

FOREIGN
RELATIONS
OF THE
UNITED
STATES

1981–1988
VOLUME XXXVIII

INTERNATIONAL
ECONOMIC
DEVELOPMENT;
INTERNATIONAL DEBT;
FOREIGN ASSISTANCE



DEPARTMENT
OF
STATE

Washington



Foreign Relations of the United States, 1981–1988

Volume XXXVIII

International Economic Development; International Debt; Foreign Assistance

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About the Series

The *Foreign Relations of the United States* series presents the official documentary historical record of major foreign policy decisions and significant diplomatic activity of the U.S. Government. The Historian of the Department of State is charged with the responsibility for the preparation of the *Foreign Relations* series. The staff of the Office of the Historian, Foreign Service Institute, under the direction of the General Editor of the *Foreign Relations* series, plans, researches, compiles, and edits the volumes in the series. Secretary of State Frank B. Kellogg first promulgated official regulations codifying specific standards for the selection and editing of documents for the series on March 26, 1925. These regulations, with minor modifications, guided the series through 1991.

Public Law 102–138, the Foreign Relations Authorization Act, established a new statutory charter for the preparation of the series, which was signed by President George H.W. Bush on October 28, 1991. Section 198 of P.L. 102–138 added a new Title IV to the Department of State's Basic Authorities Act of 1956 (22 U.S.C. 4351, et seq.).

The statute requires that the *Foreign Relations* series be a thorough, accurate, and reliable record of major United States foreign policy decisions and significant United States diplomatic activity. The volumes of the series should include all records needed to provide comprehensive documentation of major foreign policy decisions and actions of the United States Government. The statute also confirms the editing principles established by Secretary Kellogg: the *Foreign Relations* series is guided by the principles of historical objectivity and accuracy; records should not be altered or deletions made without indicating in the published text that a deletion has been made; the published record should omit no facts that were of major importance in reaching a decision; and nothing should be omitted for the purposes of concealing a defect in policy. The statute also requires that the *Foreign Relations* series be published not more than 30 years after the events recorded. The editors are convinced that this volume meets all regulatory, statutory, and scholarly standards of selection and editing.

Sources for the Foreign Relations Series

The *Foreign Relations* statute requires that the published record in the *Foreign Relations* series include all records needed to provide comprehensive documentation of major U.S. foreign policy decisions and significant U.S. diplomatic activity. It further requires that government agencies, departments, and other entities of the U.S. Government

engaged in foreign policy formulation, execution, or support cooperate with the Department of State historians by providing full and complete access to records pertinent to foreign policy decisions and actions and by providing copies of selected records.

The editors of the *Foreign Relations* series have complete access to all the retired records and papers of the Department of State: the central files of the Department; the special decentralized files ("lot files") of the Department at the bureau, office, and division levels; the files of the Department's Executive Secretariat, which contain the records of international conferences and high-level official visits, correspondence with foreign leaders by the President and Secretary of State, and the memoranda of conversations between the President and the Secretary of State and foreign officials; and the files of overseas diplomatic posts. The records that constitute the Department's central files for 1981–1989, which were stored in electronic and microfilm formats, will be transferred eventually to the National Archives. Once these files are declassified and processed, they will be accessible. All of the Department's decentralized office files from this period that the National Archives deems worthy of permanent preservation will also eventually be transferred to the National Archives where they will be available for use after declassification and processing.

Research for *Foreign Relations* volumes is undertaken through special access to restricted documents at the Ronald Reagan Presidential Library and other agencies. While all the material printed in this volume has been declassified, some of it is extracted from still-classified documents. The staff of the Reagan Library is processing and declassifying many of the documents used in this volume, but they may not be available in their entirety at the time of publication. Presidential papers maintained and preserved at the Reagan Library include some of the most significant foreign-affairs related documentation from White House offices, the Department of State, and other federal agencies including the National Security Council, the Central Intelligence Agency, the Department of Defense, and the Joint Chiefs of Staff.

Some of the research for volumes in this subseries was done in Reagan Library record collections scanned for the Remote Archives Capture (RAC) project. This project, which was administered by the National Archives and Records Administration's Office of Presidential Libraries, was designed to coordinate the declassification of still classified records held in various Presidential libraries. Throughout the course of the project, many, but not all, records at each Presidential library were scanned. As a result of the way in which records were scanned for the RAC, the editors of the *Foreign Relations* series were not always able to determine whether attachments to a given document

were in fact attached to the paper copy of the document in the Reagan Library file. In such cases, some editors of the *Foreign Relations* series have indicated this ambiguity by stating that the attachments were "Not found attached."

Editorial Methodology

The documents are presented chronologically according to Washington time. Memoranda of conversation are placed according to the time and date of the conversation, rather than the date the memorandum was drafted.

Editorial treatment of the documents published in the *Foreign Relations* series follows Office style guidelines, supplemented by guidance from the General Editor and the Team Lead of the Editing and Publishing Team. The documents are reproduced as exactly as possible, including marginalia or other notations, which are described in the footnotes. Texts are transcribed and printed according to accepted conventions for the publication of historical documents within the limitations of modern typography. A heading has been supplied by the editors for each document included in this volume. Spelling, capitalization, and punctuation are retained as found in the original text, except that obvious typographical errors are silently corrected. Other mistakes and omissions in documents are corrected by bracketed insertions: a correction is set in italic type; an addition in roman type.

Words and phrases underlined in the original document are printed in italics. Abbreviations and contractions are preserved as found in the original text, and a list of abbreviations and terms is included in the front matter of each volume. In telegrams, the telegram number (including special designations such as Secto) is printed at the start of the text of the telegram.

Bracketed insertions are also used to indicate omitted text that deals with an unrelated subject (in roman type) or that remains classified after declassification review (in italic type).

The amount and, where possible, the nature of the material not declassified has been noted by indicating the number of lines or pages of text that were omitted. Entire documents withheld after declassification review have been accounted for and are listed with headings, source notes, and number of pages not declassified in their chronological place.

All brackets that appear in the original text are so identified in footnotes. All ellipses are in the original documents.

The first footnote to each document indicates the source of the document and its original classification, distribution, and drafting information. This note also provides the background of important documents

and policies and indicates whether the President or his major policy advisers read the document.

Editorial notes and additional annotation summarize pertinent material not printed in the volume, indicate the location of additional documentary sources, provide references to important related documents printed in other volumes, describe key events, and provide summaries of and citations to public statements that supplement and elucidate the printed documents. Information derived from memoirs and other first-hand accounts has been used when appropriate to supplement or explicate the official record.

Advisory Committee on Historical Diplomatic Documentation

The Advisory Committee on Historical Diplomatic Documentation, established under the *Foreign Relations* statute, reviews records, advises, and makes recommendations concerning the *Foreign Relations* series. The Advisory Committee monitors the overall compilation and editorial process of the series and advises on all aspects of the preparation and declassification of the series. The Advisory Committee does not necessarily review the contents of individual volumes in the series, but it makes recommendations on issues that come to its attention and reviews volumes as it deems necessary to fulfill its advisory and statutory obligations.

Declassification Review

The Office of Information Programs and Services, Bureau of Administration, conducted the declassification review for the Department of State of the documents published in this volume. The review was conducted in accordance with the standards set forth in Executive Order 13526 on Classified National Security Information and applicable laws.

The principle guiding declassification review is to release all information, subject only to the current requirements of national security as embodied in law and regulation. Declassification decisions entailed concurrence of the appropriate geographic and functional bureaus in the Department of State, other concerned agencies of the U.S. Government, and if applicable, the appropriate foreign governments regarding specific documents of those governments. The declassification review of this volume, which began in 2019 and was completed in 2023, resulted in the decision to withhold 0 documents in full, excise a paragraph or more in 1 document, and make minor excisions of less than a paragraph in 13 documents.

The Office of the Historian is confident, on the basis of the research conducted in preparing this volume and as a result of the declassification

review process described above, that the documentation and editorial notes presented here provide an undiluted record of the Reagan administration's policies on foreign assistance and international development and international debt issues.

Adam M. Howard, Ph.D.

The Historian

Kathleen B. Rasmussen, Ph.D.

General Editor

Foreign Service Institute

Preface

Structure and Scope of the Foreign Relations Series

This volume is part of a subseries of volumes of the *Foreign Relations* series that documents the most important issues in the foreign policy of the administration of Ronald Reagan. This volume documents U.S. foreign economic policies toward and relations with the developing world from 1981 through 1988. It covers the formulation of U.S. foreign economic assistance and development policies, policies toward developing countries in the United Nations and other multilateral fora and international meetings, the U.S. response to international debt problems, international commodity policy, and policies toward international financial institutions. For documentation and context on related issues and topics during the preceding years of the Carter administration, see *Foreign Relations, 1977–1980, Volume III, Foreign Economic Policy*. For key companion volumes covering foreign economic relations with industrialized countries during the Reagan administration, see *Foreign Relations, 1981–1988, Volume XXXVI, Trade; Monetary Policy; Industrialized Country Cooperation, 1981–1984* and *Foreign Relations, 1981–1988, Volume XXXVII, Trade; Monetary Policy; Industrialized Country Cooperation, 1985–1988*. For documentation on the African famine and related food aid policy during the Reagan administration, see *Foreign Relations, 1981–1988, Volume XLI, Global Issues II*. As this volume takes a global and thematic approach, foreign economic policy issues related to a specific country or region are generally not documented in it, but instead are covered in regional and country-specific volumes within the subseries.

Focus of Research and Principles of Selection for Foreign Relations, 1981–1988, Volume XXXVIII

This volume focuses on the Reagan administration's foreign economic policies toward the developing world. Documents selected for this volume highlight the high-level decision-making within the White House, the Department of State, and the Department of the Treasury on a wide range of economic issues. The issues the Reagan administration faced included: responding to specific initiatives, such as the attempt by developing nations within the United Nations to formally launch Global Negotiations, a forum for countries of the "North" and the "South" to negotiate international economic relations; the need to formulate policies and strategies to address an unfolding international debt crisis, which lasted until the end of the Reagan administration and continued into the George H.W. Bush administration; and approaches

to foreign assistance, funding international financial institutions, and the U.S. role in international commodity policy.

The Reagan administration began work on an overall strategy for economic relations with developing countries immediately upon taking office in January 1981. Its approach included placing a greater emphasis on bilateralism and moving away from multilateralism because officials believed the bilateral approach to be more efficient and direct; a greater stress on private sector solutions to development and aid challenges; recognition of the “heterogeneous nature” of the developing world; and a focus on the responsibility of individual countries to make sound economic decisions and pursue sound domestic policies. President Reagan’s attendance at the 1981 International Meeting on Cooperation and Development held in Cancun, Mexico, also known as the Cancun Summit, provided an opportunity to communicate his administration’s approach to relations with the developing world. Administration officials saw the summit, the first of its kind, as a way to shape the global dialogue on economic development and cooperation according to U.S. priorities and principles. The formulation of the U.S. position for the Cancun Summit, and for Global Negotiations generally, is a central focus of this volume. At the summit, Reagan communicated the high-level administration interest in developing countries and affirmed the need for meaningful international cooperation and dialogue on economic development within pre-existing frameworks and institutions according to principles that he outlined. Ultimately, the Reagan administration determined that participation in multilateral negotiations on international economic issues within the United Nations framework, as advocated for and defined by the G-77, was not in the interest of the United States and so did not support the launching of formal Global Negotiations, a position with which the United States’ G-7 partners did not always agree for reasons documented in the volume.

United Nations Conference on Trade and Development (UNCTAD) meetings, also documented in the volume, provided another venue for U.S. officials to discuss and promote strategies and policies toward the developing world. Documents that reflect this high-level interest in this volume include minutes of U.S. Cabinet-level meetings, minutes and summaries of multilateral summits and meetings, interagency memoranda, memoranda to the President, and memoranda to and from other high-level government officials. Because the focus of this volume is on policy formulation within Washington, cables reporting from the field comprise only a small percentage of the documents included.

As the Reagan administration formulated its overall strategy and policies toward developing countries, a series of international debt problems unfolded that required significant attention from policymakers. By 1982, high-level meetings regularly took place to monitor the

financial situations of key debtor countries and assess their implications for U.S. and global financial systems. On June 9, 1983, President Reagan issued National Security Decision Directive 96, which outlined the U.S. Government approach to the international debt problem. In 1985, Secretary of the Treasury James A. Baker, III presented the next phase of the U.S. Government debt strategy at the joint International Monetary Fund-World Bank annual meeting in Seoul, Korea, entitled the "Program for Sustained Growth," known thereafter as the "Baker Plan." This volume documents the formulation of and discussions around these and other U.S. Government responses to the unfolding international debt crisis, which many officials feared could cause a global financial collapse. How best to respond to the problem as it evolved was a topic of debate, and at times conflict, among interagency officials throughout Reagan's two terms, particularly among the National Security Council, the Department of State, and the Department of the Treasury. This volume documents these various points of view and discussions through agency memoranda, minutes of meetings of senior officials, government papers, and letters.

Questions of how to approach foreign economic assistance and relations with international financial institutions more generally, as well as how to approach international commodity policy, were fundamentally intertwined with the U.S. responses to the international debt situation and to shaping economic relations with the developing world. This volume also examines how Reagan administration officials formulated policies and strategies on these issues. The volume documents debates and differing opinions among interagency officials on the role that foreign economic assistance could or should play in U.S. foreign policy and domestic economic policy, and over the amount and nature of U.S. contributions to and engagement with international financial institutions such as the International Monetary Fund and the multilateral development banks, as reflected in correspondence among senior officials and with members of Congress, agency memoranda, meeting minutes, papers, telegrams, and reports.

Regarding commodities, key Reagan administration officials generally opposed U.S. participation in international commodity agreements on philosophical and economic grounds, but recognized such agreements could serve other foreign policy objectives. The volume documents discussions and debates over the purpose of international commodity agreements and whether or not the United States should participate in them. The commodities covered most extensively within the volume were those with which officials during the Reagan administration most engaged: sugar and coffee. In its coverage of sugar policy in particular, the volume documents the interplay, and at times tensions, between foreign and domestic policy priorities and agendas, as seen in

the minutes of interagency meetings, letters (including congressional correspondence), and memoranda.

Acknowledgments

The Office of the Historian wishes to thank the interagency declassification personnel who conducted the review of this volume, including those at the Department of State, Office of Information Programs and Services (IPS); the FRUS Coordination Team at the Central Intelligence Agency; the OSD, Records and Declassification Division (RDD) at the Department of Defense; and the Directorate of Records, Access and Information Security Management at the National Security Council.

The editor wishes to acknowledge the assistance of officials at the Ronald Reagan Presidential Library, especially Lisa Magana, Ira Pemstein, and Cate Sewell. Thanks are also due to the Central Intelligence Agency for arranging access to the Reagan Library materials scanned for the Remote Archive Capture declassification project. The History Staff at the Center for the Study of Intelligence of the Central Intelligence Agency was accommodating in arranging full access to the files of the Central Intelligence Agency. The editor wishes to recognize the staff at the National Archives and Records Administration facility in College Park, Maryland, for their valuable assistance. The editor also thanks Paul Pitman and Kathleen Rasmussen for their assistance with research in Department of the Treasury records, and Kristin Ahlberg for her assistance with research at the Reagan Library.

Laura Kolar conducted the research and selected and annotated the documentation for this volume under the supervision of Myra Burton, then Chief of the Africa and the Americas Division, and Adam Howard, then General Editor of the *Foreign Relations* series. The volume was reviewed by Myra Burton and Kristin Ahlberg, Assistant General Editor of the *Foreign Relations* series. Dean Weatherhead coordinated the declassification review under the supervision of Carl Ashley, Team Lead of the Declassification Coordination Team. Kerry Hite did the copy and technical editing under the supervision of Mandy Chalou, Team Lead of the Editing and Publishing Team. Both declassification review and technical editing were coordinated by John Powers, Director of the Declassification Coordination, Publishing, and Digital Initiatives Division.

Laura R. Kolar, Ph.D.
Historian

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Sources

Sources for Foreign Relations, 1981–1988, Volume XXXVIII, International Economic Development; International Debt; Foreign Assistance

The records of the White House, the Department of State, and the Department of the Treasury provided the bulk of the key documentation for this volume. At the Reagan Presidential Library, the Executive Secretariat National Security Council (NSC) Trip File provided helpful documentation on the G–7 Economic Summits and the 1981 Cancun Summit, and was an essential source for high-level meeting notes. The Executive Secretariat NSC Subject File provided documentation on international debt, foreign economic assistance, and relevant meeting minutes. A number of NSC International Economic Affairs Directorate staff files proved to be important collections, including: the Roger Robinson Files, Norman Bailey Files, Stephen Danzansky Files, David Wigg Files, Stephen Farrar Files, and, in particular, the Douglas McMinn Files, which provided critical documentation for each chapter in the volume. The Ralph Bledsoe Files contained meeting minutes of the Cabinet Council on Economic Affairs (CCEA) and other relevant cabinet council meeting records. The George Shultz Papers housed at the Reagan Library also contained important documentation.

The Department of State records most vital for this volume include those of the Under Secretary of State for Economic Affairs (E) and the Department of State's Bureau of Economic and Business Affairs (EB). In particular, the Department's Official Economic Summit Files, 1975–1991 (Lot 93D490) and the Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, (Lot 89D378) provided essential documentation for the entire volume across its range of issues. The Official Office Files for E for 1986 (Lot 89D156), for 1987 (Lot 89D155), and for 1988–89 (Lot 89D154) also provided important material. EB's Office of International Finance and Development Investment Policy Files, 1981–1984 (Lot 85D193) provided key documentation for the first chapter on Global Negotiations and related issues. In addition, the files of the Executive Secretariat Sensitive and Super Sensitive Documents 1984–1989 (Lot 92D630), the Official Correspondence of Deputy Secretary John C. Whitehead (Lot 89D139), and the high-level memoranda and correspondence files of the Policy Planning Staff Director memoranda (Lot 89D149) provided key documents, especially on international debt and foreign assistance issues. The Department's Central Foreign Policy File was a critical source for important telegrams and cable traffic.

Records of the Department of the Treasury contributed essential documentation to the volume, particularly related to the international

debt crisis. Valuable collections include the Records of the Office of the Secretary of the Treasury; Records of the Office of the Under Secretary for Monetary Affairs; Records of the Office of the Assistant Secretary for International Affairs; and the Executive Secretariat, Congressional Files, 1987. Records of the Central Intelligence Agency also provided important perspectives and helpful documents, particularly related to the international debt crisis.

In addition to the paper files cited below, a growing number of documents are available on the Internet. The Office of the Historian maintains a list of these Internet resources on its website and encourages readers to consult that site on a regular basis.

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Lot 84D247: Bureau of Economic and Business Affairs, General Commodity Subject Files, 1965-83

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Lot 86D112: Bureau of Economic and Business Affairs, Office of International Finance and Development Files

Lot 87D73: Bureau of Economic and Business Affairs, Files of the Planning and Economic Analysis Staff

Lot 87D327: Executive Secretariat, S/S Files, Secretary Haig Memcons and Whitehead Briefing

Lot 88D99: Executive Secretariat, S/S-I Records, Exdis Memorandum of the Secretariat 1981 and 1981 Nodis Memorandum

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Lot 89D139: Executive Secretariat, S/S-I Records, Official Correspondence of Deputy Secretary John C. Whitehead, July 1982-Jan 1989

Lot 89D149: Executive Secretariat, S/P Records, Memoranda/Correspondence From the Director of the Policy Planning Staff to the Secretary and Other Seventh Floor Principals

Lot 89D154: Executive Secretariat, S/S Files, 1988-1989 Official Office Files for (E) Economic Affairs Allen Wallis

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RG 56, Records of the Department of Treasury

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Abbreviations and Terms

ABC, American Broadcasting Company
ACP, Organization of African, Caribbean and Pacific States
ADB, African Development Bank; Asian Development Bank
ADF, African Development Fund
AEPRP, African Economic Policy Reform Program
AF, Bureau of African Affairs, Department of State
AF/EPS, Economic Policy Staff, Bureau of African Affairs, Department of State
AID, Agency for International Development
AID/PPC, Bureau for Program and Policy Coordination, Agency for International Development
Amb, Ambassador
AMH, Alexander M. Haig
ANZUS, Australia, New Zealand, United States (security treaty)
AP, Associated Press
APNSA, Assistant to the President for National Security Affairs
ARA, Bureau of Inter-American Affairs, Department of State
ARA/AND, Office of Andean Affairs, Bureau of Inter-American Affairs, Department of State
ARA/ECP, Office of Regional Economic Policy, Bureau of Inter-American Affairs, Department of State
ARA/SC, Office of Southern Cone Affairs, Bureau of Inter-American Affairs, Department of State
A/S, Assistant Secretary
ASAP, as soon as possible
ASEAN, Association of Southeast Asian Nations
Asst, assistant

B, billion
BIS, Bank for International Settlements
BOP, balance of payments
BWS, Beryl W. Sprinkel

C, Office of the Counselor of the Department of State; Confidential
CAP, Common Agricultural Policy; Carlos Andrés Pérez
CBI, Caribbean Basin Initiative
CBS, Columbia Broadcasting System
CCC, Commodity Credit Corporation
CCCT, Cabinet Council on Commerce and Trade
CCEA, Cabinet Council on Economic Affairs
CCFA, Cabinet Council on Food and Agriculture
CEA, Council of Economic Advisers
CEMA, Council for Mutual Economic Assistance
CFE, Compensatory Finance Facility
CH, Charles Hill
CHOGM, Commonwealth Heads of Government Meeting
Chron, Chronological
CIA, Central Intelligence Agency
CIEC, Conference on International Economic Cooperation

XXII Abbreviations and Terms

COB, Close of Business

COCOM, Coordinating Committee for Multilateral Export Controls

CODEL, congressional delegation

COW, Committee of the Whole

CP or CLP, Colin L. Powell

CR, Continuing Resolution

CY, calendar year

D, Office of the Deputy Secretary of State; Democrat

DAS, Deputy Assistant Secretary

DC, developed country

DCI, Director of Central Intelligence

DCM, Deputy Chief of Mission

DDCI, Deputy Director of Central Intelligence

Dept, Department

DIA, Defense Intelligence Agency

DOD, Department of Defense

DOD/ISA, Office of the Assistant Secretary of Defense for International Security Affairs

DOE, Department of Energy

DOS, Department of State

D/P&R, Office of Policy and Resources, Office of the Deputy Secretary of State

E, Under Secretary of State for Economic Affairs

EA or EAP, Bureau of East Asian and Pacific Affairs, Department of State

EAP/ANZ, Office of Australia and New Zealand Affairs, Bureau of East Asian and Pacific Affairs, Department of State

EAP/C, Office of Chinese Affairs, Bureau of East Asian and Pacific Affairs, Department of State

EAP/ECP, Office of Regional Economic Policy, Bureau of East Asian and Pacific Affairs, Department of State

EAP/EP, Office of Economic Policy, Bureau of East Asian and Pacific Affairs, Department of State

EAP/IMBS, Office of Indonesia, Malaysia, Brunei, and Singapore Affairs, Bureau of East Asian and Pacific Affairs, Department of State

EARB, Export Administration Review Board

EB, Bureau of Economic and Business Affairs, Department of State

EB/ERP, International Energy and Resources Policy, Bureau of Economic and Business Affairs, Department of State

EB/ERP/ICD, Office of International Commodities, International Energy and Resources Policy, Bureau of Economic and Business Affairs, Department of State

EB/ERP/ICD/ISM, Industrial and Strategic Material Division, Office of International Commodities, International Energy and Resources Policy, Bureau of Economic and Business Affairs, Department of State

EB/GCP or EB/OT/GCP, General Commercial Policy Division, Office of International Trade, Trade and Commercial Affairs, Bureau of Economic and Business Affairs, Department of State

EB/ICD or EB/ERP/ICD, Office of International Commodities, Bureau of Economic and Business Affairs, Department of State

EB/IFD, International Finance and Development, Bureau of Economic and Business Affairs, Department of State

EB/IFD/ODE, Office of Development Finance, International Finance and Development, Bureau of Economic and Business Affairs, Department of State

EB/IFD/OIA, Office of Investment Affairs, International Finance and Development, Bureau of Economic and Business Affairs, Department of State

- EB/IFD/OMA**, Office of Monetary Affairs, International Finance and Development, Bureau of Economic and Business Affairs, Department of State
- EB/OFP or EB/TDC/OFP**, Office of Food Policy and Programs, Trade and Commercial Affairs, Bureau of Economic and Business Affairs, Department of State
- EB/ORE**, International Resources and Food Policy, Bureau of Economic and Business Affairs, Department of State
- EB/ORF/ICD**, Office of International Commodities, International Resources and Food Policy, Bureau of Economic and Business Affairs, Department of State
- EB/ORF/ICD/ISM**, Industrial and Strategic Material Division, Office of International Commodities, International Resources and Food Policy, Bureau of Economic and Business Affairs, Department of State
- EB/ORF/ICD/TRP**, Tropical Products Division, Office of International Commodities, International Resources and Food Policy, Bureau of Economic and Business Affairs, Department of State
- EB/OT or EB/TDC/OT**, Office of International Trade, Trade and Commercial Affairs, Bureau of Economic and Business Affairs, Department of State
- EB/PAS**, Planning and Economic Analysis Staff, Bureau of Economic and Business Affairs, Department of State
- EB/SEN**, Special Negotiator for Economic Matters, Bureau of Economic and Business Affairs, Department of State
- EB/STA or EB/OT/STA**, Special Trade Activities and Commercial Treaties Division (later Special Trade Activities Division), Office of International Trade, Trade and Commercial Affairs, Bureau of Economic and Business Affairs, Department of State
- EB/TA or EB/TDC/TA**, Trade Agreements Division, Trade and Commercial Affairs, Bureau of Economic and Business Affairs, Department of State
- EB/TDC**, Trade and Commercial Affairs, Bureau of Economic and Business Affairs, Department of State
- EB/TDC/OFP/FPD**, Food Policy Division, Office of Food Policies and Programs, Trade and Commercial Affairs, Bureau of Economic and Business Affairs, Department of State
- EB/TDC/OT**, Office of International Trade, Trade and Commercial Affairs, Bureau of Economic and Business Affairs, Department of State
- EB/TDC/OT/TEX**, Textiles Division, Office of International Trade, Trade and Commercial Affairs, Bureau of Economic and Business Affairs, Department of State
- EC**, European Community
- ECDC**, Economic Cooperation Among Developing Countries
- ECLAC**, Economic Commission for Latin America and the Caribbean (United Nations)
- ECOSOC**, Economic and Social Council, United Nations
- EEP**, Export Enhancement Program
- EFC**, External Contingency Facility (International Monetary Fund)
- EPC**, Economic Policy Council
- EPI**, Economic Policy Initiative for Africa
- ESAF**, Enhanced Structural Adjustment Facility (International Monetary Fund)
- ESF**, Economic Support Fund
- EST**, Eastern Standard Time
- EUR**, Bureau of European Affairs (later European and Canadian Affairs), Department of State
- EUR/EEY**, Office of East European and Yugoslav Affairs, Bureau of European Affairs (later European and Canadian Affairs), Department of State
- EUR/RPE**, Office of OECD, European Community, and Atlantic Political-Economic Affairs, Bureau of European Affairs (later European and Canadian Affairs), Department of State
- E-W**, East-West
- Exdis**, Exclusive Distribution
- Exim or Eximbank**, Export-Import Bank of the United States

XXIV Abbreviations and Terms

FAA, Foreign Assistance Act
FAC, Food Aid Convention
FAO, Food and Agriculture Organization
FCC, Frank C. Carlucci
FCN, Friendship, Commerce, Navigation
FDIC, Federal Deposit Insurance Corporation
FM, Foreign Minister
FMS, foreign military sales
FonMin or FornMin, Foreign Minister
FRB, Federal Reserve Board
FRG, Federal Republic of Germany
FSI, Foreign Service Institute
FSLIC, Federal Savings and Loan Insurance Corporation
FSO, Fund for Special Operations; Foreign Service Officer
FTA, free trade agreement; free trade area
FY, fiscal year
FYI, for your information

G-5, Group of 5, Federal Republic of Germany, France, Japan, United Kingdom, United States
G-7, Group of 7, Canada, Federal Republic of Germany, France, Italy, Japan, United Kingdom, United States
G-10, Group of 10, Belgium, Canada, Federal Republic of Germany, France, Italy, Japan, the Netherlands, Sweden, United Kingdom, United States
G-27, Group of 27, a subset of the G-77 countries
G-77, Group of 77, a coalition of developing countries established at the conclusion of the first United Nations Conference on Trade and Development in 1964
GA, General Assembly (United Nations)
GAB, General Agreements to Borrow (International Monetary Fund)
GATT, General Agreement on Tariffs and Trade
GCI, General Capital Increase
GDP, gross domestic product
GDR, German Democratic Republic
GN(s), Global Negotiations
GNP, gross national product
GOA, Government of Argentina; Government of Australia
GOV, Government of Venezuela
GOY, Government of Yugoslavia
GPS, George P. Shultz
G-R-H, Gramm-Rudman-Hollings Act
GSP or GS, Generalized System of Preferences

H, Bureau of Congressional Relations, Department of State
HA, Bureau of Human Rights and Humanitarian Affairs, Department of State
HAC, House Appropriations Committee
HFAC, House Foreign Affairs Committee
H.J. Res., House Joint Resolution
HQ, headquarters
H.R., House Resolution

IAEA, International Atomic Energy Agency
IBRD, International Bank for Reconstruction and Development
ICA, International Coffee Agreement
ICSG, International Copper Study Group

IDA, International Development Association
IDB, Inter-American Development Bank
IDCA, International Development Cooperation Agency
IEP, International Economic Policy
IFAD, International Fund for Agricultural Development
IFC, International Finance Corporation
IFIs, international financial institutions
IG, Interagency Group
ILO, International Labor Organization
IMET, International Military Education and Training
IMF, International Monetary Fund
info, information
INR, Bureau of Intelligence and Research, Department of State
INRA, International Natural Rubber Agreement
INR/EC, Office of Economic Analysis, Bureau of Intelligence and Research, Department of State
intel, intelligence
IO, Bureau of International Organization Affairs, Department of State
IO/E, Office of International Economic Policy, Bureau of International Organization Affairs, Department of State
IPC, Integrated Program for Commodities
ISA, International Sugar Agreement
IWC, International Wheat Council

JAB, James A. Baker, III
JCS, Joint Chiefs of Staff
JCW, John C. Whitehead
JP, John Poindexter

KAL, Korean Air Lines

L, Office of the Legal Adviser, Department of State
LDC, less developed country; least developed country
L/EB, Assistant Legal Adviser for Economic and Business (and Communications) Affairs, Office of the Legal Adviser, Department of State
LIBOR, London Interbank Offer Rate (international benchmark interest rate)
Limdis, limited distribution
LLDC, least less developed country
LOS, Law of the Sea
LPB, L. Paul Bremer
LSE, Lawrence S. Eagleburger
L/T, Assistant Legal Adviser for Treaty Affairs, Office of the Legal Adviser, Department of State
L/UNA, Office of United Nations Affairs, Office of the Legal Adviser, Department of State

M, Under Secretary of State for Management
MAP, Military Assistance Program
M/COMP, Office of the Comptroller, Office of the Under Secretary of State for Management
M/COMP/BP, Office of Budget and Planning, Office of the Comptroller, Office of the Under Secretary of State for Management
MDB, multilateral development bank(s)
Memcon, memorandum of conversation
MFA, Ministry of Foreign Affairs; Multifiber Arrangement
MFN, most favored nation

XXVI Abbreviations and Terms

MFO, multinational force and observers
MIGA, Multilateral Investment Guarantee Agency
MOU, Memorandum of Understanding
MOW, Meeting of the Whole
MPM, M. Peter McPherson
MTN, multilateral trade negotiations

NAM, Non-Aligned Movement
NATO, North Atlantic Treaty Organization
NEA, Bureau of Near Eastern and South Asian Affairs, Department of State
NEA/ECON, Office of Economic Affairs, Bureau of Near Eastern and South Asian Affairs, Department of State
NEA/INS, Office of Bhutan, India, Maldives, Nepal, and Sri Lanka, Bureau of Near Eastern and South Asian Affairs, Department of State
NFB, Nicholas F. Brady
NGO, nongovernmental organization
Niact, Night Action
NIC, National Intelligence Council
NICs, newly industrialized countries
NIE, National Intelligence Estimate
NIEO, New International Economic Order
NIO, National Intelligence Officer
Nodis, No Distribution
Noform, No Foreign Dissemination
Notal, not received by all addressees
NRSE, New and Renewable Sources of Energy
N/S, North/South
NSC, National Security Council
NSDD, National Security Decision Directive
NSSD, National Security Study Directive

OAS, Organization of American States
OASD/ISA, Office of the Assistant Secretary of Defense for International Security Affairs
OASIA, Office of the Assistant Secretary of the Treasury for International Affairs
OAU, Organization of African Unity
OBE, overtaken by events
ODA, official development assistance
OECD, Organization for Economic Cooperation and Development
OES, Bureau of Oceans and International Environmental and Scientific Affairs, Department of State
OES/E, Deputy Assistant Secretary of State for Environment, Health and Natural Resources, Bureau of Oceans and International Environmental and Scientific Affairs
OES/ENR, Office of Food and Natural Resources, Bureau of Oceans and International Environmental and Scientific Affairs, Department of State
OMB, Office of Management and Budget
OPD, Office of Policy Development, Executive Office of the President
OPEC, Organization of the Petroleum Exporting Countries
OPIC, Overseas Private Investment Corporation
OSD, Office of the Secretary of Defense
OSTP, Office of Science and Technology Policy, Executive Office of the President
OVP, Office of the Vice President

P, Under Secretary of State for Political Affairs
PA, Bureau of Public Affairs, Department of State

Para, paragraph
PermRep, Permanent Representative
P.L., Public Law
P.L.-480, Public Law 480; Food for Peace
PLO, Palestine Liberation Organization
PM, Bureau of Politico-Military Affairs, Department of State; Prime Minister
PM/SAS, Office of Security Assistance and Sales, Bureau of Politico-Military Affairs, Department of State
Polto, series indicator for telegrams sent from the Under Secretary of State for Political Affairs to the Department while the Under Secretary is away from the Department
PRC, People's Republic of China
Pres, President
PRG, Policy Review Group
PW, Paul Wolfowitz

R, Republican
RADM, Rear Admiral
RCM, Robert C. McFarlane
RDF, Rapid Deployment Force
Ref, reference
Reftel, reference telegram
Rep, representative
Res, resolution
RG, Record Group (National Archives and Records Administration)
RNC, Republican National Committee
Rpt, repeat
RVA, Richard V. Allen

S, Office of the Secretary of State; Secret
SAF, Structural Adjustment Facility (International Monetary Fund)
SB, Stephen Bosworth
SC, Security Council (United Nations)
SDR, Special Drawing Rights
Sec, Secretary
SecDef, Secretary of Defense
Secto, series indicator for telegrams sent from the Secretary of State to the Department while the Secretary is away from the Department
Secy, Secretary
Secy Gen, Secretary-General (United Nations)
septel, separate telegram
SFRC, Senate Foreign Relations Committee
SG, Secretary General
SIG, Senior Interdepartmental Group
SIG-IEP, Senior Interdepartmental Group-International Economic Policy
S/P, Policy Planning Staff, Department of State
S/S, Executive Secretariat, Department of State
S/S-I, Executive Secretariat, Information Management Section, Department of State
S/S-O, Executive Secretariat, Operations Staff, Department of State
S/S-S, Executive Secretariat, Secretariat Staff, Department of State
STABEX, *Système de Stabilisation des Recettes d'Exportation* (European Community)
STADIS, (Department of) State Distribution
STR, Special Trade Representative
SYG, Secretary-General (United Nations)

XXVIII Abbreviations and Terms

T, Under Secretary of State for Security Assistance, Science, and Technology
TDB, Trade and Development Board (United Nations Conference on Trade and Development)
TDP, Trade and Development Program
TDY, temporary duty
Tosec, series indicator for telegrams sent from the Department to the Secretary of State while the Secretary is away from the Department
TPC, Trade Policy Committee
TPRG, Trade Policy Review Group
TS, Top Secret

UK, United Kingdom
UN or U.N., United Nations
UNCTAD, United Nations Conference on Trade and Development
UNDP, United Nations Development Program
UNESCO, United Nations Educational, Scientific, and Cultural Organization
UNGA, United Nations General Assembly
UNICEF, United Nations Children's Fund
UNIDO, United Nations Industrial Development Organization
UNSC, United Nations Security Council
UNSYG, United Nations Secretary-General
UPI, United Press International
US or U.S., United States
USAID, United States Agency for International Development
USD, United States Dollars
USDA, United States Department of Agriculture
USDeI, United States delegation; United States delegate
USG or U.S.G., United States Government
USIA, United States Information Agency
USSR, Union of Soviet Socialist Republics
USTR, United States Trade Representative
USUN, United States Mission to the United Nations (New York)

VADM, Vice Admiral
VOA, Voice of America
VP, Vice President
VRA, voluntary restraint agreement

W or WAW, W. Allen Wallis
WB, World Bank
WFC, World Food Council
WH, White House
WHO, World Health Organization
WHORM, White House Office of Records Management
WMO, World Meteorological Organization
WC or WPC, William P. Clark
WTC, Wheat Trade Convention

XCSS, Executive Committee, Special Session (Organization for Economic Cooperation and Development)

Z, Zulu time (Greenwich Mean Time)

Persons

- Abe Shintaro**, Japanese Minister of International Trade and Industry from 1981 until 1982; Japanese Foreign Minister from November 1982
- Abramowitz, Morton I.**, U.S. Ambassador to Thailand until July 31, 1981; U.S. Representative to the Mutual and Balanced Force Reduction Talks in Vienna from March 1983; Director, Bureau of Intelligence and Research, Department of State, from February 1, 1985; Assistant Secretary of State for Intelligence and Research from August 18, 1986
- Abrams, Elliott**, Assistant Secretary of State for International Organization Affairs from May 13, 1981, until December 1, 1981; Assistant Secretary of State for Human Rights and Humanitarian Affairs from December 12, 1981, until July 17, 1985; Assistant Secretary of State for Inter-American Affairs from July 17, 1985, until January 20, 1989
- Alfonsín, Raúl**, President of Argentina from December 10, 1983
- Allen, Richard V.**, President's Assistant for National Security Affairs, National Security Council, from January 20, 1981, until January 4, 1982
- Amstutz, Daniel G.**, Under Secretary of Agriculture for International Affairs and Commodity Programs from May 23, 1983, until August 1, 1987
- Anderson, Martin**, President's Assistant for Policy Development, Office of Policy Development, White House, from January 1981 until March 1, 1982
- Andreas, Dwayne O.**, Chairman and Chief Executive Officer, Archer Daniels Midland; Chairman, President's Task Force on International Private Enterprise
- Arias Sánchez, Oscar**, President of Costa Rica from May 8, 1986; recipient of the Nobel Peace Prize in 1987
- Armcast, Michael H., Jr.**, Deputy Assistant Secretary of State for East Asian and Pacific Affairs until February 1982; U.S. Ambassador to the Philippines from March 12, 1982, until April 18, 1984; Under Secretary of State for Political Affairs, from May 18, 1984
- Armstrong, Robert**, British Personal Representative (Sherpa) to the Williamsburg Economic Summit
- Attali, Jacques**, Special Adviser to President Mitterrand; French Personal Representative (Sherpa) to the Williamsburg Economic Summit
- Bailey, Norman A.**, Office of Policy Development, White House, from March 1981; Director, Planning and Evaluation, National Security Council, from April 1981 until 1983; President's Special Assistant for National Security Affairs and Senior Director, International Economic Affairs Directorate, National Security Council, from June 3, 1983, until October 1983; thereafter, consultant to the National Security Council staff
- Baker, Howard H., Jr.**, Senator (R-Tennessee) until January 3, 1985; Senate Minority Leader from 1977 until 1981; Senate Majority Leader from 1981 until January 3, 1985; member, Interim Foreign Policy Advisory Board; member, President's Foreign Intelligence Advisory Board, from 1985 until 1987 and from 1988; White House Chief of Staff from February 27, 1987, until June 30, 1988
- Baker, James A., III**, White House Chief of Staff and President's Assistant, from January 1, 1981, until February 3, 1985; Secretary of the Treasury from February 4, 1985, until August 17, 1988; thereafter campaign manager, Bush for President campaign in 1988
- Baldrige, H. Malcolm, Jr. "Mac,"** Secretary of Commerce until July 25, 1987
- Bangemann, Martin**, Minister of Economics, Federal Republic of Germany, from 1984 until 1988
- Basora, Adrian A.**, Director, Office of Development Finance, Bureau of Economic and Business Affairs, Department of State

- Beal, Richard**, President's Special Assistant for National Security Affairs and Senior Director, Office of Planning and Evaluation, from January 1981 until June 1983; President's Special Assistant for National Security Affairs and Senior Director, Crisis Management Support and Planning, National Security Council, from June 3, 1983, until 1984
- Benson, Lucy Wilson**, Under Secretary of State for International Security Affairs (after August 22, 1977, Under Secretary of State for Security Assistance, Science, and Technology), from March 23, 1977, until January 5, 1980
- Blair, Dennis C.**, Commander, USN; Director, Western Europe, Political Affairs Office, National Security Council, from 1981 until 1983; Deputy Senior Director, European and Soviet Affairs Directorate, National Security Council, in 1983
- Bledsoe, Ralph C.**, Associate Director, Office of Policy Development, National Security Council, from 1982 until 1985; President's Special Assistant, Executive Secretary, Domestic Policy Council, from 1985 until 1988
- Block, John R.**, Secretary of Agriculture from January 23, 1981, until February 14, 1986
- Boeker, Paul**, Director, Foreign Service Institute, Department of State, until January 31, 1982; member, Policy Planning Council, Department of State, 1983; U.S. Ambassador to Jordan from September 1, 1984, until August 13, 1987
- Bohn, John A.**, Vice Chairman, Export-Import Bank of the United States, from March 18, 1984, until April 10, 1986; Chairman, Export-Import Bank of the United States, from April 11, 1986, until February 28, 1989
- Bolton, John R.**, General Counsel, United States Agency for International Development, from 1981 until 1982; Assistant Administrator for Program and Policy Coordination, United States Agency for International Development, from 1982 until 1983
- Bosworth, Stephen W.**, U.S. Ambassador to Tunisia until June 22, 1981; Principal Deputy Assistant Secretary of State for Inter-American Affairs from July 1981 until 1983; Chairman, Policy Planning Council, Department of State, from January 3, 1983, until April 7, 1984; U.S. Ambassador to the Philippines from May 4, 1984, until April 2, 1987
- Boverie, Richard T.**, Major General, USAF; Principal Director for Plans and Policy, Office of the Deputy Under Secretary of Defense (Policy Planning), from December 1979 until June 1981; Acting and then Principal Deputy Assistant Secretary of Defense (International Security Policy) from June 1981 until June 1982; Director, Defense Policy Directorate, National Security Council, from 1982 until 1983
- Bradley, Bill**, Senator (D-New Jersey)
- Brady, Nicholas F.**, Secretary of the Treasury from September 15, 1988
- Brandt, Willy**, former Chancellor of the Federal Republic of Germany; Chairman of the Social Democratic Party of Germany; Chairman, Independent Commission on International Development Issues (Brandt Commission)
- Bremer, L. Paul, III "Jerry,"** Deputy Executive Secretary of the Department of State until February 1981; Special Assistant to the Secretary and Executive Secretary of the Department of State from February 2, 1981, until March 27, 1983; U.S. Ambassador to the Netherlands, from August 31, 1983, until August 25, 1986; Director of the Bureau of Counterterrorism and Ambassador at Large for Counterterrorism, Department of State, from October 17, 1986
- Brock, William E., III**, U.S. Trade Representative from January 23, 1981, until April 22, 1985; Secretary of Labor from April 29, 1985, until October 31, 1987
- Buckley, James L.**, Under Secretary of State for Security Assistance, Science, and Technology from February 18, 1981, until August 20, 1982; Counselor of the Department of State from September 9, 1982, until September 26, 1982; President, Radio Free Europe/Radio Liberty, from 1982 until 1985; Judge, U.S. Court of Appeals for the District of Columbia Circuit from December 17, 1985
- Burghardt, Raymond E.**, Director, Latin American Affairs, National Security Council, from 1984 until 1985; Senior Director, Latin American Affairs, National Security Council, from 1985 until 1987

