October 18, 1948
Memorandum from A.M. Rosenson to Wendel Regarding Draft Economic Policy Statement

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Summary:

Memo from Alexander M. Rosenson, chief of the monetary affairs staff at the Dept. of State, to Wendel with the economic section of the US policy agenda towards South Africa attached.

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Office Memorandum · UNITED STATES GOVERNMENT

DATE: 10/18/48

TO : U - Mr. Wendel

FROM : FN - A. M. Rosenson AMR

SUBJECT:

At the suggestion of Mr. Spiegel of this Division, I send you herewith for your information a copy of the proposed economic section for the policy statement on South Africa.

The statement as a whole is still in draft form and subject to change.

UNDER SECRETARY'S OFFICE

OCT 18 1948

1948, 18 October, Memo from Rosenson to Wendel re: draft economic policy statement, NARA, RG 59. Obtained and contributed by Mara Drogan.

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ECONOMIC SECTION OF POLICY STATEMENT FOR SOUTH AFRICA

Economic

South Africa's economic relations with the United States have been characterized by a large and growing volume of trade in which South Africa normally utilizes the output of her gold mines to balance an import surplus in other commodities with this country.

In the last eighteen months the Union has incurred a heavy dollar deficit which has been reflected in a serious depletion of its gold reserves. This deficit has been caused largely by a heavy increase in imports from the dollar area unmatched by a corresponding increase in exports. The factors chiefly responsible for this development are: (1) a large increase in money incomes, due to an excessive growth of bank credit and an abnormal influx of capital from the United Kingdom, which the Union Government has so far failed to offset by strong counter-inflationary measures; (2) the need to replenish depleted inventories and satisfy demands pent up during the war years; (3) an adverse shift in the Union's terms of trade resulting from roughly a doubling of its import prices as against the maintenance of an internationally fixed price for its chief export--gold.

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This situation has led to an informal request by the Union Government for an Export-Import Bank loan. In submitting this request, the Union Government has indicated that it regards import or exchange restrictions as the chief alternatives to receiving financial assistance from this country. While the Department's policy with respect to this problem has not yet been formulated, its preliminary position may be summarized as follows:

(a) No balance-of-payments or stabilization loan should be extended to South Africa unless it is accompanied by thoroughgoing fiscal and monetary measures (including action to eliminate, or prevent the resumption of, abnormal inward movements of capital) designed to remove inflationary pressures. In accordance with our general policy with respect to non-ERP countries, however, we should not oppose the purchase of dollars by South Africa from the Monetary Fund to the extent of 25% of her quota, or $25 million.

(b) We wish to encourage the Union's adherence to the multilateral trading principles of the General Agreement on Tariffs and Trade and of the ITO Charter. Although provision is made in the GATT for import restrictions on balance-of-payments grounds

grounds, it is not the policy of this Government to acquiesce in such restrictions until all alternative measures of correcting the imbalance have been explored. If it should develop that import restrictions cannot be avoided, we should insist upon their conforming to the provisions of GATT and upon South Africa's giving convincing proof that it is taking appropriate internal measures to correct the imbalance in its international accounts.

(c) Our economic development policy toward South Africa should be directed towards promoting the development of her natural resources, especially those which are important to our program for stockpiling strategic materials. We should urge South Africa to endeavor to obtain from private American sources the dollar capital necessary to such development. If South Africa should apply to the International Bank for a loan to finance long-term development schemes, we should support the application. We should also support an application for an Export-Import Bank loan if sought for short-term projects of suitable character.

A draft

A draft of a treaty of friendship, commerce and navigation was presented by the United States to the Government of the Union of South Africa in April 1949. It is hoped that the Union will be ready to enter into discussions with regard to the treaty in the near future.

The treatment given by the Union of South Africa to the natives of Southwest Africa, a territory mandated to the Union by the League of Nations, is a matter of legitimate concern to all members of the United Nations. The representatives of the United States to the UN, both in the Trusteeship Council and in the General Assembly, should therefore continue to point out the deficiencies in the working conditions and living standards of the territory's native inhabitants and to press for the improvement of such conditions and standards.

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10/7/49