

REPUBLIC OF KOREA

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TO : Office of the President
FROM : Minister Yong Shik Kim
SUBJECT : Political Report

The items in this week's Political Report are as follows:

- I. JAP POLITICS.
- II. RECENT ECONOMIC TREND OF JAPAN.
- III. HATOYAMA'S VIEW ON DIPLOMATIC AFFAIRS.

I. JAP POLITICS.

Leaders of both Democratic and the Liberal parties are still trying to formulate a plan for the proposed conservative merger at an earliest convenience. The Liberals insisted on the public election of the new party president, while the Democrats called for Hatoyama's presidency of the new party for several months at least.

With the question of election of the president still pending, leaders of the two conservative parties agreed to hold mass meetings in large cities of Japan. Both Hatoyama and Ogata, president of the Liberal party, were present at a mass meeting held in Tokyo and delivered speeches, putting emphasis on the necessity for an early merger of the conservative political forces in Japan. The two leaders of the two conservative parties, together with their aides, attended a joint speech meeting in Osaka area. It is reported that the two presidents made up their minds to effectuate an early merger during their stay in Osaka area. It is also said that Hatoyama and principal aides of his party were agreed that the Democratic Party should accept the principle as to public election of the new party president. This new formula calls for realization of the Democratic-Liberal merger by the end of November with a tacit understanding that Hatoyama be named as the first president of the new party. Hatoyama, who had been critical of the public election of the party head, reportedly approved a recommendation made by the Secretary-General of the Democratic Party upon the agreement reached among the three Democratic executive leaders. This new formula will be submitted for official decision to a special meeting of the Democratic Party slated to be held on October 20.

On the other hand, it is also true that among the Democrats there are some elements who were opposed to the party's official decision on the merger by the above date on the ground of lack of policy agreement between the two conservative parties. However, the three executive members of the Democratic Party are expecting that those democrats who are cautious about the merger will make concessions and agree to the new formula. But it is noted that the above progress has been made only in connection with the question of adjusting different views held by members of the Democratic Party regarding the conservative merger. And accordingly, there will arise arguments with the Liberals particularly in relation to the main policies of the proposed new party. Under

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the circumstances, it will be premature to predict when the actual merger of conservative political forces will be materialized.

In the meanwhile, the Left-wing and Right-wing Socialist parties held conventions on October 12 to dissolve themselves in preparation for merging into a single Socialist Party at a unified convention to be held on October 13. The two Socialist parties have already finished all the necessary arrangements including the adjustment of policies for realization of the proposed Socialist merger.

On October 11, leaders of the two Socialist parties continued discussions to choose the executive personnel of the unified Socialist Party. It is reported that the chairmanship of the new unified party will be handed over to the chairman of the present Left-wing Socialist Party and the present Secretary-General of the Right-wing Socialist Party will be nominated as the Secretary-General of the new party. If the unification convention of the two Socialist parties is successfully held on October 13, the proposed formation of the new unified Socialist Party will be materialized. In this case, the new socialist party will be the second largest party, the first being the present Democratic Party now in power. In view of the recent development of the Jap politics, it will be almost clear that the conservative merger will also be realized in the near future.

II. RECENT ECONOMIC TREND OF JAPAN.

According to sources of the Jap Ministry of Finance, Jap exports reached a postwar-high record of \$972,197,000 during the first half of the fiscal year 1955. The volume of exports represented a 22.5 per cent increase over the like first-half period of last year.

It is reported that the hike in exports during the first half was attributable to increased demand for goods including steel items in Australia, India, the Philippines and other Southeast Asian countries. It should be noted that steel goods exports reached a total of 988,000 tons, valued at \$128 million. As compared with the like period of last year, such exports showed a two-fold increase in amount and a 70 per cent hike in value. It is also a new fact that exports of clothing to the US reached \$55 million during the first half of the fiscal year 1955.

Thus, Japan's foreign exchange account registered the biggest receipt excess in the postwar periods and the actual dollar-holdings of Japan have come to reach more than \$1.3 billion as of the end of September, 1955. This will mean that Japan will be in a position to play an active role in the so-called economic cooperation projects for the Southeast Asian countries. Japan will participate in operating the Colombo Plan -- at present represented by a conference in Singapore. A Jap delegation, composed of two Cabinet ministers and several other high-ranking officials, will participate in the conference which will last until around October 22. Japan is earnestly desirous that the proposed 100 million dollar US Presidential economic aid to Asian countries be so used that Japan can participate to a large extent in supplying needed goods and services to the beneficiaries, in the same way as goods and services can be supplied to various countries of the Asian region through other funds made available through the Colombo Plan. Japan is now keenly interested in how the US Presidential fund amounting to \$100 million will be allocated and used.

III. HATOYAMA'S VIEW ON DIPLOMATIC AFFAIRS

On October 7, Hatoyama, en route to Osaka for a Democratic-Liberal

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joint speech meeting, said to correspondents as follows:

Regarding the Russo-Japanese Talks.

Hatoyama said to the effect that the Japanese government would determine its final policy on settlement of pending issues with Russia by the end of this year. He went on to say that Japan could not afford to let the peace talks become ruptured.

Regarding the Reparations issues with the Philippines.

Referring to the Philippine reparations issue, Hatoyama said some points in the proposed \$800-million plan "seem to need some revision" but added that it was questionable whether the Manila government would accept such amendments. He added that even the \$800-million program was "better than no settlement at all."

In the meantime, the Jap government decided to make the following counter-proposal to the Philippines:

1. The \$800-million plan be divided definitely into reparations proper amounting to \$550-million and a credit totaling \$250-million. The Japanese government be held responsible only for the former, while the latter be carried out on a strictly commercial basis.

2. The \$550-million reparations be considered as a unit and not divided, as Manila proposes, into capital goods (\$500-million), service (\$30-million) and cash (\$20-million).

Now, in connection with Japan's counter-proposal, Shigemitsu told reporters that although he could not say whether Manila had accepted the Japanese counter-proposal, Japan was determined "to spare no effort to bring the issue to a satisfactory conclusion." In the meanwhile, Philippine chief negotiator Neri, countering the reported Jap counter-proposal, told reporters that the Philippine position is that the formula should not be revised, adding that as far as he was concerned, the Philippine formula was final and binding. Neri further said that he understood the Hatoyama government was still trying to prevail upon the Liberals to accept the Philippine proposal.

On the other hand, the Jap Liberal party decided its attitude toward the Philippine proposal of the \$800-million formula at a meeting of the party's Foreign Affairs Research Board held on Oct. 5. The Liberal party made an announcement of its attitude to the \$800-million formula to the effect that "the amount was too much of a burden for Japan, considering her present economic conditions."

Guy Stutsler