvement of the railway from present revenues, it is recommended that defense support funds continue to be used for maintenance and essential development. OEC should continue to press the Korean Government for increased rates in order that the railway may earn revenues sufficient at least to cover costs of operation and the hwan equivalent of costs of development."

Team Recommendation No. 19:

"...phasing out of funding through the use of defense support funds of a program of highway construction. Defense support should be concentrated on dollar requirements for materials and equipment needed for maintenance of the present road system."

3. Comments:

The ICA program contemplates continued improvement and extension of the Korean transportation system with defense support funds but with a possible shift of emphasis from railroads, harbors and bridges to major highways. No substantial additional investment in transportation should be made, however, until the future role of the different modes of transportation has been determined. Korea's external and internal resources are far too limited to permit further programming in the absence of an overall national transportation policy.

The Team, without benefit of an overall transportation study, recommended continued defense support aid to railroads while opposing such aid for highway construction. Yet it stands to reason that the highest overall return on invested capital can be obtained only from one integrated network making the maximum use of highways, railroads, and coastal shipping as complementary rather than competitive modes of transportation. Construction or extensive rebuilding of major highways paralleling the efficient railroad network would not be economically justified for some time to come, but the relative advantage of feeder highways, in preference to railroad spurs or extensions to isolated farming and mining regions or into growing metropolitan and industrial areas should be explored.

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(Transportation)

Regarding the matter of railway rates, both freight and passenger rates have been repeatedly raised. A further freight rate increase comparable to the 98% increase on January 1, 1958, is presently under consideration. Passenger rates are considered adequate and revenues from passenger travel this calendar year are expected to cover all operating expenses. In order to improve rate making procedures further, creation of a Utilities Commission is under consideration.

4. O/FE Recommendation:

That programming of additional aid in substantial amounts for any form of transportation await adoption of an overall transportation policy based on a study of the relative roles and investment priorities of water, railway, and highway facilities.

5. Plan of Action:

OEC will be urged to proceed along the lines of O/FE's recommendation.

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MINERALS PROGRAM

1. Problem: Minerals exploration.

2. Team Recommendation No. 20:

"The Team supports the OEC plan for exploration work in minerals in order to stimulate further activities in mining and recommends that, if needed, defense support funds be used as well as technical assistance funds. It also supports OEC's intention to examine present laws governing mining with a view to revision which will encourage the attraction of foreign capital."

3. Comment:

This recommendation is an endorsement of the present ICA program in the minerals field.

4. O/FE Recommendation:

Concurs in Team recommendation.

5. Plan of Action:

No action needed.

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SURPLUS AND OBSOLETE EQUIPMENT

1. Problem: Possible use of obsolete or military surplus equipment.

2. Team Recommendation No. 21:

"It is recommended that OEC explore the possibility of using obsolete equipment in the program in Korea as well as surplus military equipment acquired on a world-wide basis."

3. Comment:

Korea takes considerable amounts of excess U. S. Government property including some obsolete equipment and is in position to utilize still more as it becomes available periodically in Japan, the Philippines and Korea itself. ICA works closely in this field with the Interservice Materials Utilization Agency, which is the central clearing agency for all Department of Defense excess equipment, and with the Personal Property Utilization Division of GSA. The main drawback to the use of increasing amounts of these materials is the sporadic nature of excess declarations and the short interval between them and final sale.

It is understood that ICA may establish a clearing house in Japan to handle matters pertaining to excess military equipment.

4. O/FE Recommendation:

That efforts to facilitate the utilization of excess equipment be continued.

5. Plan of Action:

No action needed.

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POPULATION PROBLEM

1. Problem: What to do about population pressure.

2. Team Recommendation No. 22:

"...that consideration be given by the U. S. and ROK Governments to making a study of the population problem with a view to developing outlets, possibly in Latin America, for Korean agricultural workers....also...that financial assistance be provided, through the OEC Community Development Division, to the mothers' education program.

3. Comment:

As in the case of recommendation No. 6, the problem involved is worldwide. No general U. S. policy in this sensitive area exists.

4. O/FE Recommendation:

That the initiative in this field be left to the Korean Government and people and that any requests for technical or financial assistance be carefully evaluated from an overall policy viewpoint.