- Burnham, James B.**, Special Assistant to the Chairman of the Council of Economic Advisers from 1981 until 1982; U.S. Executive Director of the International Bank for Reconstruction and Development at the World Bank from 1982 until 1986
- Bush, George H.W.**, Vice President of the United States; Republican nominee for President in 1988
- Byrd, Robert C.**, Senator (D–West Virginia); Senate Minority Leader until January 3, 1987; Senate Majority Leader from January 3, 1987
- Camdessus, Michel**, Managing Director, International Monetary Fund, from January 1987
- Carlucci, Frank C., III**, Deputy Director of Central Intelligence until February 4, 1981; Deputy Secretary of Defense from 1981 until December 31, 1982; President and Chief Operating Officer, Sears World Trade, Inc., from 1983 until 1984; Chairman and Chief Executive Officer, Sears World Trade, Inc., from 1984 until 1986; member and Chairman, General Advisory Committee, Arms Control and Disarmament Agency, from 1986; President's Assistant for National Security Affairs from December 2, 1986, until November 5, 1987; Secretary of Defense from November 23, 1987; member, President's Blue Ribbon Commission on Defense Management (Packard Commission)
- Carrington, 6th Baron of (Peter Alexander Rupert)**, British Foreign Secretary until April 5, 1982; Secretary-General of the North Atlantic Treaty Organization from June 25, 1984, until June 30, 1988
- Carter, James Earl, Jr. "Jimmy,"** President of the United States from January 20, 1977, until January 20, 1981
- Casey, William J.**, Director of Central Intelligence from January 28, 1981, until January 29, 1987
- Castaneda y Alvarez de la Rosa, Jorge**, Mexican Foreign Minister until November 30, 1982
- Chew, David L.**, Executive Assistant to the Secretary of the Treasury from 1981 until April 1984; Senior Deputy Comptroller of the Currency for Policy and Planning from April 1984 until 1985; Staff Secretary and President's Deputy Assistant, White House Secretariat, from 1985 until 1987; President's Deputy Assistant, White House Operations, from 1987 until 1989
- Cheysson, Claude**, French Minister of Foreign Affairs from 1981 until December 7, 1984; thereafter, member, Commission of the European Communities
- Childress, Richard**, Lieutenant Colonel, USA; staff member, Special Projects, National Security Council, in 1981; East Asia/Pacific Affairs, Political Affairs Office, National Security Council, from 1982 until 1983; Deputy Director, Political-Military Affairs Directorate, National Security Council, from 1983 until 1984; Director, Political-Military Affairs Directorate, National Security Council, from 1984 until 1986; Director, Asian Affairs Directorate, National Security Council, from 1986 until 1988
- Chirac, Jacques**, Prime Minister of France from March 20, 1986, until May 10, 1988
- Clark, Charles Joseph**, Canadian Secretary of State for External Affairs from September 17, 1984
- Clark, William P., Jr.**, Deputy Secretary of State from March 25, 1981, until February 9, 1982; President's Assistant for National Security Affairs from February 10, 1982, until November 17, 1983; Secretary of the Interior from November 18, 1983, until February 7, 1985; member, President's Blue Ribbon Commission on Defense Management (Packard Commission); member, Commission on Integrated Long-Term Strategy; member, President's Blue Ribbon Task Group on Nuclear Weapons Program Management
- Clausen, Alden Winship "Tom,"** President, World Bank, from July 1981 until June 1986; Chairman and Chief Executive Officer, Bank of America, from 1986

- Cobb, Tyrus P. "Ty,"** Deputy Director, European and Soviet Affairs Directorate, National Security Council, from 1983 until 1984; Director, European and Soviet Affairs Directorate, National Security Council, from 1984 until 1988; President's Special Assistant for National Security Affairs and Senior Director, International Programs and Technology Affairs, National Security Council, from July 15, 1988
- Cohen, Herman J., "Hank,"** Deputy Assistant Director, Bureau of Intelligence and Research, Department of State until 1984; President's Special Assistant for National Security Affairs and Senior Director, African Affairs Directorate, National Security Council, from February 1987
- Conable, Barber,** President, World Bank, from July 1986
- Conrow, James W.,** Director, Office of Multilateral Development Banks, Department of the Treasury, from 1981 until March 1984; Deputy Assistant Secretary of the Treasury for Developing Nations from March 1984 until March 1988.
- Constable, Elinor G.,** Principal Deputy Assistant Secretary of State for Economic and Business Affairs, from 1983 until 1986; U.S. Ambassador to Kenya from 1986
- Constable, Peter,** Deputy Assistant Secretary of State, Bureau of Near Eastern and South Asian Affairs, from 1979 until 1982
- Conte, Silvio,** member, U.S. House of Representatives (R-Massachusetts)
- Cornell, Robert A.,** Deputy Assistant Secretary of the Treasury for Trade and Investment Policy
- Covey, James P. "Jock,"** Deputy Principal Officer, U.S. Consulate General in Jerusalem, until 1983; Deputy Executive Secretary of State from 1983 until 1985; President's Special Assistant and Senior Director for Near Eastern and South Asian Affairs, National Security Council, from 1985 until 1986; Deputy Chief of Mission, U.S. Embassy in Cairo, from 1986
- Craxi, Bettino,** Prime Minister of Italy from August 1983 until 1987
- Crocker, Chester A.,** Assistant Secretary of State for African Affairs from June 9, 1981
- Dallara, Charles H.,** U.S. Alternate Executive Director, International Monetary Fund, from 1982 until 1983; Deputy Assistant Secretary of the Treasury for International Monetary Affairs from 1983 until 1985; Senior Deputy Assistant Secretary of the Treasury for International Economic Policy from 1985 until 1988; U.S. Executive Director, International Monetary Fund, from 1984; Assistant Secretary of the Treasury for Policy Development and Senior Advisor for Policy to the Secretary of the Treasury from 1988
- Dam, Kenneth W.,** Provost, University of Chicago, until 1982; Deputy Secretary of State from September 23, 1982, until June 15, 1985
- Danzansky, Stephen I.,** President's Special Assistant and Senior Director, International Economic Affairs Directorate, National Security Council, from October 24, 1985, until October 6, 1988; thereafter, President's Deputy Assistant for International Economic Affairs, Office of Policy Development, National Security Council
- Darman, Richard G.,** President's Deputy Assistant and Deputy to the Chief of Staff, Office of the Chief of Staff, from January 20, 1981, until August 1981; President's Assistant and Deputy to the Chief of Staff from September 14, 1981, until February 1, 1985; supervisor of the White House Office of Speechwriting beginning in January 1984; Deputy Secretary of the Treasury from February 1985 until April 2, 1987
- Deal, Timothy,** member, Coordination Office, National Security Council, 1981
- Deaver, Michael K.,** Deputy Chief of Staff and President's Assistant from January 1, 1981, until May 10, 1985
- de Larosière, Jacques,** Managing Director, International Monetary Fund, from June 17, 1978, until January 15, 1987
- Delfim Netto, Antônio,** Brazilian economist
- Delors, Jacques,** President, European Commission, from 1985

- Denton, Jeremiah A., Jr.**, Senator (R–Alabama) from 1981 until 1987
- Derwinski, Edward**, member, U.S. House of Representatives (R–Illinois) until January 3, 1983; Counselor of the Department of State from March 23, 1983, until March 24, 1987; Under Secretary of State for Security Assistance, Science, and Technology from March 24, 1987
- Dobriansky, Paula J.**, Soviet Union/Eastern Europe, Political Affairs Office, National Security Council, from 1981 until 1983; Deputy Director, European and Soviet Affairs Directorate, National Security Council, from 1983 until 1984; Director, European and Soviet Affairs Directorate, National Security Council, from 1984 until 1987; thereafter Deputy Assistant Secretary of State for Human Rights and Humanitarian Affairs
- Dole, Robert**, Senator (R–Kansas); Chairman, Senate Finance Committee, from January 3, 1981, until January 3, 1985; Senate Majority Leader from January 3, 1985, until January 3, 1987; Senate Minority Leader from January 3, 1987
- Domenici, Pete V.**, Senator (R–New Mexico); Senior Counselor, National Bipartisan Commission on Central America (Kissinger Commission)
- Drabble, Bernard J.**, Canadian Associate Deputy Minister of Finance
- Durieux, Jean**, European Community Personal Representative (Sherpa) to the Williamsburg Economic Summit
- Eagleburger, Lawrence S.**, U.S. Ambassador to Yugoslavia until January 24, 1981; Assistant Secretary of State for European Affairs from May 14, 1981, until January 26, 1982; Under Secretary of State for Political Affairs from February 12, 1982, until May 1, 1984; Career Ambassador from April 12, 1984
- Edson, Gary**, Special Assistant to the Deputy Secretary of State
- Edwards, Mickey**, member, U.S. House of Representatives (R–Oklahoma)
- Enders, Thomas O.**, U.S. Representative to the European Communities until May 27, 1981, Assistant Secretary of State for Inter-American Affairs from June 23, 1981, until June 27, 1983; U.S. Ambassador to Spain from September 15, 1983, until July 6, 1986
- Ernst, Maurice**, Director, Economic Research Division, Central Intelligence Agency
- Fahd bin Abdulaziz Al Saud**, Crown Prince of Saudi Arabia until June 13, 1982; thereafter, King of Saudi Arabia
- Farrar, Stephen P.**, Chief, Economic Affairs Branch, International Affairs Division, Office of Management and Budget, until March 1986; Director, International Economic Affairs Directorate, National Security Council, from March 1986 until September 1988; President's Special Assistant and Senior Director, International Economic Affairs Directorate, National Security Council, from October 1988
- Feldstein, Martin**, Chairman, Council of Economic Advisers, from October 14, 1982, until July 10, 1984
- Feldstein, Michael**, member, Policy Planning Staff, Department of State
- Fontaine, Roger W.**, Director, Inter-American Affairs, Political Affairs Office, National Security Council, from February 1981 until 1983; Director, Latin American Affairs Directorate, National Security Council, in 1983
- Fortier, Donald R.**, Deputy Director, Policy Planning Staff, Department of State, from February 1981 until September 1982; Director, Western Europe, Political Affairs Office, National Security Council, from September 1982 until June 1983; Special Assistant to the President Special Assistant for National Security Affairs and Senior Director, Political-Military Affairs Directorate, National Security Council, from June 3, 1983, until December 21, 1983; Deputy Assistant to the President's Deputy Assistant for National Security Affairs and Senior Director, Policy Development Directorate, National Security Council, from December 21, 1983, until 1985; President's Principal Deputy Assistant to the President for National Security Affairs from December 1985 until August 23, 1986
- Fowler, Henry R.**, Secretary of the Treasury from 1965 until 1968

François-Poncet, Jean, French Minister of Foreign Affairs until May 13, 1981

Fraser, Malcolm, Prime Minister of Australia until March 11, 1983

Friedersdorf, Max L., President's Assistant for Legislative Affairs, Office of Legislative Affairs, from January 1981 until January 2, 1982; Consul General, Bermuda, from January 1982 until September 1983; President's Assistant and Legislative Strategy Coordinator from 1985; U.S. Representative to the Conference on Disarmament in Geneva from May 1, 1987

Fuller, Craig L., President's Deputy Assistant and Director, Office of Cabinet Administration, from January until September 1981; President's Assistant for Cabinet Affairs from September 14, 1981, until March 1985; Chief of Staff to Vice President Bush from April 1, 1985

Gale, Hazen F., Director, Office of Commodity Policy, Office of the Assistant Secretary for International Affairs, Department of the Treasury

Gandhi, Indira, Prime Minister of India from January 14, 1980, until October 31, 1984

Genscher, Hans-Dietrich, Vice Chancellor and Foreign Minister of the Federal Republic of Germany

Gergen, David R., President's Assistant and Staff Director of the White House from January 21 until June 17, 1981; President's Assistant for Communications and Director, White House Office of Communications, White House Press Office, and Office of Speechwriting, from June 17, 1981, until January 15, 1984

Goodpaster, Andrew J., General, USA (ret.); Staff Secretary to President Eisenhower from 1964 until 1961; Supreme Allied Commander, Europe, NATO and Commander-in-Chief, United States European Command, from 1969 until 1974

Gray, William H., III, member, U.S. House of Representatives (D-Pennsylvania)

Green, Grant, President's Special Assistant for National Security Affairs and Executive Secretary of the National Security Council from 1986 until 1987

Greenspan, Alan, Chairman, Board of Governors of the Federal Reserve System, from August 11, 1987

Gregg, Donald, member, National Security Council staff, from 1979 until July 1982; Vice President's Assistant for National Security Affairs from August 1982 until January 1989

Haig, Alexander M., Jr., General, USA (ret.); Secretary of State from January 22, 1981, until July 5, 1982

Harman, John, Deputy and Acting Assistant Secretary of the Treasury for Legislative Affairs from September 1986

Harper, Edwin L., Deputy Director, Office of Management and Budget, from 1981 until 1982; President's Assistant for Policy Development from 1982 until 1983

Harty, Maura, Special Assistant to Secretary of State Shultz from 1987 until 1988

Hayward, Thomas B., Admiral, USN; Chief of Naval Operations, United States Navy, until June 30, 1982

Heath, Edward, member of Parliament, United Kingdom, from 1950 until 1965; Prime Minister of the United Kingdom from 1970 until 1974

Helms, Jesse, Senator (R-North Carolina)

Herrera Campins, Luis Antonio, President of Venezuela until February 2, 1984

Herrington, John, Secretary of Energy from February 7, 1985, until January 20, 1989

Hicks, Christopher, Associate Counsel, White House Office of the Counsel to the President, from March 1981 until May 1982; Associate Director, White House Office of Presidential Personnel from 1982 until 1983; Executive Secretary of the Treasury and Special Assistant to the Secretary of the Treasury from 1983 until February 1985; President's Deputy Assistant for Administration and Director of the Office of Administration, White House, from February 1985 until 1986; thereafter General Counsel, Department of Agriculture

Hill, M. Charles, Director, Israeli and Arab-Israeli Affairs, Bureau of Near Eastern and South Asian Affairs, Department of State, from 1982; Special Assistant to the Secretary and Executive Secretary of the Department of State from March 28, 1983, until January 1, 1985; thereafter Executive Assistant to the Secretary

Holdridge, John H., Assistant Secretary of State for East Asian and Pacific Affairs from May 28, 1981; U.S. Ambassador to Indonesia from February 19, 1983, until January 7, 1986

Hollick, Ann L., Director, Office of International Commodities, Bureau of Economic and Business Affairs, Department of State

Hormats, Robert D., Assistant Secretary of State for Economic and Business Affairs from May 21, 1981, until August 25, 1982

Houphouët-Boigny, Félix, President of Côte d'Ivoire from August 7, 1960, until December 7, 1993

Howe, Sir Geoffrey, British Chancellor of the Exchequer from May 4, 1979, until June 11, 1983; British Foreign Secretary from June 11, 1983

Hughes, G. Philip, Deputy National Security Affairs Adviser to Vice President Bush from 1981 until 1985; Director, Latin American Affairs, National Security Council, from 1985 until 1986

Iklé, Frederick C., Under Secretary of Defense for Policy from April 2, 1981, until February 19, 1988

Inouye, Daniel K., Senator (D-Hawaii)

Jha, Lakshmi Kant, Chairman, Indian Economic Administration Reform Commission, from 1981; economic adviser to Prime Ministers of India Indira and Rajiv Gandhi

Johnston, Ernest B., Deputy Assistant Secretary of State for Economic and Business Affairs

Kammerer, Kelly C., Director, Office of Legislative Affairs, U.S. Agency for International Development

Kasten, Robert W., Jr., Senator (R-Wisconsin) from January 3, 1981

Kauzlarich, Richard Dale, Economic Officer, U.S. Embassy in Tel Aviv until 1983; Director, Operations Center, Executive Secretariat, Department of State, from 1983 until 1984; Deputy Assistant Secretary of State for International Economic, Social, and Private Sector Affairs, Bureau of International Organization Affairs, from 1984 until 1986; Deputy Director, Policy Planning Staff, Department of State, from 1986 until 1989

Keating, Robert B., consultant, International Security Affairs, Office of the Secretary of Defense, from 1981 until 1982; consultant, Office of General Counsel, Department of the Navy, from 1982 until 1983; U.S. Ambassador to Madagascar and the Comoros from August 11, 1983, until May 1, 1986; thereafter, U.S. Executive Director, International Bank for Reconstruction and Development; Chairman, Third World Hunger Study

Keel, Alton G., Jr. "Al," Assistant Secretary of the Air Force (Research, Development and Logistics) from 1981 until 1982; Associate Director for National Security and International Affairs, Office of Management and Budget, from September 1982; Executive Director, Presidential Commission on the Space Shuttle Challenger Accident, from February 10, 1986; President's Deputy Assistant for National Security Affairs and Acting Principal Deputy to the President's Assistant for National Security Affairs from July 15, 1986, until November 24, 1986; Acting President's Assistant for National Security Affairs from November 25, 1986, until December 18, 1986; U.S. Permanent Representative to the North Atlantic Treaty Organization, from March 13, 1987

Kemp, Geoffrey, T.H., Director, Near East and South Asia, Political Affairs Office, National Security Council, from 1981 until 1983; President's Special Assistant for National Security Affairs and Senior Director, Near East and South Asia Affairs Directorate, National Security Council, from June 3, 1983, until 1985; thereafter, senior associate and Director, Middle East Arms Control Project, Carnegie Endowment for International Peace

- Kemp, Jack**, member, U.S. House of Representatives (R–New York), from January 3, 1971, until January 3, 1989; Senior Counselor, National Bipartisan Commission on Central America (Kissinger Commission); Republican candidate for President in 1988
- Kennedy, Richard T.**, Under Secretary of State for Management from February 28, 1981, until December 15, 1982; U.S. Representative to the International Atomic Energy Agency from July 27, 1981; Ambassador at Large from December 14, 1982
- Keyes, Alan L.**, member, Policy Planning Staff, Department of State, from 1981 until 1983; U.S. Representative, United Nations Economic and Social Council, from 1983; Alternative Representative to the United Nations until November 1985; Assistant Secretary of State for International Organization Affairs, from November 13, 1985, until November 17, 1987
- Kimmitt, Robert**, Executive Secretary, National Security Council, and President's Special Assistant for National Security Affairs from 1983 until 1985; General Counsel, Department of the Treasury, from 1985 until 1987
- Kington, Alfred H.**, Assistant Secretary of Commerce for International Economic Policy from 1983 until 1984; Assistant Secretary of the Treasury for Policy Planning and Communications from March 1984 until January 1985; Cabinet Secretary and President's Deputy Assistant from January 1985; Cabinet Secretary and President's Assistant from January 7, 1986; Chief of Mission, U.S. Mission to the European Communities at Brussels, from March 27, 1987
- Kirkpatrick, Jeane J.**, U.S. Ambassador to the United Nations from February 4, 1981, until April 1, 1985; President's Representative to the National Bipartisan Commission on Central America (Kissinger Commission); member, President's Foreign Intelligence Advisory Board
- Kohl, Helmut**, Chancellor of the Federal Republic of Germany from October 1, 1982
- Kountché, Seyni**, President of Niger until 1987
- Kraigher, Sergej**, President of Yugoslavia from May 15, 1981, until May 15, 1982
- Kreisky, Bruno**, Chancellor of Austria until May 24, 1983
- Laird, Melvin R.**, Secretary of Defense from January 1969 until January 1973
- Lalonde, Marc**, Canadian Minister of Finance from September 1982 until September 1984
- Lamb, Denis**, Deputy Chief of Mission, U.S. Mission to the European Communities, Brussels, until 1982; Deputy Assistant Secretary of State for Trade and Commercial Affairs from 1982 until 1986; Principal Deputy Assistant Secretary of State, Bureau of Economic and Business Affairs from 1986 until 1987; U.S. Representative of the United States to the OECD from 1987
- Landberg, James**, Executive Assistant to the U.S. Special Negotiator for Economic Matters, Bureau of Economic and Business Affairs, Department of State, from 1981 to 1983
- Lange, John D., Jr.**, Acting Deputy Assistant Secretary of the Treasury for International Affairs
- Larson, Alan P.**, Executive Assistant to the Under Secretary of State for Economic Affairs from 1984 until 1986; Deputy Assistant Secretary of State for International Energy and Resources Policy from 1986 until 1987; Principal Deputy Assistant Secretary of State for Economic and Business Affairs from 1987
- Laux, David**, Director, East Asian and Pacific Affairs, Political Affairs Office, National Security Council, in 1982; Director, Asian Affairs Directorate, National Security Council, from 1983 until 1987
- Lawson, Nigel**, British Chancellor of the Exchequer from June 11, 1983, until October 26, 1989
- Ledeen, Michael**, Consultant to the President's Assistant for National Security Affairs, the Office of the Secretary of Defense, and the Department of State from 1981 until 1987
- Leland, Marc**, Assistant Secretary of the Treasury for International Affairs from 1981 until 1984

- Lenz, Allen J.**, Staff Director for Coordination, Office of the Executive Secretary, National Security Council, in 1981
- Levine, Richard**, Director, International Economic Affairs Directorate, National Security Council, in 1985
- Lewis, Thomas F.**, member, U.S. House of Representatives (R–Florida)
- Lilac, Robert**, Colonel, USAF; Director, Political-Military Affairs Directorate, National Security Council staff, from April 19, 1982, until January 1, 1984.
- Loncar, Budimir**, Yugoslav Ambassador to the United States until November 1983; Yugoslav Deputy Foreign Minister; Yugoslav Federal Secretary for Foreign Affairs from March 1988
- Long, Russell**, Senator (D–Louisiana)
- López Portillo y Pacheco, José**, President of Mexico until November 30, 1982
- Lyng, Richard E.**, Deputy Secretary of Agriculture from 1981 until 1985; consultant, Lyng and Leshner, Inc., from 1985 until 1986; Secretary of Agriculture from March 6, 1986
- MacEachen, Allan**, Canadian Secretary of State for External Affairs from September 1982 until June 1984
- MacGuigan, Mark**, Canadian Secretary of State for External Affairs until September 9, 1982
- Marchand, De Montigny**, Canadian Personal Representative (Sherpa) to the Williamsburg Economic Summit
- Marcos, Ferdinand E.**, President of the Philippines until February 25, 1986
- Maresca, John J.**, Director, Office of Western European Affairs, Bureau of European Affairs, Department of State, until 1982; Deputy Chief of Mission, U.S. Embassy in Paris, from 1982 until 1985; Deputy Assistant Secretary of Defense for European and North Atlantic Treaty Organization Policy from 1986 until 1988
- Marks, Leonard**, Director, United States Information Agency, from 1965 until 1968
- Martin, William F.**, Special Assistant to the Under Secretary of State for Economic Affairs from 1981 until 1982; Director, International Economic Affairs Directorate, Deputy Executive Secretary, National Security Council, and President's Special Assistant for National Security Affairs (Coordination) from 1982 until 1985; Executive Secretary, National Security Council, and President's Special Assistant for National Security Affairs from 1985 until 1986; Deputy Secretary of Energy from 1986 until 1988
- Mattingly, Mack**, Senator (R–Georgia) from 1981 until 1987
- McAllister, Eugene J.**, Policy Analyst, Director's Office, Office of Management and Budget, in 1981; Senior Policy Analyst, Office of Economics and Planning, Office of Management and Budget, from 1982 until 1983; Deputy Assistant Director, Office of Policy Development at the White House, from 1983 until 1985; Executive Secretary of the Economic Policy Council and President's Special Assistant from 1985 until 1988; Assistant Secretary of State for Economic and Business Affairs from 1988
- McCall, Sherrod**, Political Officer, U.S. Embassy in Moscow; Deputy Chief of Mission, U.S. Embassy in Stockholm; Director, Office of Analysis for East Asia and the Pacific, Bureau of Intelligence and Research, Department of State; Deputy Director, Policy Planning Staff, Department of State
- McCormack, Richard T.**, consultant, Department of State, from 1981 until 1982; Assistant Secretary of State for Economic and Business Affairs from 1982 until 1985; Permanent Representative to the U.S. Mission to the Organization of American States from 1985
- McClure, James A.**, Senator (R–Idaho)
- McDaniel, Rodney B.**, Senior Director, Crisis Management Center, National Security Council, and President's Special Assistant for National Security Affairs from March 1985 until 1986; Executive Secretary, National Security Council, and President's Special Assistant for National Security Affairs from 1986 until 1987

- McFarlane, Robert C.** “Bud,” Colonel, USMC (Ret.); Counselor of the Department of State from February 28, 1981, until April 4, 1982; President’s Deputy Assistant for National Security Affairs from January 1982 until August 1983; Personal Representative of the President to the Middle East from July 22 until October 17, 1983; President’s Assistant for National Security Affairs from October 17, 1983, until December 4, 1985
- McKinley, Brunson,** Deputy Executive Secretary, Department of State, from 1983 to 1986
- McMahon, John N.,** Deputy Director for Operations, Central Intelligence Agency, until April 1981; Deputy Director for National Foreign Assessment, Central Intelligence Agency, from April 1981 until January 1982; Executive Director, Central Intelligence Agency, from January 4, 1982, until June 1982; Deputy Director of Central Intelligence from June 1982 until March 1986
- McManus, Michael A.,** President’s Deputy Assistant and Deputy to the Deputy Chief of Staff from 1982 until 1983; President’s Assistant and Deputy to the Deputy Chief of Staff from 1983 until 1985
- McMinn, Douglas W.,** Director, International Economic Affairs Directorate, National Security Council, from 1982 until 1985; Director of Trade, Planning and Evaluation Directorate, National Security Council, in 1985; Assistant Secretary of State for Economic and Business Affairs from July 19, 1985, until November 30, 1987
- McNamar, Robert T.,** Deputy Secretary of the Treasury from 1981 until 1985
- McPherson, M. Peter,** Acting Counsel to the President from January 20, 1981, until February 26, 1981; Acting Director, International Development Cooperation Agency; Director, U.S. Agency for International Development, from February 27, 1981, until August 7, 1987; thereafter, Deputy Secretary of the Treasury
- Meese, Edwin, III,** Counselor to the President from January 21, 1981, until February 24, 1985; Attorney General from February 25, 1985, until August 12, 1988
- Meissner, Charles F.,** Special Negotiator for Economic Matters, Bureau of Economic and Business Affairs, Department of State, from 1980 until April 1983
- Menges, Constantine C.,** President’s Special Assistant for National Security Affairs and Senior Director, Latin American Affairs Directorate, National Security Council, from 1983 until 1985; also, President’s Special Assistant for National Security Affairs from January 24, 1984, until 1985; thereafter, President’s Special Assistant and Senior Director, International Communications and Information Directorate, National Security Council
- Michel, James H.,** Principal Deputy Assistant Secretary of State for Inter-American Affairs from 1984 until 1986
- Miller, James C., III,** Administrator, Information and Regulatory Affairs, Office of Management and Budget and Executive Director, Presidential Task Force on Regulatory Relief, until September 1981; member and Chairman, Federal Trade Commission, from September 1981 until 1985; Director, Office of Management and Budget, from October 8, 1985, until October 15, 1988
- Mitterrand, François,** President of France from May 26, 1981
- Montgomery, Parker G.,** Chairman and Chief Executive Officer, Cooper Laboratories; Vice Chairman, President’s Task Force on International Private Enterprise
- Morris, Robert J.,** Deputy to the Under Secretary of State for Economic Affairs from 1982 until 1985
- Motley, Langhorne A.,** U.S. Ambassador to Brazil from October 6, 1981, until July 6, 1983; Assistant Secretary of State for Inter-American Affairs from July 12, 1983, until July 3, 1985
- Motono Moriyuki,** Japanese Personal Representative (Sherpa) to the Williamsburg Economic Summit
- Mulford, David,** Assistant Secretary of the Treasury for International Affairs from 1984 until 1988
- Mulroney, Martin Brian,** Prime Minister of Canada from September 17, 1984

- Nachmanoff, Arnold**, Deputy Assistant Secretary of the Treasury for International Affairs from 1977 until 1981
- Nakasone Yasuhiro**, Prime Minister of Japan from November 27, 1982, until November 6, 1987
- Nance, James W.**, "Bud," Admiral, USN; President's Deputy Assistant for National Security Affairs from January 1981 until January 1982
- Nau, Henry R.**, Director, International Economics, Planning and Evaluation Directorate, National Security Council, from February 1981 until July 1983
- Negroponte, John D.**, Deputy Assistant Secretary of State for East Asian and Pacific Affairs from 1980 until 1981; U.S. Ambassador to Honduras from November 11, 1981, until May 30, 1985; Assistant Secretary of State for Oceans and International Environmental and Scientific Affairs from July 19, 1985, until November 23, 1987; thereafter, President's Deputy Assistant for National Security Affairs
- Nelson, Donald**, Assistant United States Trade Representative for Agricultural Affairs and Commodity Policy until 1986
- Newell, Gregory J.**, President's Special Assistant for Appointments and Scheduling from 1981 until 1982; Assistant Secretary of State for International Organization Affairs from June 4, 1982, until November 12, 1985; U.S. Ambassador to Sweden from December 19, 1985
- North, Oliver L.**, member, Defense Policy Staff, National Security Council, from 1982 until 1983; Deputy Director, Political-Military Affairs, National Security Council, from 1983 until 1986; Director, Political-Military Affairs, National Security Council, in 1986
- Nyerere, Julius K.**, President of Tanzania
- Obey, David**, member, U.S. House of Representatives (D-Wisconsin)
- Olmer, Lionel**, Under Secretary of Commerce for International Trade from 1981 until 1985
- Paolini, Remo**, Italian Personal Representative (Sherpa) to the Williamsburg Economic Summit
- Paye, Jean-Claude**, Secretary-General, Organization for Economic Cooperation and Development, from 1982 until 1984
- Pearson, W. Robert**, Deputy Executive Secretary and General Counsel, National Security Council, from 1985 until 1987
- Percy, Charles H.**, Senator (R-Illinois); Chairman, Senate Foreign Relations Committee, from January 3, 1981, until January 3, 1985
- Pérez, Carlos Andrés**, President of Venezuela from 1974 until 1979
- Phillips, Donald M.**, Director of Commodity Policy, Office of the U.S. Trade Representative, until 1985; Assistant United States Trade Representative for Trade Policy Coordination from 1985 until 1988; Assistant United States Trade Representative for Industry from 1988
- Pipes, Richard E.**, Director, Soviet Union/Eastern Europe, Political Affairs Office, National Security Council, from February 1981 until December 1982
- Platt, Alexander H.**, Associate General Counsel, Office of the U.S. Trade Representative; Acting Assistant U.S. Trade Representative for Congressional Affairs in 1985; Director, International Economic Affairs Directorate, National Security Council, from 1985 until 1987
- Platt, Nicholas**, Deputy Assistant Secretary of State for International Organization Affairs from July 1981 until July 1982; U.S. Ambassador to Zambia from August 31, 1982, until December 17, 1984; Special Assistant to the Secretary of State and Executive Secretary of the Department of State from January 7, 1985, until February 13, 1987; U.S. Ambassador to the Philippines from August 27, 1987
- Poats, Rutherford M.**, Director, International Economic Policy, Planning and Evaluation Directorate, National Security Council, from 1981 until January 1982; Chairman, Development Assistance Committee of the Organization for Economic Cooperation and Development from January 1982 until 1985

- Poindexter, John M.**, Rear Admiral, USN; Military Assistant to the President's Assistant for National Security Affairs from 1981 until 1983; President's Deputy Assistant for National Security Affairs from October 17, 1983, until December 3, 1985; President's Assistant for National Security Affairs from December 4, 1985, until November 25, 1986
- Porter, Roger B.**, Executive Secretary, Cabinet Council on Economic Affairs; President's Deputy Assistant for Policy Development, and Director, White House Office of Policy Development, from 1981 until 1985; Executive Secretary of the Economic Policy Council in 1985
- Powell, Colin L.**, Brigadier General, USA (Major General from August 1, 1983, until February 26, 1986; Lieutenant General from February 26, 1986); Senior Military Assistant to Deputy Secretary of Defense Carlucci from January 1981 until May 1981; Senior Military Assistant to Secretary of Defense Weinberger from 1983 until 1986; Commanding General, Headquarters Fifth Corps, Frankfurt, in 1986; President's Deputy Assistant for National Security Affairs from late 1986 until 1987; President's Assistant for National Security Affairs from November 5, 1987
- Pym, Francis**, British Foreign Secretary from April 6, 1982, until June 11, 1983
- Quinn, Kenneth M.**, Deputy Executive Secretary of the Department of State from December 1984
- Rao, P.V. Narasimha**, Indian Foreign Minister until 1984
- Rashish, Myer "Mike,"** Under Secretary of State for Economic Affairs from June 29, 1981, until January 20, 1982
- Raymond, Walter, Jr.**, Director, Intelligence Directorate, National Security Council, from 1982 until June 1983; President's Special Assistant for National Security Affairs and Senior Director, International Communications and Information Directorate, National Security Council, from June 3, 1983, until 1987
- Reagan, Ronald W.**, President of the United States
- Regan, Donald T.**, Secretary of the Treasury from January 22, 1981, until February 2, 1985; White House Chief of Staff from February 2, 1985, until February 27, 1987
- Rentschler, James M.**, Western Europe, Political Affairs Office, National Security Council, until 1982; U.S. Ambassador to Malta, from October 19, 1982, until July 26, 1985; Ambassador-in-Residence, Fletcher School of Law and Diplomacy, Tufts University, from 1985 until 1986
- Ringdahl, Philip**, member, National Security Council staff, 1986
- Risque, Nancy J.**, President's Special Assistant for Legislative Affairs from 1981 and Deputy Director, Office of Legislative Affairs, from October 1982 until November 1985; President's Deputy Assistant for Legislative Affairs from November 1985 until 1986; President's Assistant and Cabinet Secretary, Office of Cabinet Affairs, from 1987
- Roche, James G.**, Deputy Director, Policy Planning Staff, Department of State, from 1981 until 1982
- Robinson, Roger W., Jr.**, Director, East/West Economics, Planning and Evaluation Directorate, National Security Council staff, from 1982 until 1983; Director, International Economic Affairs Directorate, National Security Council, from 1983 until 1984; President's Special Assistant for National Security Affairs and Senior Director, International Economic Affairs Directorate, National Security Council, from 1984 until September 1985
- Rockefeller, David**, Chairman, Chase-Manhattan Bank; co-founder Trilateral Commission; Chairman, U.S. Business Committee on Jamaica
- Rodman, Peter W.**, Center for Strategic and International Studies, Georgetown University, until March 1983; member, Policy Planning Council, Department of State from 1983 until 1984; Chairman, Policy Planning Council, from April 9, 1984, until March 3, 1986 (Director, Policy Planning Staff, from May 7, 1985); President's Deputy

- Assistant for National Security Affairs for Foreign Policy from January 29, 1986, until 1987; President's Special Assistant and National Security Council Counselor from 1987 until 1989
- Rosenberg, Alison**, member, African Affairs Directorate, National Security Council, from 1987 until 1988
- Rowen, Henry "Harry,"** Chairman, National Intelligence Council, from 1981 until 1983
- Ruding, H. Onno**, Dutch Finance Minister
- Rush, Barney**, Special Assistant to the Under Secretary of State for Economic Affairs
- Ryan, Frederick J., Jr.**, Deputy Director, Office of Appointments and Scheduling, from 1982 until 1983; President's Special Assistant and Director, Office of Appointments and Scheduling, from 1983 until 1989; President's Special Assistant and Director, Office of Private Sector Initiatives, from February 1985
- Sanguinetti, Julio María**, President of Uruguay from March 1, 1985, until March 1, 1990
- Sapia-Bosch, Alphonso E.**, Director, Inter-American Affairs, Political Affairs Office, National Security Council, from 1982 until 1983; Director, Latin American Affairs Directorate, National Security Council, in 1983
- Schmidt, Helmut**, Chancellor of the Federal Republic of Germany until October 1, 1982
- Schneider, William Jr.**, Associate Director for National Security and International Affairs, Office of Management and Budget, from January 1981 to August 1982; Under Secretary of State for Security Assistance, Science, and Technology from September 1982 until 1986; Chairman, President's General Advisory Committee on Arms Control and Disarmament from 1987
- Schotta, Charles**, Deputy Assistant Secretary of the Treasury for Commodities and Natural Resources until 1983; Deputy Assistant Secretary of the Treasury for Arabian Peninsula Affairs from 1983
- Shagari, Shehu**, President of Nigeria until December 31, 1983
- Shultz, George P.**, Chairman, President's Economic Policy Advisory Board, from 1981 until 1982; Secretary of State from July 16, 1982, until January 20, 1989
- Sigur, Gaston J., Jr.**, Director, East Asian and Pacific Affairs, Political Affairs Office, National Security Council, from 1982 until 1983; President's Special Assistant for National Security Affairs and Senior Director, Asian Affairs Directorate, National Security Council, from 1983 until 1986; thereafter, Assistant Secretary of State for East Asian and Pacific Affairs from March 1986
- Smith, Michael B.**, Deputy U.S. Trade Representative in Geneva until 1983; Deputy U.S. Trade Representative in Washington from 1983 until October 1988
- Sofaer, Abraham**, Legal Adviser of the Department of State from June 10, 1985
- Solomon, Richard H.**, Director, Policy Planning Staff, Department of State, from March 3, 1986
- Soos, Helen E.**, Deputy Director, African Affairs Directorate, National Security Council, from 1985 until 1987
- Sorzano, José S.**, U.S. Representative to the United Nations Educational, Scientific and Cultural Organization from 1981 until 1983; Deputy U.S. Permanent Representative to the United Nations from 1983 until 1985; President's Special Assistant for National Security Affairs and Senior Director, Latin American Affairs Directorate, National Security Council, from February 11, 1987, until 1988
- Spadolini, Giovanni**, Prime Minister of Italy from June 28, 1981, until December 1, 1982; Italian Defense Minister from August 4, 1983, until April 17, 1987
- Sprinkel, Beryl W.**, Under Secretary of the Treasury for Monetary Affairs from March 1981 until 1985; Chairman, Council of Economic Advisers, from 1985 until 1989
- Stark, James R.**, Director, Political-Military Affairs, National Security Council, from 1985 until 1986
- Stearman, William L.**, General Counsel, Executive Secretariat, National Security Council, from February 1981

- Steeg, Helga**, member, Federal Republic of Germany Ministry of Economics; Chair, Organization for Economic Cooperation and Development Commission on International Investment and Multinational Enterprises
- Stevens, Paul Schott**, Deputy Director and General Counsel, President's Blue Ribbon Commission on Defense Management (Packard Commission), from September 1985 until July 1986; President's Special Assistant for National Security Affairs and Legal Adviser, National Security Council, from February 11, 1987; President's Special Assistant for National Security Affairs and Executive Secretary, National Security Council, from November 20, 1987
- St Germain, Fernand J.**, member, U.S. House of Representatives (D-Rhode Island)
- Stockman, David A.**, Director, Office of Management and Budget, from January 27, 1981, until August 1, 1985
- Stoessel, Walter J., Jr.**, U.S. Ambassador to the Federal Republic of Germany until January 5, 1981; Under Secretary of State for Political Affairs from February 28, 1981, until January 26, 1982; Deputy Secretary of State from February 11, 1982, until September 22, 1982; Secretary of State ad interim from July 5, 1982, until July 16, 1982
- Stoltenberg, Gerhard**, Minister of Finance, Federal Republic of Germany, from October 1982 until April 1989
- Streeb, Gordon L.**, Deputy Assistant Secretary of State for International Economic and Social Affairs, Bureau of International Organizations, from 1981 until 1982; Deputy Chief of Mission, U.S. Embassy in New Delhi, from 1984 until 1988; Senior Inspector, Office of the Inspector General, Department of State, from 1988
- Suzuki Zenko**, Prime Minister of Japan until November 27, 1982
- Symms, Steven**, Senator (R-Idaho)
- Takeshita Noboru**, Prime Minister of Japan from November 6, 1987
- Thatcher, Margaret**, Prime Minister of the United Kingdom
- Thomas, W. Dennis.**, Assistant Secretary of the Treasury for Legislative Affairs from March 1981 to December 1983; President's Deputy Assistant for Legislative Affairs from December 1983 to May 1985; President's Assistant from July 1985 until 1987
- Thompson, Stephen H.**, member, Industrial and Strategic Materials Division, Office of International Commodities, Bureau of Economic and Business Affairs, Department of State
- Thorn, Gaston**, President, European Commission, from 1981 until 1985
- Thurmond, J. Strom**, Senator (R-South Carolina)
- Tietmeyer, Hans**, Federal Republic of Germany Personal Representative (Sherpa) to the Williamsburg Economic Summit
- Tillman, Jacqueline**, Executive Assistant, Washington Office of the Permanent Representative to the United Nations, Bureau of International Organization Affairs, Department of State; Deputy Director, Latin American Affairs Directorate, National Security Council, from 1984 until 1987; Director, Latin American Affairs Directorate, National Security Council, from 1987 until 1988
- Todd, James C.**, Chief, Industrial and Strategic Materials Division, Office of International Commodities, Bureau of Economic and Business Affairs, Department of State
- Trudeau, Pierre Elliot**, Prime Minister of Canada until June 3, 1979, and from March 3, 1980, until June 30, 1984
- Tyson, Charles P., II**, President's Deputy Assistant for National Security Affairs (for Coordination), Office of Coordination, National Security Council, from 1981 until 1983
- Veliotis, Nicholas A.**, U.S. Ambassador to Jordan until February 10, 1981; Assistant Secretary of State for Near Eastern and South Asian Affairs from May 21, 1981, until October 27, 1983; U.S. Ambassador to Egypt from November 24, 1983, until April 1, 1986

Volcker, Paul A., Chairman, Board of Governors of the Federal Reserve System, from August 6, 1979, until August 11, 1987
von Wechmar, Rudiger, President, United Nations General Assembly, from 1980 until 1981

Waldheim, Kurt, Secretary-General of the United Nations until December 31, 1981

Walker, Edward S., Jr. "Ned," Executive Assistant to the Deputy Secretary of State from 1982 until 1984; Deputy Assistant Secretary of State for Near Eastern and South Asian Affairs from 1988

Wallich, Henry C., member, Board of Governors of the Federal Reserve System, from March 8, 1974, until December 15, 1986

Wallis, W. Allen, Under Secretary of State for Economic Affairs from September 23, 1982 (Under Secretary of State for Economic and Agricultural Affairs from August 16, 1985)

Weidenbaum, Murray L., Chairman, Council of Economic Advisers, from February 24, 1981, until September 1, 1982

Weinberger, Caspar W. "Cap," Secretary of Defense from January 21, 1981, until November 23, 1987

Weiss, Gus, W., Director, Technology Transfer, Planning and Evaluation Directorate, National Security Council, from 1982 until 1984

Wettering, Frederick, Director, Africa, Political Affairs Office, National Security Council, from 1981 until 1983; Director, African Affairs Directorate, National Security Council, from 1983 until 1985

Wheeler, Michael O., Staff Secretary and Executive Secretary, Executive Secretariat, National Security Council from 1982 until 1983

Whitehead, John C., Deputy Secretary of State from July 9, 1985, until January 20, 1989

Whitten, Jamie, L., member, U.S. House of Representatives (D-Mississippi)

Wick, Charles Z., Director, International Communication Agency (United States Information Agency from 1982) from June 9, 1981

Wigg, David, C., Deputy Director, International Economic Affairs Directorate, National Security Council, from 1983 until 1985; Director, International Economic Affairs Directorate, from 1985 until 1986

Wilson, Michael H., Canadian Minister of Finance from 1984

Wisner, Frank G., II, U.S. Ambassador to Zambia until April 1982; Deputy Assistant Secretary of State for African Affairs from April 1982 until April 1986; U.S. Ambassador to Egypt from August 1986

Wolfowitz, Paul D., Director, Policy Planning Staff, Department of State, from February 13, 1981, until December 22, 1982; Assistant Secretary of State for East Asian and Pacific Affairs, from December 22, 1982, until March 12, 1986; U.S. Ambassador to Indonesia from April 11, 1986

Wright, Joseph R., Jr., Deputy Secretary of Commerce from 1981 until 1982; Deputy Director, Office of Management and Budget, from 1982; Director from November 8, 1988

Yeutter, Clayton, United States Trade Representative from 1985 until 1988

Zablocki, Clement J., member, U.S. House of Representatives (D-Wisconsin) until 1983; Chairman, House Foreign Affairs Committee; Chairman, Subcommittee on International Security and Scientific Affairs, House Foreign Affairs Committee; member, House Permanent Select Committee on Intelligence

Zhao Ziyang, Premier of the Peoples Republic of China until November 24, 1987; General Secretary of the Central Committee of the Communist Party of China from 1987

Zoellick, Robert B., Executive Secretary, Department of the Treasury, from 1986 until 1988

Global Negotiations

1. Memorandum From the President's Assistant for National Security Affairs (Allen) to Secretary of the Treasury Regan¹

Washington, February 16, 1981

SUBJECT

The Ottawa Economic Summit (U)

I have spoken briefly with Al Haig about the Ottawa Economic Summit in July.² It is essential that we begin now to reorient the agenda of the Ottawa Economic Summit (July 19–21) so as to assure that the President will be able to advance his own strategic objectives there. We will know better how to proceed after Mike Rashish and his delegation have participated in the preparatory meeting in London next week.³ I suggest that we meet shortly thereafter with Ed Meese and Murray Weidenbaum, prior to seeking the President's views. (C)

The present intention of Prime Minister Trudeau—encouraged by former President Carter—to focus this Summit on North/South issues and pledges of increased development aid is out of line with our priorities. In order to change this focus in time to permit thorough preparatory negotiations, we need to put forward new concepts and proposals, starting next week.⁴ (C)

I know that Mike and his team share this viewpoint and have initiated a broad canvassing of ideas. I also have asked my staff for conceptual papers on key topics. Three preliminary drafts are attached:

1. *Strategy for International Energy Cooperation* (Tab A)—defines a broader framework for discussing energy issues, with greater emphasis on energy security.⁵ It suggests possible trade-offs between our commitments on nuclear energy and European/Japanese commitments on oil

¹ Source: Reagan Library, Executive Secretariat, NSC Trip File, Ottawa Economic Summit July 19–21, 1981; NLR–755–12–8–1–1. Confidential. Copies were sent to Meese and Weidenbaum.

