

October 4, 1955

Letter, Harold Lady to Syngman Rhee

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Summary:

Notes concerning the agenda for Syngman Rhee's meeting with Hoover and Hollister concerning the Korean budget for fiscal year 1956.

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MEMO NO. 92

October 4, 1955

Dear President Rhee:

Subject: Notes concerning the agenda for your meeting with Messrs. Hoover and Hollister.

With the hope that it will be of assistance to you in your meeting with Mr. Hoover and Mr. Hollister, there follows such information as I have been able to obtain as to the briefing they will receive from American officials in Korea in preparation for the conference with you. It indicates that it may be quite difficult to obtain agreement on the theories and plans advocated in the agenda.

1. American economists believe that the Korean plan for the use of \$161,000,000 (58%) of fiscal year-1956 aid funds from the U.S. for so-called capital investment will not work because the Korean Government is unable to obtain enough Hwan to pay for the local labor, materials, etc., necessary to utilize the aid dollars provided for capital investment without resorting to the practice of running the printing press and debasing the currency. American economists say that only \$51,000,000 should be used for investment so that an additional \$80,000,000 can be spent for things the Korean Government can sell for Hwan, thus adding Hw40 billion to Government income. The best way to overcome this argument would appear to be to obtain American agreement to augment the Korean government's income with Direct Forces Support and surplus agricultural commodities, as proposed in the agenda, unless a new plan is submitted showing that the Korean Government can develop an adequate Hwan income without using the printing press.

2. The American law furnishing the dollars for the program to export surplus agricultural products provides that they may be used only to finance shipments over and above the normal purchases of the receiving country. The Korean plan provides for no purchases of American agricultural products while obtaining \$67,000,000 worth of them as a gift. It will probably be difficult to convince Mr. Hollister that all the cotton should be on a gift basis; in the case of wheat and barley, or rice if desired, it should not be so difficult.

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Despite the American legal restrictions there is considerable latitude for administrative decision greatly favoring Korea.

3. The present thinking of the U.S. Military is understood to be that none of the Direct Forces Support funds will be used to cover items in the Republic of Korea military budget; that is, that this money will not be used to decrease the deficit spending that the Korean Government has planned for fiscal year 1956. However, there is some indication that a request for \$10,000,000 to relieve the Korean budget would be considered. The plan contemplated in the agenda relies on receiving \$50,000,000 in budgetary assistance. It is suggested that a special effort be made to obtain the necessary change in American policy; otherwise, drastic changes in the present economic plan will be required to prevent a resumption of inflation.

4. The agenda plan also contemplates that, of the total Direct Forces Support program, \$50,000,000 will be spent in Korea to buy supplies and equipment for Korean military forces. This will be only in part the same as the \$50,000,000 intended for military budget relief, and the figures in this and the preceding paragraph are the same only by accident. The American position is that prices are so high in Korea at the H $\frac{500}{\$1}$ rate that an "offshore procurement" program in Korea is impossible. However, in my opinion the \$50,000,000 offshore procurement program can be realized if the Ministries of Finance and Commerce make vigorous and prompt efforts to assist in developing Korean industries capable of producing items of value to the military establishment, and the policies of the Government are revised so that inflation does not wreck the price structure. Among the steps they should take are (a) granting producers liberal, but closely supervised, credit; (b) permitting those who earn Direct Forces Support dollars to import preferential (high profit) items; (c) taking drastic action against any Government officials or others who harass or delay companies that receive contracts under the Direct Forces Support program. It is suggested that strong representations be made to Mr. Hoover and Mr. Hollister as to Korea's wish and ability to produce military supplies and equipment at reasonable prices in terms of dollars.



While the "offshore procurement" program is of importance to the Korean economy, it is even more important to Korean military strength and independence and, hence, is a matter deserving high priority.

5. Although the idea of a \$50,000,000 loan (or stand-by credit) to be used for currency stabilization has not been considered by the Americans, obtaining it is not believed impossible. The matter hinges chiefly on confidence in the Korean Government's ability to manage its financial affairs properly. I am informed that this confidence is at rather a low ebb at the present time. However, I believe confidence can be restored if the Korean Government presents a logical, carefully conceived plan and follows it closely.

6. One question that Mr. Hoover and Mr. Hollister may raise is the Korean policy toward business with Japan. They will probably sympathize with the Korean position so far as the use of Korean money is concerned, but will not agree to a clear-cut boycott of Japan when purchases are financed with American money. However, in the case of machinery and other manufactured goods, they may not object to Korea's giving preference to American and European sources on the theory that the quality of the Japanese products is usually inferior, repair parts for Japanese machines are frequently over-priced, and it is impossible for Japanese experts to come to Korea to service machinery purchased from them.

7. A weakness in the plan reflected by the agenda is that it shows no economic development financed with Korean foreign exchange (I was unable to obtain information on this) or by private American investors. It is suggested that these two topics be avoided if possible.

Harold Wendell Lady