5. Plan of Action:

No action needed.

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Dr. Meyer, D/FG

Oct. 15, 1958

D. A. Fitzgerald /S/ D. A. Fitzgerald

Korea and Laos Evaluation Reports

The Director has noted that no action on his part is required in respect of both the Korea and Laos Evaluation Reports. You may now proceed with implementation of the plans of action indicated.

cc: Mr. Wood

GMH:pt:DD/O
10/15/58

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be made at an early date. This is the substitution in the agreement of the new country-wide Wholesale Price Index for the Seoul Wholesale Price Index. Recent studies by the OEC suggest that this new index is more representative of price changes in Korea than is the Seoul Wholesale Price Index and OEC, therefore, plans to submit to ICA/F for review a formal proposal to the effect of using the new index in place of the old index for purposes of the agreement.

The OEC, together with the Ambassador and CINCPAC, has presented to the ROK Government a proposal, under which tourists, UNC and diplomatic personnel would be authorized to purchase hwan at a rate keyed to present free market rates, such as the export dollar and the KAVA dollar rates. The rate would apply only to personal expenditures by representatives of the above-mentioned group. Official purchases of Embassies and UNC would continue under the system now in force, i.e. namely at hwan 500: \$1.00. Application of the free market rate system to this last remaining area (other than official UNC purchases) subject to the hwan 500: \$1.00 rate is expected by the three U.S. elements here to benefit not only troop morale but the ROK dollar income from goods and services sold to temporary residents in Korea. The ROK Government was receptive to the proposal and promised to let us know the results of their study of it at an early date.

Long Range Planning: Dr. Hoyer states that: "The projected Korean Economic Development Council will aid the Korean Government's economic planning processes. To satisfy the equally important need to reassess the Korean aid program for the guidance of Washington agencies concerned, a U.S. Government-directed study would be useful."

Such a reassessment, we believe, would be in the interest of our program here only if it is carefully limited in scope and purpose. This means that it must be sufficiently distinct from what is planned for EDC so as to avoid the kind of duplication that would detract from the recognition OEC hopes to see rendered the EDC. It means further that the reassessment must be tailored to OEC needs so as to make it an essential element in the formulation of U.S. policy in Korea. Provided, then, we adhere strictly to these limitations, a study of the type recommended by Dr. Hoyer would, we believe, be essential if we were to base the programming of further assistance to Korea not on what would perhaps be an ideal "long range plan" but rather on what has already been achieved, taking account of the problems encountered in the broadening area of utilization, and on practical program needs within the confines of a gradually declining aid level.

First, within total investment for development, the proportion supported by U.S. aid directly (through imports of capital goods) or indirectly (through imports of consumer goods and materials) will decline and with it, possibly,

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the influence of the ICA program on over-all lines of development. To maximize OEC influence, shifts of emphasis within our program may well be required. The considerations entering into our program formulation will tend to differ from the broader planning or guiding activities expected from the EDC.

Second, the U.S. Government, through OEC, may at times have a more intense interest than would the Korean Government in the success of individual projects and the projects complex as a whole, since the degree of our success here is watched by the entire Free World, while the ROK Government, as would any other, will always find its choice of action limited by the ever present political exigencies of the day. This natural divergence in the valuation of priorities is further justification for the study proposed by Dr. Foyer.

Third, to be immediately and directly applicable to our program, the reassessment study, as OEC conceives it, would start with the existing projects and those now planned for ICA and DLF financing. It would not, as presumably should be the aim of EDC, seek to set down from the start the general directions which future development in Korea should take. What the U.S. Government study would do would be to apply a set of rather rigid tests to existing projects and, to the extent that prospective cost data are sufficiently developed, to planned projects, with a view to ranking these projects from the point of view of their contribution to such agreed criteria as improvement of the balance of payments, absorption of excess labor, or straight-forward contribution to growth. The results of a ranking along these lines will give valuable guidance to future program emphasis.