² Allen sent a nearly identical memorandum to Haig. A copy of this memorandum, also dated February 16, is in the Reagan Library, Executive Secretariat, NSC Trip File, Ottawa Economic Summit July 19–21, 1981; NLR–755–12–8–2–0.

³ The preparatory meeting took place the week of February 16 in London; see Documents 2 and 3.

⁴ The week of February 23.

⁵ Tab A, dated January 28, is attached but not printed.

stockpile coordination and between our commitments toward defense of the Persian Gulf oil sources and their support of US diplomacy on Arab–Israeli issues. (C)

2. *Strategy for East/West Trade and Technology Cooperation* (Tab B)—seeks to capitalize on contingency planning for Poland to generate greater commitments among the Allies to consider the requirements of strategic and economic security in trade with the East, in particular, the need to protect against vulnerability that results from excessive levels of dependence on Soviet resources (e.g., natural gas from Siberia) or markets.⁶ (C)

3. *Strategy for Relations With Developing Countries* (Tab C)—seeks to shift the emphasis of past Summits and the Carter Administration from multilateral aid initiatives to coordinated bilateral initiatives which gives the Summit countries more direct credit for aid (something the British and French strongly desire) and will be more in line with the emphasis of our own foreign aid budget on bilateral programs. (C)

Other subjects will need to be developed: macroeconomic policy harmonization, monetary coordination, trade policy, etc. Traditionally, the Chairman of the US Council of Economic Advisers has taken the lead in developing a joint position paper on macroeconomic issues. (C)

I believe President Reagan will want to use this annual meeting of the main industrial allies to concert broad political and security strategies that bear on our common economic interests. I have been encouraged by a review of the history of economic summitry (briefly summarized at Tab D) to believe that this evolution of the summit process is feasible and would be welcomed by most of the other heads of government.⁷ (C)

Richard V. Allen

Tab C

Paper Prepared in the National Security Council⁸

Washington, February 5, 1981

OVERALL STRATEGY FOR RELATIONS WITH DEVELOPING COUNTRIES

1. *Conceptual Framework*

US relations with developing countries occur at several levels:

— The base of these relations is bilateral *security* and *economic* relations with key countries in the developing world. These relations

⁶ Tab B, dated February 5, is attached but not printed.

⁷ Tab D, undated, is attached but not printed.

⁸ Confidential. No drafting information appears on the paper.

are the most important means of defending and expressing American values: political democracy, economic entrepreneurship and individual human rights.

— A more inclusive level is US *responses to change* in the developing world. Change creates new stakes for US security and economic interests. Thus the United States has a *political* interest in ensuring both that change occurs in a manner consistent with our values (hence a strong US opposition in terrorism) and that it results in governments and societies that are not hostile to fundamental US values.

— The peak of US relations with developing countries is cooperation through *global and regional* institutions and rules. This cooperation seeks to include developing countries in a healthy world economy, adapting rules to benefit these countries (*e.g.*, GSP) and imposing mutual obligations on them (*e.g.*, urging membership in GATT). It supports development objectives and institutions (*e.g.*, the Multilateral banks) and addresses common global issues (food, energy, population, etc.); it embraces a pluralism of social mores and customs (*e.g.*, recognizing the rich and historic culture of Islam); and it acknowledges the need to enhance the participation and role of developing countries in post-war international institutions.

The North/South nomenclature does more to confuse than illuminate these various levels of US relations with developing countries. Indeed, it tends to focus attention on issues at the peak of US relations with developing countries, which have been defined primarily by spokesmen for the LDC bloc, rather than at the base of these relations which involve US security and economic interests. It diverts attention from support of basic US security, economic and political interests, and it distorts our foreign aid budget so that is increasingly unsustainable in the Congress.

By concentrating policy and resources now on building a strong bilateral base of security and economic ties with key countries of the developing world, we will be in a better position later to justify Congressional support for multilateral cooperation to address global problems.

In recent years, the base has been seriously eroded. US bilateral aid programs cannot work with many of the developing countries that are most critical for US security and economic interests. Meanwhile, multilateral institutions are being attacked increasingly by radical forces in the third world and risk losing their greater acceptability and legitimacy, which have made them preferred instruments of aid over the past decade.

2. New Policy Directions

The formulation of US policy toward developing countries must be grounded in the new domestic and foreign policy directions of the Reagan Administration. These include:

— overriding priority for enhancing national security and strengthening the national economy;

- restraint on the foreign aid budget with priority given to bilateral accounts that offer flexible resources to implement new directions in US foreign policy (*e.g.*, in Central America and Middle East);

- cultivating special ties with key developing countries (often the more advanced developing countries), utilizing small aid programs and bilateral commodities to promote much larger flows of private trade and investment (*e.g.*, expanding the Trade and Development Program),

- coordinating bilateral foreign assistance with industrialized country allies as alternative to new multilateral institutions;

- as the base of US relations with developing countries is rebuilt, continuing support for multilateral development institutions and programs;

- positive expression of US values and interests in all international institutions, negotiations, and economic arrangements;

3. Action Events

A. Rebuilding the base of US relations with developing countries:

a. restructuring the foreign aid program;

(1) budget revisions—February 1–15;

(2) FY–82 budget submissions—February 17;

(3) reorganization of IDCA/AID—April–June;

(4) rationalizing legislation restrictions on foreign assistance—FY–83 budget preparations.

b. follow-up on key bilateral visits:

(1) Jamaica;⁹

(2) South Korea;¹⁰

(3) Others.

c. identifying key countries for intensified relations

B. Advancing US values and interests in international institutions and global political discussions:

a. *North/South Summit-Planning Group Meeting (March 13–15)*¹¹

Action: Explore prior to March 1 with Canada, Austria and Germany the feasibility of inducing the co-sponsors (Austria and Mexico) of the proposed North/South Summit meeting, tentatively scheduled for Mexico City in mid-June, to fix the procedures of the meeting so that risks of President Reagan's attendance would be minimal and the prospect of realistic, constructive discussion is enhanced; if this is not assured, advise key allies that the United States will not participate and request that they

⁹ Reagan hosted Prime Minister Seaga of Jamaica and his wife at the White House on January 28. (Reagan Library, President's Daily Diary)

¹⁰ Reagan hosted President Chun Doo Hwan of the Republic of Korea at the White House on February 2. (Reagan Library, President's Daily Diary)

¹¹ See Document 7.

either decline to attend or, at least, insist on postponing the meeting until after the Ottawa Summit when they would concert with us the substantive positions they intend to take at Mexico City.

b. *PLO Observer in World Bank IMF Annual Meeting (March 1 and following)*

Action: Seek extension of the March 1 deadline for the World Bank and IMF Boards of Directors' reports to their Governors on how to resolve the postponed issue of seating PLO observers; resist any urgency to find compromise solution until US Middle East policy is set; determine future policy on this issue in the context of our overall Middle East policy.

c. *UN Global Negotiations—(May–June)*

Action: Coordinate with British and Germans to forestall Global Negotiations at least until after Ottawa Summit and opportunity for new Administration to influence perceptions and agenda of allied countries on developing country issues; seek wider adherence by industrial countries to the position that Global Negotiations should be rejected so long as the G-77 insists that policies adopted there bind the specialized international agencies such as IMF and IBRD.

C. Reshaping the agenda of global economic discussions.

a. *London Preparatory Meeting for Ottawa Summit—February 17–18*¹²

Generally, discourage Canadian emphasis on global institutions and issues, and seek solutions to key development problems primarily through coordinated bilateral action.

Specifically, with regard to the North/South portion of the Summit:

(1) *energy*—idea of a consortium of Summit countries coordinating bilateral energy programs with World Bank participation, as possible substitute for converting World Bank program into a new affiliate.

(2) *technical assistance*, particularly manpower training—idea of coordinated bilateral action among donors, including multilateral institutions, to enhance and improve technical collaboration on key problems among industrialized and developing countries (perhaps asking Canadian IDRC to take lead on designing modes of R&D collaboration).

(3) *food*—idea of coordinated bilateral action among allies to enhance food production and food security in poor countries starting with fresh approach to the international grain reserve scheme at IWC meetings in March and June (below).

(4) *external imbalances*—consideration of coordinated bilateral action in support of IMF emergency borrowing to assist LDCs with acute payments problems.

b. *International Wheat Council (IWC) (March 3–6 and June)*

(1) consult with IWC staff and EC Commission and seek simplified approach to goal of international emergency wheat reserve;

(2) convey to Trudeau our intention to get this issue on the Summit agenda, if necessary to overcome Canadian Wheat Board's continuing opposition to a food security system for food-short nations.

¹² See Documents 2 and 3.

c. *All Occasions*

Maintain the GATT/MTN gains and further open international markets to competition, subject to limited exceptions; offer to negotiate further trade concessions to those developing nations that offer reciprocal advantages in trade or other fields to the United States. *Specifically*, in negotiating extension of the Multifiber Agreement (textile import restraints), seek to maintain the present level of LDC access to US textile markets and negotiate with allies to enlarge LDC access to more protected OECD markets.

2. **Memorandum of Conversation**¹

London, February 17, 1981

Personal Reps Dinner

Rashish left with the impression that the others were receptive and indeed agreed to the idea that this meeting of the Sherpas and the Summit should look at such questions as: What are the issues? What is relevant to the alliance? What is the integrating theme?

There was a general feeling that real (as contrasted to procedural) questions must be addressed and particularly, what is appropriate in the North/South context. In this regard, the response which the Heads of State had asked for at Venice² did not seem to be forthcoming through the technique adopted by the Canadians, i.e., the 21 questions.³ There seems to be general acceptance of the US view on the North/South debate, i.e., that North/South is an unfortunate label. There are differences among the developing countries. The whole North/South debate has been divisive; it has not addressed the real issues. *Mrs. Thatcher*

¹ Source: Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: 1981 Ottawa Summit—1st Sherpa Meeting—London. No classification marking. No drafting information appears on the memorandum.

² A reference to the Venice Economic Summit, held in June 1980. For documentation on the Venice Economic Summit, see *Foreign Relations*, 1977–1980, vol. III, Foreign Economic Policy, Documents 239, 240, 243, and 247; and *Foreign Relations*, 1977–1980, vol. I, Foundations of Foreign Policy, Documents 145 and 147.

³ A copy of the Canadian responses to 21 questions on “Aid and Other Contributions to Developing Countries,” dated February 6, which participants in the Ottawa Summit were supposed to answer prior to the Summit is in the Reagan Library, Executive Secretariat, NSC Trip File, Ottawa Summit 1981—Positions of Others; NLR–755–10–36–3–0. An undated copy of the State Department’s responses to the 21 questions is in the Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: 1981 Ottawa Summit North/South Can Paper.

(who attended cocktails briefly before dinner) said that North/South is a dreadful way of looking at the world.

[Omitted here is discussion of arrangements at the Summit.]

Rashish suggested that the personal reps try to develop an integrating theme. The others found this idea interesting. Specifically, he said that the US sees the Summit as a principal instrument of alliance strategy and a way to coordinate on issues before various fora. On the North/South debate, he said that the North is continuously on the defensive and that it was time to get off this approach. He made a plea for political relevance in discussions with developing countries. He said that the current North/South discussions as they had been conducted in various fora may be far less relevant. Japan and France both indicated some hesitation about backing away, particularly away from the discussions on global negotiations.

As to the Mexico Summit, *Armstrong* repeated that this should definitely be held after Ottawa. *Shulman* said the FRG view is that these discussions could be educational for the South. They could be used to point out that the North has limited resources and that both OPEC and CEMA have a responsibility to the NOPEC countries. In addition, the Third World must recognize that it has a political role to play. Chancellor Schmidt's view is that we talk tough and straight to make our positions clear to the other North/South Summit participants.

[Omitted here is discussion of preparations for future meetings.]

3. Notes of a Meeting¹

London, February 18, 1981

NOTES FROM THE SHERPAS MEETING

The meeting was chaired by Allan Gotlieb, Canada.

*North/South*²

Canada: Our main concern is to prepare for a successful summit. The obligation of the Personal Representatives, i.e., the mandate we received from Venice, was to study and report conclusions on aid and

¹ Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Ottawa—Preparatory Meetings. No classification marking. No drafting information appears on the notes.

² An unknown hand added this heading in the left-hand margin.

other contributions to the LDCs.³ North/South has always been on the agenda, and the communique has always given it more attention, perhaps even more attention than it deserved from the actual discussions that had taken place. This time the heads of government wanted more analysis and conclusions done at the working level. There were now some particular concerns on this subject: (a) other groups, namely CEMA and OPEC should become more involved; (b) development measures needed to be more effective; (c) the North deserved more credit for what it was actually doing; and (d) North/South is an important element in the management of international problems. However, Canada did not see this as separate from other issues. North/South is simply a dimension of the macro-financial, trade and other issues to be dealt with at the Summit. The Personal Reps as a group were asked to do the follow-up and they had decided to make a report on their own. The process they had agreed on was to define a number of questions and to use this as a mechanism to bring out some of their views. It was for this reason that the Canadians had circulated the twenty-one questions and were now circulating a composite of the replies that had been received.⁴ This composite did not contain views from the U.S. since the U.S. had not circulated its answers; nor from the French since they had only been received that very morning, in French.

FRG: Economic and political issues can not be separated. Our own security and prospects for the future will depend on our general relationship with the South. The role of the Third World on such issues as Afghanistan and Iran/Iraq was evidence of the increasing political role the South plays. The conclusion we have drawn is that it is highly desirable to recognize the independence and non-alignment of the Third World.⁵ We should thus try to work with them on the basis of equality.⁶ We should try to promote regional cooperation in the Third World. Nevertheless, the multilateral character of the relationship should be maintained. A shift of emphasis to bilateralism is not likely to produce the right results. In addition, we should deal with all developing countries irrespective of their particular policies and whether or not they are in line with our own. Our relationships should not be based on size. Small countries can exert de-stabilizing influences just as much as larger ones.

³ See footnote 2, Document 2.

⁴ See footnote 3, Document 2.

⁵ An unknown hand placed a checkmark in the right-hand margin next to this sentence.

⁶ An unknown hand changed the word "a" to "the."

Since the major objective is to help the developing countries strengthen their economies, this implies we can only support the efforts which they themselves are undertaking. Our support should be directed to those who are most willing to undertake these efforts. While it is true that our room for maneuver is limited, this does not imply that we should lessen our efforts. We must recognize that the economic world today is different from ten to twenty years ago when many of our own ideas on how to deal with the South were formulated.

Given the constraints on our resources, we must make it clear to the South that there are other ways than ODA to help them.⁷ Examples are cooperation in efforts to save energy and to develop alternative sources of energy and efforts to keep our markets open to their exports. We must stress the role that trade has to play in development of the South. This is often underestimated, along with the role of private direct investment. In our discussions with the South it is necessary to point out the order of magnitude between the impact of oil price increases on them versus the total of our ODA. From this one can then draw the clear implication that others should share a greater part of the common responsibility (OPEC and CEMA). With respect to OPEC this then implies in turn that we must develop a partnership and division of labor with them.⁸ This will be a difficult process. We should start this by working with those who have demonstrated the greatest responsibility in the past, for example, Saudi Arabia.

With respect to the sectoral approach, the FRG agrees that in the first instance we should focus on food, energy and population. There is certainly room for much more coordination and harmonization of ODA.⁹ An additional point to add is a concern for the maintenance of the global resource base. On this point,¹⁰ the FRG would like to know whether the USA plans to put forward some of the ideas in Global 2000.¹¹ These ideas are important and relevant to the deliberations of our Heads of State. As to energy, we must give serious consideration to

⁷ An unknown hand placed a checkmark in the right-hand margin next to this sentence.

⁸ An unknown hand changed the word "and" to "a."

⁹ An unknown hand wrote: "ODA" in a blank space after "harmonization of."

¹⁰ An unknown hand changed "With respect to" to "On."

¹¹ For information on the study commissioned by President Carter in 1977 to assess the state of the world by the end of the 20th century, which became the Global 2000 study, see *Foreign Relations, 1977–1980*, vol. I, Foundations of Foreign Policy, Document 155, footnote 2; and *Foreign Relations, 1977–1980*, vol. II, Human Rights and Humanitarian Affairs, Documents 337, 343, 344, 346, 347, and 348. The Global 2000 study focused on projected changes in the world's environment, natural resources, and population.

the pledge at Venice to create an energy affiliate of the IBRD. The IBRD should be enabled to play a major role in the energy field.

UK: The UK agrees that the communique of Venice did not fully reflect the full scale of discussions.¹² The UK also shares the view of the relative contributions various groups should make and also shares the view that food, energy and population and the problems of the least developed should be the focus of the North/South discussions. Our leaders in Venice, having grown weary of more kicks than kudos,¹³ wanted to come out with a better political balance and encouraging greater OPEC involvement. The impression of Venice was that we should be shifting more emphasis to the bilateral and most of the answers to the Canadian questions reflected this shift. But the UK believes that this should be a gradual process so as not to diminish the value of the IFIs. We should seek to find areas where we agree and where differences remain and then let heads of government address themselves to the differences.¹⁴

France: We must enter the dialogue with neither an inferiority or superiority complex.¹⁵ We should approach it with as little bias as possible. We must explain our own position and how and why it has changed both in capacity for aid and in finding who can contribute. The economic situation in the world now is largely a consequence of the oil shocks. We need to prepare our arguments and reinforce our bargaining position. It is clear that the energy field is the main one.¹⁶ Until we reduce dependence it is clear that we will have less leverage. We must, therefore, develop energy independence as rapidly as possible.

The modalities of ODA. Since many of our countries can no longer increase ODA, we must consider how to apply it with maximum efficiency. The trade-off between multilateral and bilateral aid is open for discussion. It is perhaps, therefore, important to discuss the issue of the bilateral share in ODA—it is not self-evident that the multilateral is the best way to proceed. ODA is not, however, the only way. We need to encourage, through various means, private capital flows. The percentage of capital from private sources is increasing. As part of this discussion, we need to answer how we can channel as much as possible of the OPEC surplus to the LDCs. The OPEC surplus must be channeled

¹² For the text of the declaration issued at the conclusion of the Venice Economic Summit, see Department of State *Bulletin*, August 1980, pp. 8–11.

¹³ An unknown hand wrote “kudos” in a blank after “more kicks than.”

¹⁴ An unknown hand changed the word “the” to “to” and the word “fine” to “find.”

¹⁵ An unknown hand wrote “an” between the words “neither” and “inferiority.”

¹⁶ An unknown hand placed a checkmark in the left-hand margin next to this sentence and circled “energy field is the main one.”

into creating real resources rather than simply into the western banking system.¹⁷

Japan. We by and large share the FRG's views. In the report of the Sherpas, we should start with analyzing the general state of affairs in the North/South situation. We should not construe the mandate too narrowly. We need to cover the underlying philosophies. We must develop a consensus on the present state of affairs. A huge change has taken place in the transfer of resources between North and South which limits aid capabilities. All of us are under fiscal constraints.¹⁸ What is the guiding philosophy of the North/South issue? (1) There is a mutuality of interest, i.e., interdependence; and (2) aid is not productive without self-help measures within the LDCs.¹⁹ The responsibility basically lies with them. There are certain practical principles we should follow, particularly with respect to aid problems: (1) Although we have had great fiscal constraints, we can not afford to diminish our ODA either qualitatively or quantitatively. We must focus on priority sectors. We must stick with our original efforts to expand ODA and not give the impression that we have reneged on our pledge.²⁰ (2) The most important element should be to help the LDCs develop their own human resources. (3) In priority sectors, we should stick with the three (food, energy, population) but put more relative importance on food. Food aid itself should only be supplementary to food production.

Italy. We need to relate our own stability and security to that of the South and this is what we need to achieve at Ottawa. Do we have any alternative to the North/South dialogue? We must bring out interdependence even more, but efforts must be shared. As to ODA, multilateral aid must be the pillar. We must support the IFIs. Multilateral aid is more neutral and while this has been criticized, we must look carefully and constructively at the multilateral versus the bilateral approach.

Our own difficulties can not be used as an alibi for a reduced role even though we insist that others play a more important role.

EC Commission. We, too, support the views put forward by the FRG. As to our political objectives, we must insist that our actions be better received by the South, i.e., they should turn away from their constant criticism.²¹ In addition, we must mobilize our own public opinion

¹⁷ An unknown hand replaced "is needed to" with the word "must."

¹⁸ An unknown hand replaced the word "physical" with the word "fiscal."

¹⁹ An unknown hand placed a checkmark in the left-hand margin next to this sentence.

²⁰ An unknown hand inserted "(2)" before the sentence beginning with "The most important element."

²¹ An unknown hand crossed out the word "then" before the word "they."

behind what we are trying to do.²² We must take a look at the relationships we are trying to develop. We do not want to take a unilateral approach, but rather an integrated approach. What we have in mind is developing programs along mutually interesting lines, rather than just along the interests of the North. In addition, we must try to strengthen the Bretton Woods institutions. The Summit should be as concrete as it can. This makes it more credible and helps to form the basis for developing public support in our own countries.²³

EC Council of Ministers. Two elements play a key role in the genesis of the discussions on the North/South issue. (1) Continuous criticism of the North in world fora. This is leading to increasing irritation and impatience in the North towards North/South discussions.²⁴ (2) The North economic situation, i.e., fiscal constraints. We must defend our record and make it clear that we object to being constantly put in the dock.²⁵ There must be a recognition that fundamental changes are underway in the world. Political weight is shifting, and we must recognize that this is a reality. The tone of the Summit report should reflect some focus on new areas of action, for example, an energy affiliate, sector-specific measures (food strategy) and greater attention to the problems of the least developed.

USA. We find this discussion reassuring and encouraging. The fact that we did not yet submit answers to the twenty-one questions does not reflect a lack of interest. It is important that we discuss North/South issues with candor and objectivity. We need clarity and understanding, and our own efforts in this area deserve better than the criticism that has marked previous North/South discussions. In our preparations for Ottawa, we should put focus on several areas—the centrality of the energy problem, the relative emphasis on trade, and the role of private investment. The US does not wish to dishonor its commitments or the role of its contribution to multilateral institutions.²⁶ But we are putting greater focus on the bilateral because we believe that the bilateral approach is more efficient. We do have political/economic objectives, and the bilateral approach provides for a greater focus as well as a better way of generating public support for development assistance. We must recognize that the North/South issue is not just a matter of ODA. We believe that we must bring

²² An unknown hand placed a checkmark in the left-hand margin next to this sentence.

²³ An unknown hand changed the words “to develop” to “for developing.”

²⁴ An unknown hand placed a checkmark in the left-hand margin next to this sentence and underlined “criticism of the North in world fora. This is leading to increasing irritation and impatience in the North.”

²⁵ An unknown hand underlined “we object to being constantly put in the dock.” The unknown hand also replaced the word “dark” with “dock.”

²⁶ An unknown hand replaced the word “of” with “to.”

our own house in order and this itself would be the greatest contribution we can make.

Chairman's Summation. I do see a similarity of outlook. In preparing a report, we have several tasks: (a) analysis—our leaders will appreciate analyses of the various interests we have and the features of the international economic dialogue; (b) we must develop a longer term view of where we should be going—how our interests can be served over the longer period. We must look at the longer term process of where we want to go and how we get there. We need to look to the end of the decade and, perhaps, beyond; (c) at the same time we can not ignore the sense of commitment in the short term. We need several short term specific commitments to demonstrate to the public that our leaders are making a commitment to the South.²⁷ Secondly, we must look at the overall character of the questions before us. We must look at the political character of these issues, the role of the developing countries, their strengths and their political stability. Part of the political dimension is the responsibility of others—CEMA and OPEC and the burden which they must agree to share. Further, assistance must be looked at in the context of the significant transfer of wealth that has already occurred.²⁸ The LDCs must appreciate the economic situation of the North. Many in the North are capital importers and the economies are not as vigorous as before. The North/South issue must be seen as part of an entire agenda where the linkages of the North/South discussions with energy, macro-developments and so forth are recognized. Third, there is a stress on the mutuality of interest or interdependence. We need to try to integrate the countries of the South more into the world economy and emphasize that they have a stake in the system and a major role in it. As to the process, we need to take account of the political perceptions of the world. Global negotiations are one of those factors we must take into account, as well as a regard for the North/South Summit. Digressing for a moment to express the views of Canada, Canada may not like it but the South has made itself into a political alliance and this is a factor in the process. We should be sufficiently nuanced in our approach not to confront the South head on with the fact that they do not have complete commonality of interest, i.e., that there are differences amongst them.²⁹ They have determined that they do have sufficient commonality of interest to keep them together, and we need to advise our leaders on how they must deal with this fact.

²⁷ An unknown hand wrote: "have *made* a commitment" in the left-hand margin next to this sentence.

²⁸ An unknown hand underlined "significant transfer of wealth that has already occurred."

²⁹ An unknown hand highlighted this sentence and wrote: "pol. unity of West also a fact" in the left-hand margin.

There must be an emphasis on trade and the role of private enterprise. Similarly, there is a need for economic growth in the North. Here again, we can bring in the mutuality theme. As to the sectoral approach, most of the focus has been put on food. We need to pay particular attention to self-help—the capacity of the South to feed itself. Our leaders might address themselves to this point. As to energy, some have stressed the importance of the IBRD role and the world energy affiliate. Canada thinks this is a good idea. The Venice Summit gave it a boost. We should also not forget the need for development of human resources.

It is a fact that aid is not likely to increase so the focus must be on increasing effectiveness. The bilateral versus multilateral issue is an element on how we get the most for our money. Some of our leaders are looking for advice on this. Some of us feel that ODA is an important element. Continuity is important even if we can't expand it. There must be a focus in ODA on the poorest because they are not in reality participating in trade or private capital flows.

We also need to stress the importance of the functioning of the world capital markets and the role of the IFIs. Should this role be strengthened, and if so, how, particularly in helping the more rapidly developing LDCs.³⁰ We need to appreciate the role of new power centers (OPEC) in the IFIs.³¹

Finally, with regard to the emphasis on the role of public opinion.³² While much attention is on national problems, the public is aware of the problems of the South, and our leaders can give this public awareness a boost. We should not be on the defensive but try to point to some concrete steps. In looking to some new approaches, there are differences on the prospects for automaticity in aid flows. Trudeau would like at least to examine whether there are any possibilities. We should, in our report, point out where there is consensus and where there are differences, where priorities differ.

UK. The report should put one or two propositions up front. One, maintaining bank credit for the LDCs. The volume of this flow is very large and it is critical that this system continue to function effectively. Two, maintenance of the credit worthiness of the IFIs. For example, the changing of the gearing ratio is dependent on market perceptions of the support of governments for the institutions. This goes back to the role of others, for example, OPEC and how OPEC support along with

³⁰ An unknown hand changed this sentence to read: "Should this role be strengthened, and if so, how, particularly in helping the more rapidly developing LDCs."

³¹ An unknown hand changed the word "senders" to "centers (OPEC)."

³² An unknown hand changed the word "option" to "opinion."

continued Western support can provide the needed credit worthiness for the IFIs.

FRG. We support the need to maintain the credit worthiness of the IFIs. We do, however, differ on the issue of whether or not the gearing ratio should be changed. We are in favor of efficient institutions, not just the IFIs per se, and it in this regard that an energy affiliate of the IBRD could enable the IBRD to take a look at the overall situation and to develop more concrete projects.³³ If an energy window could be created, this would generate funding more likely than if energy support were buried within the IBRD as just another program.

Canada. We have thus raised another series of questions to be considered in our report. How can we enhance private capital flows? Is there a role for the IMF in this? What are the dangers to the system lurking beneath the surface? How do we meet the balance of payments needs of the least developed and mid-income countries? Is there any advice we can give on the new directions our leaders should take?

USA. What we are discussing has to do with a systemic problem, and what we have been discussing here can be covered in the macro and monetary papers which should take a look at current issues. This whole question of financial flows is part and parcel of the broader economic problem.

Canada. We agree that the monetary paper might be useful and that it might take a look at the longer term, i.e., not just financial problems up to the end of this year.

FRG. Another dimension is the energy problem of the oil importing LDCs. We will do an analytical paper on aid, North/South issues, and the energy context. This will look at ways to tackle the problem, including an energy affiliate. We want a specific focus so that the impact the Summit might have is not diluted.³⁴ Any failure to focus on this issue at the Summit would be perceived by our public as a de-emphasis of this problem.

EC Council of Ministers. We want to point out that preparations for the UN Conference on New and Renewable Sources of Energy will take place prior to the Summit and we may wish to draw on this work for our own report.³⁵

³³ An unknown hand inserted the word "it" between "and" and "in."

³⁴ An unknown hand changed the word "could" to "might" and "deluded" to "diluted."

³⁵ An unknown hand changed the word "proceed" to "take place." The UN Conference on New and Renewable Sources of Energy took place August 10–21 in Nairobi.

Canada. What we might wish to comment on at the Summit are the following:

1. Energy and the energy affiliate
2. Food and food production
3. Aid to the poorest countries
4. The workings of the international capital markets (Can we do anything which would renew confidence in them?)

UK. The point heads of government might wish to make is that credit worthiness is critical to the South and in the end it is very much up to them to preserve this in terms of how they act domestically and how they as the 77 act in the IFIs.³⁶

Italy. It seems that what we are leading toward is that ODA should be directed at the poorest and the proper functioning of the financial system at the NICs.

USA. Perhaps we need to address more directly what we do to get more direct involvement of the private sector. In addition, we should look at which of the two approaches, the bilateral or the multilateral route, would be more likely to generate OPEC funding. We may also want to look at the suggestions regarding regional approaches. How can we more closely focus our attention on Africa, or the African poorest areas, or ASEAN or the Caribbean? One approach is to coordinate our focus on key areas.³⁷ On a totally different point, we need some analysis of how our own efforts to hold down inflation and energy consumption can be used as selling points with the LDCs. For the benefit of our own leaders, we should give them an analysis of the impact on our own system of keeping the trading system open and developing energy in the LDCs. On the other hand, in terms of more involvement of other groups, we need to reassess how much we want CEMA to be involved.

Canada. There is another dimension to the issue of channeling OPEC funds—should we encourage them to use their own bilateral, or rather, multilateral channels? Do we want to bring them more into the international system?

USA. There is some risk in this bilateral approach in that this may simply split OPEC off. If we in the USA put more emphasis on the bilateral, it may be hard to draw OPEC more into the multilateral institutions.³⁸ If we take this approach, do we encourage more bilateralism on the part of OPEC? This is certainly an issue which we want to consider.

UK. It is hard to see where we should come out. There are two elements: (a) The Bank. The bank doesn't require quite as much on behalf

³⁶ An unknown hand changed the word "ask" to "act."

³⁷ An unknown hand changed the words "individual attentions to" to "focus on."

³⁸ An unknown hand changed the word "pour" to "put."

of governments, i.e., its resources, its activities can be expanded by changing the gearing ratio and by providing expanded funding with direct contributions.

(b) IFAD, IDA and others. These are more difficult to expand because you have direct contributions. And it is not clear what OPEC's contributions will be. We should think about coordinated bilateral efforts which might include OPEC.³⁹ As to the energy affiliate, this may have to be run up the flag pole much as the Common Fund was years ago, but eventually, we are going to have to put our money where our mouth is no matter whether we support the new affiliate or not.

Japan. We should look at the demand side of energy use in the LDCs. For example, the large, heavy energy consumption projects such as those initiated by China should be discouraged. We should get the LDCs to focus on the most energy efficient technologies.

UK. We ought to address the question of how the health of the IFIs is in our mutual interest. We are in effect protecting access of the LDCs to resources.

Canada. On the question of food security and production, there are likely to be major food gaps in this decade. One of the problems is that it is difficult for the LDCs to get into the markets. We should examine carefully the whole question of additional food reserves, the amount that can be made available under ODA terms, and the amount under commercial terms. Our initial view is that a food reserve may in fact be something we can start on.

FRG. We are very distressed at the negligence of the LDCs in failing to emphasize food production. There has, for example, been an absolute decline in Africa. The focus has been put on other projects with very poor planning in the agricultural sector. The IBRD and others should really take the lead in discussing sound agricultural policies that we as bilateral donors can then support.

Note: This ended the morning session. One representative from each country was asked to participate in an afternoon meeting devoted exclusively to further followup on the Canadian twenty-one questions and the North/South issues.⁴⁰ The afternoon session turned to other issues.

[Omitted here is discussion of macroeconomic, monetary, trade, and energy issues.]

³⁹ An unknown hand underlined "We should think about coordinated bilateral efforts which might include OPEC" and wrote: "Yes!" in the left-hand margin next to this sentence.

⁴⁰ A record of the meeting was not found.

4. Memorandum of Conversation¹

Washington, February 23, 1981

SUBJECT

Exchange of Views on North-South and Energy Issues

PARTICIPANTS

E—Myer Rashish

Jean-Claude Paye, Director of Economic and Financial Affairs, MFA, Paris

Note: Paye unexpectedly dropped in to chat with Rashish while his Foreign Minister was meeting with Secretary Haig. The two chatted for about an hour until they were called in to participate in the Haig/Francois-Poncet meeting.²

In response to Rashish's inquiry about economic issues that Francois-Poncet will be raising with Haig, Paye said that the Foreign Minister would want to discuss the *Mexico Summit*. In the French view, the Mexico Summit should be used to reinforce the cracks in the G-77 and to serve as a "reciprocal pedagogic exercise" in which the developed countries would try "to teach" the LDCs that their economic development was being restrained by OPEC oil price increases. Paye indicated that such a controlled agenda could serve the purposes of the industrialized countries, especially if this could lead to some break with OPEC in the G-77. Paye indicated that the Summit might be postponed until September which is the last possible date on which Lopez-Portillo could host such a Summit.

With respect to *global negotiations*, Paye took a highly political view: If the industrialized countries have the necessary procedural safeguards which would protect the competence of the specialized agencies, then the global negotiations should continue. He expressed skepticism about the economic value of the results, but indicated that the political costs of not having global negotiations were much too high. He felt that the plenary sessions as opposed to the detailed specialized agencies' sessions should be used to permit the G-77 to vent steam on the issues. Rashish indicated that there are many in the Administration outside of

¹ Source: Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: 1981 Ottawa Summit—General E Summit Records. Limited Official Use. Drafted by Jacques Gorlin (E); cleared by Rashish. Copies were sent to Hormats and Maresca.

² An unknown hand bracketed this paragraph. Documentation on the Haig meeting with François-Poncet is scheduled for publication in *Foreign Relations, 1981–1988*, vol. VII, Western Europe, 1981–1984.

the State Department that would not view the end of the global negotiations as a disaster and if no economic benefits or concrete results were envisaged, then it begged the question as to why engage, in such global discussions. Rashish also indicated that Paye's view of the process may be too rational.

[Omitted here is discussion of energy and the Ottawa Summit.]

5. Memorandum of Conversation¹

Ottawa, March 10, 1981, 4–5 p.m.

SUBJECT

Summary of President's Meeting with Prime Minister Trudeau of Canada

PARTICIPANTS

President Ronald Reagan
Secretary of State, Alexander Haig
Secretary of the Treasury, Donald Regan
Secretary of Commerce, Malcolm Baldrige
United States Trade Representative, William Brock
Assistant to the President and Chief of Staff, James A. Baker III
Assistant to the President and Deputy Chief of Staff, Michael K. Deaver
Assistant to the President for National Security Affairs, Richard V. Allen
Assistant to the President for Domestic Affairs and Policy, Martin Anderson
Assistant to the President and Press Secretary, James S. Brady
Under Secretary of State for Economic Affairs, Myer Rashish
Under Secretary for International Trade, Lionel Olmer
Assistant Secretary of State for European Affairs, Ambassador Lawrence Eagleburger
Assistant Secretary–Designate, Robert Hormats
Charge d'Affaires, Richard Smith
Director, International Economics, Office of Bilateral Affairs for Canada, A.J. Stoler
Special Assistant to the Secretary of State, Rozanne Ridgway
Assistant Secretary–Designate for International Trade, Mark Leland
Senior NSC Staff Member, James Rentschler
The Prime Minister of Canada, Pierre Trudeau

¹ Source: Reagan Library, Martin Anderson Files, Subject File, Ottawa Summit—Meeting with PM Trudeau, July 10, 1981. Confidential. The meeting took place in the Cabinet Room in the Canadian Parliament Building. No drafting information appears on the memorandum. The full text of the memorandum of conversation is scheduled for publication in *Foreign Relations*, 1981–1988, vol. VII, Western Europe, 1981–1984.

Minister of State for Economic Development, Senator Olson
The Deputy Prime Minister and Minister of Finance, A. J. MacEachen
The Minister of Agriculture, Mr. Whelan
The Minister of Industry, Trade and Commerce, Mr. Gray
The Minister of Fisheries and Oceans, Mr. LeBlanc
The Minister of Energy, Mines and Resources, Mr. Lalonde
The Minister of National Defense, Mr. Lamontagne
The Minister of the Environment, Mr. Roberts
The Minister of State for International Trade, Mr. Lumley
The Secretary of State for External Affairs, Dr. MacGuigan
Under Secretary of State for External Affairs, Mr. Gotlieb
Clerk of the Privy Council, Mr. Pitfield
Canadian Ambassador to Washington, Peter Towe
Office of the Prime Minister, Mr. J. Coutts
Notetaker, Mr. Ted Lee

[Omitted here is discussion unrelated to North-South relations and the Cancun Summit.]

Prime Minister Trudeau said that at lunch he and the President had exchanged views on the energy aspects of the North-South dialogue. He said they had privately discussed the Mexico and Ottawa Summits and suggested that the President might want to repeat in the plenary session what he had shared with the Prime Minister concerning Lopez Portillo. (C)

The President stated that Lopez Portillo had wanted to host a Summit in Mexico this summer. The President said that he explained to Lopez Portillo that he would be prepared to attend if the timing could be changed to the fall and if no Cubans were present. Those were the only two conditions the President had stipulated. The President added that he planned to see Lopez Portillo in late April and will discuss the subject further with him at that time.² (C)

Prime Minister Trudeau observed that the President's conditions for attending such a Summit seemed reasonable. The Prime Minister added that he hoped he hadn't stuck his neck out and that perhaps it would be a good idea to hear from Foreign Minister MacGuigan who had gone to Vienna for an earlier preparatory meeting. (C)

Foreign Minister MacGuigan responded that the Mexicans themselves were not yet clear as to how they wished to proceed and that there were mixed feelings in the Mexican delegation concerning a

² Reagan communicated this information to López Portillo during a telephone conversation on February 27. A summary of this telephone conversation is scheduled for publication in *Foreign Relations*, 1981–1988, vol. XVII, pt. 1, Mexico; Western Caribbean. According to telegram 90341 to Mexico City, April 10, the bilateral border meeting between Reagan and López Portillo originally scheduled for April 27 to 28 was postponed. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810170–0155)

Cuban presence, with some of the more leftist members pushing for such a presence and others against it. The Foreign Minister expressed his belief that the situation can be sorted out. (C)

The President said we're with you! (laughter) (U)

Prime Minister Trudeau asked to what extent the Soviets were likely to attend. (C)

Foreign Minister MacGuigan replied that an invitation was still open. (U)

Prime Minister Trudeau said that it was fair to say that his objection to a Soviet presence was not so much ideological although clearly Canada had problems in that respect with a possible Soviet participation, but rather with the fact that a Soviet presence would change the character of the meeting itself. (C)

Foreign Minister MacGuigan asserted that this was precisely the point. Lord Carrington, he said, feels as strongly as the Canadians do but unfortunately he was not at Vienna to help Canada support that position. (C)

Secretary Haig stated that we did not want to seem to be in a position of opposing Soviet attendance. If it was necessary to apply some leverage, we would certainly welcome it but would not wish to be doing it ourselves. (C)

Prime Minister Trudeau suggested that this was the kind of strategic exchange which should occur during the Ottawa Summit. There were a number of aspects to consider. Should the West be inclined to force the Soviet Union to pay something in order to attend such a Summit, with the hope that they will send development assistance to the Third World as well as guns? Or do we keep them out? We have to take some approach on them, or we will be as split as we were immediately following Afghanistan. The Ottawa format would be conducive to such a strategic exchange. In that connection, the Prime Minister went on to make the plea that North-South issues are a very important component of world security. How we distinguish between friends that help us and those who do not, and how we should set about filling vacuums warrants a great deal of further discussion. (C)

The President said that he strongly supported the idea of less ceremony and more informality in the Summit context so that the discussions can be more meaningful. (C)

[Omitted here is discussion of issues other than the Cancun Summit.]

6. Notes of a Meeting¹

Mexico City, March 12, 1981

MEETING BETWEEN LOPEZ-PORTILLO
AND RASHISH, 3/12/81

After brief pleasantries, Lopez-Portillo (LP) indicated that he was at the disposal of his guests.

Rashish began by referring to Reagan's call in which Reagan expressed his desire to participate in the economic development meeting or what some call the North-South Summit.² The U.S. President had indicated that he had some questions and would be designating someone to discuss these questions with LP. Rashish indicated that he was that person. The first question was the issue of timing. It would be difficult for the President to attend until after the end of the summer months.

LP interrupted to say yes that the meeting would be held in the autumn. He repeated a second time the Spanish word for autumn and acknowledged full agreement.

Rashish continued that there were additional questions which we wanted to discuss before the Vienna meeting this weekend.³ It was so important that the proposed meeting result in productive and effective discussion.

LP agreed and acknowledged that there were risks and unpredictable situations which one would want to minimize.

Rashish noted that it was our view that the discussions should be philosophical, not directed toward taking specific decisions.

LP responded that that was precisely his view. We would want to look into the matter of political will without taking commitments. The meeting would serve to make participants aware of problems, define these problems, and determine general guidelines for solution to these problems which might then be submitted to other appropriate organizations.

Rashish said this was exactly our thinking. Problems would be with us for a long time.

LP noted that to solve problems, you must define them. Then there is time to solve them. If the only result of this meeting was to make

¹ Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—General; NLR-369-10-56-8-2. Secret. Nau forwarded the notes to Allen under a March 13 information memorandum, indicating that he had drafted the notes.

² See footnote 2, Document 5.

³ The preparatory meeting for the North-South Summit took place in Vienna March 13–15; see Document 7.

participants aware of the problems, that would be enough. Of course, it would also be nice to solve some of the problems.

Rashish urged that the number of participants not be too great.

LP said there should be an even number of southern and northern countries, representing various continents, and not going beyond 25–26.

Rashish noted that the original 21 was a balanced number.

LP said yes we agree on that.

Rashish expressed his hope that the meeting would not be confrontational and that participants would understand the U.S. President's sensitivity to the participation of Dr. Castro.

LP said he wanted to say something about that. Most of the northern countries have said no to Castro. Castro has not been invited. This bothers Castro. He wants to be present not as President of Cuba but as representative of the Non-Aligned Movement. LP said he understood difficulty of including Castro from a practical point of view. He personally would like to have Castro participate. He said this because he wanted to be open with his guests. But, while he would like it, he understood the reasons. Surely, he noted, Castro will not be called. Personally I am sorry for that. Because, within a framework of reasonable attitude (and LP said he would assume the responsibility to achieve this framework), I could influence Castro to be reasonable. And it would be very interesting to have Reagan and Castro meet. All right, he concluded, that is a card that is there and that can be played later. A reserve card to play at an opportune moment.

Rashish thanked LP for his understanding and said that was all he had on the North-South summit.

[Omitted here is discussion of other bilateral issues.]

7. Memorandum From Secretary of State Haig to President Reagan¹

Washington, March 18, 1981

SUBJECT

Results of Preparatory Meeting for North/South Summit Held in Vienna March 13–15

The eleven foreign ministers meeting in Vienna at the preparatory meeting for the North/South Summit to be held in Mexico met

¹ Source: Reagan Library, Roger Fontaine Files, Subject File, [North-South Summit 1981]; NLR-193-11-15-7-8. Secret. Sent under a March 23 covering memorandum from Allen to Reagan, on which Reagan wrote: "Ok" and his initials.

all of the conditions we had stipulated for U.S. attendance including: (a) Summit postponed to October 22–23; (b) Cuba was not extended an invitation; (c) meeting to be informal exchange of views, and (d) no decisions to be taken.

Further detail on each of these major issues follows:

1. *Timing*: While some developing countries continued to express apprehensions over postponing the North/South Summit until after the Ottawa Summit, it was generally felt that U.S. participation was sufficiently important to merit holding the meeting later in the year and the timing, therefore, was easily resolved.

2. *Participants*: Invitations will be extended to eight developed and twelve developing countries (four from each region) plus Yugoslavia and China.² There will be no observers with the possible exception of U.N. Secretary General Waldheim. Delegations will be limited to three: heads of state, foreign minister, and one other official. There was reportedly no serious attempt, even by the Mexicans, to push for Cuban participation; apparently the Cubans themselves decided that they stood no chance and their foreign minister did not show up in Vienna as originally planned.

Unfortunately, the Canadians did not succeed in preventing further efforts to involve the USSR. The Germans and French argued that the Soviets must be invited both to offset criticism from some quarters in the developing country group and to demonstrate that the USSR has responsibilities to the South. Austrians and Germans have been commissioned to determine whether the Soviets wish to receive an invitation—Genscher is expected to raise the matter with the Soviets during his late March visit to Moscow. Few believe the Soviets will accept an invitation based on past reluctance to be involved in such exercises. In order to maintain uniformity, invitations will not be issued until April, following consultations with the USSR.