Fortunately, much of the material required for such a reassessment is at hand by virtue of its past inquiries, or can readily be developed by, the Program Review Committee of OEC. Fortunately, also, the required techniques begun in the days of the Marshall Plan for the European investment programs, especially in the less developed areas of Turkey, Greece, Italy and Portugal, have been improved and applied with success in Asian countries, such as Pakistan. Even though the reliability of cost data and balance sheets in Korea leaves much to be desired, we still believe that reassessment along these lines will be of great assistance to present utilization and future programming. To assure that an inquire of this type be carried out with the highest obtainable competence, it would be best to bring out a consultant for, say, three months, to lay down the principles and organize the statistical research required.

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While such an undertaking might require the services of three to four additional Koreans trained in statistics or accounting, it should otherwise be possible to produce a creditable piece of work within a reasonable period of time with existing American staff. So as to facilitate broadest direction of the study, funding by administrative sources would be appropriate.

OIC plans to formulate a specific proposal for a reassessment study, together with a specific recruiting suggestion, for ICA/S review.

IRRIGATION PROGRAM (P.3)

Team of three irrigation consultants from the Bureau of Reclamation arrived in Korea on October 31, 1956, and are in process of making the necessary investigations and preparing a report.

AGRICULTURAL INSTITUTIONS (P.4)

OIC concurs in the objective of the recommendations set out in para. 2 as being desirable and also concurs in the comments, the recommendations and the plan of action in paras. 3, 4 and 5. ICA/S is aware of continuous efforts, to date, to develop and integrate the extension, research and teaching facilities at Suwon.

FISHERIES (P.6)

FISHERIES PROGRAM (P.7)

OIC agrees with the Team's recommendation that both DS and TC funds could be well employed to support the fisheries program.

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The following comments briefly measure the progress of the fisheries program since 1956:

Korean Fisheries Production
in metric tons 1955-1958

<u>Year</u>	<u>Metric Tons</u>	<u>Percent Increased over 1955</u>
1955	257,272	0
1956	340,000	32
1957	400,000	55
1958	Figures not yet available	

This increase is due largely to increased equipment and technical assistance furnished by OEC and other aid agencies. Further increases in production are expected as the full impact of the present program is felt.

The increases are coming primarily from purse seine fishing and trawl fishing and are expected to take care of domestic demand plus a surplus which may be exported.

Efforts to develop exports are being made in several directions, with emphasis on shrimp. Shrimp trawls have been introduced, and demonstrations carried out, and intensive exploration begun. Inspection laws and processing regulations have been promulgated. Pilot processing facilities have been established, processors and inspectors have been trained in proper procedures to comply with U.S. sanitation requirements. Private processing plants have been established and approximately 40 tons of shrimp have been packed for sale to the U.S. Army or for export. A seafood export association has been formed to act as a central marketing agency for Korean fisheries products. A proposal has been submitted to establish a loan fund to finance processing and storage costs of fisheries products for export. Shrimp is an excellent export item because it has a high value per pound; it is a luxury item on the Korean market, and is in great demand in the U.S. where the local supply currently is insufficient to meet requirements. Sales of Korean shrimp in U.S. markets will not bring down on OEC the wrath of the U.S. fishing industry as would the export of other fisheries products at this time.

With reference to the remaining comments and the recommendation of O/FE, we would like to point out that:

A joint ROK/OEC staff conference was held on September 12-13 to discuss the overall problems of fisheries development. Every problem pointed up in this conference has been assigned to the proper person, committee or agency for solution and much progress has been made. A copy of the report of this conference, Special Report Note, OEB-P-58-569, has already been forwarded to ICA/N.

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The report on Korea's fish market and marketing problems by E. H. Cooley, published October 10, 1958, has been distributed, studied, analyzed, and is being used as a reference. Copy is available in ICA/W.

Both of these reports have been broken down by problems for handling by special work groups of ICA and ICA technicians, for example:

Modification of fisheries organizations - Marine Affairs Director has announced plans to consolidate about 160 fishing guilds into about 40 to 50 local organizations. Eight provincial federations are to be abolished, which will reduce organizational overhead and charges to fishermen.

Taxes - Director of Marine Affairs has been working with appropriate cabinet members to alleviate the tax burden. Action has been taken to reduce import taxes on fishing gear and diesel engines. A 35% tax on the latter was eliminated. Other taxes are being discussed but since the need for revenue is so acute, little improvement in federal or provincial tax rates can be expected in the near future.