3. *Substance*. A preparatory meeting is anticipated for all foreign ministers the first week of August to determine agenda, format, and outcome.³ The Mexican foreign minister mentioned raw materials and international trade, energy, food and agricultural production, and international financial and monetary matters as possible subjects. The Swedes added population/resources. This group of eleven held to its earlier line that the Summit should be political in character, non-negotiating in form, and informal in nature. The chairman, presumably

² A footnote in the original lists Britain, Canada, France, Japan, FRG, U.S., Austria, Sweden, Yugoslavia, China; *Asia*, Saudi Arabia, India, Philippines, Bangladesh; *Africa*, Algeria, Nigeria, Tanzania, Ivory Coast; *Latin America*, Venezuela, Brazil, Mexico, and Guyana.

³ Haig and Ministers from 21 other countries met in Cancun August 1–2 to make final preparations for the Cancun Summit. See Document 32.

Lopez-Portillo, will give a press conference at the end summing up the discussions on his own responsibility.

As you indicated in your conversation with Lopez-Portillo, it is expected that one of the results of your meeting in late April will be a formal announcement of U.S. participation.⁴

⁴ See footnote 2, Document 5.

8. Memorandum From Vice President Bush to President Reagan¹

Washington, March 26, 1981

SUBJECT

Ottawa Summit

I wanted to follow up briefly on your assignment to me to chair a Cabinet-level task force on the Ottawa Economic Summit.

One of the principal topics in Ottawa will be North-South issues. This is a key topic, especially in view of your decision to participate in the summit in Mexico in the Fall. The Canadians are responsible for the Summit background paper on this subject. To help point the Canadian paper in a direction consistent with our views, a paper on the topic was put together and coordinated interagency.² My staff has approved it.

The paper is framed in a positive, realistic manner. It suggests that:

- Development will be a long, difficult process which requires overcoming many serious obstacles;
- Development depends on a strong international economy and strong, sustained domestic economic systems and performance;
- Development cannot happen overnight just by the infusion of resources;
- Industrial countries have done much to foster development through a number of private bilateral channels (trade, investment,

¹ Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Ottawa—Trade and Economics; NLR-369-9-37-5-8. Confidential.

² A copy of an undated U.S. paper prepared to guide the Ottawa Summit statement on relations with developing nations, entitled "Industrial and Developing Countries: A Framework for Meaningful Cooperation," is in the Reagan Library, Douglas McMinn Files, Economic Summit Files, Ottawa—Trade and Economics. According to a typewritten note on the paper, it was prepared prior to the meeting of the Personal Representatives held April 22-24 in Paris and was "made available to all OECD members at the meeting of the OECD Group on North/South Economic Issues, April 8-9, 1981."

training, etc.) as well as official assistance programs. The past and future benefits of these types of relations need to be stressed.

We will continue to emphasize these points, which I think will lead to a constructive discussion in Ottawa.

There are several interdepartmental groups (IGs) working on the different agenda items for Ottawa. My staff is also working closely with the NSC staff and people on Jim Baker's staff and the Cabinet Council on Economic Affairs to ensure we develop well thought-out and coordinated positions well in advance of the summit.

I'll keep you abreast of our progress, and Cabinet-level reviews as they occur.

George Bush

9. **Briefing Memorandum From the Assistant Secretary of State-Designate for Economic and Business Affairs (Hormats) to the Under Secretary of State-Designate for Economic Affairs (Rashish)¹**

Washington, April 20, 1981

SUBJECT

Strategy and Major Objectives for the April 22 Sherpas Meeting

Based on the consensus which is developing in our IG on LDC economic relations, I believe that our strategy in Paris this week should be clear and simple with respect to North/South issues. We should strive to keep the focus on LDC economic issues and on the *real* problems of development and away from the Global Negotiations type of rhetoric. Specifically, while de-emphasizing the North/South issues relative to East/West and some of the other items on the agenda, we should strive to:

1) Change the entire tone and perspective from which North/South issues have been looked at. We should try to shift attention away from the agenda as stated by the G-77 and away from global debates. The emphasis should be on dealing in practical terms with specific LDC problems in ways that are realistic and take account of our very limited resources.

¹ Source: Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: 1981 Ottawa Summit North/South Can Paper. No classification marking. Drafted by Adrian Basora (EB/IFD/ODF); cleared by the IG on Economic Relations with LDCs. An unknown hand wrote: "extra" at the top of the memorandum.

2) We should push our allies strongly to drop the *mea culpa* mentality which runs through the Canadian paper² and the emphasis on ever-increasing amounts of development assistance and resource transfers.

3) We should persuade them to place greater emphasis on the importance of the adjustment process and on the need to restore non-inflationary growth in both the industrialized countries and the LDCs.

4) We should seek their concurrence in placing far greater stress on private sector solutions to LDC economic problems.

5) We should strongly avoid getting into a prolonged and detailed debate about the many specific proposals contained in the Canadian draft, even though we will need to note our disagreement on a number of dubious proposals (see page 3 of attached talking points).³ We must avoid turning the Ottawa Summit into an extensive debate on the controversial nitty-gritty issues of development policy.

The attached talking points represent an attempt to achieve the above results.

² Paper not found.

³ The undated "Talking Points on Canadian Draft Summit Paper," are attached but not printed.

10. Memorandum From the U.S. Special Negotiator for Economic Matters (Meissner) to the Under Secretary of State-Designate for Economic Affairs (Rashish), the Assistant Secretary of State-Designate for Economic and Business Affairs (Hormats), and Henry Nau of the National Security Council Staff¹

Washington, April 21, 1981

SUBJECT

Formulating a U.S. Policy toward a Multilateral Political Dialogue on the Functioning of the Market Oriented International Economic System

I. Preamble

Since the early 1960's the developing countries (LDCs) have coalesced in a very loose political structure to demand changes in the

¹ Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—General; NLR-369-10-58-6-2. Secret; Sensitive. Drafted by Meissner on April 20.

market oriented international economic system. The basic premises of the LDCs have been

a) that the participants in the economic system can be divided into two homogeneous groups, developed and developing countries;

b) that the system is basically static and development requires transferring wealth and institutional power from one group to the other, i.e., development is a zero sum game;

c) that the reason why development has not taken place in LDCs is that the system discriminates against LDCs and must be changed, and

d) that to gain maximum negotiating leverage negotiations should link all economic issues and be carried out in bodies with universal membership and equal voting rights.

It has been the general experience of the U.S. since WW II that international economic issues are best dealt with in specialized fora with a minimum of linkage. These fora may have weighted representation (IMF or IBRD) or have equal voting rights (GATT). Furthermore, the basic premises of the developing countries are not acceptable: participants in the system are heterogeneous, all countries are developing, international interdependence is a positive sum game, and development is a national phenomenon which the international system can contribute but cannot determine.

II. *U.S. Participation in a Global Dialogue*

Despite sharing the above analysis, both the Nixon/Ford Administration and the Carter Administration committed U.S. diplomacy to the concept of a North/South dialogue. In both Administrations the motivations were primarily political, although the Conference on International Economic Cooperation (CIEC) had identifiable economic objectives in the area of energy. During the past five years fundamental U.S. policy interests in the LDCs have remained the same although the diplomatic tools to achieve these objectives and the weighting of importance among objectives have shifted. U.S. policy toward the developing world has been primarily bilateral and regional. The North/South dialogue, while being of high political profile, has not changed U.S. real interests in the developing world.

Although the U.S. does not desire a dialogue, the dialogue has provided the U.S. with some benefits:

a) keeping international pressure on the OPEC countries to moderate prices;

b) providing a rhetorical platform to resist increased protectionist pressures;

c) supplying a political safety valve for frustrations generated by slow economic development;

d) diverting, in some cases, overly politicized rhetoric from specialized fora into general political fora where the probability of institutional damage is minimized, and

e) educating all participants to the rationale for their differing positions.

The political pressure for a global economic dialogue will continue and probably intensify. OECD economic growth over the next four years will be slow, meaning soft markets for raw materials and other exports from the LDCs. Payment imbalances will continue, and oil importing LDCs and DCs will have continued difficulty. Structural change in the developed economies will be slowed by lower growth rates and protectionist pressures will continue to be high, especially in those sectors where LDCs have the greatest comparative advantage. Economic interdependence of Japan and the EC coupled with slow economic growth will foster strong political motivation in these countries to accommodate LDCs through a procedural device such as a global dialogue. Furthermore, Japan and the EC desire an energy dialogue and are willing to pay for it by joining the GNs. The U.S. may well find itself isolated and therefore should develop a position which will allow the structuring of the most advantageous dialogue for our interests.

III. *A U.S. Position on a Multilateral Political Dialogue on Economic Issues*

The U.S. position toward a North/South dialogue should be compatible with our basic policy toward LDCs. The structure of the dialogue should rest on the recognition of the heterogeneous nature of the developing world. It should try to engage those LDCs who have the greatest stake in the economic system. It should be a selective rather than universal forum. To the best of our ability we desire to negotiate individually among sovereign states and not through caucuses. To the extent that we desire to make the dialogue meaningful and attempt to influence the policies of other governments, it would be best to have representatives from capitals rather than diplomats based at external posts.

For U.S. interests any global dialogue would primarily be political, but we should structure it to best achieve our political ends. Since we are not looking for substantive results, the process is most important. The objective is to be engaged in a dialogue. Actual preparatory work is just as important as the actual dialogue. The longer the preparatory process, the better our purpose may be served. We have no reason to rush to conclusions.

In summary, the U.S. position on a multilateral dialogue should be as follows:

a) The U.S. should enter the process of preparing and carrying out another global economic dialogue if diplomatic political pressures deem it of value.

b) The process itself is the most important product. The longer it takes the better. Therefore, long preparatory processes should be welcomed. Our own objectives are better achieved if the dialogue has limited membership and representatives come from capitals.

c) The forum should be independent of present institutions so as not to question the mandates or competence of existing bodies.

d) We should not get into bloc negotiations or fixed caucuses, if possible.

e) Agenda should be very general so as to stimulate general discussion. The discussion should come to focus on the solution of problems where consensus is possible.

IV. *U.S. Position on the UNGA Global Negotiations*

A multilateral negotiation on international economic issues in the UNGA or a subordinate body would not fulfill the previously mentioned criteria:

- a) The UNGA is a universal forum;
- b) Representatives will only rarely be from capitals;
- c) The LDCs are organized into a political caucus and represent themselves as a homogeneous group;
- d) The forum is associated with other standing organizations in the UN system; and
- e) The agenda will be, most likely, specific and the structure of the negotiation predetermined.

V. *The Promise of the Mexico Summit*

The Mexico Summit portends to evolve into a process that is more acceptable to U.S. interests. The Mexican Ambassador has already suggested to Mike Rashish the possibilities of a follow-on Foreign Ministers conference in January. If handled correctly, the Mexico Summit could lead to the development of a multilateral economic negotiation closer in format to U.S. preferences—

- a) smaller group of participants—leading industrial, and developing nations;
- b) disassociated with any UNGA specialized fora;
- c) representation from capitals; and
- d) a potentially general agenda.

If the Mexico Summit evolves into a global dialogue, it would be similar in nature to the 1975–1977 Conference on International Economic Cooperation (CIEC). The idea of a limited body would certainly be resisted by the more radical countries attending the Mexico Summit (Algeria, Guyana, Iraq) who find it politically easier to maneuver in larger forums where the LDCs caucus as a group. The homogeneous consensus structure allows their own national positions to be submerged into a group and gives them a veto over any initiative not in their interest.

VI. *Global Negotiations and the Mexico Summit*

In summary, there are three points in this paper:

- a) that a global economic dialogue is probably inevitable and it might be beneficial during the period of difficult international economic adjustment over the next four years;

b) that such a dialogue in the UNGA or a body of its making is not in the U.S. interests; and

c) that the Mexico Summit could evolve into a process similar to CIEC, a structure more to U.S. liking.

How then to transition out of the GN quagmire and into the swamp of a CIEC II? A direct cut-off or killing of GN's might well be damaging to the atmosphere of the Mexican Summit and the idea of a Mexican follow-on. A return to the preparatory process for GN's might be just as injurious since we would be quickly isolated and the policy choice only to join or to kill the GN's. (We would end up killing them.) The best option, therefore, is to stall; to allow the question of the GN's to pass on to the next UNGA. We could then deal with the issue after the Mexico Summit.

The question then is what to tell the Sherpas in Paris, the Dutch (EC Presidency) during the first week in May, and von Wechmar on his next visit. Possibly it would be best to tell them the truth: A commitment to this type of negotiation is a serious undertaking, and prior to making that decision the President desires to have the advantage of the experience and perspective he hopes to gain in the Ottawa and Mexico Summits. Therefore, the United States desires no substantive decision and would like to see the issue put off until the next UNGA.

11. Notes of a Meeting¹

Paris, undated

PARIS PLENARY DISCUSSIONS ON NORTH/SOUTH PAPER

Gotlieb introduced the Canadian North/South paper² and urged that it be preserved in terms of its overall integrity and balance.

Armstrong suggested that the paper should be shorter and should concentrate the leaders on a few key points. He was not frightened by

¹Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Ottawa—Preparatory Meetings. No classification marking. Nau forwarded the notes to Rashish, Hormats, Schotta, and Streeb under a May 6 covering memorandum in which he wrote: "Attached are my notes from the Plenary Discussions of North/South Issues at the Paris Preparatory meeting." (Ibid.) The Paris preparatory meeting for the Ottawa Summit took place April 22–24.

²Not found.

the idea of disagreement among the Summit countries. This should be indicated when it exists. The paper should concentrate on objectives and specifics. It needs to be realistic and hard. He recalled the context in which the study was requested and noted that all of the points were not reflected in the communique. In the objectives section more attention should be given to the constraints on OECD governments at the present time and more focus given to private flows. The section on process needs to be looked at carefully.

Kikuchi found the paper exhaustive and agreed that it needed sharpening and shortening. The paper was too much oriented to the North and too apologetic. We should say more about past performance and more about the South's interdependence with the North. Paper should treat OPEC role realistically. It should single out the importance of rural development in the agriculture sector and the area of human resources. Automaticity is out of the question. No study of this subject is needed.

Spaak agreed that the paper should indicate disagreement when it exists.

Gottlieb indicated that the redraft which would be ready two weeks before Vancouver would show agreement and disagreement.³

Shulmann said that the paper should be distinguished from the communique. Disagreement might be flagged but we should try to achieve as broad a consensus as possible. He had no difficulties with the general thrust of the paper. Agrees that it should be shortened and that Germany could not undertake unqualified commitment to increase ODA. This commitment depends upon domestic circumstances. Also objected to the refinancing of the IMF interest subsidy account and wondered about increasing the adequacy of IMF resources. Aid through capital markets must be qualified no less than direct aid. Governments are not in a good position to undertake positive adjustment programs. Also has concerns about automaticity. Reiterated his basic agreement with the paper.

Italian Delegate noted that this was the kind of paper he had hoped for and that was needed. He agreed with the approach and recommendations in general and felt the energy and food sections needed further development.

Rashish suggested that the paper should begin with a diagnosis of problems confronting LDCs—systemic, conjunctural, financial. It is difficult to go to prescriptions without an agreed analysis. It would be useful to have a more positive and discriminating approach. The mea

³ The Vancouver preparatory meeting for the Ottawa Summit took place June 4–6.

culpa tone is unnecessary. There is too much emphasis on political orientation. This will prejudice the outcome of the North-South dialogue.

Shulmann responded that there is a political orientation that we can't ignore.

Rashish noted that the homogeneity such as it once was may be breaking down. To assume such unity works against a sensible approach to North-South relations.

Gotlieb said it would be misleading not to recognize that the LDCs act together. However we don't need to emphasize the bloc approach. On the other hand, the LDCs show tenacity in this approach.

Rashish argued that we should avoid confrontation and rhetorical trap of the bloc approach. This approach leads to emphasis on politics and ideology rather than concrete problems.

Armstrong indicated that this point was made in Venice.⁴ It influenced the drafting of the Venice communique. Was it necessary to go over this ground again (the UK essentially sought to eliminate the first section of the paper dealing with analysis)?

Gotlieb said we should not overdo language that polarizes. Some LDCs, for example Brazil, want to be part of the South. It seems ludicrous but this is the way they perceive their interests. We don't want to encourage it but we need to recognize it.

Couzens (UK) said we do not want to identify OPEC with the South. We should not treat these countries as one group.

The *Italian Delegate* said that the North-South debate is about the working of the market system. This is the issue for the LDCs. What is our response? If we believe the market system is working for the LDCs then we should say so. Emphasis then would be on maintaining open trade, investment, etc. with aid directed toward the poorest countries. Minor improvements might be made in markets, for example in commodities, but no major reform of the monetary system would be necessary.

Hormats indicated that we encouraged the unity of LDCs by the focus on aid issues. The LDCs split when you deal with market issues. In world with less aid the market becomes more important. In the energy area, the question is how to encourage more private capital. In the food area, there is a greater need for dealing with aid. Here too, however, there is a role for the market in food security.

⁴ A reference to the Venice Economic Summit, held in June 1980. For documentation on the Venice Economic Summit, see *Foreign Relations, 1977-1980*, vol. III, Foreign Economic Policy, Documents 239, 240, 243, and 247; and *Foreign Relations, 1977-1980*, vol. I, Foundations of Foreign Policy, Documents 145 and 147.

Gotlieb urged that we focus on ODA for the poorest. How do we handle their debt, what about the energy supply, what about the capacity of the IMF? This is what we need to focus the leaders on.

The *EC Delegate* suggested that the paper was clearly pushing against the limits of consensus.⁵

⁵ In a May 7 memorandum to Reagan on the Paris preparatory meeting, Bush reported: "The most contentious issue was the Canadian North-South paper. We do not want this issue to be polemical or overly focused on aid. The Canadian paper puts the emphasis on the responsibility of developed countries to foster development through foreign aid. We resisted that view strongly at Paris, with British and some French support. The other allies appear to be somewhere between us and the Canadians. We will continue to work for a consensus on our position." (Reagan Library, Douglas McMinin Files, Economic Summit Files, Ottawa—Internal USG's Preparations) Draft meeting notes from the North-South working group at the Paris meeting, which delved further into the issues and the U.S. position, are in Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: 1981 Ottawa Summit—2nd Sherpa Meeting—Paris.

12. Memorandum From the Special Assistant to the Under Secretary of State for Economic Affairs (Rush) to the Director of the Office of Development Finance, Bureau of Economic and Business Affairs (Basora)¹

Washington, April 24, 1981

SUBJECT

Comments on Synthesis Paper

I am troubled by this paper, which I believe is misleading to the reader in indicating that, in certain areas, there is a greater shift than in fact is taking place in our policy toward LDCs.² I have come to understand the urge in the new Administration to state that everything is new; however, it is also a theme of Secretary's that US policy is to be

¹ Source: Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: 1981 Ottawa Summit N/S U.S. Position. No classification marking.

² Two different versions of the synthesis paper are *ibid.* Another version of the synthesis paper is in the Reagan Library, Norman Bailey Files, International Economics File, "Ottawa Summit July 1981."

steady and that changes will be evolutionary. It is not necessarily in our interests to attempt to show that everything is different when in fact only some things have changed.

In considering what is new from what is unchanged in our approach to LDCs, it might be useful to split our involvement with them into three areas: interests, tools to promote those interests, and the overall process.

Interests. I do not believe the IG has indicated sharp differences in the underlying interests the US has toward the LDCs. The synthesis paper states that the new Administration is interested in LDC economic development not just for humanitarian reasons, but also to promote stability, to encourage a more Western political orientation, to encourage supplies of energy, and strengthen trade and investment. These are identical to themes repeated constantly by the Carter Administration. What is different in this Administration's approach is greater attention to security and political objectives in our approach to LDC economic policy. What this means in practice remains unclear. The IG itself has defined our strategic and political interest in LDCs to be virtually global (i.e., the number of countries which we aid for strictly humanitarian reasons is a very short list) and the reallocation process of nicking country A by a little bit to provide some more assistance to country B will continue pretty much as before. Large shifts in resources will be very difficult. Further, as many of us realize who were involved in the budget cutting exercise, many of the specific program increases that had been put into the Carter budget were in fact targeted to countries of major strategic importance.

Tools. Here, too, we should demonstrate consistency as well as innovation. In particular, it is not apparent that our trade policies toward LDCs will change significantly. The previous Administration worked hard for the MTN Agreement,³ and supported GSP. This Administration will also do what it can, given the opposition by domestic political interests, to open trade to LDC imports.

The extent to which our approach to the MDBs will change remain unclear and, as you note, we should properly wait for the conclusion of the Treasury Interagency Review to form any conclusions. My guess is that it is likely that there will be little change in the hard window lending of the banks, as this constitutes the major means by which we assist the NICs, countries clearly of major importance to us. Some

³ Reference is to the multilateral trade agreements that were negotiated during the 1973–1979 Tokyo Round of GATT negotiations. See *Foreign Relations, 1977–1980*, vol. III, Foreign Economic Policy, Document 209.

reforms, however, will probably have to be considered for the soft window replenishments, particularly IDA.

Perhaps the greatest change of direction comes in emphasis on use of the private sector in becoming more involved in development. However, this statement conceals a philosophical split that it would be useful for the IG to explore. On one hand there is the view that the US should be encouraging a *laissez faire* international system in which choices are left to the private sector as much as possible. It is this view that argues for reduction in Exim and OPIC. The contrary view is that the US private sector itself is a means for extending US involvement and interests in LDCs, and that the USG should facilitate and encourage such involvement. There are no doubt ways that the private sector can be involved which do not have budgetary effects, such as reforming tax legislation regarding US nationals abroad. But other potential ways the government could support business certainly do cost money and may require subsidies. It is this view that argues for increased attention to such institutions such as Exim and OPIC.

Process. It is clearly desirable to reduce the level of rhetoric on North-South issues, a theme certainly common to the previous Administration as well as this one. The problem is that such rhetoric is not usually our call to decide. We almost inherently find ourselves in a reactive mode responding to a G-77 resolutions and conferences. What this Administration's view toward an ongoing N-S dialogue will be had not been decided. On the face of it, it is not clear to me that there will be a great deal of difference from the Carter Administration. Skepticism about what can be accomplished in North-South fora is probably greater now. But this Administration will also come to feel the political pressures of our need to engage in discussion and to behave as an activist world power. It is, after all, this Administration; not the last, that has indicated willingness to participate in a North-South Summit.

13. Telegram From the Department of State to the Mission to the United Nations¹

Washington, April 30, 1981, 0034Z

110775. Subject: Global Negotiations, Guidance for Meetings at UN. Ref: A) State 105116;² B) Vienna 5059 (Notal);³ C) USUN 1319;⁴ D) USUN 1322;⁵ E) USUN 0135 (Notal);⁶ F) USUN 1355.⁷

¹ Source: Department of State, Central Foreign Policy File, Electronic Telegrams, D810203-0485. Confidential; Immediate. Drafted by Edward Lollis (EB/SEN) and Samuel Keller (IO/E); cleared by Edward Marcott (UR/RPE), John Washburn (IO/E), Basora, Rush (E), L. Mitchell (Treasury), Nau, and for information by Eugene Douglas (S/P); approved by Marion Creekmore (IO). Sent for information to Bern, Bonn, Brussels, Canberra, Caracas, Copenhagen, Dublin, the Mission in Geneva, Kuwait, Luxembourg, London, Mexico City, Oslo, Paris, Ottawa, Rome, Stockholm, The Hague, Vienna, Wellington, Algiers, and Tokyo.

² In telegram 105116 to multiple diplomatic posts, April 24, the Department communicated its position on Global Negotiations, concluding that "there is no necessity for early decision on GN's and that resumed negotiations of procedures and agenda, as proposed by UNGA President von Wechmar for May-June, would serve no useful purpose." The administration, the Department continued, "wants flexibility to determine what may be the best sort of forum for a North/South dialogue and wishes to explore options other than GN's." The United States was not prepared to make a "substantive decision on GN's before this fall and suggests they might be considered at the 36th regular session of UNGA in November-December." (Department of State, Central Foreign Policy File, Electronic Telegrams, D810193-0568)

³ In telegram 5059 from Vienna, April 24, the Embassy reported on the Economic Counselor's meeting with von Wechmar, during which von Wechmar communicated he would not be going to Washington in early May to learn the U.S. position on Global Negotiations because he assumed the policy review would not be completed by that time. The Embassy also reported on an April 24 conversation with the Austrian Minister of State who suggested that von Wechmar's desire to push ahead with Global Negotiations stemmed from Eastern European nations indicating they were moving toward participating in GN's. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810194-0332)

⁴ In telegram 1319 from USUN, April 24, the Mission reported that an appointment was scheduled for Sorzano to meet with von Wechmar on Monday, April 27. The Mission also reported that the EC Deputy Director for External Affairs had called on Sorzano on April 21 to discuss the outlook for Global Negotiations. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810195-0026)

⁵ In telegram 1322 from USUN, April 25, the Mission updated the Department on the scheduled meeting between Sorzano and von Wechmar. The Mission reported that it had informed other OECD nations of the U.S. position on Global Negotiations as communicated in telegram 105116 and reported the reactions of these nations. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810195-0491)

⁶ Not found.

⁷ In telegram 1355 from USUN, April 27, the Mission reported that Sorzano had communicated the U.S. position on Global Negotiations as reported in telegram 105116 to von Wechmar, both on the phone and in person. Von Wechmar "sought to reassure Sorzano that meetings scheduled were 'non-substantive' and should not be cause for concern." At the April 27 meeting, von Wechmar communicated that a U.S. refusal to participate now in GN's would cause "tremendous dismay and frustration on all sides" and isolate the U.S. "just like the USSR." (Department of State, Central Foreign Policy File, Electronic Telegrams, D810198-0518)

1. (C) Entire Text.

2. Department appreciates detailed reporting by Embassy Vienna and USUN (Refs B thru F). We conclude (A) that UNGA President von Wechmar has no intention of visiting Washington in the foreseeable future despite agreement in March that he would do so, (B) that he wants to involve us in a series of meetings designed to resume preparatory negotiations, and (C) that he is deliberately confusing the question of participation in preparations for Global Negotiations (GNs) with participation in GNs themselves. USUN should point out to von Wechmar and others that we will not participate in preparations beyond general discussions. To do otherwise could be misleading and might raise hopes that would prove to be unfounded.

3. USDel should participate in the two meetings on April 30 with the objective of securing postponement of the "Meeting of the Whole" May 5–6, and other subsequent meetings on GNs. If this objective is not achieved, USDel should seek further instructions from Washington. In these meetings, other dels should clearly understand that the U.S. cannot and will not negotiate.

4. At the meeting with von Wechmar and Perez-Guerrero at 8:30 a.m. on April 30,⁸ Sorzano should basically listen to the exposition of the G-77 viewpoint, as suggested in Reftel (E). However, he should also take the opportunity to point out that there is skepticism about GNs within the USG and that if the U.S. is pushed for a yes or no answer at this time, the answer might well be negative and could potentially prejudice the atmosphere of discussions later this year. The USG has indicated by its agreement to consider participation in the Cancun Summit that it is taking a deliberate and serious approach to the question of relations with developing countries. The new administration has been in office only three months and an effort to rush the process or to embarrass the U.S. at this time could prove to be counterproductive.

5. At the multilateral meeting later that morning, USDel should be guided by the talking points in para 6 below. The points in paras 2 and 4 above should be made again.

⁸ In telegram 1427 from USUN, May 1, the Mission reported on the April 30 meeting between Sorzano and von Wechmar and the multilateral meeting held later that morning. Von Wechmar communicated that he still intended to hold a Meeting of the Whole on May 5 and the Mission urged that the U.S. attend and give a prepared statement on its position on Global Negotiations. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810205–0460) For the text of the U.S. statement, see Document 14.

6. Talking points for multilateral meeting on April 30:

A) Points from paras 2 and 4 above.

B) The new administration is engaged in a broad and systematic review of economic relations with developing countries. GNs are being considered as part of this overall review. One of the conclusions already reached is that we cannot make an early decision on GNs.

C) Our willingness to consider participation in the Summit is an indication of our seriousness and intention to participate in discussions with developing countries.

D) (If asked: We feel that there should be no formal discussions of GNs at the Cancun Summit. Moreover, we cannot expect that the Cancun Summit will settle the question of GNs. That is the business of the General Assembly and the Summit sponsors have already agreed that no effort will be made to reach formal conclusions on this or any other subject. However, the heads of state attending the Summit will benefit from each other's experience and perspective. Thus they will be in a better position to decide later about GNs).

E) The U.S. believes that:

1) The issue of GNs should be postponed at least until the next regular session of the UNGA, in November or December.

2) No purpose would be served by the resumption of preparatory negotiations in the meantime.

3) We are urging President von Wechmar to seek the agreement of other members to defer preparatory negotiations, and we ask the countries represented here to support us in the request.

7. Footnote to Ref (F): As USUN knows, von Wechmar also telephoned Assistant Secretary Hormats (EB) on April 25. Each of them made many of same points which were made during the von Wechmar/Sorzano conversations. Von Wechmar urged the U.S. to avoid accusation that U.S. not interested in the developing countries by at least participating in the Meeting of the Whole and contributing to the drafting of language on procedures and agenda. He drew a distinction between this exercise and actually launching GNs—something he suggested could be put off. Hormats said that officials of the new administration are somewhat skeptical of GNs and that, if the issue were put to them now, the results might be negative. Von Wechmar said that the Austrian Foreign Minister had asked him either to get GNs launched before the Cancun Summit or to declare total failure.

Haig

14. Telegram From the Department of State to the Mission to the United Nations¹

Washington, May 5, 1981, 2230Z

115942. Subject: Global Negotiations: U.S. Statement for MOW Meeting, May 5, 1981. Refs: (A) USUN 1427 (Notal),² (B) State 113417,³ (C) State 114282 (Notal).⁴

1. Following is text of U.S. statement on Global Negotiations which Mission is authorized to deliver and release to press at Meeting of the Whole May 5. Begin text:

Mr. President and Delegates,

The United States has been an active participant in preparations for Global Negotiations since the General Assembly adopted two resolutions on this subject in December 1979.⁵ Through the Committee of the Whole meetings during the spring of 1980 and during the special and regular sessions of the General Assembly, we struggled together attempting to reach an agreement on procedures and agenda that would enable Global Negotiations to produce concrete and mutually beneficial results—results that would advance global interests. But, as the United States noted when the Global Negotiations resolutions were originally adopted, and as the new administration of the United States continues to believe, the international community should not launch Global Negotiations until we are all fully satisfied that these

¹ Source: Department of State, Central Foreign Policy File, Electronic Telegrams, D810212–0030. Limited Official Use; Immediate. Drafted by Keller; cleared by Washburn, Meissner, Jon Hartzell (Treasury), Basora, Rush, and Nau; approved by Creekmore. Repeated Immediate to Port Moresby on May 7.

² See footnote 8, Document 13.

³ In telegram 113417 to all diplomatic posts, May 2, the Department updated posts on the U.S. decision not to participate in Global Negotiations at that time and its insistence that the issue be postponed until after the October North-South Summit. The Department provided talking points on Global Negotiations for posts to use if the host nation raised the issue. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810207–1032)

⁴ In telegram 114282 to USUN, May 4, the Department delivered instructions to communicate to the EC President, UK, France, Canada, Japan, and any other nation the Mission deemed helpful, that the U.S. believed a formal UNGA session “should be held as soon as it can be arranged and that it should simply hear von Wechmar’s report and then pass the Global Negotiations issue on to the next regular UNGA session.” The telegram further instructed that the Mission express appreciation to those who spoke in support of the U.S. position at the April 30 meeting and to encourage them do the same at the May 5 meeting, as appropriate. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810209–0366)

⁵ A reference to UN Resolution 34/138 and UN Resolution 34/139 on the subject of launching and preparing for global negotiations relating to international economic cooperation on development.

negotiations would be structured in such a way as to satisfy truly global interests.

The new administration is currently engaged in a broad and systematic review of our economic relations with developing countries.⁶ This review is taking into account all aspects of these relations. The policy resulting from this review will be consistent; relations at one level will support and reinforce relations at another. Our future decisions on Global Negotiations will be based on the results of this review. When fully developed, our policy will be constructive, practical and designed to achieve concrete results in economic development. Meanwhile, President Reagan is giving serious consideration to participation in the North/South Summit to be held in Cancun, Mexico in October. The administration has also indicated that it takes seriously its commitments to and relations with developing countries. Contrary to accounts in the press, this administration has recommended an increase in foreign aid by 18 percent over the past year. It has fully supported the sixth replenishment of the International Development Association by recommending a contribution of more than three billion dollars, and it is making a substantial contribution to the International Fund for Agricultural Development. In addition, we are studying how private investment and financial flows to developing countries can play a more constructive role in the development process.

This approach leads us to believe that the issue of Global Negotiations should be deferred at least until the next regular session of the General Assembly and after other scheduled intervening discussions, including the economic summits in Ottawa and Cancun. Although the heads of state are not expected to discuss Global Negotiations *per se*, they will benefit from each other's experience and perspectives and will be in a better position to decide later about Global Negotiations. We believe that the General Assembly should be reconvened as soon as possible to defer formally the issue of Global Negotiations.

Mr. President, I wish to take this opportunity to thank you for your efforts over these past trying months. Much indeed has been accomplished under your thoughtful guidance. End text.

2. Department would hope that MOW remains relatively tranquil. We expect some criticism because other governments will try to absolve themselves of responsibility for deferment of Global Negotiations. However, if criticism is such that a response is needed, Mission should

⁶The Interagency Group on Economic Relations with Developing Countries undertook this review in the spring of 1981. A draft synthesis paper on economic relations with LDCs produced by the IG was sent to the CCEA for review under a June 21 memorandum from Porter. The memorandum and the synthesis paper are in the Reagan Library, Richard Darman Files, Cabinet Council on Economic Affairs 6/23/1981, Case File 018667.

make it clear that the U.S. does not consider such criticism helpful but rather an obstacle to useful discussion on these issues.

3. Department understands that Mohonk meeting scheduled for May 8 has been cancelled.⁷ Please confirm.

Clark

⁷ In telegram 1481 from USUN, May 6, the Mission reported on the May 5 Meeting of the Whole. Sorzano delivered the prepared U.S. statement on Global Negotiations as instructed and the telegram documented other nations' positions on Global Negotiations and their responses to the U.S. position. The Mission also reported that von Wechmar announced the cancellation of the Mohonk conference. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810212–0198) In telegram 1492 from USUN, May 6, the Mission continued its reporting on the May 5 meeting and documenting various nations' responses to the U.S. position on Global Negotiations. The "disappointment, disillusion, and impatience expressed by the LDCs and Nordics with the U.S. need to postpone consideration of GN is real," the Mission concluded, "but the overall mood of the assembly was more frustration than condemnation." (Department of State, Central Foreign Policy File, Electronic Telegrams, D810214–0420)

15. Telegram From the Embassy in Belgium to the Department of State¹

Brussels, May 5, 1981, 1854Z

6087. USEEC. For S/S Only. Subject: Secretary Haig's Meeting with EC Commission President Gaston Thorn.

1. (C—Entire text).

2. Following is uncleared memcon of Secretary Haig's meeting with Gaston Thorn. Suggest distribution of cleared version to EC capitals, Ankara, Tokyo, and Ottawa.

3. Begin summary. Secretary Haig and Gaston Thorn met Tuesday, May 5, at EC Commission headquarters. Discussion touched on results of just-completed NATO Ministerial; U.S. economic policy; Turkey; EC concern over the recently announced Japanese restraint measures on auto exports to the U.S., which the Commission believes were arrived at without adequate U.S.-EC consultation; the trade item on the Ottawa Summit agenda; and North-South. Accompanying Thorn were

¹ Source: Department of State, Executive Secretariat, S/S Files, Secretary Haig Memcons and Whitehead Briefing, Lot 87D327: SEC/Memcons—May 1981. Confidential; Immediate; Exdis. Haig was in Rome May 2–5 to attend the NATO Ministerial meeting and stopped in Brussels, May 5, en route to the United States.

Vice-President (External Relations) Haferkamp, Director General Sir Roy Denman, EC Washington delegation head Roland de Kergorlay, and Thorn's Chef de Cabinet Fernand Spaak. U.S. participants were Assistant Secretary-Designate Eagleburger, Spokesman Fisher, Executive Assistant Goldberg, and USEC Chargé Lamb. End summary.

4. Secretary Haig and Gaston Thorn joined other participants after a brief private discussion. The Secretary led off by stating that a central objective of U.S. foreign policy under the Reagan administration is to elicit greater restraint on the part of the Soviet Union, particularly in the Third World. Soviet behavior is susceptible to being influenced. They need our trade and, most of all, they need international legitimacy. The Soviets have to understand that the price of the kind of relationship they want with us is good behavior on their part.

5. At home, the Secretary continued, we are going to increase defense spending substantially and put the U.S. economy to rights by implementing the administration's far-reaching domestic economic policy. The Secretary underscored the importance, not only to the U.S. but to Europe, of getting U.S. inflation under control. He observed that until inflation is mastered, interest rates will stay high. This is bad news for Europe in the short run, but our priority has to be fighting inflation. When we succeed, interest rates will fall.

6. Turning to Third World issues, the Secretary noted that the Soviet approach is to bring in arms and establish a client relationship. Development doesn't take place, and Third World countries are increasingly aware of that fact. In contrast, the U.S. is committed to helping the Third World. Recent examples include our substantial contribution to ZIMCORD, the major effort we have made in Geneva on behalf of African refugees, and our efforts to bring about a solution on Namibia.

[Omitted here is discussion unrelated to Third World issues.]

14. Thorn said that he wanted to draw the Secretary's attention to the importance that the Community attaches to the North-South dialogue. Europe believes that it can find some solutions to its current economic problems in expanding economic relations with developing countries. Europe believes that the dialogue can be useful, and that it has some important political aspects as well.

15. The Secretary recalled his earlier remarks on Zimbabwe, African refugees, and Namibia, adding that within the limits of a necessarily austere federal budget the U.S. would maintain a flow of substantial resources to the developing countries. He also drew Thorn's attention to the fact that the President has agreed in principle to attend the mini-summit in Mexico, where North-South issues will be discussed. He assured Thorn that the U.S. would remain sensitive to the concerns of the developing countries.

Lamb

16. Telegram From the Department of State to the Mission to the United Nations¹

Washington, May 21, 1981, 2024Z

133016. Subject: Global Negotiations. Refs: A) USUN 1481,² B) USUN 1492,³ C) USUN 1479,⁴ D) USUN 1676.⁵

1. Confidential—Entire text.

2. Dept greatly appreciates excellent USUN handling of difficult meetings Refs A and B. Firm and effective presentations by ECOSOC Perm Rep Sorzano and informal contacts with other dels skillfully conducted by Deputy Perm Rep Clark and his staff have resulted in extensive recognition by other countries that our proposal is serious and not a negotiating ploy. This reaction has been evident in Washington discussions with Netherlands EC President and with representatives of other countries.

3. Nonetheless, despite his decision not to visit Washington, Ref D, GA President von Wechmar may still attempt to put pressure on U.S. to move early on Global Negotiations by conducting some form of “consultations” following his return June 5, particularly if the results, when known, of the Caracas meeting on ECDC encourage

¹ Source: Department of State, Central Foreign Policy File, Electronic Telegrams, D810242–0009. Confidential; Immediate. Drafted by Washburn; cleared by J Waller (Treasury), Lollis, Gorlin, Robert McMullen (EB/ODF), and Nau; approved by Creekmore. Sent for information to Algiers, Beijing, Bern, Brussels, Caracas, Canberra, Copenhagen, Dublin, the Mission in Geneva, Jidda, Kuwait, London, Luxembourg, Mexico City, Moscow, Oslo, Ottawa, Paris, Rome, Stockholm, The Hague, Tokyo, Vienna, and Wellington.

² See footnote 7, Document 14.

³ See footnote 7, Document 14.

⁴ In telegram 1479 from USUN, May 6, the Mission provided the text of the statement Sorzano delivered to the May 5 Meeting of the Whole on Global Negotiations. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810547–0774; D810515–0345; D810212–0528)

⁵ In telegram 1676 from USUN, May 20, the Mission reported that von Wechmar had decided to cancel his June 15–16 Washington visit after concluding that, since the United States had chosen to not make a firm decision on Global Negotiations, such a visit was “not useful.” The Mission reported that the mechanics of the postponement of Global Negotiations to the 36th General Assembly session had “yet to be discussed. We will work to develop a scenario minimizing defamatory statements by the G–77 by emphasizing the potentially positive fall-out of the summits and the greater possibility of GN progress later if the well is not poisoned now.” (Department of State, Central Foreign Policy File, Electronic Telegrams, D810239–0119)

him to do so.⁶ This will confront Mission with delicate task of avoiding an impression that we are hiding from Global Negotiations issue while at the same time making it clear that we will not be drawn into meetings' real purpose to pillory or put pressure on U.S. Mission should, of course, maintain its usual informal contacts and discussions. It may discuss Global Negotiations issue bilaterally with von Wechmar and with other dels bilaterally or in groups. Mission should adhere to line taken in Sorzano May 5 speech Ref B. As Mission noted Ref D, we should emphasize that we seek formal deferral of Global Negotiations as early and with as little comment as possible. In contacts with EC countries and Canada, Embassy should point out that efforts reopen Global Negotiations issue in New York could complicate our discussions on issue with them in preparations for Ottawa and elsewhere. Mission should not participate in any UN meeting on Global Negotiations, or any group meeting whatever on the subject convened by von Wechmar or at his insistence, without instructions from the Department.

4. Department remains keenly interested in early indications of von Wechmar's intentions and evolving attitudes of other delegations toward U.S. position on Global Negotiations.

Haig

⁶ In telegram 5348 from Caracas, May 21, the Embassy reported on the results of the G-77 high-level Conference on Economic Cooperation among Developing Countries (ECDC) in Caracas, which ended May 19. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810241-0163)

17. Telegram From the Embassy in Belgium to the Department of State¹

Brussels, May 22, 1981, 1922Z

7033. Subject: U.S./EC Consultations—North/South.

1. In relatively brief discussion, EC (Denman, Loeff) expressed understanding for U.S. need to review policy toward the developing

¹ Source: Department of State, Central Foreign Policy File, Electronic Telegrams, D810244-0607. Confidential. Sent for information to all EC Capitals and USUN.

world and asked for clarification of administration emphasis on bilateral aid and private enterprise. On Global Negotiations, Loeff admitted that EC shares some of the same doubts as the U.S. about the efficiency and likely outcome of Global Negotiations, but it believes that political dimension of the negotiations should be given more weight. While the EC agrees with the U.S. observation that there is a wide diversity of interests among developing countries, we must also realize that these countries act in concert and that they attach considerable political importance to the global umbrella which the negotiations provide. If we hope to obtain their support on other issues (such as Afghanistan) it may be useful to address positively their interest in Global Negotiations.

2. Under Secretary Rashish explained the purpose of the U.S. policy review and affirmed continued U.S. interest and concern with the problems of the developing world. He pointed out that the 1982 U.S. AID budget had increased by 18 percent in nominal terms over the previous year. Rashish said that U.S. emphasis on bilateral aid does not mean U.S. will ignore multilateral institutions, which will continue to play an important role in the development process. He noted that the administration had scrupulously included funds in the budget to meet all U.S. commitments to the international financial institutions. On question of a World Bank energy affiliate, Rashish pointed out that the U.S. supports increased emphasis on energy investment in developing countries and that the issue involves the institutional framework for channeling such investment. Commission (Meyer-DGVIII) said EC favors energy affiliate because it represents a way to bring OPEC to accept some responsibility for energy development in non-OPEC LDCs. Denman summed up by saying that EC sees a role for the private sector in LDC development but it is necessary to have an official umbrella in order to encourage private projects to serve development needs. He was heartened that U.S. was not going to leave everything to the market.

Lamb

18. **Memorandum From Henry Nau of the National Security Council Staff to the U.S. Special Negotiator for Economic Matters (Meissner)**¹

Washington, May 26, 1981

SUBJECT

Scope Paper for the Cancun Summit

Your scope paper is an excellent start toward our preparations for Cancun.²

My comments apply to the procedural question of what do we do about global negotiations (GNs) and how Cancun and a Cancun-type format may or may not relate to GNs.

It is premature to conclude that Cancun and a possible follow-up to Cancun represent an alternative to global negotiations (GNs) in New York. We should think of the issues at this point in the following sequence:

1. Whether we accept the eventuality of GNs or not.
2. What relationship, passing or permanent, should Cancun or a Cancun-type format have to GNs?
3. Once we have a sense of this relationship, what is the timing for beginning GNs and/or a Cancun-type alternative?

GNs or Not

We all agree that, if we could avoid GNs, we would prefer to do so. We may not be able to avoid them. But *for now* we should *not* assume that we cannot avoid them. To make this assumption may only breathe new life into a dying horse. Without opposing GNs, we should give GNs a chance to die on their own. That means sticking with our position to delay a decision on GNs until after Cancun (a position which seems to be gaining ground—witness von Wechmar's decision not to visit Washington in June).³ It also means repeatedly indicating our skepticism about GNs, using the following arguments among others:

— GNs detract from other North-South fora—General Assembly, UNCTAD, COW, etc.

— The General Assembly offers the necessary, regular overview of North-South discussions

¹Source: Reagan Library, Douglas McMinn Files, Subject Files, Global Negotiations; NLR-369-3-22-1-4. Confidential. Copies were sent to Creekmore, Nancy Dyke, Gorlin, and Hormats.

²A draft of the scope paper, dated May 7, is in the Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—General; NLR-369-11-2-1-7.

³See footnote 5, Document 16.

—GNs at this point help the LDCs patch up their internal differences (intra-OPEC, OPEC–NOLDCs, etc) by “confronting” the North (probably one of the reasons some countries like Algeria want GN so badly)

—GNs got off on the wrong track last year, involve too much baggage from the past, and cannot be a forum for serious discussion.

In order to convince others on these points, we must press forward to come up with an imaginative, constructive and hopeful approach for North-South discussions at Cancun and whatever meetings may follow. We have begun to convince the Summit allies that we are serious about relations with developing countries (which probably accounts for their willingness to support, if only modestly, our desire to delay GNs). As this effort proceeds, we should try to convince them that GNs is not the place for a serious approach. Moreover, we should make the strongest case that our own domestic economic and foreign assistance efforts are not flagging but being revitalized. I continue to be appalled by our readiness to be defensive about these efforts. The present course involves great sacrifice on the part of the American people (cuts in social programs, increases in defense, an 18% increase in foreign aid over actual FY81 expenditures despite the domestic priorities, etc.). We should make this point over and over again to our allies as well as developing countries. Indeed, we need a fact sheet to show what we are doing not just in aid but trade, investment, etc. (This builds on the complementarity concept being developed in the LDC IG).

If GNs refuses to die, we need to keep open the option of eventually entering them. I believe that this Administration with its activist foreign policy will not ultimately resist a global dialogue if we are the only ones doing so. We would prefer that the dialogue take place only if it has a chance to be serious and meaningful. But if we fail to convince our allies and more moderate friends in the developing countries to be serious and others insist on a dialogue, we will probably accept it. In this case, we would go into these negotiations expecting nothing, convinced that our allies and friends in the developing world expect nothing, and ready to use the opportunity to present our point of view forcefully and non-defensively, opposing damage-causing resolutions without apology (taking the attitude “what did you expect” and compensating through good bilateral and regional relations with key LDCs). We have, in my view, both an Administration in Washington and an Ambassador in New York that could manage this approach consistently and non-belligerently. If we or others doubt that this is a possibility, we could point to the U.S. stance in WHO on the infant formula code⁴ as an example of our determination and ability to carry off this approach.

⁴ A reference to the May 21 decision by the United States to cast its vote against a proposed U.N. international code to restrict the marketing of infant formula and other breastmilk substitutes. Ninety-three governments voted in favor of the code, three against, nine abstained and 45 countries were absent during the vote. See also *Foreign Relations*, 1981–1988, vol. XLI, Global Issues II, Document 166.

Cancun and GNs

If being the odd man out on GNs is not a viable option for this Administration, and if meaningless, low risk, GNs in New York is a last resort, our objective should be to design a process with more promise than GNs in New York. The Ottawa and Cancun Summits are opportunities to pursue this objective.

For the moment, we should take the position that Cancun or a follow-up process based on the Cancun format is no alternative to GNs. This position is both tactical and substantive—tactical in the sense that it minimizes opposition to Cancun as an elitist forum and alleviates pressure to agree on GNs at Cancun, and substantive in the sense that Cancun may be a worse alternative than GNs if we ultimately conclude that these discussions will not be serious. The Cancun format raises expectations, as CIEC did. We should embrace it only after we have determined that these expectations have a chance of being met, that is, only after we have made progress with our allies and friends in the developing world toward establishing broad agreement on agenda and acceptable outcomes of Cancun-type discussions. If such progress is made, a Cancun format becomes attractive. Its smaller number of participants, its relationship to capitals rather than New York, and its freshness—all enhance the prospect of a more serious discussion and more meaningful outcomes.

By the end of the Ottawa Summit exercise, we should be able to tell if our allies want serious discussions. If they only seek a process where they can maneuver with the LDCs against the U.S., while assuming that we will protect them, a Cancun-format loses its attractiveness. Under these circumstances, this format is no better than New York and probably worse since it is more visible, is perceived to be able to deliver more and thus increases the appearance of U.S. intransigence when we resist. If we have to resist, New York is the better place.

If we are sufficiently encouraged by the Ottawa process, we should press ahead toward Cancun. We might then consider four types of relationships between Cancun and GNs:

1. Cancun is a one-shot affair that applies a corrective to the course of GNs and produces results adequate to plunge into GNs in New York by the end of this year.
2. Cancun encourages a follow-up with similar format but also an early start-up of GNs by the end of 1981. Discussions proceed on two tracks—GNs in New York and the Cancun format.
3. Cancun produces some progress but warrants a follow-up early next year before plunging into GNs sometime in 1982.
4. Cancun encourages a follow-up and subsequently an alternative format which replaces GNs.

To the extent that our highest expectations for serious discussions are met, option four is attractive. To the extent that we become

convinced that only a marginal improvement is possible on our “last resort” position of eventually entering GNs, option one makes most sense. Options two and three offer intermediate prospects. Option two may have some interesting advantages. The Cancun-format in this case would not be seen as an alternative to universal participation but rather as a forum to energize and to focus the universal discussion. Under these circumstances, the Cancun group would raise fewer expectations, have fewer elitist connotations, and could serve as a helpful corrective from time to time to the diffuse and often polemical discussions in New York.

Timing

When we commit ourselves to enter GNs in New York is critical. We should not do so as long as we are making progress with our allies and developing country friends toward a more constructive approach. Indeed, we can point to such progress as proof that we are not seeking to downplay relations with developing countries or to avoid the dialogue. Our only objective is to structure this dialogue in the most effective manner possible. That other countries want GNs and want them sooner than we do (if that proves to be true) should help not hurt. We can exploit this interest to encourage them to work out with us the basis for a more constructive approach than GNs-related discussion have provided thus far. (There is a parallel here to our strategy on arms control talks—using allied interest in the early negotiations to encourage them toward a common approach and strategy for such negotiations.)

19. Notes of a Meeting¹

Vancouver, undated

NOTES ON VANCOUVER SUMMIT PREPARATORY MEETING

On the whole the meeting went extremely well. The macroeconomic and trade issues are becoming the key points of contention. Surprisingly, the discussion of East-West trade provoked few sparks

¹ Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Ottawa—Preparatory Meetings. No classification marking. No drafting information appears on the notes. The notes are from the Vancouver preparatory meeting for the Ottawa Summit, which took place June 4–6.

and was even welcomed by most delegations. North-South issues have now been refined down to two key areas of disagreement—the need for global negotiations and for increased lending for energy development in LDCs. The energy issue reflects the largest degree of consensus among the Summit countries.

[Omitted here is discussion of macroeconomic issues.]

North-South Issues

Kikuchi (Japan) welcomed the revised North-South paper.² He saw no serious difficulties with the paper as a whole. However, the structure and emphasis had changed. Official Development Assistance (ODA) had been de-emphasized and more attention given to private trade and investment. Yet ODA is the main element of our relations with the South. Further, we should not suggest that the NICs are beyond the need for concessional assistance. We should say that they are approaching a stage where they can reduce their dependence on concessional assistance. The software side of AID, namely management and technical assistance, needs more emphasis. He worried about the paper being published and sending the wrong signals to the Third World.

Nau (US) responded that under no circumstances should this paper see the light of day. This was an internal Summit document intended for our heads of government and should be treated with the strictest confidentiality. On the paper itself, the US also welcomed the new revision. It is a good deal more realistic. The exports of manufactures by the non-oil LDCs amounted to some \$90 billion in 1980. This is four times the level of official development assistance. Taking note of this fact, as the paper does, is not to de-emphasize ODA but to complement it. Trade and AID are complementary, not competing means of assistance to the developing countries. They both require political will from the industrial countries. Japan makes an important contribution in both areas. We would like to see a more explicit treatment of this notion of complementarity in paragraph 20 of the paper. In addition, the paper should at least mention the contributions of the industrial countries to development in the past. It should also state more clearly that the major responsibility for development rests with the developing countries themselves, and it should take note of the severe impact of oil price increases on all countries, as the German delegate mentioned in our discussion of the macroeconomic paper. Finally, we cannot agree with the present language in the paper on the energy affiliate and global negotiations, and we would like to see greater emphasis in the paper

² Not attached. A copy of the "Report of Personal Representatives to Summit" on North/South Issues, dated July 7, is in the Reagan Library, Executive Secretariat, NSC Trip File, Ottawa Summit 1981—North-South Canadian Paper; NLR-755-10-9-2-1.

on national food reserves as a measure of food security, on the role of the private sector in development assistance, and on the importance of conditionality as a basis for debt financing and management. We cannot accept the paragraph on automaticity.

Armstrong (UK) felt that the analysis section of the paper was still too defensive. Further, it should stress LDC responsibility and seek to be as precise as possible in paragraph 17 dealing with the common objectives of the industrial countries in relations with the developing world. Finally, the document is still too long. It does not focus the discussion for the heads of government. He suggested that the analysis section be retained as a support annex and that the last section of the paper be sharpened up to focus the discussion that will actually take place at the Summit.

Gotlieb (Canada) asked for views on *Armstrong's* suggestion.

Rashish (US) suggested the possibility of a schematic paragraph at the beginning of the paper which would advise the reader of what was covered leaving it up to the reader to focus on whatever he or she desired. *Armstrong* (UK) agreed that an executive summary might suffice.

Schulman (Germany) noted with some emphasis that the paper was not intended for publication and should not under any circumstances be released. As to the Chancellor's views on North-South issues, he had made these known recently in an article in *Foreign Affairs*.³ Above all, he believes the dialogue must see things as they are. This implies five points: (1) no nation can deny its share of responsibility in North-South affairs; (2) a solution to the energy problem is vital. Without it there is no solution to the North-South problem; (3) population growth control is unavoidable; (4) ODA is necessary but private flows are also important; (5) LDCs must show a greater willingness for multilateral cooperation in their regions. Moreover, we must consider how to get the Eastern countries, particularly the Soviet Union, more involved. This has not been given enough attention. They must be urged to contribute to UN institutions in convertible currencies, to open their markets to LDCs without political conditions or insistence on barter arrangements. This is a political demand that must be put on the table. We must try to embarrass and expose the Soviet Union in all fora. Finally, we cannot accept the words of NIEO in paragraph 5. This goes too far.

Berlinguer (Italy). The responsibility of industrial countries for development should be stressed, but the responsibilities of the LDCs, communist countries, and OPEC must also be stressed. For tactical reasons we should emphasize the responsibility of the communist

³ Schmidt's article, "A Policy of Reliable Partnership," was published in the Spring 1981 issue of *Foreign Affairs*.

countries. On the basis of this paper, what are we proposing to our leaders to do?

Paye (France). The paper should indicate the effects of the oil shocks. The LDC problem as it is described in the paper is too limited to the financial side. The idea of regional cooperation is an important one.

Spaak (EC) wondered what we would say in the communique. The new version of the paper is improved, but the paper should retain the notion that the South is not a myth, and the language should be strengthened on financial institutions and on food reserves. The EC regrets the retreat in the paper from a political declaration on aid. It also would like to see the paragraph retained on automaticity.

Gottlieb (Canada) suggested that the point in paragraph 20K on predictability could be retained, and it is a separate point from that of automaticity.

[Omitted here is discussion of East-West issues.]

20. Memorandum From the U.S. Special Negotiator for Economic Matters (Meissner) to the Assistant Secretary of State for Economic and Business Affairs (Hormats)¹

Washington, June 23, 1981

SUBJECT

Alternative Strategy to Global Negotiations in New York

For both economic and political reasons, there is a need for global consultations on economic issues. However, I have been turned off on global negotiations playing such a role since the negotiations last September in New York.² I do not believe that anything can be achieved in the economic field (too many countries, no expertise, North versus South structure, threat to standing institutions,³ etc.). Furthermore, if the U.S. does join we will die⁴ a thousand deaths in the political field

¹ Source: Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981–1984, Lot 85D193: Cancun Summit—North/South. Secret; Sensitive.

² Presumably a reference to the September 1980 Eleventh Special Session of the UN General Assembly in New York. See *Foreign Relations, 1977–1980*, vol. III, Foreign Economic Policy, Documents 348–350.

³ An unknown hand underlined “that anything can be achieved,” “too many countries, no expertise,” and “structure, threat to standing institutions.”

⁴ An unknown hand underlined “the U.S. does join we will die.”

as the EC and others position themselves so we alone defend the economic system. We should not enter such “negotiations” for political reasons when success will be defined in economic initiatives to which we cannot agree. We, therefore, need a strategy to kill global negotiations or make it harmless. I suggest we do this by taking a very firm bottom line which, if accepted, would lead to GNs in name only. If the G-77 does not accept our position, the GNs would die but they, not we, would have been the last to say no.

I still believe, though, that a consultation process is needed on a global basis, and our OECD partners believe it necessary also. A follow-on from the Cancun Summit is therefore in our interests, and some agreement on such a process should be made by the summit on October 22–23. There are many possibilities such as a follow-up meeting at ministerial level, but I would foresee four to six sub-ministerial level consultative committees working on topics of mutual global concern. The results of their work could be provided to a second head of state meeting in the fall of 1983 (prior to the U.S. election process but after UNCTAD VI). We would buy two years and hopefully move beyond North/South rhetoric. If you agree, we will develop an agreed strategy and start quiet diplomacy to achieve this end. The U.K. has already approached us on their desire to see such a follow-on process develop.

The smaller OECD countries, especially in the community and the Nordics, will resist a selective group being the global economic forum for the next two years. Secondly, what they want from GNs in New York is an energy dialogue. They are willing to pay for this dialogue by accepting global negotiations. If such a dialogue could be built elsewhere we could politically defuse the opposition of the smaller OECD oil importers. In this context, I see the OECD/OPEC consultations you mentioned as very important provided they are not selective in membership. We should do what we can to bring them into reality by November of this year. (As we discussed, there are other reasons for this dialogue which are more important than providing an alternative to global negotiations.)

Provided that a follow-on to Cancun is successfully created and works well for two years, we should have in mind the idea of building a more permanent process, i.e. a global economic consultations organization. We have discussed for the last four years how to expand the summit consultative process and the OECD (in functional areas) without success. Now Cancun offers a possible means of achieving the same result.

Cancun participants from our perspective form an excellent base for such an organization. They include six of the summit countries (minus Italy), the combined GNP of which represent 70 percent of the annual wealth created in the market oriented international system. The heart of the EC is also present. All of the U.S.’s major trading partners and our major energy suppliers are participants (Canada, Mexico, Venezuela, Algeria, Nigeria and Saudi Arabia). The major omissions, assuming the

Philippines represents ASEAN, from our perspective are South Korea, Argentina and Egypt. The fact that the integration of China into the western system in the next decade represents a major problem is a plus for their presence. The mix of communist, neutrals and non-aligned makes economics the common ground, not politics or security.

I believe this general design should be developed for a Stoessel/Rashish sign off. I have explored it with Nau, Streeb, and Creekmore who believe it of value.

1) Do you agree with the general thrust of this memo?

a) Harmless GNs or possibly their death
 b) A follow-on process from Cancun
 c) Developing a OECD/OPEC dialogue
 d) Institutionalizing Cancun in the long-run if it proves useful and politically feasible.

2) Should I put together a draft diplomatic strategy to create a follow-on structure from Cancun beginning with the Navarrete/Rashish discussions in early July.

3) Should I draft something for you to Stoessel and Rashish on this idea?

4) Any comments?⁵

⁵ Hormats did not indicate his agreement or disagreement with any of the options.

21. Letter From President Reagan to Mexican President López Portillo¹

Washington, July 8, 1981

Dear Mr. President:

I am pleased to accept the invitation extended on behalf of nine other heads of state or governments and yourself and Chancellor Kreisky to the International Meeting on Cooperation and Development which will be held in Cancun, Mexico, on October 22–23, 1981.²

¹ Source: Reagan Library, Executive Secretariat, NSC Trip File, Cancun (09/10/1981–09/14/1981); NLR–755–3–11–11–6. Limited Official Use. A typed notation on the letter reads: “Same text used in letter to Chancellor Kreisky (See State 151934, 7/11/81).” A copy of telegram 151934 is in the Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—General; NLR–369–11–11–5–3.

² A copy of the letter of invitation from López Portillo and Kreisky, dated April 30, is in the Reagan Library, Douglas McMinn Files, Subject Files, Mexico—General.

The co-sponsoring governments wisely decided that the meeting should be open and informal, with no agenda and no communique. Only in this way can we have a frank and open exchange of views on what I see as the major purpose of the meeting—to share perceptions of the principal problems and opportunities for international cooperation for mutual development. As you have indicated, the meeting should not engage in negotiations; nor should it take up procedural questions pending in other fora. Doing so would cause us to miss the opportunity to have a candid discussion of substantive issues and to develop a new and fresh perspective on our common problems.

We all agree that economic interdependence is a reality. The challenge is how to enhance the benefits to all countries that derive from international cooperation. Such cooperation has already resulted in a great deal of progress benefitting both industrial and developing countries. We should build upon this foundation our own efforts to construct a more productive and peaceful world.

The United States will participate in the preparatory meeting on August 1–2.³ We agree that this meeting should focus on arrangements for Cancun and not preempt or constrain the exchange of views among the heads of state or government.

I am honored to have received your invitation to this important meeting.

Sincerely,

Ronald Reagan

³ Haig and Ministers from 21 other countries met in Cancun August 1–2 to make final preparations for the Cancun Summit.

22. Memorandum From Henry Nau of the National Security Council Staff to the President's Assistant for National Security Affairs (Allen)¹

Washington, July 9, 1981

SUBJECT

Ottawa Economic Summit

There is always the danger that conflict, disarray and pessimism will characterize the outcome of the Summit. Some progress was made at the latest preparatory meeting—*no* bracketed language on the interest rate issue or World Bank Energy Affiliate (see attached draft communique at Tab A).² But serious differences remain on North-South and trade issues. East-West could become more contentious if we announce our opposition to the gas pipeline before or at the Summit. And there are two new governments, the United States and France, whose foreign policies are viewed as uncertain or inadequately formulated.

Unless the President clearly demonstrates that he knows where he is going, that America is leading, and that the other countries have differences with us but accept US leadership, the Summit may not succeed.

The following steps are suggested:

- the President put together the best possible case on his command thus far of the Congressional process as an indication of his confidence where he is going and his capability to get there [task Stockman and Weidenbaum]

- the President take the initiative to demonstrate his sensitivity to European and Japanese concerns about US economic policies (I have suggested the possibility that he call for a major conference in the fall to highlight international economic recovery in the 1980s. Another possibility is that the President call for a new consultative mechanism, perhaps institutionalizing the role of the personal representatives of the Summit leaders) [task Regan and Haig]

- the President appeal to Trudeau tomorrow³ to accept the American compromise on global negotiations and not to allow this relatively narrow issue to cause conflict at the Summit. (See attached paper on Global Negotiations and note the two paragraphs 2 in section III of Communique.) This is critical, since this issue will be played in the press as US isolated on its hard line position against developing

¹Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Ottawa—Internal USG's Preparations. No classification marking. Sent for information. Sent through Bailey. All brackets are in the original.

²Not attached.

³Regan and Trudeau met on July 10. See Document 23.

countries (and if we cave, we will pay for it in these Negotiations for the next three years).

— the President consider asking that a definite date be set for the commencement of a new global round of trade negotiations (see attached paper on trade at Tab B).⁴ [task Niskanen and Brock].

These initiatives will have a favorable impact on the press coverage and atmosphere at the Summit. They will divert attention from the assembling clouds of conflict, disarray and pessimism.

Attachment

Paper Prepared in the National Security Council⁵

Washington, undated

GLOBAL NEGOTIATIONS

Trudeau will tell you that the United States is about to be isolated in refusing to agree to launching “global negotiations” between the industrial countries (North) and developing countries (South) at the United Nations this fall. Meeting in Luxembourg on June 29–30, the European Council, which includes among others the heads of governments of UK, Germany, France and Italy, declared that “the preparations for the new round of Global Negotiations should be completed as soon as possible” and that “a positive impetus . . . be given to this effect by the Summit Conferences in Ottawa and Cancun.” Japan also takes this position.

The present US position is that no decision to participate or do further preparatory work on the agenda and procedures of global negotiations should occur until after the Cancun Summit. We fear that, if the preparatory work for global negotiations is resumed before Cancun, the issues in these discussions will become the dominant issues at Cancun. Trudeau wants the Ottawa Summit to announce the industrial countries’ readiness to resume preparatory talks at the UN and to launch the negotiations at an early date. He contends that this is the only way to keep the developing countries from making Global Negotiations the central issue at Cancun.

The United States cannot accept the present terms for launching global negotiations. The developing countries demand that global negotiations exercise central direction over negotiations in the specialized agencies, such as the IMF and the World Bank, by providing

⁴ Not attached.

⁵ No classification marking.

guidance and objectives and assigning issues to these agencies. This weakens the role of the specialized agencies which the industrial countries currently control through weighted voting and amounts to a reallocation of decision-making power from the major contributors in these agencies to the borrowers.

Western Europe and Japan are relaxed about the dangers of such a UN gabfest because the Global Negotiations will operate on the basis of consensus and they count on the United States to take the onus for standing up and saying "no" to outrageous demands while they whisper sympathetic regret to the developing nations.

By holding out through the Cancun meeting, we have the best chance of turning the discussion away from these procedural and institutional issues to more substantive and meaningful aspects of our relations with developing countries. We seek to leave open the possibility that a good atmosphere at Cancun may alter the issues on which we are presently deadlocked in the Global Negotiations or perhaps even lead to widely acceptable, alternative forums to Global Negotiations.

23. Memorandum of Conversation¹

Washington, July 10, 1981, 12:10–1:40 p.m.

PARTICIPANTS

U.S.

The President

The Vice President

The Secretary of State Alexander Haig

The Secretary of Treasury Donald Regan

Counsellor to the President Edwin Meese

Chief of Staff to the President James Baker

Deputy Chief of Staff to the President, Michael Deaver

Assistant to the President for National Security Affairs Richard V. Allen

Deputy Assistant to the President and Deputy to the Chief of Staff Richard Darman

U.S. Ambassador Designate to Canada, Paul Robinson

¹ Source: Reagan Library, Henry Nau Files, Ottawa Economic Summit (Binder) [07/20/1981–07/21/1981]; NLR-395-1-32-4-9. Confidential. The working lunch took place in the Blue Room. Drafted by Darman who sent the memorandum to Allen under a July 11 covering memorandum, writing: "I hope you may find these notes of value in the development of appropriate follow-up actions. Please use the notes as you see fit."

Canadian

The Prime Minister

Canadian Ambassador to the U.S. Peter Towe

The Under Secretary of State for External Affairs Allan Gottlieb

Assistant Secretary to the Cabinet Robert Fowler

Clerk of the Privy Council and Secretary to the Cabinet P. Michael Pittfield

Acting Principal Secretary to The Prime Minister Thomas Axworthy

Executive Assistant to the Prime Minister Ted Johnston

The following is a reconstruction of comments based on notes taken in the meeting. It is organized by broad topic area. This organization corresponds to the actual flow of the meeting.

(1) *Global Negotiations* (and Caribbean Basin Plan)

Prime Minister *Trudeau* led with a characterization of the U.S. sensitivity to the phrase “Global Negotiations” as representative of Americans being nominalists. He distinguished himself, rather, as an Aristotelian. Richard *Allen* intervened and suggested that he would prefer to characterize us as Hegelians.

Somewhat less elliptically, Secretary *Haig* suggested that we should deal with the problems of concern to developing countries by trying our Caribbean Basin plan first.²

Richard *Allen* noted that the U.S. had taken a significant step forward by agreeing to attend the conference at Cancun—and that in so doing, we were reversing a Carter policy. Prime Minister *Trudeau* dismissed this by returning to his mode of characterization, describing President Carter as a “personalist”—noting that Carter didn’t like Lopez-Portillo, and that the feeling was mutual (suggesting that this was Carter’s reason for turning down Cancun).

Prime Minister *Trudeau* went on to make the following points: he would not insist on using the phrase “Global Negotiations” in the communiqué if the U.S. would not want to; but he suggested that it would be more direct if we would use the phrase, say that we didn’t really know what it meant, and then explore constructively what could and could not be “put behind the words.” He argued that we ought not to use the phrase “North-South.” He said that these were “bad buzz words” to the developing countries. He said that Schmidt would be glad to add the phrase “Global Negotiations” while nonetheless insisting that the phrase must not mean such things as negotiations on the governing structure of the IMF.

Prime Minister *Trudeau* went on to argue that it was necessary to use some words that would give hope to the developing countries—stating

² Documentation on the Caribbean Basin Initiative is scheduled for publication in *Foreign Relations, 1981–1988*, vol. XVII, pt. 1, Mexico; Western Caribbean.

that if we don't use the phrase "Global Negotiations", Cancun may not take place; or if it does take place, it may become a "slugfest". He noted that the U.S. would be isolated on this issue.

The *President* intervened and returned to the theme that we should use the Caribbean Basin example as a start.

Prime Minister *Trudeau* then argued that "global" was not a geographic concept to be distinguished, for example, from a regional approach. Rather, he said that "global" meant "universal"—with emphasis on participation by all countries. He then distinguished this interpretation of "global" from the more narrowly based negotiations of CIEC.

Vice President *Bush* intervened stating that the problem with the concept is that it involves a notion on the part of developing countries of somebody owing them something—a notion of right that goes beyond compassion. He said that the problem was exemplified by the experience with the Law of the Sea negotiations.³

Prime Minister *Trudeau* responded that this was correct, that there was such a notion of right behind both the phrases "North-South" and "New International Economic Order." He argued that the concept of justice would always be there however; and said that "Global Negotiations" was essentially a procedural concept: by which all were to be included.

The *President* stated that he was unwilling to accept that LDCs' undeveloped condition was a function of exploitation. Nor would he accept the view that the economic conditions of such countries as China were principally a function of their population problems. He contrasted the Singapore experience with that of China, and attributed Singapore's development to the benefits that accrued from a century and a half of British training. He noted that in the case of the U.S., we, through enterprise, developed our resources. He argued that what we owe is compassion and also training/education—in order to allow the people of the developing world to help themselves on a continuing basis. He elaborated by analogy with the story of the hungry man who was given a fish and who woke up the next day hungry *vs.* the hungry man who was taught to fish.

The *President* went on to note that only 27 percent of the world's surface had been explored for oil, and that there was in all likelihood a vast additional potential for development. Prime Minister *Trudeau* intervened and asked, "But how many of your companies would help in Niger or Upper Volta?" The *Vice President* then responded that we

³ See *Foreign Relations*, 1981–1988, vol. XLI, Global Issues II, Documents 114–202.

were already exploring in such areas and that American companies had found oil in Upper Volta. He noted that in other less developed areas, U.S. companies had been accused of exploitation when they did go in. He argued that it was necessary to change the attitude that when U.S. companies attempt to develop resources it is for the purpose of exploitation.

The *President* returned to the virtues of the Caribbean Basin plan—noting its emphasis on tying foreign investment to local developmental needs. He added that it was necessary that there be adequate assurances that the locals would not say “get out”.

Counsellor *Meese* returned to the problem with the phrase “Global Negotiations”. He stated that although the word “global” is acceptable, the word “negotiations” is troublesome because it presumes standing (in the legal sense)—and it raises what may be false expectations. Canadian Under Secretary *Gotlieb* responded that if we were starting afresh this view would be ok; but to take this position now would be perceived as backing away. He said he could see little gain if there were a breakdown on this one word—and a big loss in increased tension. Assistant to the President *Allen* noted that the absence of one word would not mean opposition to developmental goals and objectives.

Secretary *Haig* intervened and urged that the two countries get their heads together on the bracketed language. He granted that the U.S. was isolated. Under Secretary *Gotlieb* noted that the sherpas came close to acceptable language (in his view) at Montebello.

The *President* then noted that what we’re talking about is helping the poorer countries help themselves. He said that our goal must be to make them “economically self-sustaining”; and that we must help remove the social inequities that make less developed countries the targets of dictators from either side.

[Omitted here is discussion of Southern Africa, the Middle East, and bilateral issues.]

Richard G. Darman⁴

⁴ Darman initialed “R.G.D.” above his typed signature.

24. Telegram From the Department of State to the Embassies in Algeria, Bangladesh, Saudi Arabia, and the Liaison Office in Riyadh¹

Washington, July 10, 1981, 0540Z

179142. Subject: Indian Approach on the Cancun Summit.

1. Following his meeting with the Secretary (being reported septel),² Government of India (GOI) special emissary, Ambassador L.K. Jha, also met on July 2, 1981 with Under Secretary Myer Rashish for further discussions on North/South issues and preparations for the Cancun Summit. Ambassador Narayanan and Econ Counselor Misra from the Indian Embassy accompanied Jha. Ambassador Barnes and Waterman of NEA/INS also participated. This message reports on the conversation.

2. Ambassador Jha said it was view of his government that the Cancun Summit on North/South issues must succeed. Purpose of this call was to sound out U.S. attitudes toward Summit & U.S. willingness to do some joint planning with India to ensure its success. Jha said he was pleased by the Secretary's encouraging and positive comments made earlier that day, and he would inform Prime Minister Gandhi that impressions conveyed in the press and public debate of the U.S. are not accurate reflections of USG thinking on economic relations between developed and developing countries.

3. Mr. Rashish commented that such a report would be correct. After praising Mrs. Gandhi's recent letter to President Reagan³—"the spirit was just right, it struck a warm and responsive chord"—Mr. Rashish elaborated on the misperceptions about this administration's approach toward economic relations with LDC's. While stating that thinking and attitudes within the USG are evolving and subject to change, Mr. Rashish emphasized that President Reagan's decision to attend Cancun was a very positive symbol of U.S. attitude toward North/South issues. He pointed out that our skepticism about Global Negotiations should not be interpreted to mean U.S. was indifferent to the problems of developing nations; rather, that we believe the problems are too important to be relegated to sterile debate. Similarly, while at the margin the U.S.

¹ Source: Department of State, Central Foreign Policy File, Electronic Telegrams, D810320-0373. Confidential. Sent for information. A repeat of telegram 179142 to New Delhi and repeated to Mexico City, Vienna, and USUN, July 9. Drafted by Eli Bizic (NEA/ECON); cleared by Daniel Waterman (NEA/INS); approved by Bizic.

² See Document 27.

³ See footnote 5, Document 27.

intends to place more emphasis on bilateral assistance for foreign policy reasons, the administration is committed to the multilateral development banks (including IDA VI) and does not think restructuring them would be useful.

4. Regarding the Cancun Summit, Mr. Rashish noted that the topics are broad and we are still in the process of developing government-wide consensus. He said that it is important Cancun be a good beginning. It should be a candid, sympathetic discussion and solid diagnosis. We do not expect any specific results from the Summit, but want it to build a sure and correct foundation for the future. This approach, he said, may require patience on the part of others.

5. Ambassador Jha replied that India is also trying to crystallize its approach. He said that the Summit is too important to rely on extemporaneous proceedings, and therefore GOI thinks it would be useful to do some joint thinking and preparing with the “more mature” countries—those like the U.S. which have a certain global responsibility. Mr. Rashish assured Amb. Jha that the U.S. feels a responsibility to be constructive. (Comment—We read Jha’s remarks as a request for bilateral collaboration, but specifics were never worked out.)

6. Picking up on that note, Amb. Jha said India was concerned and disappointed that the U.S. seems to stand apart from even generally agreed positions of the industrialized countries on such issues as IDA replenishment and the IBRD energy affiliate, with result that other “Northern” countries retreat or straddle the fence.

7. Mr. Rashish explained that the U.S. and its six economic summit partners influence each other, and that they have already helped shape our policy through the valuable exchanges in the preparatory process for the coming annual summit. He said that others all along had reservations about the energy affiliate, for the same reasons we have articulated. The U.S. considers it critical for non-oil LDC’s to expand all energy sources, because energy related problems, such as debt, overshadow all others as drags on development. It is a question, he said, of optimum means to generate the additional resources needed, including from the private sector. Mr. Rashish stressed the administration’s high level efforts to secure passage of IDA VI replenishment legislation.

8. Mr. Rashish had to leave then for a meeting with the President. In closing moments, Amb. Jha noted the similarity of views toward Cancun by the U.S. and India and reiterated the value of working together to plan the Summit. Amb. Jha agreed that the sessions should avoid details about institutions, etc., and instead focus on recognition of global problems, such as food and energy, that must be tackled by improving production and that will require resource transfers.

9. After the call on Mr. Rashish, there was an opportunity for the other participants to discuss informally the role of the GOI's recently established Economic Administration Reforms Commission. Amb. Jha remarked that aside from the four specific areas assigned to the commission, he had leeway to raise any issue directly with Mrs. Gandhi.

Haig

25. Memorandum of Conversation¹

Washington, July 13, 1981, 2:36–2:56 p.m.

SUBJECT

Summary of the President's Meeting with Gaston Thorn, President of the Commission of the European Communities

PARTICIPANTS

President Ronald Reagan
 Edwin Meese, III, Counsellor to the President
 Richard V. Allen, Assistant to the President for National Security Affairs
 Lawrence Eagleburger, Assistant Secretary For European Affairs, Dept of State
 George Vest, Ambassador (Designate) to the European Communities
 Charles Tyson, Staff Member, NSC
 Rutherford Poats, Staff Member, NSC

Gaston Thorn, President, European Communities Commission
 Roland de Kergolay, Head of the EC Commission Delegation in Washington
 Fernand Spaak, Head of Cabinet
 Sir Roy Denman, Director-General for External Relations
 Tomasso Pado-Schioppa, Director-General for Financial Affairs
 Manuel Santarelli, Press Spokesman

[Omitted here is discussion unrelated to global negotiations.]

Mr. Allen turned the discussion to "global negotiations," noting that President Reagan had discussed this matter on Friday in preparation for the Ottawa Summit.² He said the United States has difficulty in defining "global negotiations."

¹ Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Ottawa—Meetings with High Officials; NLR-369-9-44-1-4. Confidential. The meeting took place in the Cabinet Room. No drafting information appears on the memorandum. The text of the omitted portion of the memorandum of conversation is scheduled for publication in *Foreign Relations*, 1981–1988, vol. VII, Western Europe, 1981–1984.

² July 10; see Document 23.

President Thorn replied that the industrial nations should try at Ottawa to define their own approach to global negotiations. He said Europe was more sympathetic to the developing nations' call for global negotiations because historically Europeans have been closer to the people who now compose the developing nations' leadership, even though their past relationship was colonial. Europe understands the developing nations' political drive to join governments together in dealing with the West and their sense of weakness in dealing with big multinational corporations. They want a deal between governments of the South and governments of the North, as a framework for relations. Europe knows that this will not solve the economic problems of the South, but Europe hopes that it will facilitate solutions. "We hope you will give it a chance so that we industrial nations can show good will."

At the global negotiations, Mr. Thorn continued, "we would say, 'now, let's identify the problems and try to find the right way of dealing with them, in the right places.'" The developing nations' demand is a political test, and if we say no we will undermine confidence between us and them. This is an opportune time because these countries have lost faith in the Soviet Union.

He added that Europe believes global negotiations will assist in improving the climate of trade and investment relations and thus help the industrial nations' economies. A common approach must be found, he said. Europe does not intend to "go a separate way."

President Reagan said he was taking a positive approach toward cooperation with the developing nations, citing his initiative in the Caribbean Basin development program.³ Our objective is to relieve some of the sense of hopelessness in the Caribbean Basin which leads, among other things, to the flight of economic refugees to the United States. Similar actions could be taken in other regions. It is difficult to understand, he added, how all the nations of the world can sit across the table from each other and really solve practical problems.

President Thorn urged that the industrial nations not dismiss the global negotiations idea as "nonsense." Mr. Allen responded that no one in the US Administration had said that.

Mr. Meese pointed out the usual meaning of "negotiations"—in which specific agreements binding on the parties are reached.

Mr. Allen said President Reagan had pointed out to Prime Minister Trudeau that the United States had taken a big step in reversing the Carter Administration's position and agreeing to participate in the North-South Summit at Cancun.

President Thorn applauded this decision. He closed with a renewed expression of appreciation for the close consultations he had been able to have here.

³ See footnote 2, Document 23.

26. Information Memorandum From the Assistant Secretary of State for Economic and Business Affairs (Hormats), the Assistant Secretary of State for International Organization Affairs (Abrams), and the Acting Director of the Policy Planning Staff (Roche) to Secretary of State Haig¹

Washington, undated

SUBJECT

Global Negotiations

Background

Since the late 1960's *the developing countries* have been engaged in a *sustained and continuous effort* to bring about *major changes in the international economic system* by creating a political forum at the U.N. for simultaneous negotiation of international economic issues. In December 1979, the U.S. joined in the consensus adopting a *UNGA resolution calling for preparation of Global Negotiations*.² *Secretary Vance committed the U.S. to participate in the preparatory process*. However, we made it clear at that time that *we would participate in the actual Global Negotiations only if mutually acceptable procedures and agenda could be agreed*.³

During active preparation of procedures and agenda *throughout 1980, the U.S. faced strong political pressure* from both developed and developing countries, albeit for different reasons. At the 11th Special Session of the UNGA in September 1980, the external pressure on the U.S. was so intense that *President Carter was involved* in assessing the US position. He declined three times to change the position (described on the next page.)⁴

The *opening position of the Reagan Administration* at the U.N. was that we wanted to *reassess the issue* thoroughly. *Privately* and in bilateral meetings we *expressed strong skepticism* about the value of Global Negotiations. In addition, the new Administration *felt that an early return*

¹ Source: Reagan Library, Douglas McMinn Files, Subject Files, Global Negotiations; NLR-369-3-22-3-2. Confidential. Drafted by Meissner on July 16; cleared in E and S/P and by Washburn. Haig wrote at the top of the memorandum: "No way—I want to seize initiative—you know my view. Tell me how NOW!!" Haig's initials are stamped in the top right-hand corner of the memorandum, indicating he saw it.

² See footnote 5, Document 14.

³ Haig placed a checkmark at the end of this sentence and wrote "great then!" underneath the paragraph.

⁴ Haig underlined "He declined three times to change the position", placed parentheses around "described on the next page", and wrote "Why not? wouldn't pay bills!" under the paragraph. For documentation on the September 1980 Eleventh Special Session of the UN General Assembly in New York, see *Foreign Relations, 1977-1980*, vol. III, Foreign Economic Policy, Documents 348-350.

to the preparation of procedures and agenda could *involve the U.S. in confrontation just prior to the Ottawa and Cancun Summits*, thereby souring the general atmosphere surrounding these meetings. *On May 5 the U.S. proposed in the U.N. that the issue of Global Negotiations be deferred at least until after the Cancun Summit.*⁵ We argued that the President and other heads of state should have the benefit of the consultations at Ottawa and Cancun prior to making any decision on Global Negotiations.

US Position

Treasury strongly believes that there are more risks associated with Global Negotiations than potential benefits. This view is broadly shared at State. Our objective throughout the preparatory process has been to protect our interests through proper procedures and a neutral agenda. The major substantive reasons for our skepticism about Global Negotiations proposals are that:

- present draft procedures do not protect the functions and competence of the IMF, IBRD, and GATT;*
- the concept of simultaneous negotiation on all major economic issues is unproductive and leads to the linking of unrelated issues;*
- the negotiation will be structured on the South versus North format of the UN, with little opportunity to differentiate between the real development needs of individual countries;*
- there is an implicit assumption of many of the proponents of the proposals for Global Negotiations that key international economic institutions and certain forms of trade (commodities) and investment (multinational corporations) retard development in the developing countries and must be dramatically restructured. Their initial position has also been that domestic policies of the developing countries are outside the negotiation. There is no mention of the aid or trade performance of the USSR or bloc countries. The U.S. cannot accept these assumptions and reasonably expect to succeed in negotiating agreements favorable to US interests and to the international economic program of the Administration.*

Positions of Other Countries

The developing countries favor Global Negotiations—with the exception of the oil exporters who are skeptical but are committed to Global Negotiations to stave off pressure from oil-importing developing countries—and have nothing to lose given their perception of the negotiations. The UK and FRG stood with us in September 1980, but their support has faded as political pressure has built on them to close ranks with other EC nations, Japan, and Canada. These countries believe they can protect their interests through the only agreed procedural safeguard—decision by consensus. Traditionally in the U.N., these industrial countries have placed themselves between the U.S. and the developing countries on economic issues.

⁵ See Document 14.

They have relied on the US to protect their economic interests and to take the political heat for defending them. This same pattern of attitudes applies to Global Negotiations.

If we return to preparatory negotiations, we can expect continued US isolation on procedural and agenda issues.⁶ We will face increased pressure from the Europeans, Canada, and Japan to make concessions and accusations by G-77 leaders of inflexibility and a private intention to kill Global Negotiations.

⁶ In a July 13 memorandum to Haig, von Wechmar requested that the United States resume its participation in the consultation process of exchanging views on Global Negotiations. Von Wechmar proposed resuming consultations during the last ten days of August in New York on two drafts of basic documents (a set of rules of procedure and an agenda) that would lay the groundwork for a future global conference. (Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981-1984, Lot 85D193: Cancun Summit—Global Negotiations—Background)

27. Telegram From the Department of State to the Embassy in India¹

Washington, July 16, 1981, 0221Z

186567. Subject: L.K. Jha's Call on the Secretary.

1. Confidential—Entire text.

2. L.K. Jha, Chairman of the Indian Economic Administration Reform Commission, made separate calls at his request July 2 on the Secretary and Under Secretary Rashish as well as Treasury Under Secretary Sprinkel. Jha's expressed purpose was to exchange views with us on North/South relations in preparation for the Cancun Summit. A former Brandt Commission member,² he had earlier visited Tokyo and

¹ Source: Department of State, Central Foreign Policy File, Electronic Telegrams, D810331-1057. Confidential; Priority. Drafted by Howard Schaffer (NEA/INS); cleared by Harry Barnes (NEA/INS), Meissner, Lollis, J. Bizacki (EA/C), John Kelly (S/S), and Jane Coon (NEA), and for information by Bizic; approved by Sherwood Goldberg. Sent for information to Algiers, Beijing, Dacca, Islamabad, Jidda, Mexico City, Vienna, and USUN.

² The Brandt Commission, chaired by Willy Brandt, was officially titled the Independent Commission on International Development Issues. The Commission issued its final report on North-South relations and development issues in February 1980. Among its many recommendations was a call for an international summit on North-South relations, development, and the global economy. For documentation on the Brandt Commission, see *Foreign Relations, 1977-1980*, vol. III, Foreign Economic Policy, Documents 345 and 351.

Ottawa for the same purpose. Jha also wished to renew his old friendship with the Secretary, which dates from the early 70's when Jha was India's influential and effective Ambassador to the U.S.

3. This message reports the half hour session Jha had with the Secretary. Also participating in it were: (India) Ambassador K.R. Narayanan and Minister A.N.D. Haksar; (U.S.) NEA Deputy Assistant Secretary Jane Coon, Ambassador Charles Meissner, Ambassador Harry Barnes, and NEA/INS Director Howard Schaffer. Jha's meeting later in the day with Under Secretary Rashish is reported in State 179142.³

4. The Secretary told Jha that the President felt strongly that U.S. relations with India should be strengthened. We saw no contradiction between this objective and our evolving policies towards Pakistan and China. The Secretary said that the Cancun Summit would provide an opportunity for the President and Prime Minister Gandhi to meet. He thought it very important that they have a bilateral session. He would be attending the prepcon at Cancun August 1–2 and wanted to meet at that time with Foreign Minister Rao.⁴ The Secretary hoped that by then arrangements for a Reagan/Gandhi bilateral could be worked out. He asked Jha to express to Mrs. Gandhi the President's warmest regards.

5. Discussing the U.S. global approach, the Secretary stressed the importance of the Soviets reassessing their international behavior. What was needed was some kind of international understanding on accepted norms of conduct. As a primary force in the Third World, India could play a leading role in bringing about such an understanding.

6. The Secretary said there were four pillars in the President's policies:

- economic recovery at home.
- restraining the Soviets.
- enhancing our traditional alliances (but not reviving old and outmoded ones) and strengthening bilateral relations with our friends.
- establishing a just and responsible relationship with the developing world.

7. The Secretary said that he and the President believed that the fourth pillar was as important as the others. He noted that we are spending more this year than last on economic development and are

³ See Document 24.

⁴ In telegram 219977 to New Delhi, August 18, the Department reported on Haig's August 2 meeting with Rao, which focused primarily on the U.S. security relationship with Pakistan. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810387–0076)

not reneging on our commitments. He welcomed Mrs. Gandhi's recent letter to the President on the Summit.⁵ He told Jha that we are focussing on the same issues as those Mrs. Gandhi raised in her message, though there may be differences in the nuances of our approach.

8. The Secretary said we shared Mrs. Gandhi's hope that there will not be North/South confrontation. He said he had been instrumental in urging the President to attend the Cancun Summit. Our objective would be to keep the discussions open and general, to open up a dialogue among the participating heads of government. He noted that there were those who believed, incorrectly, that when you seek a robust East/West posture that meant that you were giving the developing world the back of your hand. That was not the President's view. The President gives high priority to the developing world and believes that we simply can not turn our backs on it.