Credit and high interest rates - Loan board members are acting on credit problems and are assisting guilds to improve their business methods. The purposes for which these funds may be used are being broadened to cover additional phases of fisheries operations. Local agent banks have lowered collateral requirements where individual guild reputations justify it. Expansion of this system, which charges 8% interest per year, is reducing the so-called "private loans" at interest rates up to 10% or more per month.

Boat construction, conversion and repair - The work group succeeded in devising modifications in the financing procedure to reduce delay, lower collateral requirements and assist in insuring prompt payment of loans to end users and collection of payments. Closer supervision is being given to procurement of materials to prevent delays in delivery.

Demonstration and training - The work group has determined special projects to be carried on to improve fishing operations. This includes the selection of progressive fishermen to conduct demonstrations of new gear in the fleet. A special across-the-board project has been started to design and build modern medium-sized combination vessels and demonstrate their effectiveness with such as anchovy lampara, shrimp trawl and purse sein block.

Marketing - The action taken to introduce freezing mackerel during last summer's peak production period stabilized the price of fish during glut periods. Action to encourage expansion of this practice to include other varieties of fish is now being taken. Product development for both domestic consumption and export is receiving attention.

The problems of the industry are under constant joint study as shown above. Periodic meetings of work groups and regular conferences between principle officials

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loans, he made the statement that he thought the number one requirement for the development of this country was better roads and a highway system that was adequate to take care of present and future requirements.

Regarding the recommendation made by the Office of the Far East, that an overall transportation policy be based upon a study of the relative roles and investment priorities of water, railway and highway facilities, OEC feels that such study would be very desirable and would welcome ICA/W sending out someone to make such a study. In the meantime, we are proceeding with the highway program as submitted to ICA/W.

Present charges for water transportation are greatly in excess of land transportation. There is no reason to believe that the highway system in the foreseeable future would be in competitive conflict with water transportation.

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and ROK Office of Marine Affairs are being held. There is a decided improvement in the over-all fisheries picture.

The arrival of four badly needed U.S. technicians during the summer of 1958 enabled us to render direct assistance to many phases of the industry requiring technical assistance. This has resulted in closer supervision of fisheries projects.

It is felt the Director of the Office of Marine Affairs and members of his staff are making a sincere effort to "put their house in order" and alleviate as many of the hindrances to fisheries development as are within their scope of authority. Custom, tradition, politics and economics being considered, it may require some time before solutions to all problems can be found.

HEALTH PROGRAM (P.8)

OEC agrees in O/FE recommendation and have indicated same to highest levels of ROK Government including President Rhee. Funds not included for this activity ROK-1959 Budget; however, Minister of Health and Social Affairs has advised OEC that he will request supplemental budget for this purpose.

TYPE OF HOUSING PROGRAM (P. 10)

ICA/W comments and recommendations are awaited with interest.

RURAL SERVICES AND COMMUNITY DEVELOPMENT (P.11)

ROK/OEC are coordinating these efforts through medium of CIB Community Development Committee (CEBCOM). O/FE's further recommendation is awaited with interest.

TRANSPORTATION (P.19) (Team Recommendation No. 18)

OEC continues to press the Korean Government for increased railroad rates, but the ROK Executive branch, as represented by the Ministries, are unable to put such increased rates into effect, without the approval of the ROK National Assembly. Such approval is very difficult to secure and will therefore undoubtedly take considerable time. OEC Transportation Advisor states that the passenger rates are compensatory. The freight rates, however, need to be substantially increased.

(Team Recommendation No. 19)

It is not OEC's intention to support the setting up of a system of highways that will affect the earning capabilities of the railroad. It is impossible, however, to put the Korean economy on anything like a self-sustaining basis without a better system of roads.

When General Ogden was here with Ambassador McIntosh, in connection with the DIF

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RECOMMENDATION No. 9

The division has now developed and embarked upon a community development program which we believe to be patterned in the best possible manner to contribute to the development of the Korean urban and rural areas. Emphasis will be placed on the self-help principle. Care has been taken to conduct detailed surveys, particularly at the village level to determine the best method of instituting this program. As in the other technical divisions, the initiative for the establishment of this program has come from Koreans with the Mission providing consultation and advisory assistance. Since this is a new program in Korea, special attention has been given to orientating responsible Government officials in objectives of the program and the manner in which they should be achieved. There are many favorable conditions in Korea to support the Community development program since there is spirit of cooperativeness inherent in the Korean people particularly at the village level. This resource, if properly directed, can be utilized to increase Korea's productive capacity, particularly if it is able to take advantage of the extensive under-employment conditions that exist in the country.