9. The Secretary noted that non-aligned nations wished to keep economic development politically neutral in order to meet better their social, humanitarian, and economic needs. They must have the resources of those who can help them. He said he had been happy to note during his recent participation in the ASEAN meeting⁶ that the organization's aligned and non-aligned states were working together to promote regional development and trade in an atmosphere essentially devoid of East/West political issues.

10. Jha replied that he was most encouraged by what the Secretary had said. It parallels Mrs. Gandhi's own thinking. Jha said that Mrs. Gandhi does not want East/West problems to interfere with the development efforts. She wants to avoid North/South confrontation and believes that Cancun should be a site for agreeing that certain things should be done. She saw Cancun as an opportunity for a serious discussion in a friendly atmosphere.

11. Jha said that some countries in the developing world think that the South should take a tough stand over North/South issues. He said the U.S. could help overcome this attitude by projecting a better image of itself in the developing world. He thought that the U.S. public image was totally different from its actual performance. He said that the U.S.' style of presentation had been a problem. Cancun offered the opportunity for developing world leaders to see the real U.S. position.

12. The Secretary agreed with this. He said we are conscious of our image problem and intend to work on it. He said that no decision

⁵ A copy of the letter, dated June 14, is in Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981-1984, Lot 85D193: Cancun Summit—Gandhi Letter. A copy of Reagan's reply, dated July 30, is *ibid.* Haig hand-delivered Reagan's letter to Rao at their August 2 meeting.

⁶ Haig attended the ASEAN Foreign Ministers meeting in Manila June 17-20.

had been reached by the administration on the U.S. approach to Global Negotiations. The Ottawa and Cancun Summits would give us a better idea about how to proceed.

[Omitted here is discussion of bilateral issues.]

Haig

28. Memorandum of Conversation¹

Washington, July 16, 1981, 10:30–11:30 a.m.

SUBJECT

Summary of Richard Allen's Meeting with Ambassador Andres Rozental of Mexico

PARTICIPANTS

Richard V. Allen, Assistant to the President for National Security Affairs

Charles Tyson, Staff Member, NSC

Henry Nau, Staff Member, NSC

Ambassador Andres Rozental, Coordinator for the Cancun Summit

Jorge Navarrete, Under Secretary for Economic Affairs, Ministry of Foreign Affairs,
Mexico

Florenzio Acosta Burgunder, Minister, the Embassy of Mexico, Washington, D.C.

Georg Lennkh, Assistant to the Federal Chancellor of Austria

Nikolaus Scherk, Minister-Counsellor, Embassy of Austria, Washington, D.C.

Carmen Moreno, Director General for Economic Multilateral Affairs, Mexico

Allen noted that this visit was appropriate coming in the throes of the Ottawa preparation. There is a direct link in that Ottawa is a step to Cancun. The President is looking forward to Cancun. He is pleased to have been invited and will be exceptionally well-prepared. Charles Tyson has already been to Cancun to review the site. How can we cooperate with you in this event?

Navarrete thanked Mr. Allen for this opportunity. He agreed that Ottawa and Cancun were linked. He is looking forward hopefully to results from Ottawa which will improve the atmosphere of Cancun. The biggest step that Ottawa can take is to devote enough time for substantive exchanges on North-South issues and to reflect in the Communique the common or main lines of approach by the industrialized countries

¹ Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—General; NLR-369-11-13-1-5. Confidential. The meeting took place in the Situation Room. No drafting information appears on the memorandum.

to North-South issues. One specific step is a concrete reference to Global Negotiations. Many countries are expecting a reaffirmation of willingness to start discussions again as soon as possible. Together with general guidelines on a common approach to North-South issues, this would improve the atmosphere and signal the basis for a consensus at Cancun. These expectations may not be met because other problems may preoccupy the leaders at Ottawa. But I would stress the importance of Ottawa results in three areas: devoting attention to North-South issues, a reference to Global Negotiations, and showing positive spirit for future discussions at Cancun.

Lennkh suggested that the relationship between Ottawa and Cancun was perhaps not so concrete. We have a new situation today in comparison to 9 months ago. The US has changed its attitude 180°. Carter said no to Cancun and would have been interested only if it had been concrete. Reagan has said yes to Cancun but wants it to be general and philosophical. Many countries are apprehensive about the US position towards North-South. Gandhi wrote to Kreisky about US attitude. Yugoslavia has suggested the need to approach the US to encourage it to make a gesture towards the Global Negotiations. Ottawa cannot make a major breakthrough to be sure. But the question is what should we expect at Cancun. Everyone is looking at Washington.

Allen responded that he was pleased, puzzled, enthused, and amused all at the same time. Recently in Plains, Carter reaffirmed that he had no intention of going to Cancun. Reagan has reversed that policy. But we don't consider this our meeting. We regret that everybody is looking to the United States. Of course they may be worried about the weight of the US once we climb into the water with other countries, but Cancun is a meeting to which the US has been invited like other countries. We have some ideas but they are only our ideas. They should not prejudice the agenda or discussion. It is nice to hear that some countries have noticed that US policy has changed. It is better to hear that than to hear about continuing apprehension. There is room for some small recognition of the steps we have taken. The President gave careful consideration to this. He saw both benefits and risk. The risks naturally are always there. The US and the President will participate as one of the invited guests. We are puzzled about what the objectives are. You have mentioned Global Negotiations. In our discussion with Prime Minister Trudeau, we found no acceptable definition of global negotiations.² Let me clarify our view of the global negotiations process. To begin with, the US has not been an active participant in North-South issues. Going to Cancun is a big step. We recognize a connection between global dialogue and Global Negotiations. Our reluctance on

² See Document 23.

the terminology of Global Negotiations reflects US understanding that negotiations create expectations of concrete legal results, implying obligations for performance. From our conversation with Lopez Portillo in Mexico, we understand that others also do not see this meeting as negotiating fixed agreements. We must build a constituency for global negotiations in this country. We will have to be able to explain it. Given all of these constraints, we are convinced that we should be listeners at Cancun. This implies no obligation but nevertheless a responsibility to come away with a greater understanding and sharpened definition of what global negotiations are all about. We mentioned Ottawa as a step toward Cancun. However, we don't necessarily see links. We will not try to coordinate a position among the Ottawa countries. We don't see Ottawa as an opportunity to align ourselves against others. We will discuss our views toward Cancun but won't come up with agreed posture. I hope that you now better understand our reluctance to use terminology which may be familiar to you but is unclear to us.

Navarrete said that it is necessary to distinguish between global dialogue and Global Negotiations. The Global Negotiations was taken up in the 1979 UN resolution. The elements of the process were specified. The problems arose later in translating the resolution into a concrete agenda and procedures for negotiations. We need to do more work in the dialogue, not to define Global Negotiations, but to determine how to translate it into practice. Perhaps discussions at a high level in Ottawa and Cancun will facilitate the environment to launch Global Negotiations. This will be expected by LDCs from Cancun. It will be a measure of success or failure whether Cancun produces a clear understanding for facilitating agreement on Global Negotiations. This is important, especially for non-participating countries. The rest of the discussions at Cancun will be loose providing an opportunity at a high level to establish importance and priority of North-South issues. This involves a general recognition of how the world economy is working at the moment and some guidelines for future negotiations. These results at Cancun could provide impetus elsewhere, particularly in New York. It is important that Ottawa not be seen as the advance countries getting together to push a common point-of-view. This will provoke a similar LDC meeting and subsequent bloc confrontation. From Ottawa, we expect a message as positive as possible on substance and a reference to Global Negotiations.

Allen indicated that Ottawa would not disappoint them. It is always, of course, a matter of degree. We approach Cancun with an open mind, without ulterior motives. We have the impression that developing countries may be further away from a definition of Global Negotiations than they think they are, but Cancun gives us a chance to listen. Then we will have to wait and see.

Rozental stated that it was important that there be no link between Global Negotiations and Cancun. This link emerges, however, because there is currently no Global Negotiations in New York.

Allen interjected, "so Cancun is the vehicle for that?"

Rozental replied that he would like it to be. Cancun can't resolve Global Negotiations issues, but it can show political will.

Allen said, let me tell you what Trudeau said. Global Negotiations must replace the dialogue since the latter means nothing more than talk, talk, talk. Now, in our vocabulary we don't use the word global that often. It is a geographical term. The French word means universal. In our constituency there is no understanding of these terms. That further explains our reluctance. Moreover, we tend to get attacked in these meetings, which also doesn't help us with our constituency. That is why it is nice to hear good things about the US every now and then.

Rozental responded that it is also important to them that good things be said. He noted that Kreisky and Lopez Portillo have spoken very favorably about the US attitude toward Cancun.

Allen said, yes indeed, and we need to hear it often. Could there have been a Cancun without the US?

Lennkh said probably not. The US is terribly important.

Navarrete added that others look to the US because of the size and weight of the US and because the US attitude is often the main road-block in North-South discussions.

Allen concluded by pointing out that he did not want to be understood to say that we were acting like Jesuits in seeking a precise definition of Global Negotiations. One of Allen's old professors in Germany used to say that a definition can never define something. But we need to pass through the process together of developing this definition and getting a better understanding. The Latins have a greater appreciation for imprecision than we do in the US.

29. Memorandum of Conversation¹

Washington, July 16, 1981, 11:30 a.m.–4 p.m.

PARTICIPANTS*Mexico:*

Jorge Eduardo Navarrete, Under Secretary for Economic Affairs
Andres Rozental, Director General, North American Affairs
Carmen Moreno, Director General for Multilateral Economic Affairs
Florencio Acosta, Minister, Mexican Embassy

Austria:

George Lennkh, Foreign Policy Assistant to Chancellor Kreisky
Nicholas Sherk, Minister Counselor, Austrian Embassy

United States:

The Under Secretary for Economic Affairs
Henry Nau, NSC
Ambassador Charles Meissner, EB/SEN
Gordon Brown, Acting Deputy Assistant Secretary, IO
Robert Bruce McMullen, EB/IFD/ODF (notetaker)

SUBJECT

Preparations for Cancun Summit/Global Negotiations

Under Secretary Rashish began the conversation by stating that while the United States had more modest ambitions for Cancun than some other countries it was better to begin slowly but surely. He emphasized the benefit of allowing time for bilateral meetings during the summit and asked what plans there were for the August 1–2 foreign ministers meeting in Cancun.

Mr. Navarrete, who was the chief spokesman for the visitors, responded by listing three purposes of the August 1–2 meeting. These were: 1) evaluation of recent North/South developments in north-south topics; 2) clarification of issues to be discussed at Cancun in October; 3) finalization of preparations for the Cancun summit.

Regarding the first item, the status of Global Negotiations in the United States and the results of the Ottawa Summit on north-south issues will dominate. Mr. Navarrete urged that now is the time for an international reaffirmation of the major elements of a global, simultaneous approach to north-south issues (i.e. global negotiations). If this can be accomplished before October, perhaps at Ottawa or early in the

¹ Source: Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981–1984, Lot 85D193: Cancun Summit—Miscellaneous II. Limited Official Use. The meeting took place at Rashish's office and the Watergate Terrace Restaurant. Drafted by Robert McMullen (EB/IFD/ODF); cleared by Meissner and Gordon Brown (IO). Nau's handwritten notes of portions of the meeting are in the Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—General.

thirty-sixth UNGA, it would substantially improve the atmosphere for Cancun. For the next hour discussion focussed entirely on global negotiations and to a lesser degree the Ottawa summit.

Mr. Navarrete stated that in his view the South will expect some "facilitation" of global negotiations at Cancun. If this is not the case there could be difficulties at Cancun. Cancun should also result in a clear reaffirmation of the global negotiation process as well as a thorough discussion and understanding of the substantive issues which are behind the procedural problems in global negotiations. However, if substance is to be discussed, doubt regarding continued interest in global negotiations must first be eliminated. It would be harmful if the Ottawa summit does not produce a clear and positive statement on north-south relations.

At one point Mr. Lennkh interjected to add that many countries consider Cancun to be the touchstone regarding global negotiations and that a symbolic gesture of movement on this issue is required to defuse mounting frustration.

Under Secretary Rashish stated that Canadian Foreign Minister Mark MacGuigan possibly could give a report at the Cancun preparatory meeting on what took place at Ottawa. He cautioned that he doesn't expect Ottawa to result in a quick agreement to resume global negotiations but added that he didn't think Mr. Navarrete would be disappointed with the results of the Ottawa Summit. The Under Secretary insisted that raising global negotiations as a first item at either the August or October Cancun meetings would be premature and take up time in discussion which could be better devoted to more substantive issues (e.g. food, energy). The United States is prepared to discuss the underlying differences which are behind the stalemate in global negotiations but is not prepared to reach an agreement on Global Negotiations at Cancun since that would be counter to the spirit of the March Vienna preparatory meeting.² One of the reasons the President agreed to go to Cancun was because the United States wants to change the political dynamics of our economic relations with the developing world and view issues in a more useful way.

At a couple of points Messrs. Nau and Meissner intervened. Ambassador Meissner stressed that at Cancun procedural objectives should not be placed over substantive ones in order to gain consensus and that we view a major benefit of Cancun as simply being the opportunity for our President to meet informally with a large number of heads of states from the developing world.

² See Document 7.

Mr. Nau stressed that there should be no doubt that the United States recognizes the importance of relations with the South. The United States however does not want to make empty gestures or go back to old ways in dealing with North-South issues. The United States sees Cancun as a way to clear the air.

Mr. Navarrete agreed that a briefing at the Cancun preparatory meeting on the results of Ottawa, as Under Secretary Rashish had suggested, would be useful.

[Omitted here is discussion of logistics and planning.]

Discussion then shifted to handling of topics and which ones should be discussed at the October meeting. Mr. Navarrete suggested that discussion of each topic commence with two brief presentations, one by a developing country and the other by a developed country. The US side reacted negatively to this. Ambassador Meissner suggested that the August 1–2 meeting address the issue of topics. Perhaps an informal, non-definitive list could be agreed to. It was agreed this should be examined in the afternoon discussions.

In answer to a question from Ambassador Meissner, Mr. Navarrete listed what benefits he thought other developing countries envisioned coming from the Cancun Summit. These were: attracting a high level of political attention to north-south issues; the opportunity to obtain views and a broad political consensus that can assist in other discussions and the opportunity to make some concrete movement on some issues which are stalled. He cautioned that no one expects concrete agreements but that all these countries expect a recognition of where things are to result. Mr. Navarrete said he hoped the following could be achieved in October: 1) a general recognition of the necessity of economic growth, of interdependence and of moving ahead on north-south issues; 2) some specific understandings, e.g. more specific guidelines on food or energy and 3) perhaps some understanding on follow-up to Cancun.

The Under Secretary asked whether ministers would be expected to speak at Cancun in October and was told no since this would mean 66 spaces (two ministers plus head of state for each country) rather than 22 spaces would have to be provided at the conference table. It was agreed that this question should be raised at the August meeting.

Everyone agreed that the issue of adding additional countries to participate or observe in Cancun was closed.

Mr. Rozental asked for a list of people who would be accompanying the Secretary to the August 1–2 meeting. He was told a list would be provided.

The Under Secretary excused himself at 2:20 and the rest of the group returned to the Under Secretary's office for further discussion. Ambassador Meissner acted as host.

Mr. Navarrete began by stating that a formal agenda is not needed for an informal meeting, but something is required to ensure issues are focused in Cancun. The October meeting must provide the opportunity for specific discussion. He then referred to the short paper on "framework for discussion" which the Mexican government has prepared to stimulate discussion.³ With the exception of commodities and domestic oriented industrial development all the issues which should be addressed are covered within the four topics: energy, food/agriculture, finance and trade/industrial development.

At this point, Mr. Lennkh added that Chancellor Kreisky believes the number of items for discussion in October should be even more restricted. The question is how to decide on two or three topics.

Ambassador Meissner then described the United States reaction to the Mexican paper. The four topics are satisfactory with the exception of portions of the finance section dealing with monetary issues. However, the United States does not agree with the relative emphasis given the four areas. For example, too much attention is paid to financial issues and too little to food and agriculture. The paper places too much attention on international measures. Thirty-three suggestions are provided on what can be done by developed countries; only two on what the developing countries can do domestically. Resource problems with international ramifications are not discussed, e.g. population, air and water pollution, deforestation, etc. The paper does not distinguish between short (e.g. finance) medium (e.g. energy) and longterm (e.g. natural resources) problems. While of value, Ambassador Meissner felt the paper would cause more problems than it would resolve if it was tabled in Cancun for discussion. He added that the United States viewed Cancun as a "sensitivity session", as an opportunity to exchange views and concepts, that the United States wants to provide a philosophical approach for its economic relations with the developing world and that a Presidential statement on economic relations with developing countries was being considered, using Cancun as a vehicle.

Mr. Navarrete responded that he expects there will be differences of opinion at the summit regarding the relative balance between internal and external policies. There must be a compatibility between international cooperative measures and domestic policies aimed at adjustment. A healthy US economy will help the world economy but the developing countries don't want to wait until this is achieved. He added that it might be useful to develop even more specific topics for discussion and that he now was looking at items which could be drawn

³Not found.

from each of the four areas earlier referred to (e.g. on energy address development of indigenous resources).

Mr. Lennkh asked what the United States expected from the Cancun summit. Ambassador [Meissner] responded that the United States hopes Cancun will result in a greater sense of interdependence—an understanding that decisions made in one area often have an impact in others—and the development of personal relationships between the President and other heads of state.

At the end of the meeting a message was passed on that the Secretary would be able to attend the proposed July 31 dinner but that he would have to depart Cancun August 2 at 5:00 p.m. A tentative list of who would be heading the US delegation to the August 1–2 meeting also was provided (the Secretary, Under Secretary Rashish, Assistant Secretary Hormats, Ambassador Meissner and Henry Nau of the NSC).

The meeting ended at 4:00 p.m.

(Following the meeting Mr. Lennkh told Ambassador Meissner that the Austrian government favored a summit meeting which was less formal and structured than what the Mexicans preferred.)

30. Minutes of a Meeting¹

Ottawa, July 20, 1981, 3–5 p.m.

NORTH-SOUTH AND ENERGY PLENARY SESSION

Trudeau—We were asked at Venice to look into the matter of aid.² The outcome of our discussions here will be critical to the setting, the environment of our relations with developing countries. There are a number of fora where this environment will be important—Cancun, Commonwealth meeting in Melbourne, and the U.N.

Reagan—My remarks are based on our limited experience thus far in Jamaica. But the United States has had programs for Latin America

¹Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Ottawa—Follow-up; NLR-369–9–29–3–9. Secret. The session took place at the Ottawa Economic Summit. Further documentation on the Ottawa Economic Summit is scheduled for publication in *Foreign Relations*, 1981–1988, vol. XXXVI, Trade; Monetary Policy; Industrialized Country Cooperation, 1981–1984. For press briefings and other statements, including the Declaration issued at the conclusion of the Summit, see Department of State *Bulletin*, August 1981, pp. 1–22.

²See footnote 4, Document 11.

which have been unsuccessful. The reason is because we lump all these countries together. Each one is a separate entity. We should target aid specifically. We should recognize the great power of the private sector. The goal is not just to feed the hungry but to teach them to feed themselves.

Suzuki—I visited ASEAN. These countries are seeking to build their economies. Here is an example of how to provide aid in a way to stimulate self-help. Our aid will be effective only where it is coupled with the will in developing countries to help themselves. The ASEAN countries are focused on the outcome of this Summit. There are many fragile aspects to their situation—political, economic and social. If we do nothing about these fragilities, it makes them vulnerable to threats from the outside. Soviet expansionism may open a new gap of vulnerability. That is why we should keep in mind their needs. Japan cannot undertake military assistance beyond its borders. But we would like to provide aid. Thailand, Zimbabwe and Jamaica are particular areas of difficulty.

Trudeau—In the communique, we have inserted answers to the questions posed at Venice; 1) we will allocate the major share of our aid to poor LDCs, 2) the Soviet Union's contribution is meager and so on.

Spadolini—The communique must be carefully drafted. The guidelines should be minimal. I agree with President Reagan on the role of the private sector. We will work with existing institutions. Italy likes the selective approach focusing on energy, agriculture and structural adjustment with provisions for deficits on balance of payments. We need to improve the mobilization of resources internationally. I am conscious of the struggle of my country to defend economic freedom, which is directly linked to political freedom.

Thatcher—The UK gives the bulk of its bilateral aid to poor countries. Multilateral aid is less subject to our influence. It is not possible to exert influence over the World Bank. Developing countries need private capital and development flows more than ever. We need a code of practice for treatment of capital in LDCs. In trade, sometimes LDCs compete with us, for example in textiles. We should take their goods. The countries here have a good record on that score. We should not raise expectations for Cancun, such as big new funding programs.

Trudeau—Mexicans want Cancun to lay groundwork. We should explore the theoretical approach. We should not create unrealizable expectations.

Mitterrand—Perhaps we could have a brief statement from the chairman on Cancun. What are the items for the Cancun agenda? In the communique for this meeting, only benefits for LDCs are stated. We need to state what benefits we derive.

Schmidt—We must respect the dignity of each state. good thing Moslems opposed to.³ Developing countries have a responsibility themselves to help. It is also the responsibility of developed countries, Communist countries, and OPEC countries. It is ridiculous that OPEC gives more than 0.7%. OPEC has created major problems *being* or *hung*.⁴ Recycling will not help. It won't work with the LDCs. OPEC must be told not only to recycle but to give credits or to split prices for the LDCs. Price of oil and population explosion are two major problems. Family planning is needed. Development aid is nonsense in the face of population explosion. I agree with Mitterrand on the need for a Lome solution.⁵ I want to stress the private sector. It is the only way to transfer technology and there ought to be guarantees to invest in LDCs. On Global Negotiations, there are too many people talking at once and about too many subjects. The IMF must not become a charity institution. Multilateral institutions, like the IMF, must be secured, but surplus countries like Saudi Arabia should be given a larger share of responsibility. Concerning Cancun, I am just not sure. There are too many articles, too many interviews, expectations have been raised too high.

Thorn—The North-South issue has been downgraded over the past years. We need to give a signal. The banking system should play a role. We need a greater IDA effort. US should reconsider. The European Council of Ministers asked for an energy affiliate.

Reagan—I am sorry for the delay in our IDA contribution. We will make our contribution on an installment plan. Don't forget that the American people are enduring \$270 billion worth of budget cuts over the next four years. This is necessary to get on our feet economically. If we don't do that, we can't help anyone else. Private sector needs assurances against expropriation. Only one quarter of the globe has been explored for energy.

Trudeau—We need to look at the communique to discuss the results of these exchanges. Global Negotiations and OPEC responsibility should be included.

³ An unknown hand bracketed "good thing Moslems opposed to."

⁴ An unknown hand bracketed "*being* or *hung*."

⁵ Possibly a reference to the Lomé Convention, a trade and aid agreement between the European Economic Community and African, Caribbean, and Pacific (ACP) countries. The first agreement, Lomé I, was signed in 1975.

31. Memorandum From the President's Assistant for National Security Affairs (Allen) to the White House Deputy Chief of Staff (Deaver)¹

Washington, July 30, 1981

SUBJECT

Cancun Summit Preparatory Meeting

There are three issues on the agenda of the Cancun preparatory meeting this weekend:²

1. evaluation of recent developments in North-South relations, including a Canadian report on the results of the Ottawa Summit;³
2. identification of the issues to be discussed by the heads of state or government in October;
3. agreement on format and procedures for the October meeting.

The issues seem harmless enough, but there are some briars buried in the bushes.

The topic of Global Negotiations (GNs)⁴ will be raised under the first heading. Algeria, Guyana, and others seek a commitment to launch GNs. They may argue this weekend that Ottawa took one step in this direction and that this preparatory meeting should take the next step so that Cancun can focus on other matters. The European Community is committed to give impetus to GNs at both Ottawa and Cancun. Hence, it too will favor getting this issue out of the way. The U.S. has said it will make no decision until after Cancun. Some believe the U.S. can hold this position without GNs becoming an issue at Cancun. Others believe that we should begin now to explore internally and with allies and friends how GNs might be restructured. If Cancun is successful, as it must be, the U.S. will in all likelihood have to join these negotiations in New York. We can begin now to try to make them acceptable, wait until after Cancun to do so, or delay our decision indefinitely in the hope that GNs will die or a non-New York alternative will emerge.

The identification of issues for the October meeting involves a difference of view between those, led by the Mexicans, who seek a

¹Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—General. No classification marking.

²For documentation on the preparatory meeting, see Documents 32 and 33.

³Not found.

⁴An unknown hand placed an asterisk next to "(GNs)."

structured agenda and debate in October along North-South bloc lines (e.g., one North country speaking to an issue, followed by a South country speaking to the same issue) and others who favor sticking with the terms, set at the March preparatory meeting, that there will be no agenda and an open exchange of views. The Mexicans also favor a negotiated Chairman's Summary or communique, although it was decided in March that there would be no communique. There is only mild support at this point for the Mexican positions, but if we had to oppose these positions strongly, it would cost us something in our broader relations with the hosts.

Format and procedures for October include the possibility of additional participants, whether heads of state will make formal presentations, and whether further preparations are necessary between now and October. No doubt the issue of Cuban participation will be raised. Few actually favor this, but practically all are unwilling openly to oppose it. The U.S. should simply argue that the present number of participants is balanced and manageable. We have indicated that the President would like to make a statement at Cancun, which could then be published perhaps along with other statements as proceedings of the meeting. Between now and October, we have much work to do to prepare this statement and to use this occasion to put the President's imprint on the international development dialogue and on the direction of U.S. foreign assistance programs. We oppose any further international preparations for the October meeting.

One final note: if we portray this Summit as an occasion to establish personal lines of communications between the heads of state or government of many of these countries (and hence not as a decision-making or negotiating session), we will need to think hard about the President's bilateral meetings. As we saw at Ottawa, these meetings are critical for the tone that emerges from such a Summit. And they exploit the President's strong suit at personal communications. On the other hand, we cannot overload him, as we did to some extent at Ottawa, and time is very limited. We may want to consider having him arrive a day earlier or stay a day after the meetings.

32. Notes of a Meeting¹

Cancun, August 1–2, 1981

PREPARATORY MEETING OF FOREIGN MINISTERS
FOR CANCUN SUMMIT*Saturday AM Session (10:00 a.m.–1:30 p.m.)*

Mexico—It has been a long itinerary, and we have overcome many obstacles to get here. It is time to overcome the forces of confusion and private interest. We must reorganize the political functioning of the world.

Brazil—Let's go to first agenda item—Evaluation of Recent Developments. We need a frank and broad discussion on an intellectual scale. The October meeting has no precedent. We cannot expect at that meeting to get to the end of our problems and views. This exchange will be useful, since the issue of negotiations is already being discussed. Hence, this meeting is not a matter of negotiations but its purpose is to establish a basic consensus on the need for action. It will not end with conclusions or decisions of a precise nature. Recent developments (such as Ottawa Communique)² cannot help much more than they already have. But they do indicate awareness, a general philosophy, and the importance and priority of the problem so that matters can be dealt with with the degree of importance that they have for all of us. There is no simple formula. The forces of the market are not enough.³ We need to create policies, to remove distortions, to create equilibrium. Then we can discuss procedures. Without being too optimistic or pessimistic, let us organize the October meeting with a sense that it can give

¹Source: Reagan Library, Executive Secretariat, NSC Trip File, Cancun (09/15/1981–09/30/1981); NLR-755-3-12-1-6. Confidential. The Saturday, August 1, morning session took place from 10 a.m. until 1:30 p.m.; the Saturday afternoon session took place from 4:30–6:30 p.m. The Sunday, August 2, morning session took place from 10 until 11 a.m. The notes were sent under an August 5 covering memorandum from Nau to Allen, through Bailey, in which Nau summarized the meetings. A stamped notation on that memorandum reads: "RVA Has Seen." Allen wrote on the memorandum: "Henry—I have read all. You were thorough. Gives a good flavor of what we are to expect. I think we have the required procedural freedom to make our statement, don't you?" In a note in the margin dated August 12, Allen wrote: "I also want to meet w/ you & Chuck and Norman on this matter."

²See footnote 1, Document 30. The final Declaration is also referred to as the Ottawa Communiqué. Paragraphs 9–20 of the Declaration addressed "Relations with Developing Countries."

³An unknown hand placed a checkmark in the right-hand margin.

impetus to North-South dialogue. That conclusion can be recorded in some way which does not have to be juridical but conveys importance of problem, its urgency, its deep-seated characteristics, a philosophical framework for the dialogue, taking it out of a routine mode and giving it a political direction. The meeting should end with a summary which reflects essential points of meeting.

Japan—North-South issues are not only economic but political and vital to international peace. We favor early launching of Global Negotiations (GNs). Japan will increase ODA by a factor of two over next 5 years. We seek to avoid confrontation at all cost. We want a constructive dialogue in a spirit of interdependence and solidarity. Our goal is a free and unobstructed exchange of views. We should avoid constraints on such an exchange. Formal agenda is not necessary. Even a framework for discussion must avoid imposing constraints. We should keep officials to a minimum. We should first exchange views on broad themes, then discuss development topics and finally consider the modalities of North-South dialogue. Each country should compile a list of topics it wishes to discuss and give this list to the Chairmen who will compile and distribute it.

Germany—We support the opening statement by Mexico. Economic situation is difficult, and we spend too much on armaments. Cancun must find ways to overcome economic problems. We suggest that the two co-sponsors of this meeting meet the press after this morning's session and after each subsequent session. We need to overcome mistrust. Summit should be a "Summit of confidence." Confidence-building should be result so that other discussions can go forward. We need to overcome notion that LDCs are one or that DCs are one. We should focus on energy, population growth, food security, and monetary questions. What should be the results? We agree with Brazilian colleague that formal decisions are not the goal. Otherwise we will end up discussing the communique rather than the substantive problems. But the consequences of our discussions should be drawn by the co-sponsors to show that points of departure have been achieved to bring about GNs and to achieve progress on food production, interdependence, opening of markets, and clearing the way for taking up GNs. Our aim is to build confidence without constraints on agenda.

Castaneda—Do you agree with suggestion that at end of this meeting, co-chairmen should brief press?

AGREED

India—This meeting is unique. It places a heavy responsibility on us. I cannot go into the details of what the leaders will discuss. But three points on our agenda are important. There were many uncertainties and misgivings when we met at Vienna in March. We were awaiting the outcome of policy reviews in some countries and of other events

such as the Ottawa Summit.⁴ These other meetings, we knew, would have real bearing on the atmosphere of Cancun. We now view October with optimism. Ottawa communique has contributed to increasing public understanding. It reflects a collective commitment to mutually acceptable process of global negotiations. This is a vital point because past efforts have been unsuccessful and frustrations have been growing. The Ottawa reference to GNs is hedged in by certain conditionality and contingencies. But it is an advance. Specifically we suggest that between now and Cancun we seek to unscramble the language of the Ottawa communique. Could we present our heads in October with the terms of "a mutually acceptable process?" Could we also define for them "circumstances offering prospect of progress?"⁵ If we could make progress in next two months, the discussions of heads will be more important and meaningful. If we cannot achieve this progress, then the heads will have to start from the Ottawa communique and try to unscramble the language themselves.⁶ The heads will be seeking a meeting of minds to get GNs underway where substance will be considered. We would not like to go into the substantive areas now because Ottawa has already done so, and each head will have his or her own priorities. So in the Ottawa communique, we have a good basis for seeing how we should go ahead in preparing the ground for October. The question is how to arrange modalities so that October can give impetus to GNs.

Austria—Our discussion thus far shows that decisions of past are still valid. The Cancun Summit can contribute to North-South relations. We want a meeting that will not deal with tactical matters. The leaders should exchange views on general problems of North-South relations. We do not intend to bind our heads to a strict agenda.⁷ We want to offer a framework for a general discussion which might focus if they want on one or two subjects. This Summit should not take decisions; it is not a negotiating forum. We seek a meeting of the minds and a change in political atmosphere of North-South issues. The results will be summarized by the co-chairmen. There are some remarkable references in the Ottawa communique. We should listen to Canada on these results. We don't need to say much about the global round because there has been no progress.

Castaneda—Let me call first on UK and Nigeria before we turn to Canada.

⁴ See Document 30.

⁵ Allen highlighted this and the previous sentence in the left-hand margin.

⁶ Allen highlighted this sentence and wrote in the left-hand margin: "This is what is wanted—Heads must do it *themselves*!"

⁷ Allen underlined this sentence.

UK—The role of the LDCs is vital. This subject deserves treatment by the heads. We are impressed by the Brandt Commission report. There is no need to prod public opinion in the UK. We understand that this report was the inspiration for this meeting.⁸ We are aware of our interdependence and the benefits to all of growth in the Third World. Humanity and good self-interest are the reasons for this Summit. It can improve the understanding of governments in developing their own national policies. We agree with our German colleague that we do not want a structured meeting. If we do what we are doing this morning—tour de table—we doubt that heads will be as brief. If we have communique, the meeting will focus on what the leaders said they said with no discussion of what they actually said. We should have no tour de table, no communique, no agenda. The discussion should take place across the table on the four issues mentioned in Vienna and anything else they may wish to discuss. Then we should reach as much agreement as possible and give it to the press.

Nigeria—Let's also have report on the Caracas meeting.⁹ LDCs are doing something just as DCs did at Ottawa.

Canada—Prime Minister and I were very pleased with the North-South discussions at Ottawa. An optimistic interpretation is justified by the communique. We were happy that sufficient time (most of an afternoon) was given to this subject at Ottawa. The largest section in the communique was devoted to North-South issues. The discussions reflected the common magnitude of the problems and our common determination to meet them. Paragraph 9 gives the key political principle of respect for independence of LDCs. Paragraph 10 gives the key economic principle. Subsequent paragraphs translate principles of paragraphs 9 and 10 into process on Cancun Summit and global negotiations. There is no timetable on global negotiations; it may be slow process. But there is disposition to pursue meaningful process, including through global negotiations. This represents an advance over the OECD communique. Other areas of agreement are also significant—willingness to cooperate with surplus oil countries in energy development; recognition of importance of good development; commitment to IFIs; direct aid to poorer countries. Moreover, other sections of the communique besides North-South section have relevance for North-South. Introduction speaks about working with other partners. Trade section resists protectionism, supports GATT. Macroeconomic section speaks of relation between revitalization of growth in DCs and development in other countries. We hope to carry this spirit of Ottawa into Cancun.

⁸ See footnote 2, Document 27.

⁹ A reference to the G-77 high-level Conference on Economic Cooperation among Developing Countries (ECDC) which met in Caracas in May.

The Indian Minister's comments were helpful. But in one area he was not specific. He rightly called for further efforts to unscramble conditions for global negotiations. We think, however, that the forum for this would not be this forum but in the UN. And I see that he agrees with that. Ottawa is far from being an exact guide for Cancun. But at the last Summit among the seven in Venice, the structure got the better of us. We stifled real dialogue. We resolved to have simpler summits in terms of structure. We agreed to have just a bare framework. For the Cancun Summit, we have four subjects. Perhaps this is as far as we would like to go. The meeting could begin with general discussion and then devote a session to each of four topics. Another lesson from our Summits is that with 21 countries, we should spend no time on communique. Let the co-chairmen summarize the conclusions and if others disagree, they can dispute the co-chairmen's summary afterwards. Anything more will consume too much time. We do not want to get bogged down in this procedure.

China—The objective of LDCs is to achieve economic independence. But the old economic order means unjust treatment of LDCs in which they have no say or decisionmaking power. This is the crux of North-South issue. Economic development of DCs depends on LDCs—need energy and raw materials and markets of LDCs. The maintenance of the old order therefore does not serve DC interests either and will lead DCs to a narrow development of their own economics. We must establish NIEO with principle of equality. This bears on world peace. We hope Cancun will go beyond economic analysis and weigh consequences from overall strategic point-of-view. We must start with immediate issues but must not forget context of long-term objectives which is to establish NIEO. Ottawa attached certain importance to North-South relations. We welcome this though it is short of our expectations. We hope Cancun will help GNs get underway as soon as possible. This Summit should appraise North-South relations from both political and economic perspective. It should put forward suggestions and give strong impetus to GNs.

Bangladesh—Economic and political aspects are inseparable. We welcomed the recognition of interdependence in both political and economic areas at Ottawa. We hesitate to use North-South destination [*designation?*]. There are many wealthy countries in South. We must recognize differences among countries, as Mr. Genscher pointed out. We are particularly glad to see recognition at Ottawa of special needs of poorer countries. We also need to consider the results of the Caracas meeting, as Nigeria suggests. We should also keep in view the results of the LLDC conference in Paris.¹⁰ Many countries are struggling for

¹⁰ Presumably a reference to the first UN Conference on Least Developed Countries held September 1–15 in Paris.

their very survival. There is too much emphasis on political security. This must be matched by an action program for economic security. Economic situations lead to explosive conditions and even armed conflict. Interdependence is growing. Imbalances in interdependence are dangerous. Agree with India that global negotiations language should be spelled out. Otherwise Cancun cannot give this matter an impetus.¹¹ We will get bogged down again in technical matters after Cancun. With Tanzania we have the distinction of being among the 31 LLDCs. We hope Cancun will mark a new era of hope, like that we had after World War II. But after World War II came a change in views of DCs. We expected to telescope our development drawing on techniques of DCs and our own rich resources, but this did not happen. Now it must.

US—We are committed to the process that has been started here. We will work with countries that share our concern for world growth and development. Cancun is an exciting and unprecedented event. It is a unique experience for the US. Too long North-South dichotomy has meant confrontation and sterility. Today necessity leads us to view problems differently, to deal with common worldwide economic crisis. Perception of interdependence has become the reality. It requires that we cooperate for common good. Development still dependent on national policies. Discussions here are very encouraging. Consensus emerging that we need to nourish. Support UK and Japanese colleagues that we cannot permit bickering and confrontation in this age of necessity. We want a free, open discussion in October. We must be realistic to produce results over time. This is an unprecedented opportunity, a unique event to exchange perspectives. It is essential as a beginning, a new beginning. Then we can search out key problems, recognizing differences among all of our countries. We must shape progress sensitively to the uniqueness of each of our countries. We will come to the October meeting not on the basis of East-West or North-South issues but ready to stand shoulder to shoulder for our mutual benefit. Time is running out.

COFFEE BREAK

Castaneda—Let's go on to the topics of the October meeting and how we will structure this meeting.

Venezuela—We should not negotiate in, or institutionalize, this forum. UN is place for that. Let me respond to point made by Nigeria. Venezuela aspires to the establishment of NIEO and as head of G-77, we would like to report on the Caracas meeting. Caracas affirmed that economic cooperation among LDCs is part of establishing NIEO. The problem in world is structural imbalance and lack of negotiations

¹¹ Allen highlighted this sentence in both the right and left-hand margins.

to establish a NIEO. ECDC (Caracas meeting) does not substitute for global forum. Cooperation among LDCs exploits complementarity among their economies—trade, technology, food, energy, raw materials, finances and technical cooperation. We decided at Caracas to set up adequate mechanisms for follow-up to ensure application of program of action agreed to in Caracas. ECDC market new departure. It ended the Arusha period and began cooperation among LDCs. We hope that the political will of Caracas and Cancun will be expressed in concrete action at UN. Only then will Cancun be a Summit of confidence.

Yugoslavia—We will not come here to develop confrontation or to negotiate, but to hold a constructive dialogue in a spirit of mutual understanding. We seek to achieve a meeting of minds to contribute to solution of most acute problems. Already significant measures have been taken, not only at this meeting but at other recent ones—Vienna, Caracas, etc. At Caracas we stressed self-reliance but not anarchy. Progress among LDCs must help progress in global context, which is purpose of this Summit. In NY this week, G-14 (LDCs attending Cancun) reviewed meeting at Ottawa.¹² Positive reading was given to paragraphs 9–12. We found new ray of hope that common benefit can be reached through common cooperation. GNs is one of our main concerns. There is no formal link between GNs and Cancun. But we would like to do our best to reach agreement to launch GNs as soon as possible. We have a few suggestions regarding this. We would like to stress the one made by India. What did he mean that we must organize now? The outcome in October should help achieve understanding in General Assembly this year. Public opinion has connected Cancun and GNs. And progress on GNs will be a measure of Cancun's success. If message of Cancun is positive, then Summit will be a success. If we say nothing about GNs no matter what else we do, Cancun will be a failure. We would note the letter of invitation in which interconnections are made clear. We want a generally defined agenda but not an abstract one. It should be concrete to indicate critical substance of major economic questions today. We should put into this framework the issues that will go into paper distributed before this meeting. We must give full attention to these matters before October.

Castaneda—That concludes the discussion on evaluation of recent events. No action or decision by us is required. Let us go on to definition of main subjects for October. We have reached consensus that Cancun should not have formal agenda in UN sense but a framework

¹² Telegram 2500 from USUN, July 30, summarized the July 29 Ministerial meeting in New York of the 14 LDCs participating in the Cancun Summit. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810357–0180)

for discussions reflecting complexity of world economies and problems. One formula might be the adoption of a framework of discussions that 1) stresses an exchange of views on future of North-South relations, and 2) identifies a few areas of concern described in a general way—four subjects are nucleus here although we may refer to other matters. Thus the framework for discussion includes future development of cooperation and world economy in terms of food, commodities/trade/industry, energy and monetary and financial issues. We should instruct co-chairmen to organize meeting in October on these four subjects.

France—This meeting is unprecedented initiative in present world situation which especially affects weaker nations. We are in a period of transition—1980s are different from the past. We should prepare together and make transition less painful. We are impressed by Vienna communique which indicated this meeting would have no negotiations and would not reach decisions.¹³ It should however facilitate agreement in launching GNs. It should seek and promote convergences. Discussion must be political, global and informal. We agree with the proposals in your document (reference is to document on Procedures for the Preparatory Meeting distributed at beginning of morning session).¹⁴ Chairmen should summarize results—no communique. Let's leave open possibility that agreements which may have been reached could be added to this summary. For example, the message of the Summit could be upbeat for the future of development of international cooperation and world economy. We are not going to have a UN style meeting. There is no substitute for GNs in NY. We consider GNs indispensable and should start as soon as possible. We accept the four topics. They could be accompanied by a commentary on their meaning. Could you accept in your document a reference to mobilize public opinion on these matters? People think North-South issues can be left to governments. They need to be educated. Let us avoid excessive generalizations and formal speeches. Purpose is to promote some progress in North-South dialogue. We need precise and concrete discussion. Hence we oppose opening with general speeches. If made, they will be prepared in advance. Why not distribute them before the meeting? Then we can exchange more precise views. We propose that for each of four topics, co-chairmen designate principal speakers who would speak on

¹³ Telegram 3214 from Vienna, March 13, transmitted the text of the communique issued at the conclusion of the preparatory meeting for the North-South Summit, which took place in Vienna. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810120–0586)

¹⁴ A copy of the "Outline of the Procedure Proposed for the Preparatory Meeting" of Ministers of Foreign Affairs for the Cancun Summit, dated July 31, is in the Department of State, Bureau of Economic and Business Affairs, General Commodity Subject Files, 1965–83, Lot 84D247: Policy—Cancun Meeting 1981.

their own behalf. They could present proposals, perhaps provocation. This would lead immediately to substantive discussions. One month before, co-chairmen could ask individual countries to speak on particular topics. Our heads do not know the language of our dialogue. We should maximize opportunity for leaders to speak directly without large delegations.

Castaneda—Those are interesting suggestions of delegation of France.

Japan—Discussion should lead to early launching of GNs and progress in specific areas—commodities, common fund. Finance, food, energy and development of human resources could be discussed in that order. Each head would notify co-chairmen of their priorities, and chairmen could distribute this to others. We would be cautious about France's suggestion. If we prepare statement in advance, then focus will be on paper and not on general discussion. We oppose issuing of formal statements. Also, in reference to China's reference to NIEO, we have a short history of development. NIEO may include unrealistic items. We should be realistic!

Brazil—There are some common points that should be underscored at Summit. We cannot prescribe straitjacket for heads. We need flexibility and informality. We have no problem with prior announcement of subject matter. These are only suggestions. We don't need speeches. Written statements are useful but risky to circulate in advance—freezing positions. We may recommend things to heads of state to facilitate exchange of information—sensitize one another. But we can't calculate the procedure before the fact. The spirit of meeting should dominate; participants should understand this.

Germany—We like the suggestions made by Mexico. There should be exchange of general themes and then on specific topics. Blocs of subjects could be introduced by certain countries, not representing any group. This would amount to a combination of Mexico's and France's suggestions.

Nigeria—Is your proposal that there is only one item on the agenda, namely the future of development and the world economy. Then four items will be discussed in this context. Meeting may be too long if this is the only subject. We support Mexican recommendation that two speakers should introduce each topic; they should speak from global not self-interest.

Sweden—We must achieve something. Yet we can't expect concrete results. Perhaps some kind of statement by co-chairmen showing political will. We should agree that somewhere sometime we will undertake centralized negotiations. No papers should be distributed. We should leave it to heads to make their own deliberations. Preparations can seek to ensure that interventions by heads cover all subjects of importance.

Mutual understanding at Summit should include procedure, where we will take up all the issues involved. We don't know about idea of having one speaker from North and then one from South. But perhaps, as Japan suggests, heads can notify chairmen about the topics they will address.

Saudi Arabia—Intentions expressed here encourage us that Summit will be of use and fruitful. There is a consensus that we should avoid pitfalls such as negotiations between North and South. If there is a meeting, let's do a joint assessment, not negotiations. Also we must give impetus but not substitute for GNs. By not taking up GNs, we should not feel that we are avoiding the issues. Indeed because we see the problems, we are here. Although GNs is stopped, past efforts have not been fruitless. We should begin where GNs have stopped and apply new political will (not replay discussions of past year). It is important to think about not only what we say after Summit but what we do. Unless we come to agreement on GNs, this is what we are looking for. Under what forum, when will they start? Cancun should assist in every way to have GNs start and on a good basis. Perhaps the UN Secretary-General could address Summit and put this meeting into the context of GNs.

Philippines—We are encouraged to note wide areas of agreement. North-South has political dimensions. We share France's view that we must mobilize public opinion. Also share France's view that agreements must be reached and announced. Further we support idea of UN Secretary-General speaking.

END MORNING SESSION

Saturday PM Session (4:30 p.m.–6:30 p.m.)

Austria—Let's move to procedural questions.

Algeria—We do not believe that we have reached agreement on the previous agenda item. If we think we have reached agreement, our discussion of procedure will bring us back to agenda. Two elements are important: the letter of invitation from March says meeting is political, exchange of views in open, informal atmosphere—no negotiations.¹⁵ Makes clear that goal is exchange on essential issues. What are the new developments since April 1981? ECDC and Ottawa meetings. Caracas stressed cooperation among LDCs. Ottawa embraces cooperation among DCs and LDCs. This is new since April 1981. Yet we don't see any mention of GNs in our papers or discussions. We must take this

¹⁵ In telegram 3231 from Vienna, March 16, the Embassy sent the text of a draft letter of invitation to the Cancun Summit from López Portillo and Kreisky to heads of state. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810123–0233) The official letter of invitation to Reagan was dated April 30. See footnote 2, Document 21.

into account since it is a consensus of this morning's meeting. Hence, we suggest modifying the framework of discussions for October by referring to exchange of views on international cooperation for development through GNs which should be undertaken under auspices of UN as soon as possible. Now the subtopics proposed here are not same as for GNs. So we are outside the terms of GNs. The four issues should be discussed as one, as interrelated. There is also problem of definition of these subtopics. We cannot limit heads. Hence, why subdivide the general topic? Summit must be above all political. Is this consistent with a substantive or technical agenda? A single theme is preferable (as stated above). The proposal of Saudi Arabia deserves attention. The Secretary-General could be invited to discuss GN. Then after his *introduction*, discussion could follow. Heads could also then discuss other topics as well. Then views could be summarized by co-chairmen. Cancun is a step forward to great negotiations. Two items essential: 1) need to set up NIEO—take advantage of current international situation for launching GNs, and 2) take into account that we are limited to a few countries and do not represent other countries. That is why only one general subject should be addressed.

Austria—Have heard Algerian suggestions and must discuss them. Nigeria also suggested this morning that there is only one issue but that heads could discuss other issues if they wish. Perhaps we can list topics as “including.” Impetus to GNs could be result, in my opinion, but not part of terms of reference. Let us consider suggestion that Secretary-General speak as accepted.

US—I am sorry that I could not stay until the end of the first session today, so that I was unable to make all the observations that I would like to have made with respect to the organization and topical procedures for the October meeting. I understand that a wide range of views was expressed and various ideas suggested with respect to how the topical discussions might be structured. I can fully appreciate the problem. As the distinguished representative of India said this morning, we are trying to structure an unstructured meeting. This presents us with a bit of a dilemma.¹⁶ We have agreed that it should not be a negotiating session. We have agreed that no concrete results should be expected, and for that reason we have agreed there should be no communicate. We have further agreed, given the character of the meeting, that there was no need for preparatory papers. We are also agreed that we must avoid making Cancun a confrontational event. At the same time, we all want as clear a delineation of issues—of diagnoses and analyses—as possible and temptation understandably exists to try to see what we might do to make the discussion more focused in terms of the four topics which

¹⁶ Allen placed a checkmark next to this sentence in the right-hand margin.

will represent the principal items on the agenda that we can accept.¹⁷ We have to try to strike a balance. It is vitally important that we respect the principles that we have agreed on and which define the personality of the October meeting. The points of agreement which I listed already define the structural character of the October meeting. Is there any need to go beyond this particularly if one recognizes that some of the suggestions or some of the proposals that have been made would in fact contradict what has been agreed to. From my understanding of the discussion that took place, it seems to me that there are certain things that would improve the arrangements for the October meeting while not undercutting its essential character. For example, it seems to me to be absolutely essential that heads of state and government have an opportunity to make an opening statement. Such statements are crucial if their discussion in October is to be informed by a sense of design and political perspective. Otherwise, we will be asking our leaders to address technical issues which are best left to the technicians. At the same time, as was mentioned by a number of speakers, we do not wish to consume all the time available with opening statements. A compromise suggests itself. We should recommend that opening statements be limited in time to, say, about 10 minutes each. Similarly, the topics which the heads of state and government may wish to address in the course of their discussions in October are necessarily going to be defined in fairly general terms.¹⁸ This is desirable since there will be so many perspectives on them. But we should not seek to constrain and control our leaders and fit them into a procrustean bed. That would be artificial. Rather, we should seek to inform each other of the kinds of issues under each topic which might be registered so that each of our leaders can arrive at Cancun better informed about the questions and points to be made. The proposal made this morning that the two co-chairmen undertake to annotate each topic defining a series of sub-points for each—preferably in an interrogatory fashion—strikes me as a very useful one. Any one of us should feel free to submit suggestions to the co-chairmen for their use. What would result is essentially a syllabus of issues and questions under each of the agreed-upon topics. This seems to be about as far as we should go. To go further would be to over-structure the meeting and risk undermining the kind of meeting that we have all agreed we would like to see. Thus, I would find it unacceptable if two countries were designated to open the discussion on each topic, since we must assume that we are all interested in all the topics. Least of all, should one of these countries be a so-called representative of the developed world and the other of the less developed

¹⁷ Allen highlighted these two sentences in the left-hand margin.

¹⁸ Allen highlighted this sentence in the left-hand margin.

world, since this would only serve to cast the discussion in October in a confrontational mold, something which we expressly wish to avoid. In my intervention this morning, I suggested that it is terribly important to keep our priorities clearly in mind. We all wish for success and achievement over time. The problems of development and cooperation in the world economy will be with us for many years. If we are to achieve success it is essential that we take our first steps in this new beginning surely and carefully. Finally, a word about the letter referred to by Algeria. It talked about facilitating, not taking decision. The UN is forum for GNs. This is not. This does not mean we will not contribute to that subject at this meeting. Reagan in his response to the letter of invitation said procedural issues pending in other forums should not be taken up.¹⁹ We came here with that agreement. We hope we can stick with that.

Nigeria—Three items. This meeting is no substitute for UN. It is totally independent. Structuring topics of GNs is matter for UN. We also feel that suggestion for Secretary-General to speak should be reconsidered. Brandt report said this exercise should be far away from UN. Perhaps Brandt should be invited to give introduction. Now way to give impetus to GN is to create better awareness and understanding. Some may have complete knowledge. DCs have such capabilities. We don't. Enlightening our heads will be important. Proposal of bloc speakers simply reflects that our perspectives are different. It does not imply confrontation. Perspectives could be complementary. For example, our view might add something to perspective of US and we know theirs will add to ours.

Austria—Any other comments on Algerian proposal?

Japan—We have difference with the US. Heads should start off with commitment to cooperate. On question of bloc speakers, how will we choose representatives? We need to be cautious about proposal for Secretary-General to speak.

Saudi Arabia—My conception is that there is a global negotiation. It has reached this stage, with great effort. It is now at a standstill. Cancun must push this further. We have to have some criteria for this. If we put different criteria here, then we break away from GNs. And this group of countries does not represent anyone but themselves. The GNs have achieved some results as mentioned by Algeria. If we now choose different categories, how can we say that we support global negotiations? Issues though separate have to be dealt with collectively. Dangerous if we give impression that we are circumventing GNs by focusing on different issues than in GNs. Not having criteria specified does not mean

¹⁹ See Document 21.

that we avoid issues. If we want to hold to Vienna letter, then we have to be careful to do what we have agreed to do and not put forward different criteria. If we have to use criteria, use GNs criteria. Main point is not to derail GNs.

US [UK?]—We support the chairman's original summing up. It is foolish to have heads attend a meeting so formless it could accomplish nothing. It is equally foolish to do the opposite. We suggest to our American colleague not to encourage statements. Heads will come with statements which will not be 10 minutes. We hope we can avoid that.

Canada—We suggest a compromise for our Algerian and Saudi friends. We should not mention GNs in our agenda. But there is an empirical link and we need to ensure that we not set off in different direction from GNs. Hence can we agree that there be nothing negative implied here working against the GNs?

Japan—This Summit must be the first step toward GNs. But it must also be independent of GNs. Hence, we should not discuss the subjects that are before GNs. There is no difference of view here with Saudi Arabia.

US—If heads want to make statements, limit them to 10 minutes. They don't all have to do so. Heads will say what they want—GNs or anything else. Ottawa heads complained about too much programming.

Austria—Let me try to suggest a possible wording of the framework of discussions. We can reiterate the letter of invitation—where the link between GNs and Cancun is stated. Then we can indicate that the list of four topics is not exhaustive. It is indicative. Hence, we can introduce these topics by saying "including areas such as." In that way we do no damage to GNs.

Algeria—As US said, nothing prevents heads from bringing up anything they want. Hence why not include GNs as a subtopic?

Austria—There is a strong majority feeling to focus on important questions in order to give meat to the skeleton; we need to stay away from the abstract. We must mention some topics to give concreteness to framework but this does not exclude other issues.

Saudi Arabia—Point of clarification! Then why don't we take away mention of the other categories as well as GNs. There would still be the general link between GNs and Cancun.

Austria—There will be a link—we will reiterate the letter of invitation.

Germany—Further clarification leads to less clarification. Can we agree with summing up plus two recent clarifications? If we go on, more may be less!

US—We agree with that, Mr. Chairman.

Ivory Coast—We understand Algeria's point-of-view. This meeting has the goal of the rebirth of GNs. Genscher's proposal is agreed.

Austria—I think we have agreed. Now to go on to the procedural issue. We agree there should not be general debate. Nevertheless heads who want to do so can make *short* statements (if possible even less than 10 minutes). This morning two proposals were made. One was to have an introduction of each topic by a representative of DC and LDC. Some opposition to this. Hence recommend that we not accept this idea. Second was to have heads inform chairmen beforehand of topics they would address in order to allow chairmen to structure unstructured meeting. Do we agree on this?

Mexico—No objection. I think we can agree. We want to go back to France's proposal. We don't agree completely with Austria. What France proposed has great merit. We must have an introduction for each topic. We could think of two representatives, since two groups are represented. We are not introducing confrontation. Confrontation is a question of the spirit of the meeting, not the existence of different points-of-view. Countries chosen to do this could present a document. We don't insist upon this. But a written document is a good idea. This could be combined with suggestion of representative of Japan who said chairmen could choose delegations to introduce subjects.

France—We did not propose speakers as representatives of groups but in their personal capacity. Chairmen can select leaders to introduce topic. They would merely be first speakers not representatives of groups.

Algeria—Sorry but I thought there were not to be only four topics. Hence why are we talking about only four subjects?

Saudi Arabia—Subtopics do not exclude other topics. But if we discuss procedures for four subtopics, we are limiting agenda.

Austria—Yes, it is difficult to provide procedures for these items when they are only examples. Let's come back to Japanese proposal to invite participants to submit topics six weeks before meeting. Then Chairmen will organize discussions in ways that meet French, Algerian and Mexican suggestions.

Germany—We seriously question if this is the way to initiate free discussion. This means a head can speak only if he or she has registered to do so. That's not a good idea. This leads to prepared statements. It is better to have people react to discussion. But if you fix on subjects weeks ahead, you will defeat idea of free and flexible discussions.

Austria—Much truth to this.

US—That's the essence of problem. We propose we drop further discussion of procedures.

Austria—Any objection to this? There will be no special procedure for structuring discussions. It will be left to chair to organize discussions, to try to have a useful anarchy. Now we must address the question of papers for Summit. Any participant should be free to present any paper he or she may wish to present. No one obligated to do so. Do you agree?

All—YES!

Austria—All papers would be background, not to be discussed necessarily at Summit. We want to come back to the proposal for Secretary-General's participation and statement on global round. Are there objections?

Mexico—We support inviting Secretary-General as special guest not as observer. The US opposes observers. We agree. We should also leave the subjects of his talk to him. He might want to discuss subjects other than GNs.

Canada—We agree to the invitation to Secretary-General. But he should not have more rights than other heads. He should not be the first speaker.

Austria—He can address this meeting as any other.

US—We are impressed by the earlier comments by Nigeria. We have no objections but we are on the verge of giving this meeting a character that is different than the role envisioned for heads of government. This could lead to other suggestions, such as Brandt's participation.

Saudi Arabia—Let me clarify my suggestions. Secretary-General would be an unbiased reporter on the problems of the international community. But since we have chosen structured anarchy for others, this would also apply for the Secretary-General.

Austria—With this explanation, do we agree that he be invited with no more but actually less rights than others since he is a special guest?

AGREED

Austria—There will be two seats at the table and two behind.

Saudi Arabia—Could we have two 3 hour rather than three 2 hour sessions? This cuts down on movement.

Canada—We hope hosts will use their discretion to make necessary decisions. With respect to informal dinner, we have found them extremely useful in our DC Summits. Best discussions occur at those sessions. We encourage hosts to do that.

Mexico—Perhaps two separate dinners for heads and for Foreign Ministers or whatever. At dinner, we can discuss next day's events. But it is tiring to have dinner on same night people arrive. That was evident last night. First night is not the best time. Perhaps we could hold it on next night but of course it is better to have it before the plenary sessions.

France—What is meant by working documents in paragraph 22?

Austria—Documents here.

France—Documents produced by chair should be in all languages.

Austria—Working languages in UN are English and French.

France—Exactly!

Ivory Coast—Then documents will be distributed in English and French? My head does not know English. We must be able to translate for him into French.

Austria—Okay! Host will do documents in English and French. We will prepare press release and discuss it tomorrow morning.

Saudi Arabia—Do we need to review press release?

Austria—No, if you so wish.

Canada—Can each participant make comments to press during Summit? Of course, they would do so only on their own participation.

Austria—Yes, I so understand it.

Tanzania—We do not need to meet to review release, as we did in Vienna. But could you read to us the agreed framework for discussions?

Austria—The framework for discussions would first make reference to the letter of invitation on nature of the Summit and the link with GNs. Then it would continue with paragraph 10 as modified. (Reference is to document on Outline of Procedure Proposed for the Preparatory Meeting, distributed at morning session.)

Algeria—We should say that items of paragraph 10 are not limiting.

Austria—We could add last sentence of paragraph 9.

Saudi Arabia—Is this the last meeting or do we meet tomorrow?

Austria—This is the end if there is no need to review release.

Saudi Arabia—Could you distribute your release to us to read beforehand?

Austria—That's why I thought meeting tomorrow was necessary.

Japan—Can we have Japanese language also in October?

Austria—Japan and Germany provide their own interpreter.

Mexico—We propose short session tomorrow. We don't want differences of interpretation of the press release.²⁰ Then we can schedule press conference for 12 noon.

²⁰ For the text of Haig's departure statement from Cancun, August 2, as well as his remarks to the press en route to the meeting on July 31, see Department of State, *Bulletin*, September 1981, pp. 33–34. Haig also sent a summary of his visit to Reagan in telegram 7011 from Cancun, August 2. (Department of State, Central Foreign Policy File, Electronic Telegrams, [no N number])

Sunday AM Session (10:00–11:00 a.m.)

1. Algeria asked that reference to GNs in French version be capitalized as in English version. Accepted.

2. France sought to add possibility of joint communique on items agreed to at Summit. Rejected.

3. US asked that full paragraph from letter of invitation be used which refers not only to Cancun helping facilitate GNs but other forums as well. Accepted.

33. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Leland) to the Cabinet Council on Economic Affairs¹

Washington, August 5, 1981

SUBJECT

Cancun Summit: Background for CCEA Discussions on August 6, 1981²

The Cancun Summit, co-hosted by Mexican President Lopez Portillo and Austrian Chancellor Kreisky, will involve 22 Heads of State and their Finance and Foreign Ministers from industrialized and developing countries (Annex I).³ Participants will exchange views on the “future of international cooperation for development and the reactivation of the world economy.” The Summit was originally conceived by the Brandt Commission to organize a program of priorities on North-South issues, but was embraced by the co-hosts and other sponsors to provide impetus to the stagnating North-South dialogue.

Last weekend’s preparatory meeting of Foreign Ministers dealt with procedural rather than substantive matters.⁴ Canadian Minister

¹ Source: Central Intelligence Agency, Office of the Director of Central Intelligence, Job 84B00049R: Subject Files (1981–1982), Box 17, Folder 3: Cabinet Meeting Re: Economic Situation in Poland. Confidential.

² A copy of the minutes of the CCEA meeting on August 6 is in the Reagan Library, Ralph Bledsoe Files, Office of Policy Development, Cabinet Councils, Other Cabinet Councils, Cabinet Council on Economic Affairs II. The Council reviewed this memorandum and discussed the preparatory meeting of Foreign Ministers held in Cancun. The minutes note that “most of the discussion centered on the quest for global negotiations by many of the developing countries and the position that the U.S. government and its representatives should take on this issue at the Summit. There was a general consensus on the need for the U.S. to develop a constructive alternative that will permit the U.S. to present a positive program that will provide mutual benefits for developed and developing countries.”

³ Annex I, the list of countries whose Heads of State or Government were being invited to the Cancun Summit, is attached but not printed.

⁴ See Document 32.

MacGuigan gave a report on the Ottawa Summit communique, which was perceived as a positive step in relations between developed and developing countries. The meeting confirmed that no substantive decisions will be taken at the Summit, there will be no fixed agenda to channel discussions, and no communique will be issued.

The main area of concern raised by the preparatory meeting, however, is the press release (Annex II)⁵ indication that the Summit should "facilitate agreement" on the stalled Global Negotiations (GN)—a statement drawn from the formal invitation to Heads of State to attend the Summit. While President Reagan's written acceptance directly challenged the GN-Cancun linkage by stating that the Summit should not "take up procedural questions pending in other fora,"⁶ all participants except the United States felt that Global Negotiations would be an appropriate topic for discussion at Cancun. Although all others also indicated a hope that there would be an agreement on Global Negotiations, not all agreed that it should be the purpose of the meeting. Unless the United States is willing to capitulate and be led into GN, President Reagan will have to be prepared to take a strong stand against GN, or at least maintain total unwillingness to discuss the issue at all until after Cancun.

In order to avoid the global negotiations, the President will need a plan for a follow-up on the Summit, possibly another meeting of the same group a year or two later in Austria (the country co-hosting the Cancun Summit). It is unlikely that such a proposal would be acceptable as the LDCs at the August 1 meeting stressed the fact that the Summit was in no way to be a substitute for Global Negotiations.

It is clear that there could be no advantage to the United States joining GN as the basic concept is that a central body under United Nations auspices would negotiate on a wide range of economic issues (the same issues that will be discussed at the Summit, i.e., energy, food, trade, development and monetary) and through a process of trade-offs among the substantive areas some sort of package agreements could be reached. There would be almost nothing in the package that would be an advantage to the United States. The issue would be a matter of how much could be taken from the developed world (and particularly the United States) and given to the developing world. Global Negotiations would constitute a bloc-oriented process wherein the LDCs (the so-called G-77—now comprising over a hundred nations) would stay together as a bloc whereas the developed nations would not.

⁵ Annex II, the press release of the August 1-2 Cancun Summit preparatory meeting issued August 2, is attached but not printed.

⁶ See Document 21.

If the United States decides to delay its rejection of the GN until after the Summit, it would still have to come up with alternative ideas which would involve showing how all the topics to be discussed in GN could more properly be discussed in other fora. (See Annex III)⁷

At the August 1 meeting there was no indication of the substance of GN other than the statement that it was to be for negotiating a “new international economic order.” If the United States is to stay out of GN, it will have to be prepared to show how the negotiations would tend to undermine existing institutions and would be inconsistent with the Reagan policy against increased bureaucracy—they would create another unwieldy international bureaucracy to perform functions already better performed elsewhere. In addition, GN would accentuate the “North-South” differences and be antithetical to the Administration’s preference for dealing with developing countries on an individual or regional basis and addressing concrete problems in a pragmatic manner.

The August 1 meeting did not commit the United States to GN but each statement on the issue (e.g., the Ottawa Communiqué, the Cancun press release) moves the U.S. closer to commitment.

Before the Summit, there will have to be a firm decision to resist all pressure to be dragged into Global Negotiations or the United States will be forced to accept them. A decision will have to be made that whatever the pressures, it is better to keep out now than to have to walk out after they have begun.

⁷ Annex III, “Agenda Items for Global Negotiations,” is attached but not printed.

34. Letter From Secretary of State Haig to the President of the United Nations General Assembly (von Wechmar)¹

Washington, August 6, 1981

Excellency:

I am aware that you are in the process of consulting with Ottawa participants with a view to determining their preferences concerning next

¹ Source: Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981–1984, Lot 85D193: Cancun Summit—Global Negotiations—Background. No classification marking. Drafted by Lee Sanders (IO/E); cleared by Washburn, Creekmore, Lollis, Fox, Meissner, and Hormats.

steps on the matter of Global Negotiations. Ambassador Kirkpatrick informed me of her conversation with you on July 23 in which you inquired whether there had been any developments at the Ottawa Summit or elsewhere which might have changed the US attitude.²

The Ottawa Summit was, from our point of view, a success. We had lengthy and useful discussions of relations with developing countries. Certainly from our point of view, the exchange resulted in some fresh insights into the views of others. We are sanguine that additional perspectives will arise from the wider circle of consultations at Cancun. At Ottawa, we joined together with other governments in reaffirming our willingness to explore all avenues of consultation and cooperation with developing countries in whatever forums may be appropriate. It still remains to be seen for us whether the UN in New York and Global Negotiations as previously conceived are the best way to do this.

Our position on the question of Global Negotiations remains the same as it was before the exchange at Ottawa. While the discussions were very useful, we continue to believe that further consideration of Global Negotiations should not take place at least until the 36th session of the General Assembly—after the Cancun Summit. We appreciate the importance you and others attach to this issue, and therefore do not want to make a final judgment before we have been able to reflect on the overall discussion at Cancun. In line with this position, we strongly favor the most expeditious and purely procedural deferral of Global Negotiations from the 35th to the 36th General Assembly. We do not believe that a further meeting of the Friends of the President on the subject would be either necessary or particularly desirable. Our preference would be for the deferral being handled through a Presidential procedural initiative.

I look forward to further exchanges with you during your Presidency on this and other issues.

Sincerely,

Alexander M. Haig, Jr.

² In telegram 2449 from USUN, July 24, the Mission reported on von Wechmar's meeting with Kirkpatrick, and requested guidance for a response to von Wechmar's query on U.S. attitudes toward Global Negotiations. (Ibid.)

35. Memorandum From the President's Assistant for National Security Affairs (Allen) to the Counselor to the President (Meese), the White House Chief of Staff (Baker), and the White House Deputy Chief of Staff (Deaver)¹

Washington, August 20, 1981

SUBJECT

Policy Action Requirements for President's Participation in Cancun

In two and a half months, the President participates in the Cancun Summit. Until now, the Administration has not focused in depth or breadth on its policies toward the developing countries. The attached paper (Tab A) develops a framework of policy themes and an inventory of issue actions to initiate such a review. It can serve as an initial road-map for our internal discussions and then for White House directives to the Cabinet Councils and the agencies to push forward various decisions and programs so the President can present at Cancun a philosophy and program totally consistent with his ideas (and not the ideas of his predecessors buried in the recesses of the bureaucracy).

I would recommend an early meeting to review this matter and to initiate the desired actions.

Tab A

Paper Prepared in the National Security Council²

Washington, undated

**U.S. POLICY FRAMEWORK AND INVENTORY OF
ISSUES FOR RELATIONS WITH LDCs**

The President's participation in the Cancun Summit offers an opportunity to put his imprint on the international development dialogue and on U.S. foreign assistance programs. This imprint should reflect an approach to international development and economic cooperation consistent with his domestic economic program and represent a bold and unconventional departure from the creeping statism,

¹ Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—Policy; NLR-369-11-25-2-1. Confidential. McFarlane signed for Allen. Poindexter wrote at the top of the memorandum: "8/20 dispatched as cys to the addressees/JCP." A copy was sent to Darman.

² Confidential.

dirigisme and bureaucratization that has characterized so-called North-South relations over the past decade.

This memo sets out the themes of such an approach and inventories issues and actions that have been or should be taken in order to implement these themes in U.S. policies over the period ahead. It is designed to facilitate White House decisionmaking and direction to the agencies regarding Cancun preparations. It has been developed in consultation at the sub-Cabinet level with State, Treasury and AID.

The approach assumes that the President wants to take the lead in redirecting the substance and dialogue of relations between developed and developing countries. If another lower profile posture were adopted, only some of these themes and actions would be implemented. It further assumes that the more aggressive and positive the United States is in taking substantive initiatives, the better we will be able to resist or redirect troublesome procedural initiatives, such as the proposed Global Negotiations.

Some of the actions identified below are being studied intensively in the development of the proposed Caribbean Basin Plan. Where applicable, this is indicated. The purpose here is to place the specific Caribbean Basin activities into a broader policy framework.

Themes are underlined³ and the issues and actions listed as subtopics under each theme. The status of each issue or action is also indicated.

I. Development and growth are essentially national responsibilities and depend on sound domestic policies and a favorable climate for investment and other productive activities. Domestic commitments are the essential foundation of effective international cooperation.

A. Stress the decisive policies this Administration has implemented, at considerable short-term sacrifice on the part of the American people, to meet our own domestic economic responsibilities. (We not only preach the theme of domestic responsibility; we practice it.)—Much of the argumentation here has been developed in the preparations for the Ottawa Summit and should now be shifted to the Cancun setting.

B. Stress the responsibility of all countries, especially the developing countries, to pursue sound domestic policies. (The U.S. domestic recovery program gives us the political credibility to insist that other countries also meet their domestic responsibilities and subtly shifts the dialogue of the past decade away from the responsibilities of the international community to the responsibility of each of its members.)—No action yet, but may wish to ask CIA and other agencies to develop a concise comparison of the development policies that have failed and those that have succeeded in developing countries over the past two decades (e.g. Tanzania vs. Malaysia or Sri Lanka).

³ Printed here in italic type.

C. Show the benefits which the American economy provides for LDCs, to include the disproportionate share of LDC imports we absorb and LDC investment and financing needs we provide, and particularly the benefits to LDCs of renewed, non-inflationary growth in the U.S. market.—CIA has started some work in this area but might be asked to do more.

D. Review foreign assistance programs to establish more effective performance criteria for local government policy and action, such as a willingness to enhance the role of the indigenous private sector, the pursuit of a balanced strategy of agricultural and industrial development, budget policies to encourage savings and investment, serious local programs to deal with the poor, etc.—AID is doing this on a project basis and expects to develop more systematic policies which we can also advocate in multilateral development institutions such as the World Bank.

II. *The present free world international economic system, based on maximum opportunity for private sector activities, has worked for all countries that have sought to use it, including developing ones, and has shown itself to be resilient, adaptable to change, and accommodating to the real needs of developing nations. We seek to expand this system, not restructure it, and stand ready to meet our obligations toward developing countries within this system as we look to them to assume their responsibilities.*

A. The System As a Whole

1. The accomplishments under the evolving post-war system, especially in the last decade, are considerable and have been ignored for too long in the defensive, self-incriminating stance adopted by too many developed countries.—Ask CIA and other agencies to develop empirical data to show, for example, the number of countries with sizable trade today compared to 10 years ago, the growth and change in the character of private investment and of LDC policies toward private investment, the increase in IMF quotas and multilateral bank lending, etc.

2. The Global Dialogue—Make a decision whether we accept eventually under the proper terms a special forum in New York for global negotiations and, if so, under what terms, or if not, what alternatives do we propose (e.g. Cancun follow-up, etc.).⁴—Preliminary discussion in CCEA and State has started drafting a decision paper with various options.

B. Trade⁵

1. Multi-Fiber Agreement—Adopt as liberal a position as possible and aggressively compare U.S. position with more restrictive European position, pointing out that trade is the real “meat” of development

⁴ See Document 33.

⁵ Documentation on U.S. trade policy during the Reagan administration is scheduled for publication in *Foreign Relations*, 1981–1988, vol. XXXVI, Trade; Monetary Policy; Industrialized Country Cooperation, 1981–1984; and *Foreign Relations*, 1981–1988, vol. XXXVII, Trade; Monetary Policy; Industrialized Country Cooperation, 1985–1988.

(\$90b./year of manufacturing exports by LDCs, \$45b. of which are covered by MFA) while Global Negotiations, where Europeans are more enthusiastic than U.S. is mere "puff."—USTR leads an interagency team to conduct the MFA negotiations. We may also wish to consider a Cabinet Council discussion of this issue.

2. Examine the Trade and Development Program with a view to its potential for enabling aid programs to involve the U.S. private sector more effectively in ongoing development activities in LDCs (TDP promotes U.S. private sector involvement in feasibility studies of development projects in developing countries with resultant benefits for U.S. exports and longer-term involvement of U.S. companies in these countries.)—Currently under IDCA, TDP is reviewing its own operations as well as developing TDP-type components in various aid projects within the regional bureaus of AID.

3. Weigh the advantages and disadvantages of a program of mixed credits whereby aid grants combine with commercial loans to yield subsidized export credits and consider appropriateness of this idea in multilateral as well as bilateral assistance (e.g. subsidized interest loans instead of grants in IDA).—Treasury leads an interagency team to negotiate an international agreement to restrict export credit subsidies, while AID and USTR are examining pilot programs for mixed credits to keep U.S. industry competitive if an international agreement is not concluded or is not sufficient.

4. Consider a review of Export-Import Bank financing with a view to increasing its lending for exports to targeted developing countries, such as the Caribbean Basin countries.—No action yet.

5. Examine opportunities for use of GSP, tariff authorities and other administrative measures to increase trade opportunities for LDCs in U.S. markets.—Being done for countries involved in proposed Caribbean Basin Plan.

C. Investment

1. Decide whether this Administration will adopt a neutral or an activist policy toward foreign direct investment in developing countries, reviewing a range of instruments (investment treaties, tax policies, etc.) in light of this decision. (If an activist approach were adopted, this might amount to a type of enterprise zone concept applied to impoverished areas internationally, i.e. certain LDCs).—No action yet, but expected that CCEA Working Group on Investment Policy may take up this as a matter of priority.

2. Review OPIC policies with a view toward expanding its insurance and perhaps loan guarantee activities and operating flexibility in developing countries.—Being done in Congress.

3. Develop an initiative supportive of private investment and present in the international dialogue as way of refurbishing image and

acceptability of private investment over next decade and of counterbalancing current proposals detrimental to private investment (e.g. present investment and technology code negotiations).—Prototype investment charter and insurance scheme being studied (but reportedly not going anywhere) for countries involved in Caribbean Basin Plan.

4. Catalyze a voluntary initiative by multinational companies themselves to contribute more directly through their trade associations, etc. (e.g. Chamber of Commerce) to development assistance efforts in LDCs (e.g. training institutes run by Chamber of Commerce, etc.).—No action yet. Could be considered in connection with 1. above if, for example, tax benefits were granted to firms investing in these types of Chamber or other trade association activities.

D. Finance

1. Accelerate and complete formulation of U.S. policy toward the World Bank group, stressing co-financing, consortia arrangements, and the role of IFC in consideration of future replenishments.—Interagency study underway by Treasury.

2. Consider a review of long-term U.S. policy toward the IMF, linking issues of conditionality with consideration of future quota increases.—No action yet but expected that Executive Director for IMF and other Treasury officials are considering best way to proceed to interagency discussions.

3. Decide whether new initiatives, and if so, what types, are needed to deal with the problem of debt rescheduling in LDCs and more generally the role of commercial lending in developing countries.—No action yet but CCEA is about to initiate a study.

III. *Concessional foreign assistance is vital to poorer elements in developing countries that do not yet participate in the domestic economy and to poorer developing countries as a whole that do not yet participate in the international economy.*

A. Consider a major Administration effort to secure passage of FY82 foreign aid legislation which is currently stalled in Committee and unlikely to pass before the new fiscal year, requiring a continuing resolution at roughly 1979 levels (since there has been no aid bill for two years) and considerably lower military and economic support assistance than the Administration has requested.—No action yet.

B. Direct a broad review of U.S. development assistance programs with a view toward presenting new, comprehensive foreign aid legislation in FY83, featuring reorganization proposals for IDCA, a greater role for the private sector, and priority for agricultural, energy and manpower development (training, technical assistance, etc.).—No action yet, although the AID legislative review process which already exists could be used for this purpose.

C. Consider improved coordination for policymaking with respect to all forms of foreign assistance—bilateral and multilateral

developmental assistance, economic support, and military assistance.—State, AID and Defense are working on an improved system.

D. Consider improved coordination for operation or implementation of all foreign assistance and other governmental programs facilitating the involvement of the private sector in developing countries—trade missions, bilateral economic commissions, joint business councils, commercial attache program, Trade and Development Program, OPIC, Export-Import Bank, Early Notice Program for Multilateral Bank-financed projects, etc. (Do we need to offer developing countries, like Jamaica, a central point of access to these programs and to the U.S. private sector?)—No action yet, although AID, Commerce and others coordinate on an ad hoc basis.

IV. Concessional aid can be justified only if it is aimed at eventually making the recipient self-sufficient (not feeding the poor but teaching them to feed themselves) and giving poor individuals and poor countries the opportunity to participate in the domestic and international economic systems where the big benefits are to be achieved.

A. Consider criteria for foreign assistance programs and perhaps even individual projects that require phaseout of concessional aid.—No action yet, although the concept of graduation or maturation of countries has been frequently studied and in the case of bilateral assistance applied to some countries, principally in Latin America.

B. Evaluate aid projects from standpoint of facilitating access by poor people to the domestic commercial market and poor countries to the international commercial market (e.g. place priority on basic human needs projects that eventually integrate poor into commercial market for sale of their products, new employment opportunities, obtaining credit, etc.).—No action yet.

C. Establish coordination between U.S. government activities to facilitate private sector involvement (see III.D. above) and U.S. basic human needs programs in order to ensure that basic human needs efforts acquire over time a self-sustaining character, giving poor the independence to fend for themselves in the commercial market.—TDP has begun this effort on a project basis but may want to consider a more systematic approach.

V. Development and growth offer an opportunity to use the unique quality and advantages of an area's resources and environment to fulfill human needs (this theme counters in a positive way the notion that development is a threat to the environment or that the environment is a constraint on development).

A. Develop an international dimension to the Administration's domestic environmental policy which addresses the interrelated problems of pollution, population, deforestation and water management.—No action yet.

36. Information Memorandum From the Assistant Secretary of State for Economic and Business Affairs (Hormats) to Secretary of State Haig¹

Washington, undated

SUBJECT

Global Negotiations

This memorandum follows-up your request to me to consider how best to approach the issue of global negotiations. I should alert you at the outset that I am not at all confident that any approach, short of full support for Global Negotiations, can avoid the President's being isolated on this subject at Cancun. But, after a fresh look at the problem, I have concluded that the following approach is worth a long-shot try.

ANALYSIS

The first questions which must be addressed relate to our objectives. Several possibilities come to mind:

— Are we attempting to accomplish something *substantive* through global negotiations?

— Are we simply looking for a way to avoid becoming isolated internationally, and having the President "ganged up on" at Cancun?

— Are we attempting to avoid a deterioration in the "atmosphere" of our relations with the developing countries, which could weaken our position in the Third World to the benefit of the Soviets?

To the *first question* my response would be that very little substantive good is likely to come out of global negotiations. In fact, were we to participate in such negotiations there will be significant political pressure on the US to make commitments which involve additional resource flows or greater LDC control over multilateral institutions. These can, of course, be resisted by the US, but we would take some *political heat* for doing so.

Highly politicized North versus South discussions in the UN have proved to be exercises in futility. What real progress has been made has occurred in the IMF, World Bank, GATT, and other groups in which North-South political divisions are not so sharply drawn, significant expertise exists, and direct economic gains and losses can be evaluated.

With respect to the *second question*, there is a substantial risk that unless he supports global negotiations the President will be isolated

¹ Source: Reagan Library, Douglas McMinn Files, Subject Files, Global Negotiations; NLR-369-3-22-12-2. Confidential. Drafted by Hormats on August 22.

at Cancun. However, my strong impression is that the Heads of State care about a lot of other issues more than they care about global negotiations. While foreign offices feel strongly about global negotiations because of their political importance, particularly in preserving solidarity among the Group of 77 in the UN, heads of state have other major issues on their minds and will not make global negotiations a confrontational issue *if* they believe we have a positive program on major issues important to them.

The basic dilemma we must face, and must resolve, is that we do not have a program which is attractive to much of the developing world, even if some of the things we are doing (i.e. strengthening our economy and maintaining an open market for their exports) are very much in their interest. We do not have large trade concessions to make, are unlikely to provide new assistance (Treasury and OMB want to cut back on many programs) and there is hostility to commodity agreements. US credibility requires both that the President successfully sell an entirely new mind-set to the LDCs based on mutual gains and market oriented measures, not major resource transfers and that we have some positive proposals consistent with this philosophy.

Absent some acceptable alternative approach by the President, he can expect a certain amount of pressure on global negotiations *in* the Cancun meeting. But the public presentation *after the meeting* (however polite the others are to the President during the meeting) will *highlight* the US isolation. The Europeans and the Japanese can be expected to use this to show that they are more sensitive to LDC concerns than is the US.

Regarding the *third question*, the effect of our relations with developing countries, a souring of the atmosphere in the UN has traditionally not had an important impact on our relations with individual developing countries so long as we were constructive in our bilateral relations. However, those who are out to embarrass the US, for instance the *Soviets indirectly* through the *Cubans*, could use our opposition to global negotiations as a demonstration of US insensitivity. If we have an approach that clearly demonstrates our commitment to constructive relations *outside* global negotiations, that danger can be minimized.

A POSSIBLE SCENARIO

Based on the above conclusions, I would suggest a US initiative which stresses our commitment to *negotiate* with the developing nations in areas which are consistent with our market oriented philosophy, and our sincere commitment to assist their development efforts. The negotiations would be held primarily in *functional forums*, but for political reasons some role must be found for the UN General Assembly—something divorced from negotiations but imparting an international *political* flavor to the results.

INITIATIVES

In this context we would take *four separate initiatives*:

1. Announce our willingness to support efforts in the GATT, including as many developing nations as wish to join, to reduce existing barriers to international trade, particularly those affecting the *poorest countries*, and to further improve the international trading system. Countries not in the GATT would be invited to participate in these negotiations. The 1982 GATT Ministerial meeting would decide how best to conduct these negotiations.² This initiative would have to be worked out carefully in advance with the Congress, from which we may need to obtain new negotiating authority, as well as with the EC and Japan.

2. Call for high level discussions on how to *improve the climate for increased domestic and foreign investment in developing countries*, and on how to utilize official development assistance more effectively as a catalyst for private investment. This recognizes the likelihood that aid will not increase much in coming years, and that we therefore need to use it more effectively. This exercise could be chaired by the Executive Director of the International Finance Corporation (a World Bank affiliate designed to support private investment in developing countries).

3. Call for a high level meeting to determine ways a) to promote increased food production in developing countries, with particular emphasis on small farmers, and b) to improve international cooperation and preparation to deal with food emergencies. This could be done in the World Bank and FAO respectively.³

4. Call for a high level meeting to reach agreement on ways to promote and encourage increased energy production, and enhanced efficiency of energy use, in *developing* nations. This would show the convergence of interests among developed, OPEC and developing countries rather than emphasizing the divisions among them which occur if the issue of price and supply are discussed. An *ad hoc* group of the UN could be charged with this assignment.

The results of each of these negotiations or meetings would be discussed in the UN and could be embodied in a UN resolution.⁴

² See footnote 2, Document 99.

³ An unknown hand wrote in the right margin: "a) Training—agr. scientists (See Venice communique) Agr. research b) Maybe WFP? for emergencies." The same unknown hand wrote in the left margin: "Nothing new in [illegible]. Food strategies country-by-country [illegible] WFC. Best give to FAO. How do we do this if we don't agree on reserve [illegible]?"

⁴ Nau circled this sentence and wrote in the right-hand margin: "but not for [illegible]!"

CAVEAT

While such initiatives would clearly be viewed as more forthcoming than a refusal to discuss any scenario for negotiating with developing countries, it is unlikely to be acceptable to many in the Group of 77. Global Negotiations to them are both highly *symbolic* and a vehicle for applying *unified, political pressure* on the developed countries, particularly *the US*, for more aid and important changes in the international economic system. They may regard our proposals as an effort to *circumvent*, or *substitute for*, Global Negotiations in New York, which remains the agreed scenario among the Group of 77. Further, if we propose such discussions we will have to decide whether to describe them as an *alternative* to Global Negotiations or to put forward the proposal without any reference to the New York Global Negotiations exercise.

If the proposed scenario sounds promising, I will prepare a more detailed proposal for your consideration.

**37. Memorandum From the Administrator of the United States
Agency for International Development (McPherson) to
Secretary of State Haig¹**

Washington, August 22, 1981

SUBJECT

Cancun and Global Negotiations

It is important that we have a positive approach or we will undercut our other initiatives in the developing countries. I have given these thoughts to Bob Hormats.

Items which could be announced at the UN or Cancun, if some additional staff work is done.

(1) *Promise that the US will put resources into developing specific technology breakthrough of great importance in developing countries for food and health.* This would be a public commitment to do what AID, the Department of Agriculture and HHS are in the process of

¹ Source: Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981–1984, Lot 85D193: Cancun Summit—Global Negotiations—Background. No classification marking. The date “8/25” was written at the top of the memorandum. The date “81 Aug 24” was stamped on the memorandum. A copy was sent to Hormats.

doing and *could be quite dramatic*. For example, we could announce a commitment to:

(a) *Certain plant improvements through protoplast fusion and cell culture techniques*. In the next few years we are likely to have crops that will grow in a wider variety of soils, endure harsher climates, etc. Total production will be substantially increased and much of this will be a direct value to the Third World.

(b) *Major breakthrough in irrigation techniques* resulting in less water to do the same job. About 80% of the world's irrigated land is in Asia.

(c) *Techniques to produce several crops per year on soils in humid tropics*. Such lands are often not productive now and this would be of great value to many parts of the world.

All of these ideas are widely accepted in the scientific community as probable breakthroughs in the years ahead. The U.S., as the country that put a man on the Moon, would have great credibility in announcing a commitment to achieve them. Comparable examples are available in the health area.

(2) *Pledge a review of the U.S. Tax laws in order to encourage flows of capital to developing countries. Changes might be structured in a way that would also increase investments of nationals in the developing countries.* U.S. revenue loss for the first few years should not be great. I spent ten years doing international tax work, and this area is of great interest to me. We are talking with Treasury, but it may require your speaking with Secretary Regan.²

As to Global Negotiations

(1) We could agree to *Global Negotiations* but say that negotiations should be substantially conducted on a regional basis where policies of the Third World countries, e.g., food price policies, restrictions on technological transfers, investment restrictions, etc., would be discussed along with other issues. Under the regional format, different sets of donors would be involved in each region and the donor leadership would vary from region to region. We have the Sahal (French leadership) and the Caribbean Basin model to build on. We would also want to say that trade matters should be dealt with in GATT and finance matters at the IMF.

(2) Alternatively, we could propose that the *Cancun countries meet again* in the next year to discuss procedures for *Global Negotiations outside the UN* forum. We could also say that in the meantime the regional approach could be explored.

These are only two of the options that might be constructively presented without agreeing to the agenda that Global Negotiations have historically implied.

² Haig highlighted this sentence in the right-hand margin.

38. Memorandum From Secretary of the Treasury Regan to President Reagan¹

Washington, August 27, 1981

SUBJECT

U.S. Economic Policy Toward Developing Countries and Global Negotiations

Our experience at the Ottawa Summit has underscored the importance of developing countries in international economic policy. Your participation in the late October Cancun Summit with Heads of State from developed and developing countries will draw attention to outstanding issues in this area, especially with the global negotiations issue looming in the background. The September–October period would provide an excellent “window” for you to make a major policy speech to assert U.S. leadership in the international economic arena and dispel misimpressions of your Administration’s attitude toward developing countries.²

Foreign assistance traditionally has been viewed as a stimulus to economic growth in developing countries. Domestically, your Administration has rejected the notion that government transfers and intervention provide a necessary impetus for business activity. Vigorous economic activity and growth result from allowing the market place to allocate scarce economic resources and determine appropriate kinds of productive activity. This basic proposition is no less valid in developing countries, although it is not always popular with their governments.

As in domestic economic policy, so in international economic policy, aggressive yet practical leadership to cope with economic ills brought on by inflation and slow growth has been lacking. Industrialized countries realize they cannot sustain ever-growing foreign aid levels while their domestic economies are weak. Developing nations must appreciate that accumulating debts to finance consumption merely mortgages their future and can be no substitute for sound domestic economic policies. Successful economic growth is based largely upon internal generation of capital and foreign private financial flows.