RECOMMENDATION No. 10

We concur fully in the recommendations of the report which support the established policy of the Mission to expand the Public Administration Program in all fields in which the Koreans show an interest and request assistance. This technical assistance program developed somewhat differently than the other technical divisions discussed as this division was the last technical service to be established in Korea. It did not by its nature have an emergency role to fill ~~XXXXXXXX~~ following the Korean War. An ideal starting point would have been through the conduct of the proposed Government survey, however, because of the immediate need for advisory services in a number of areas, particularly those having responsibilities in the Aid Program, the Mission has made every effort to furnish technical assistance.

➔ An expanded program in Public Administration has been agreed upon by the Korean Government and documentation has been completed. In the past six months advisors in Customs, Banking, Foreign Investment and Supply Management have arrived in Korea together with three Public Administration contractors who will carry out programs in statistical reorganization and the development of Schools of Business and Public Administration. During the next six months it is expected that three more contracts will be finalized to provide experts to (a) overhaul the tax structure, (b) conduct a survey of the organization and administration of the Governmental services, and (c) furnish technical advice to the newly established Economic Development Council. The Public Safety program will continue its advisory operations during the next several years, but with greatly reduced expenditure for equipment and material.

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Office Memorandum • UNITED STATES GOVERNMENT

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Rec 6/10/59

TO : Dr. D. A. FitzGerald, DD/O

DATE: June 1, 1959

FROM : Raymond T. Moyer, O/FE

mm

SUBJECT: Status of Korean Evaluation Report

1. This report summarizes the actions so far taken to implement the recommendations which the Evaluation Team submitted in connection with its review of the ICA program in Korea. The Evaluation Team submitted some twenty-five recommendations in all. The O/FE and the OEC have concurred, at least in principle, in eighteen of the twenty-five, and withheld concurrence in the remaining seven. Specific actions taken to implement agreed recommendations are described below. A few of these actions remain incomplete. Thus, OEC has requested additional guidance from ICA/W on housing and community development, and is awaiting further word from ICA on the proposed survey to develop a long-range ICA program for Korea. On the other hand, ICA/W is waiting on the field for a report on the proposed transportation survey. In addition, there are a few other loose ends of lesser significance. This review of the Team's recommendations, and the actions taken pursuant to them, convinces me that its Evaluation Report has fulfilled its function of indicating the areas of possible improvement in the Korean program. Unless you have reasons to think otherwise, I would recommend that it be accepted as the final report in accordance with M.O. 311.1.

2. The O/FE and the OEC concur fully in the following recommendations of Evaluation Team:

Recommendation No. 1 - Evaluation of Irrigation Projects. A team of technicians from the Bureau of Reclamation has completed a survey of the irrigation program in Korea and submitted its report. The ROK Minister of Agriculture has approved the report and requested ICA assistance to implement its recommendations.

Recommendation No. 3 - Financing of Agricultural Projects. Current OEC policy conforms in principle with the Team recommendation that TC funds should be largely used to fund agricultural projects, unless such projects are directly related to the improvement of Korea's foreign exchange position. However, the OEC makes clear that there may be exceptional cases in which it may be necessary to use DS to supplement TC funds.

Recommendation No. 5 - Fisheries Equipment. The OEC is presently carrying out the Team recommendation that DS funds be used for procurement of refrigeration equipment for preservation of fish for export.

Recommendation No. 10 - Public Administration Program. The Team recommended the use of DS funds to expand public administration program. The recommendation is now in process of implementation.

Recommendation No. 12 - Electric Power Generation. The Team recommended the support of OEC plans to use DS funds for the construction of two new power plants. A task order has been issued to determine suitable sites for thermal power plants of 30,000 KW and 60,000 KW capacity.

Recommendation No. 13 - Telecommunications. The Team recommended that the ROK Ministry of Communications finance the maintenance and development of telecommunications from its own resources. The recommendation does not exclude possible use of DLF funds in the telecommunications program. Except for some TC assistance, the OEC is already carrying out the Team recommendation.

Recommendation No. 14 - Additional Fertilizer Plant. The Team recommended that no ICA funds be used to finance a second fertilizer plant until the Koreans have demonstrated their ability to operate the Chung-ju plant successfully. This recommendation is concurred in by O/FE and OEC. It does not relate to ICA financing of small local plants.

Recommendation No. 15 - Industrial Development Staff. The Team recommended the enlargement of the Staff to insure proper technical and financial review of industrial loan applications. O/FE and OEC concurred in recommendation. Pursuant thereto OEC has added an additional industrial advisor to the Staff.

Recommendation No. 16 - Medium and Large Industry Loans. Team endorsed continuance of existing program with special emphasis on financing projects which either earn or save foreign exchange.

Recommendation No. 17 - Industrial Training and Development. The Team strongly recommended the establishment of an industrial training and development center. OEC has concurred in recommendation but political problems have delayed its implementation.

Recommendation No. 20 - Minerals Exploration. The Team recommended use of DS funds to finance mineral exploitation. O/FE and OEC concurred. Aerial survey is now in progress.

Recommendation No. 21 - Surplus Military Equipment. Team recommended utilization of surplus military equipment wherever possible. O/FE and OEC concur. The only problem is the availability of usable equipment.

Recommendation No. 25 - Long-range Development Plan. The Team recognizes Korea's need for a long-range development plan, and O/FE and OEC share its views in the matter. A technical assistance contract has been concluded with the University of Oregon, under the terms of which the University is sending a team of experts to Korea to advise and assist the ROK Economic Development Council in long-range planning. In addition, O/FE, with the concurrence of OEC, has recommended that an independent survey be initiated

to determine the long-range ICA program in Korea. OEC has recommended that this survey be undertaken by the Mission Staff with the assistance of one Washington consultant.

3. O/FE and OEC concur in principle but differ in detail on the following Team recommendations:

Recommendation No. 2 - Agricultural Institutions. The Team recommended combining the Suwon Agricultural College with the Institute of Agriculture, also located at Suwon, in the interest of economy and improved administration. OEC agrees that recommendation is a sound one but does not consider its implementation feasible at this time, since the institutions in question are currently under the jurisdiction of competing ministries - Education and Agriculture.

Recommendation No. 4 - Financing Fisheries. The Team recommended use of DS and TC funds to finance this program, with emphasis on projects which develop exports. O/FE raised the question as to whether, in view of the problems raised by competition between Japanese and U. S. fisheries, emphasis should be placed on exports. However, it suggested that OEC explore further export potentialities in fisheries. The OEC is interested in increasing fisheries production for both domestic consumption and export.

Recommendation No. 11 - Korean Coal for Railroad. The Team recommended that a renewed effort be made to determine the feasibility of using Korean anthracite in railroad locomotives. O/FE and OEC agree that the project should be continued but without interfering with the current dieselization program now nearing completion. Improved anthracite in larger volume is needed for industrial purposes.

Recommendation No. 18 - Financing Improvements for the Korean National Railroad. The Team recommended continued use of DS funds for maintenance and essential development of the KNR. O/FE has suggested that no additional sums be invested in the project pending the adoption of operating policies based on a comparative cost study. OEC accepts the recommendation of O/FE but to date has not initiated suggested study. Meanwhile, the OEC is endeavoring to get the Ministry of Transportation to finance a greater share of its investment needs from its own resources.

Recommendation No. 23 - Exchange Rate. The Team does not recommend an immediate change in the existing 500 to 1 exchange rate. O/FE thinks that "immediate attention should be given to a revision of the rate", but recognizes that such a revision might require changes in the existing U.S.-ROK exchange rate agreement, and that this is not likely to prove feasible so long as the ROK government is able to keep wholesale prices within agreed limits. OEC agrees with the Team that the time has not yet come for a revision of the official exchange

rate, and suggests continued adherence to the January 1957 agreement in the interest of orderly progress toward a more realistic official rate. Meanwhile OEC continues to favor considerably higher multiple (unofficial) rates for specific purposes.

4. O/FE and (or) OEC were unable to concur in the following recommendations of the Team:

Recommendation No. 6 - Funding of Public Health Program. The Team recommended that only TC funds be used to support the program in public health. O/FE recommended continuance of the transfer of responsibility for financing and administering public health activities to the ROK Government. The OEC, with O/FE concurrence, continues its use of DS as well as TC funds. At the same time, OEC is pursuing the O/FE recommendation and urging the ROK to make budgetary provision for public health activities.

Recommendation No. 7 - Funding of Education Program. The Team would restrict use of DS funds to educational activities which have a direct influence on foreign exchange. O/FE and OEC do not accept this restriction. However, the program in education is now largely financed with TC funds.

Recommendation No. 8 - DS Funds for Housing. Team recommends that no DS funds be used to finance low and moderate cost housing. O/FE recommends gradual phasing out of low and moderate cost housing project but would continue aided self-help housing program and the development of indigenous building materials program. The OEC feels that the low and moderate cost housing project should be continued because of its beneficial effect on the economy, and would not limit aided self-help to refugees. OEC awaits further clarification of ICA/W position.

Recommendation No. 9 - Substitution of Community Development Program for Agricultural and Rural Health Services. Team recommends substitution of community development program for agricultural and rural health services. O/FE recommends closer coordination of these programs. These activities are coordinated and OEC is awaiting further instructions.

Recommendation No. 19 - Funding of Highway Construction. Team recommends the phasing out of highway construction financed with DS funds. O/FE recommends that no substantial investment be made for highways pending the adoption of a transportation policy based on the results of a comparative cost study. OEC does not concur in Team recommendation, because it believes that substantial economic gains can be achieved by a relatively small dollar investment in highways. OEC recently indicated to S/Transportation that it would initiate a survey of current transportation needs but, so far, ICA/W has had no report on survey.

Recommendation No. 22 - Population Control. Team recommends study of population problem with emphasis on emigration and educational program on planned parenthood. O/FE recommends that initiative in these matters be left with the ROK. OEC believes that, if rate of increase in production can be maintained, there will be no need to reduce population pressures. It further believes that neither dollar nor counterpart funds should be used to campaign for planned parenthood.

Recommendation No. 24 - Economic Development and Foreign Exchange. The Team recommends "that those phases of the economic development program not directly and immediately related to alleviating foreign exchange situation be broadly confined to financing with technical funds". Neither the O/FE nor the OEC thinks it would be wise or practicable to make foreign exchange earnings the sole criterion in formulating future program judgments.

cc: Mc Cormick

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JUL 6 1959

O/FE - Dr. Raymond T. Moyer

DD/O - D. A. FitzGerald /s/ D. A. FitzGerald

Status of Korean Evaluation Report

The actions reported in your memorandum of June 1 concerning the recommendations of the Korea evaluation report appear to represent appropriate action pursuant to the "Review of the Korea Evaluation Report" which was transmitted to the Director on October 8, 1958, subject to the following comments:

1. Recommendation 10 on the Public Administration Program is reported as being "in process of implementation." I understand that this means more specifically that the Public Administration Program has been expanded by advisors in customs, banking, foreign investment and supply management, together with three contractors who will carry out programs in statistical reorganization and development of schools of business and public administration. I understand that further expansion in the form of additional contracts is being planned. This appears to constitute appropriate action pursuant to the recommendation.

2. Recommendation No. 2 proposed combining Suwon Agricultural College with the Institute of Agriculture. As stated in your memorandum, OEC while agreeing that the recommendation is a sound one, does not consider implementation feasible at this time. I think that we must accept the OEC judgment on the feasibility of implementation.

3. The O/FE review of recommendations 18 and 19 proposed a study of transportation facilities as a basis for an overall transportation policy. The status report indicates that ICA/W is awaiting a report on the results of this survey. I suggest that the report, when received, be made a part of the record in final reporting on the Korean evaluation.

4. Because of its importance, I would suggest that the final decision on the proposal for a survey by the Mission staff (recommendation 25) to determine the long-range ICA program in Korea be reported as part of this record.

cc: EXSEC
AD/E

EXECUTIVE SECRETARIAT

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RecommendationAction Plan

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|------|---------|---|---|
| 2 1 | 1.p.46 | Assign U.S. technician to evaluate feasibility of irrigation projects. | Recruitment of U.S. Bureau of Reclamation team to be expedited; new irrigation projects to be deferred until overall plan drawn up and approved. |
| 2 4 | 2 p.48 | Urge ROK to combine Suwon Agri. College and Institute of Agri. | (Combination not feasible) Improve coordination possibly through a Korean advisory body; joint planning and programming. |
| 2 11 | 3 p.49 | Fund agri. projects from TC; only those relating directly improvement foreign exchange position funded with DS. | <u>Disagree</u> . Limitation would hinder economic growth. No action needed. |
| 2 11 | 4 p.51 | Employ DS funds in addition to TC in assisting fishermen in acquiring boats and equipment. | Encourage projected ROK fisheries study; explore potentialities of fisheries production for export; policy re export vs. domestic rproduction. |
| 2 4 | 5 p.52 | Use DS and TC funds for fish refrigeration. | To be included in joint U.S.-Korean planning of fisheries program. |
| 2 1 | 6 p.53 | Continue health program with TC funds only; reduce other activities--over-population. | No action needed. <u>Disagree</u> re single country de-emphasis; but responsibility for health program being increasingly assumed by ROK. |
| 2 7 | 7 p.54 | Continue use of DS funds for educational activities that directly influence foreign exchange. | (<u>Disagree</u>) - No action needed; conflicts with ICA and NSC policy on aid to education in underdeveloped countries. |
| 2 8 | 8 p.56 | Discontinue use DS funds for low-cost housing. Continue use DS for refugee housing program . | Gradually phase out rehabilitation phase of Korea housing project. Continue support of aided self-help and indigenous materials. |
| 2 9 | 9 p.57 | Use TC funds for CD program. (As substitute for extension and pub. health workers) | (Extension and health centers still essential) Closely coordinate development of rural health and agricultural extension services with CD organization. |
| 3 0 | 10 p.58 | Expand Pub. Admin. program where Korean interest shown. | No action needed. Expansion of Pub. Admin. program already begun. |

RecommendationAction Plan

- 25E 11 p.61 Resume attempts to develop anthracite to determine feasibility of use in locomotives. (Disagree re use in locomotives because of aid-financed dieselization program for railroads.) Systematically pursue program of developing anthracite resources, for other uses.
- 25B 12 p.63 Use DS funds for construction two new power plants. No action needed. Funding for one plant provided under FY 1958 DS program. ROK has applied for DLF loan for financing the other.
- 25C 13 p.63 ROK should finance telecom. system from its own budget. ICA continue TC program for this activity. (Disagree. Should not withhold U.S. aid from exchange earners now.) No DS planned; DLF loan approved--no objection. Coordinate programming of dollar earnings and aid.
- 25E 14 p.65 Defer construction additional fertilizer plants until there is active Korean participation in management of plant presently under construction. No action needed. Recommendation reflects current ICA policy re large plants.
- 25E 15 p.66 Enlarge staff of U.S.-trained technicians for technical review of industrial loan applications. No action needed.at this time. Continue present programs for Korean industrialization, with maximum utilization of capital resources--domestic and foreign.
- 25E 16 p.68 Expand industrial loan program; special emphasis on industries designed to achieve foreign exchange savings.
- 25E 17 p. 68 Establish industrial training and development center--Use DS and TC funds.
- 25E 18 p.70 Continue use DS funds for foreign exchange costs of maintenance and essential development railways. Program plans shift to highway emphasis; Team emphasizes railways. Need integrated network. Await adoption of overall transportation policy before programming substantial aid for any form of transportation.
- 25D 19 p.71 Phase out DS funding for highway construction; concentrate DS on dollar requirements for maintenance.
- 25E 20 p.72 Use DS and TC funds for exploration work in minerals. No action needed. Recommendation endorses present program.
- 25E 21 -.73 Explore possibility of using obsolete equipment as well as surplus military equipment. No action needed. Substantial excess property now used.

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Recommendation

Action Plan

23^A 22 p.77 U.S. and ROK study population

No action needed. Leave initiative in this field to ROK.

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