¹ Source: Reagan Library, Douglas McMinn Files, Subject Files, Mexico—Speeches. No classification marking. Copies were sent to Haig and Allen.

² On October 15, Reagan delivered remarks to the World Affairs Council of Philadelphia. In the speech, Reagan addressed U.S. economic relations with the developing world and the Cancun Summit. He outlined the U.S. approach to global economic development and a program for action for the summit, which he argued provided “the leadership of the world an opportunity to chart a strategic course for a new era of international economic growth and development.” The text of his remarks is in *Foreign Relations, 1981–1988*, vol. I, Foundations of Foreign Policy, Document 66.

A major policy address—perhaps at the annual meeting of the World Bank and International Monetary Fund in late September—could bring these ideas together, put them in perspective, and supply the basis for U.S. leadership at Cancun and thereafter.³

The speech could:

- underscore our concern and compassion for developing countries' economic problems;
- stress that the fundamental issue, nevertheless, is for all to get their internal houses in order (as we are doing);
- emphasize the full range of U.S. (and other industrialized country) contributions to the economic betterment of developing countries via the private market (trade, investment, technology, private capital flows) as well as aid;
- confirm our commitment to provide foreign assistance to the poorer developing countries;
- reject the artificial division of the world along North-South lines and offer instead to examine concrete problems on a pragmatic basis (such as we are beginning to do in the Caribbean); and
- clearly state U.S. concern over the prospect of Global Negotiations undermining the integrity of existing institutions, which are fully competent to handle emerging problems.

As you are aware, the proposed U.N.-based Global Negotiations will be a major issue this fall. "GN", which has been stalled primarily by U.S. objections, would create a central negotiating body under U.N. auspices to conduct—in some fashion yet to be determined—interrelated negotiations across a range of economic issues.

Our basic problem with Global Negotiations centers on the strong likelihood that the competence, integrity, and role of existing international institutions—especially the International Monetary Fund and the World Bank—would be undermined and distorted if they were allowed to proceed. A new international bureaucracy simply is not needed. The Fund, Bank, and other specialized international institutions are well equipped to handle the proposed topics for negotiation. Food, trade, development finance, and international monetary matters are the concern of established international organizations. Energy is the only proposed topic without such a forum.

Global Negotiations are a 'no-win' situation. Although the negotiations themselves are likely to follow a "consensus" approach, the sheer volume of developing country voting power in the U.N. (119 of 154 votes) would likely force us to choose between a highly damaging substantive outcome and blocking the conference. Thus, any favorable

³ Reagan's address to the annual meeting of the IMF and World Bank on September 29, entitled "Challenges of World Development," also focused on global economic recovery and growth. For the text of this address, see *Public Papers: Reagan, 1981*, Book II, pp. 854–856.

political atmosphere generated by a decision to move forward with Global Negotiations would soon dissipate.

Economic problems of developing countries—which are increasingly important in our trade and political relations—must be addressed. The United States should provide leadership to this end. The best approach, however, would be to redirect existing organizations to resolve concrete problems. We will gain nothing by encouraging political debates on these problems in the U.N. where inevitably the developing countries act and vote as a bloc. My own view is that it would be better, in effect, to break off the engagement now than be confronted with a very costly divorce later on. You could signal your inclination to do so by an appropriate passage in the speech I am recommending.

Donald T. Regan

39. Paper Prepared in the National Security Council¹

Washington, undated

CANCUN SUMMIT: DYNAMICS OF THE MEETING AND U.S. APPROACH

The U.S. requires not only a sound, substantive program to present at Cancun, but also a strategy to deal with the political dynamics of the meeting, including tactical issues such as what communications to initiate before the Summit, what bilaterals to hold at the Summit, etc. A separate paper has been prepared outlining the policy framework and inventory of issues to guide decisionmaking concerning U.S. substantive relations with developing countries (see U.S. Policy Framework and Inventory of Issues for Relations with LDCs).² The present paper focuses on the participants and political interplay to be expected at Cancun. It assumes that the United States will present a number of significant, substantive initiatives before or at Cancun. It also assumes a fairly active role on the part of the President. If this is not the case, the entire burden of the U.S. approach to Cancun will fall on tactics; and stronger measures than

¹Source: Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981–1984, Lot 85D193: Cancun Summit—“Cancun Cabinet.” Top Secret; [handling restriction not declassified]. Allen sent the paper to Haig, Regan, Meese, Baker, and Deaver under a September 2 covering memorandum. The paper printed here is Tab A to the September 2 memorandum.

²Not attached. See Tab A to Document 35.

suggested in this paper may be necessary.³ It may also be desirable, in this latter case, to limit the President's personal role.

Dynamics of Cancun

U.S. objectives include:

- sticking to the agreements reached at the Foreign Minister's preparatory meeting on the open, unstructured and nonconclusive nature of the Summit meeting;

- avoiding the appearance or reality of confrontation with the developing countries at the Summit;

- avoiding U.S. isolation and placing the U.S. in a positive, constructive posture toward the legitimate concerns of the developing countries;

- shifting attention to the extent possible, even if only marginally, from the procedural and institutional issues (e.g. Global Negotiations) to the substance of relations with developing countries and thereby initiating the possibility over time that Global Negotiations will become increasingly perceived as irrelevant to the more meaningful action taking place in the specialized agencies.⁴

The key to achieving these objectives is to prevent the developing countries participating in the Cancun Summit from rallying around issues which would divide the meeting along North-South lines or alternatively would isolate the U.S. The issue that is most likely to do this is Global Negotiations. The other participants are presently united on the need to reconvene the preparatory process and to launch the Global Negotiations as soon as possible. We succeeded in keeping this issue from being placed directly on the Cancun agenda, although the framework of discussion recalls that a main objective of the Summit, as expressed in the letter of invitation, is to *facilitate* agreement with regard to the said Global Round of Negotiations. We achieved success in this instance, however, chiefly because the developing countries participating at Cancun (now the G-14) were divided.⁵ They met in New York before the Foreign Minister's meeting, and Algeria with lukewarm support from a few others was the only country advocating GNs as an explicit item on the agenda.⁶ Algeria was isolated for three reasons, among others:

1. the *perceived* change in the U.S. position on Global Negotiations at Ottawa, raising expectations that the U.S. will return to Global Negotiations in any case;

³ An unknown hand placed a question mark in the right-hand margin.

⁴ An unknown hand wrote: "accomplished by bilaterals" in the right-hand margin next to this point.

⁵ An unknown hand circled "G-14."

⁶ See footnote 12, Document 32.

2. the realization that Cancun is an unprecedented event, making countries reluctant to approach it as just another normal, UN-type conference; and
3. the unusual caution of Foreign Ministers when their heads of government are involved.

To ensure a successful outcome at Cancun, it is imperative that the G-14 remain divided on the Global Negotiations issue as well as other potential, surrogate issues. We should expect that Mexico, at least at the Foreign Minister level, and several other developing countries (Algeria, Bangladesh, India, Brazil) will try between now and Cancun to find issues around which the developing countries can unite. (A recent *New York Times* article, subsequently denied by the Mexicans, reported that Mexico and Austria as cosponsors intended to "circumvent U.S. objectives to a formal agenda by discussing key topics with other participants before the meeting in October . . .")⁷ Once these countries achieve unity among themselves, they find it easy to persuade Europe and Japan to fall in line (usually by arguing that industrial countries must respect G-77 or in this case G-14 unity). The U.S. is then isolated.

Castaneda recently initiated a letter to the other Foreign Ministers which may represent a first attempt to find such an issue around which the G-14 can unite. The letter, expected to arrive at the State Department the last week of August, asks Foreign Ministers to submit six weeks ahead of time the topics that their heads of government will address at Cancun.⁸ Castaneda claims that this measure was agreed upon at the Foreign Minister's meeting. In fact, our detailed transcript reveals that it was rejected. Nevertheless the Austrians have agreed to co-author the letter (asking only that a response to the request be made voluntary), and the Mexicans may hope through this process to identify more detailed topics well before the meeting and then to proceed to prepare background papers, identify an order of speakers, and otherwise structure what is supposed to be a free-flowing meeting. If the U.S. does not respond to this request and is the only one, the developing countries may have found the issue on which to restore and then press forward their unity. This unity may then snowball to embrace other issues, including the key issue from their perspective of securing a firm commitment from the U.S. to participate in Global Negotiations.

As the developing countries maneuver to restore their unity, some industrial countries will continue to pressure the U.S. to respond to this unity, especially on the question of Global Negotiations. Canada, which

⁷ See Alan Riding, "Sponsors of Rich-Poor Talks Try to Bypass U.S. Objections," *New York Times*, August 7, 1981, p. A6.

⁸ In telegram 11257 from Mexico City, August 27, the Embassy transmitted the text of the letter, dated August 18, from Castaneda to Haig. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810402-0933)

takes considerable credit for the favorably perceived outcome of the Ottawa Summit on Global Negotiations, will continue to emphasize to the U.S. that the other countries, including the EC countries, are now united in their support of Global Negotiations. This is the tactic which Trudeau pursued in the preparations for the Ottawa Summit through his prior travels to the developing countries and to Europe. In part as a result of Trudeau's stirrings, the European Community is now committed by its pronouncement at the end of June to seek an impetus toward Global Negotiations at both Ottawa and Cancun. France can be expected to become a much stronger advocate of developing countries at Cancun than it was at Ottawa. This will become apparent already at the Conference on the Least Less Developed Countries, which takes place in Paris in September.⁹ Mitterrand will address this conference, and it is rumored that he will propose a doubling of French aid targets and an EC plan to extend the commodity stabilization program of the Lome Convention (Stabex) to many of the least developed countries. The French emphasis on concessional aid and commodities is in many respects directly opposed to U.S. preferences for more reliance on private trade, investment and finance and less market intervention. The U.K. and Germany, while sharing U.S. skepticism about Global Negotiations, find themselves constrained by the EC commitment. Germany is also constrained by its own internal party politics and by its desire to maintain close relations with Socialist France. Japan cannot be counted on to resist developing country demands; and Sweden, which did not participate in Ottawa, can be expected to add even more pressure on the U.S. to yield to developing countries demands. Austria, the other non-Ottawa country participating at Cancun, is constrained by its cosponsorship role.

U.S. Approach

In these circumstances, the U.S. approach to the dynamics of Cancun must seek two tactical objectives:

1. to do nothing to ease the division among the developing countries that manifested itself at the Foreign Minister's meeting, and
2. to develop a counter-thrust, based on a substantive program to be presented by the President shortly before Cancun, that will indirectly compound G-14 problems of unity, deflect pressures from Canada, France, Sweden and others to yield to developing country demands, and begin to shift attention away from GNs to initiatives in the specialized agencies.

The key to both of these tactical objectives may be to initiate and develop early, continuing contacts in the preparations for Cancun with

⁹ See footnote 10, Document 32.

several critical developing countries. Such bilateral contacts would contribute to the perception that the U.S. approach to developing countries is mellowing and will be constructive (without running the risk of multilateral contacts in New York that might start us down the slippery slope of GNs).¹⁰ These contacts can be made confidently the more forthcoming the U.S. expects to be in its substantive initiatives. As long as the developing countries are given no reason to unite, the U.S. has a better chance of weaning the more pragmatic advanced countries, particularly the U.K., Germany and perhaps Japan, from the Canadians, French and Swedes. Establishing some early direct communications with key developing countries would also diminish the role of intermediary which the Canadians, French and Swedes like to play. In his visits to developing countries, for example, Trudeau was eager to give advice to his hosts about how they should deal with Ronald Reagan (see Attachment I, paragraph 4, for Nyerere's account of Trudeau visit).¹¹ To the extent that the U.S. outflanks Canada and other intermediaries through direct contacts, it undercuts this rather presumptuous role on the part of Trudeau or others.

The most critical developing countries for early bilateral contacts include India, Nigeria, Yugoslavia, Mexico and Brazil. Developing countries playing somewhat lesser but nevertheless important roles include Saudi Arabia, The Philippines, Bangladesh, The Ivory Coast and Tanzania. Algeria, Guyana and for the specific purposes of the Cancun Summit, China are likely to be far less amenable to direct U.S. influence and should not be counted on to provide significant assistance.

The approach to these countries could include, among other things, the following steps:

- early communications at the Foreign Minister's level;
- letters or telephone calls from the President prior to the Cancun Summit itself;
- early and more lengthy bilateral meetings with the leaders of these countries at Cancun;
- invitations to these leaders to visit the U.S. after Cancun, sometime next year;
- visible steps to improve bilateral relations with these countries and careful, low-key efforts to relate these bilateral steps to the expectations of closer cooperation in multilateral diplomacy.

The President's Role

The President's performance in Ottawa has already created something which is being referred to as the "Reagan effect" (see

¹⁰ An unknown hand wrote "contacts in Sept—UN ie Ivory Coast" in the right-hand margin next to this and the previous sentence.

¹¹ Not attached.

Attachment II).¹² It refers to the candor, openness and friendliness of the President's style. It has generated the expectation that the President is a man with whom one can hold serious and frank discussions, that he is someone whom leaders instinctively like, and that he has little tolerance for the aimless rhetoric and political showmanship that characterizes the usual UN and North-South discussions. In one sense, this "Reagan effect" benefits from the very negative initial impression which so many countries have of U.S. policy and of the President's personal views on relations with developing countries. While not encouraging these negative views, we should not be overly disturbed by them. Ironically, they enhance the "Reagan effect" once these leaders deal with the President and find him open, concerned, candid and firm.

We should seek to exploit the "Reagan effect" in preparations for Cancun. This can be done in several ways:

- by emphasizing the dramatic leadership exercised by this President in the United States, especially with the Congress (would be enhanced even more if the Administration succeeded in getting its FY 82 foreign aid budget through Congress before Cancun);

- by suggesting that President Reagan looks to other leaders to deal forthrightly with their domestic problems and policies, just as he is trying to do, making it clear that he has little respect for leaders who blame their domestic problems entirely or primarily on international economic causes;

- by having the President give a major speech on his approach to developing countries shortly before (about one week) the Cancun Summit, thereby focusing everyone's attention on his program and his candid commitment to wrestle with the issues;¹³

- by making effective use of the President's capacity to convey a sense of respect and prestige toward leaders of the developing countries, as he has done for example in his relations with Lopez Portillo.

The President's speech shortly before Cancun is the cornerstone of this strategy. Hence, it must be started now in connection with policy directives (enumerated in the earlier paper on policy framework and inventory of issues) to move the bureaucracy toward decisions on U.S. substantive programs for development. Secretary Regan will address the World Bank meeting in late September. *Secretary Haig will address the UN General Assembly and is also planning to make a major North-South speech.*¹⁴ The draft of the latter speech is well advanced. There should be

¹² The words "Attachment II" were crossed out.

¹³ An unknown hand placed a checkmark in the right-hand margin next to this point. For information on the speech, see footnote 2, Document 38.

¹⁴ Haig's address, given before the General Assembly on September 21, focused on international development and outlined five principles for a "strategy of growth." For the text of Haig's address, see *Foreign Relations, 1981–1988*, vol. I, Foundations of Foreign Policy, Document 63.

an early decision as to whether and in what sequence various speeches will be made on Cancun-related subjects. It will probably not serve our interests to play our hand too soon. Yet the World Bank and UNGA speeches are givens. We need to consider carefully what and how much should be said.

The "Reagan effect" can be brought to bear most directly at the Cancun Summit itself. This will require careful thought about bilateral or small group meetings which the President may wish to hold. We should decide early on, in the context of the broader tactical approach outlined in this paper, the leaders with which the President should meet personally at the Summit and what the relevant emphasis should be among these various meetings. Decisions on the President's schedule are critical to the success of the meeting, and these decisions should be taken in light of the overall strategy and approach to the Summit, not just out of a sense that he must meet with each leader for the same amount of time or under the same circumstances.

40. Information Memorandum From the Acting Assistant Secretary of State for Economic and Business Affairs (Johnston) to Secretary of State Haig¹

Washington, September 3, 1981

SUBJECT

Initiatives for North/South Speech

The initiatives are organized in the four categories of the Cancun framework for discussion plus a procedural suggestion for a follow-on process from Cancun.

Trade, Commodities and Industrialization (Trade is the most important development stimulus.)²

1. Use textile agreements to *redirect a portion of textile imports* from the big three (South Korea, Taiwan, Hong Kong) to the very poor to

¹Source: Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981–1984, Lot 85D193: Cancun Summit—Initiatives. Confidential. Drafted by Meissner. Haig's initials are stamped on the memorandum, indicating he saw it. Haig wrote "I'm afraid we are much too late & will pay a severe price" in the top right-hand corner of the memorandum.

²Haig highlighted "Trade, Commodities and Industrialization."

include China—Textiles and apparel are the most important LDC manufactured export and we need to stimulate trade with poorer nations.³

2. Prepare for 1982 GATT Ministerial to *lay groundwork for further trade liberalization and strengthening* of international trading system. Trade liberalization and access to developed country markets is most important to advanced LDCs.⁴

3. Commit the Administration to *seek legislation to extend Generalized Tariff Preferences (GSP)* for another ten years—GSP ends in 1985. It allows certain products in duty free up to a specified total value or 50% of imports whichever is smaller.⁵

4. *Increase U.S. Government insurance coverage to U.S. investors* who will provide a greater value added to LDC exports. Will benefit mid-level LDCs.⁶

5. *High level international conference* sponsored by the World Bank's IFC *to encourage foreign investment and domestic entrepreneurship*. Will help those countries who have or wish to create an environment for private investment.⁷

With exception of 5, all the above will be resisted by labor and protectionist groups.⁸ We may kill the textile idea by putting it out in a speech rather than at the negotiating table.

Energy (More funds need to be devoted to development of energy in oil importing LDCs)⁹

1. *Expanded multilateral development bank (MDB's) lending for energy*—CCEA has already taken a position opposing expanded lending at this time, favoring a reorientation of MDB priorities.

2. *Special fund for balance of payments support for poorer countries* to purchase imported oil provided that they sell domestically at world price and invest equivalent sums in conservation or development of indigenous supplies.

3. *Change U.S. tax laws or regulations* on U.S. tax creditability of taxes paid to net oil importing LDCs in order to encourage additional U.S. foreign investment in oil exploration and production.

4. *Guarantee concessional U.S. export credits* on equipment to retrofit or construct new power plants for coal use.

³ Haig wrote: "Volume & scope of change?" in the left-hand margin next to this point.

⁴ Haig wrote: "Likely Congress & Exec Branch opposition?" in the left-hand margin next to this point.

⁵ Haig placed two vertical parallel lines in the left-hand margin next to this point.

⁶ Haig placed two vertical parallel lines in the left-hand margin next to this point.

⁷ Haig placed a checkmark in the left-hand margin next to this point.

⁸ Haig underlined "labor" and "protectionist groups."

⁹ Haig highlighted "Energy."

5. *Call international conference* to discuss a world energy strategy.

With the exception of the last idea all the above have budget impact. All benefit oil importing developing countries.

Food and Agricultural Production (LDCs are importing more food thereby consuming foreign exchange needed for development)¹⁰

1. Propose world food strategy designed to improve international food security—increased bilateral and multilateral support for independent farmers;—resumed search for international wheat agreement; and—provide concessional food aid for countries reforming their agriculture to help guarantee food during transition.

2. Meeting under FAO auspices to examine ways of improving coordination and efficiency in the provision of food and other resources to emergency and famine areas.

Programs that include stocks cost money, and stocks, domestic and international, can be used to manipulate market prices and introduce excessive government interference in the market.

*Money and Finance*¹¹

1. Commit the U.S. Government to joining negotiations of the Seventh IBRD/IDA replenishment but with understanding that the U.S. would seek a redistribution of IDA benefits (40 percent of IDA goes to India).

2. Propose that preemptive debt consolidations be considered on a case-by-case basis for interested countries who need their long-term debt restructured and are willing to submit to IMF conditionality. (Idea is to get countries to go to the IMF early so adjustment problems are not as great.)

3. Commit the Administration to seek appropriations (authorization has been passed) to allow the poorest countries to pay their concessional bilateral aid and food debts to the U.S. in local currency rather than dollars.¹²

Treasury will strongly resist the first two because of their current studies. The third proposal would cost between \$12 and \$20 million per year.

*Procedural suggestion for Cancun follow-up*¹³

As a substitute for global negotiations, the U.S. could agree to follow-on consultations on issues considered of importance by heads of

¹⁰ Haig highlighted "Food and Agricultural Production."

¹¹ Haig highlighted "Money and Finance."

¹² Haig highlighted this sentence in the right-hand margin.

¹³ Haig highlighted "Procedural suggestion for Cancun follow-up."

state and governments. The Cancun participants represent a good selection of world leadership, our trade partners and our energy suppliers.

Announcement of such an idea by the United States would politically kill it. It must be planted and grow out of the discussions at Cancun. State, Treasury and NSC are developing an options memo on the trade-off between Global Negotiations and a Cancun follow-on.¹⁴

¹⁴ See Document 42.

41. Memorandum From the Acting Deputy Assistant Secretary of State for International Economic and Social Affairs (Streeb) to the U.S. Special Negotiator for Economic Matters (Meissner) and Henry Nau of the National Security Council Staff¹

Washington, September 3, 1981

SUBJECT

Observations on Next Steps on Global Negotiations

The following are some observations on the general question of the U.S. position on Global Negotiations—whether or not we should return to the preparatory process and whether we should propose specific initiatives either to introduce into the GN or as a separate and alternative approach.

As you know, I have since the start had a very negative attitude toward GNs as I felt we would inevitably become bogged down in a process whose outcome was unpredictable and in which our allies would consistently make compromises with the G-77 unacceptable to us. In the end, the political costs would be even higher than if we had not engaged in the process in the first place. (I understand this to still be the Treasury view.) Likewise, I was one of the last holdouts arguing that, for much the same reasons, it was better for us not to get involved in the Cancun process. However, since much has changed in the meantime and we have agreed to go ahead with Cancun, I have tried to take a fresh look at the situation, particularly in light of the various papers that you have prepared. Since I was not following the GN issue on a

¹ Source: Reagan Library, Douglas McMinn Files, Subject Files, Global Negotiations; NLR-369-3-23-2-2. Confidential.

day-to-day basis this last year but rather on a more general level, I was quite surprised, looking back through IO's files, at the mass of memos in which the same arguments were repeated over and over on the pros and cons of GNs. In trying to put some thoughts down on the subject, I certainly approach it with a strong sense of *deja vu*.

I hesitate to even mention our concerns with GNs since these are all familiar arguments, but in order to comment on the options, I would like to mention very briefly several of our principal concerns.

1. *Objectives and guidance.* The degree of specificity of the objectives and guidance was never resolved. The G-77 obviously wanted to structure them in such a way that the negotiations in the separate fora would be directed toward specific targets which were all old favorites of the G-77. We, on the other hand, did not want the conference to specify objectives and guidance in a way which prejudged the outcome, confining them rather to general problems of development which could then be elaborated in the individual agencies. A review of the last version of the agenda reveals a mixture of issues where ongoing work needs no new push (commodities), those basically calling for new resources which we are not about to accept (new resources for energy development), and those just outright unacceptable (terms and conditions for the use of IMF resources). We were not, of course, the only ones with problems with this agenda although we had accepted much of it with the greatest difficulties in the monetary/financial area.

Returning to GNs would in the first instance require addressing the issue of the nature of Phase One.² At a minimum, we would have to make absolutely clear to the G-77 that we would insist on our previous position that the conference itself simply identify problem areas and not become the first stage of negotiations by attempting to specify the measures for consideration in negotiations in the specialized fora,³ e.g. action to assist the LLDCs "through the allocation of adequate resources to this end" or accelerating industrialization "through the restructuring of world industry."

2. *Phase III—The Package Agreement.*⁴ Even more difficult is how to resolve the problem of whether the conference can renegotiate the results of the work in the individual fora in Phase Three. So long as the opportunity for negotiation is held open, most difficult issues

² Most likely a reference to the UN General Assembly process, which follows five cycles: debate, negotiation, decision, implementation, and reporting. "Phase One" likely refers to the debate cycle.

³ Nau underlined "would have to make absolutely clear to the G-77 that we would insist on our previous position that the conference itself simply identify problem areas and not become the first stage of negotiations by attempting to specify the measures for consideration in negotiations in the specialized fora."

⁴ See footnote 2, above.

will not be resolved during the negotiations in Phase Two—the G-77 always prefers to pass difficult issues on to a higher body rather than compromise at a lower level. We had seen Phase Three as merely an opportunity to put a seal of approval on the work in the individual fora signaling that all governments were committed to all aspects of the separate negotiations. (Bob Hormats has alluded to this in his paper to the Secretary where he suggests Phase Three would be “imparting an international political flavor to the results.”) Any decision to re-enter the GN process would thus also have to include a clear indication that we stood firm on our position that the conference could do nothing which would in any way prejudice or casts doubts upon the competence, mandate and powers of specialized agencies.⁵

In sum, as far as GNs are concerned, nothing has really changed all that much. We may want to broaden the agenda and employ different procedures (discussed below), but our principles will, if anything, be more vigorously defended than ever.

Footnotes: In the discussion of the GN background, I would differ with the comments on page 3 of Henry’s revisions to the Meissner draft.⁶ We did not enter the GN process because we thought the preparatory process would drag out so long that we would never get agreement. The decision to push ahead was based both on political grounds and the thought that such discussions of development issues could in fact be very educational and potentially end up with desirable results.⁷ Souring on the GNs began only when it was apparent that the G-77 was hell bent on turning the GA into the institution to implement the NIEO, to reserve final negotiations to the body where they have the majority and when it was apparent they would not broaden the agenda to include issues close to our heart or, if accepted, insist on prejudicial wording of them.

I think we should not overplay the idea that the GNs would imply the creation of a new institution.⁸ The G-77 can, of course, be expected to try to create some mechanism (institution) for monitoring the results of the negotiations if ever concluded.⁹ But we should have support in arguing that between the specialized fora (especially UNCTAD) and the Second Committee, there is sufficient institutional structure for any follow-on.

⁵ Nau underlined “conference could do nothing which would in any way prejudice or casts doubts upon the competence, mandate and powers of specialized agencies.”

⁶ Not found.

⁷ Nau underlined this sentence.

⁸ Nau underlined “creation of a new institution.”

⁹ Nau underlined “some mechanism.”

*Comment on the Options*¹⁰

After Cancun: For now I think we can set the idea of a Cancun follow-on to the side. As has been suggested, a Cancun follow-on could easily fit in with the GNs as a forum for taking stock or giving new impetus where things have bogged down;¹¹ or it could be seen as an alternative if the GNs never get off the ground. But I do not see it as an alternative to GNs that we should propose at the outset.¹² While I agree with the advantages you cite for repeating such consultations every several years, it is highly doubtful that it could play a useful role in isolation from an active global dialogue underway in one forum or another. True, it can be argued that discussions in the UNGA, IMF, UNCTAD, etc. are themselves a global dialogue for which the Cancun-22 could serve as an "overview" body. But I still feel this is a last resort.

Other Options: Therefore, I prefer to concentrate on two options: namely, the "don't do anything option" and the "return to Global Negotiations" option.¹³

Turning down GNs, as pointed out in the Treasury memos, has two key advantages: (1) it reduces the risk of paying an even higher political price further down the road when we will inevitably find ourselves at odds in almost every forum on one or two favorite issues of the G-77; and (2) work is currently proceeding in each of the specialized agencies, perhaps at the pace and limits of what we are prepared to accept. In fact, our focus for the moment is on reorienting some of these programs in the UN agencies to meet our objectives, and it is doubtful that any negotiations in and of themselves can further that process. The first of these advantages has its counterpart disadvantage. The immediate and enduring political impact on our relations with both developed and developing countries may be underestimated. The difficulty with this argument is that it is so hard to quantify. How does turning down GNs stack up against the impact of our position on such political issues as southern Africa, Israel, and El Salvador? There is genuine concern around here that our isolation for the moment on several key political issues combined with our position in the LOS, NRSE, LLDC conferences, our views on budgets and voluntary contributions to various agencies,

¹⁰ A reference to the options paper on Global Negotiations. See Document 42.

¹¹ Nau underlined "follow-on could easily fit in with the GNs as a forum for taking stock or giving new impetus where things have bogged down."

¹² Nau underlined "do not see it as an alternative to GNs that we should propose at the outset."

¹³ Nau underlined "'don't do anything option' and the 'return to Global Negotiations' option" and wrote: "kind of tilts it, doesn't it?" in the right-hand margin next to the sentence.

and turning down GNs would find us with little leverage to garner support on many issues in the UN system ranging from sensitive political matters to the placement of American citizens in senior positions.¹⁴ We have noted several instances recently in New York where we were outvoted with many representatives suggesting privately that they were simply fed up with the U.S. attitude. (We were not reelected to the ECOSOC Statistical Committee. ECOSOC supported, against our strong opposition, a move to request release of Abu Eain, a Palestinian terrorist on trial in the United States. We were unable for the moment to stop the Group of 24 from recommending inscribing Puerto Rico on the agenda.) I would not want to exaggerate the linkage since one could make a good argument that this is just a manifestation of the time honored desire to get at the guy on the top. Nevertheless, I do feel that we have to be cautious about focussing too much on the bilateral while ignoring the multilateral fallout.

Returning to the GNs. In light of my comments in the first section and recognizing the political fallout from not accepting the GN process, we should look at the conditions under which we will return. Answering that question requires an appraisal of our chances of reopening the procedures and agenda since it is inconceivable to me that we will simply pick up with the last version of the von Wechmar texts. (Incidentally, many in the G-77 are just as unhappy with the compromises their representatives made and are eager, obviously for different reasons, to reopen the texts.) This boils down to defining what we want on procedures and agenda and beginning to try to sell our position—if we run up against a stone wall, we may just as well give up now. Certainly every attempt we make will be received initially with skepticism. We will be portrayed as either trying to introduce new elements designed to guarantee a breakdown or staking out a nonnegotiable position along our previous lines. To overcome this, we need a program which will direct the approach the President takes at Cancun so that by the end of the summit he can judge the willingness of the developing countries to break out of what Bob has described as their “mind set.”

The first and most important issue is the agenda. If we are comfortable with the topics and the terms under which they are remanded to the individual agencies, we may find it easier to find a compromise on the role of the conference. One option we had always held in reserve was to go to a more general agenda with more detailed issues and measures left to the individual fora.¹⁵ In a sense, the conference would be doing little more than giving high-level approval to ongoing discussions,

¹⁴ Nau underlined this sentence and highlighted it in the right-hand margin.

¹⁵ Nau underlined “to go to a more general agenda with more detailed issues and measures left to the individual fora.”

but that shouldn't concern us and we would hopefully ensure that our issues were given equal treatment.

As to the agenda itself, I think we are agreed that our main thrust will be to ensure that the agenda is expanded in such a way that it is not dealing exclusively with government to government transfer of resources, but also covers the environment for development,¹⁶ to include domestic policies and the openness to the private sector, and some recognition of differentiation. This is what the President can probe at Cancun without even giving a signal one way or the other on the GN. He can determine how receptive the G-77 is to getting away from the NIEO, broadening the area for discussion and dealing seriously with the substance rather than the politics of developing countries' problems.

Comment on Initiatives

Another variant on the above options is to launch new initiatives in lieu of GNs. The approach taken in the latest draft of the speech on relations with developing countries, i.e., starting the process at the regional level, is an excellent idea and enjoys wide support in the Department including IO. One could even build into it a global review after a series of meetings had been held at the regional level.¹⁷ While some issues such as access to external finance, transfer of technology, and trade barriers may be more global than regional, most problems are country- or regional-specific. The difficulties in selling this approach are obvious. It will signal the end of the NIEO for the G-77.¹⁸ Rather than dealing with the international economic order, it seeks to deal with individual problems; rather than enabling the G-77 to use their one-country one-vote advantage in the UN to gain new clout on economic issues, it keeps them fragmented; rather than lead to recognition of bloc unity, it can be seen as the first step towards further division opening the door to graduation.

Where I Come Out

1. I reluctantly conclude that a rejection of some new form of global dialogue is politically unacceptable and that a follow-on to Cancun itself is insufficient. Therefore, our main interest is in broadening the scope of the dialogue and making it more realistic.¹⁹ As I suggested above, this should be the President's main objective at Cancun.

¹⁶ Nau underlined "also covers the environment for development."

¹⁷ Nau underlined "it a global review after a series of meetings had been held at the regional level."

¹⁸ Nau underlined "It will signal the end of the NIEO for the G-77."

¹⁹ Nau underlined "in broadening the scope of the dialogue and making it more realistic."

2. We should conduct at least some of the discussions at the sub-regional level. We should be prepared to agree that some of the issues are global—fortunately, for these, we tend to have existing global institutions such as the IMF and GATT.²⁰ Receptivity to this concept can be tested through the LDC speech as presently drafted or, if not given, through consultations in New York and Paris-OECD.²¹

3. If the President is satisfied that the developing countries are serious and are prepared to accept a global dialogue on our terms and if the reaction to our regional approach is not totally negative, then we should agree to return to the process at the UNGA.²²

4. Since it is difficult to agree on an agenda with the full membership of the Second Committee or the COW, we could use the Cancun-22 as a working group of the Second Committee and commission it to prepare an agenda to submit to the full body.²³ In this stage, we would determine whether there are some broad issues which should be dealt with principally on a global basis. No special conference is required for this. The UNGA can hold a special session whenever the 22 are prepared to submit the agenda for approval.²⁴ If necessary, we could accept a special conference for cosmetics.

5. At a specified future date, the Second Committee (or the conference) would review the work at the regional levels and determine whether further action is required in any of the specialized agencies or by the UN itself.

6. Finally, the UNGA (or conference) would give its approval to the results which it could cast in the form of a resolution and, hence, a package. Under UN procedures, nothing precludes the G-77 from reopening anything it wants to. This just would not be preordained in the procedures.

This approach, which incorporates many of Chuck's ideas as I understand them, may be so complex that it is foredoomed to failure. Virtually every element involves far more flexibility from the developing countries than they have ever demonstrated before. It also implies a willingness by the United States to open up discussion on some issues we don't like and ultimately to follow through on measures even if they

²⁰ Nau highlighted this sentence, wrote "sub-reg?" in the right-hand margin next to it, and underlined "issues are global."

²¹ We shouldn't overlook the possibility of using the Second Committee as a vehicle to test receptivity to our ideas on issues and procedure. The IMF/IBRD meeting can also be exploited for this purpose. [Footnote is in the original.]

²² Nau circled "on our terms," wrote: "which means SAs?" in the left-hand margin next to this point, and underlined "we should agree to return to the process at the UNGA."

²³ Nau underlined "commission it to prepare an agenda to submit to the full body."

²⁴ Nau highlighted this sentence in the right-hand margin.

involve new funding. Nevertheless, this scenario at least gets us back into the process and provides an opportunity to share the blame for failure if other countries are unprepared to make compromises. At a minimum, it should be good for another 3–4 years; perhaps in that time our budgetary situation will have improved and the developing countries will have come to realize that they cannot just rely on ideological concepts as a way to overcome their development problems. Fat chance.

42. Memorandum From Henry Nau of the National Security Council Staff to the President's Assistant for National Security Affairs (Allen)¹

Washington, September 4, 1981

SUBJECT

Global Negotiations (GNs) Options Paper

The options paper on Global Negotiations (GNs), which I have not attached (too long), develops five options for Cabinet decisionmaking.²

The first two options assume that we do *not support a new forum for negotiations with developing countries* (either GNs or an alternative such as a Cancun follow-up or a set of regional meetings) and put emphasis on substantive policies in existing specialized agencies—IMF, GATT and IBRD. They differ in terms of the relative emphasis placed on substance, the first calling for *continuation of ongoing improvements in GATT, IMF and IBRD* (essentially what's in the works already) and the second the adoption of *significant initiatives in these institutions* involving some domestic political and bureaucratic costs (e.g. in the case of a significant trade initiative toward developing countries).

The last three options assume that *we support a new forum and seek to adapt it to our purposes*. The first calls for a return to GNs to seek better terms; the second the pursuit of an alternative to GNs in the form of a Cancun follow-up (a sort of reincarnation of CIEC except at heads of state level) or a set of regional meetings (favored now by some in State); and the third for the simultaneous pursuit of both GNs and an

¹ Source: Reagan Library, Douglas McMinn Files, Subject Files, Global Negotiations. No classification marking. Sent for information. Sent through Bailey.

² A copy of a draft of the undated options paper on Global Negotiations is in the Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—General; NLR-369-11-16-7-6. Nau forwarded the paper to Bolton, Jim Fox, Mike Fry, Ernest Johnston, Tom Leddy, and Streeb under a September 4 covering memorandum.

alternative forum (assumes that an alternative forum might serve as a check on GNs or *eventually* substitute for GNs).

This issue is appropriate, I feel, for NSC consideration, if Treasury and others could be invited to the meeting. On the other hand, the NSC agenda may be quite full for the next several weeks and this matter should be considered as early as possible. A decision on where to consider it should be made at the September 8 Cancun meeting with Haig, Regan and Meese.³

³ Minutes of the meeting were not found; however, Nau reported that the Department had called off the meeting; see Document 43.

43. Memorandum From Henry Nau of the National Security Council Staff to the Assistant to the President and Deputy to the White House Chief of Staff (Darman)¹

Washington, September 10, 1981

SUBJECT

Cancun Preparation

Attached are papers NSC has developed relevant to Cancun.² They include a paper on policy, tactics and an options paper on GNs.³ I have also attached a memo I did for Allen indicating the items we need to decide on *now*.⁴

State has been fussing with these papers for two weeks (and called off a meeting of principals scheduled originally for September 8, saying they were not prepared). They now have a paper to be discussed in Rashish's office this afternoon which essentially rearranges the NSC materials with one major difference.⁵ State favors a minimalist

¹ Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—General. Unclassified.

² Not attached.

³ The paper on policy is printed as Tab A to Document 35. The paper on tactics is printed as Document 39.

⁴ See Document 42.

⁵ A copy of the paper for discussion at the September 10 meeting in Rashish's office is in the Reagan Library, Executive Secretariat, NSC Trip File, Cancun Filing; NLR-755-3-8-6-6.

approach. The President adopts a listening brief, reserves his decision on GNs, and emphasizes U.S. commitments to international cooperation. The NSC materials outline a more aggressive approach. The President makes a hardhitting speech departing from the NIEO agenda and developing new themes for the dialogue (such as indicated in the NSC policy paper), backs up these themes by pointing to a redirection of U.S. aid policies to support private trade, investment and financial activities, and indicates that GNs are at the moment unhelpful and should remain suspended until the specialized agencies, invigorated by U.S. policies (which do not cost more money but like our approach to World Bank energy policy work toward redirection of current activities), develop a more specific agenda. Obviously, if this approach succeeds, GNs becomes superfluous.

I feel we have to push the bureaucracy on this one. So far the options have been considered only at low levels. Yet the next six weeks is an *opportunity* for the President not only to influence the international dialogue but also to put his own imprint on the State/Treasury/AID bureaucracy that formulates LDC policy.

44. Memorandum From the President's Assistant for National Security Affairs (Allen) to President Reagan¹

Washington, September 14, 1981

SUBJECT

Reports From Secretary of State

Secretary Haig has sent two reports: one from Spain, covering his meeting with Prince Fahd (Tab A)² who is vacationing there, and the second covering his meetings in Yugoslavia (Tab B).³

[Omitted here is a summary of the Haig-Fahd meeting.]

¹ Source: Reagan Library, Douglas McMinn Files, Subject Files, [Updated Components of Cancun Summit Briefing Book]; NLR-369-3-24-3-0. Secret. Copies were sent to Bush, Meese, Baker, and Deaver. Documentation on Haig's trip to Marbella, Spain (September 11-12), West Berlin (September 13), and Bonn (September 13-14) is scheduled for publication in *Foreign Relations*, 1981-1988, vol. VII, Western Europe, 1981-1984. Documentation on his trip to Belgrade (September 12-13) is in *Foreign Relations*, 1981-1988, vol. X, Eastern Europe, Document 194.

² Not attached.

³ Not attached.

In Belgrade, Al met with Foreign Minister Vrhovec and “President of the Presidency” Kraigher. Topics discussed included bilateral relations (no important problems), the Yugoslav economy (in poor shape, 40 per cent inflation), East-West relations, the Middle East, Southern Africa, North-South relations and the “arms race.” There was discussion of Afghanistan (both the Foreign Minister and Kraigher condemned forced occupation), and Al reviewed with Kraigher the extent of the Soviet arms buildup.

Vrhovec seemed reasonable and accommodating, while Kraigher pitched a harder line. Others in the leadership seemed to feel Kraigher had gone too far, and tried to balance his performance by more reasonable-sounding discussions.

A former foreign minister made a hard sell for a “constructive” approach at Cancun, stressing that we should join the “global negotiations powers” to provide “a major victory for third world moderates,” and that to do less would “play into the hands of the radicals.”

Note for the President: we do not intend to recommend such a course of action; allowing the United States to “enter” the “global negotiations” via Cancun would put us where so-called “moderates” want us. This is a type of “Kabuki Play” in which the plot is transparent and the outcome never in doubt.

The desired outcome in Cancun is the beginning of a global transfer of wealth, beginning with ours. On this aspect, you will recall, even Trudeau, Schmidt and Mitterrand appear to agree with you and Margaret Thatcher.

45. Memorandum From the United States Trade Representative (Brock) to Secretary of State Haig¹

Washington, September 14, 1981

SUBJECT

Cancun and the Prospect of Global Negotiations

As I have said to you on an earlier occasion, I am troubled by the possibility of going into Cancun in a negative or defensive position.

¹Source: Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981–1984, Lot 85D193: Cancun Summit—SEN Cancun Memoranda. No classification marking.

Almost everywhere I have been, whether in Europe at the OECD or on my more recent trip through ten countries in Asia, there is growing concern that the United States has become isolated from the other industrial nations by its posture of outright condemnation of global negotiations. I frankly agree with the policy we follow, but I do think it's important that we not do the right thing in the wrong way politically.

Don Regan wrote an absolutely excellent memorandum (attached) to the President on the 27th of August in which he suggested a major policy address prior to Cancun which spells out a more affirmative U.S. policy.² If it's too late to seize that opportunity, then Cancun itself could be the forum for such an approach which would put us in the forefront of the issue in the right way.

Two goals need to be kept in mind: (1) to establish, with clarity, the enormous—and unique—contribution the United States is making to the economic well-being of developing nations by buying 50% of all they manufacture for export, and (2) to publicize the role that we are playing in the cause of the free exchange of goods and services through international mechanisms such as the GATT. No one has a greater vested interest in an open world trading system than do the developing nations—for us it is an issue of prime importance, but for them it is a matter of survival. Thus, by our actions, we are their strongest advocate in the development of new markets for their goods, and U.S. investment and the availability of U.S. capital are major factors in the development of their domestic economic base.

In the first instance, we have an opportunity to take the lead role in calling for all industrial nations to open up their markets as we are willing to do. One point would illustrate the case. Canada, Sweden and France are three of our more severe critics in the context of North/South dialogue and the “inadequacy” of our government-to-government foreign aid approach. Why not turn the coin? When you consider the share of manufacturing imports we give to LDCs as opposed to those three countries, LDC exports to the United States have almost 6 times the share of our imports that they do in those countries. To restate the point, if Canada, France or any other country wants to really help developing nations, then the most important step it can take is to open up its markets.

A clarion call by the President of the United States at Cancun for all nations to join us in our commitment to open our markets to the products of the Third World would put us on the side of the angels.

² Attached; printed as Document 38.

A corollary to the first step, but one of equal importance, would be a call for global negotiations *within the context of the specialized international agencies*. In so many words, if you're going to deal with credit or finance, you need to do so within the IMF and/or the World Bank. If you're going to deal with liberalizing trade, you need to do so within the context of the GATT. We should not only call for more nations to join the GATT, for example, but for those who have joined, we should call for their active involvement in the working of that body. In other words, why not let the headline read "U.S. Endorses Global Negotiations—Within the Specialized International Agencies".

We've done a good deal of work here at the USTR on the performance of the United States in trade, aid, and investment categories, and on the relative performance of other developed nations. The facts are that we have done a good job in providing economic opportunity for our less fortunate trading partners. It's time the truth was known. It's also time that the United States assumes an aggressive world leadership posture and put some others on the defensive, rather than letting them keep us there.

I spent a considerable amount of time during my recent trip to ten Asian nations trying to build a constituency for our joint effort to keep markets, particularly in Europe, open. There is, I think as a consequence of that trip, a significant awareness of how forthcoming the United States is under President Reagan. Most of those countries will not be at Cancun, but if the response I received is in any way reflective of that which might come from others with a similar vested interest in seeing more open markets, then I think we have a political opportunity of some substantial consequence.

One final point. This is not solely a philanthropic endeavor. The forces of protectionism are real and growing, particularly in Europe. In all candor, if we can enlist the assistance of the more positive developing nations in our cause, it not only will keep markets open for their product, but for ours as well. I don't think it's wishful thinking to believe that the United States can restore its image as the nation most honestly committed to true opportunity for those who wish to help themselves.

In sum, let's play a little politics, and have some fun—and hopefully do some real good—in the process.

46. Memorandum From the Under Secretary of State for Economic Affairs (Rashish) to the Interagency Policy Group¹

Washington, September 15, 1981

SUBJECT

Cancun Summit (October 21–23)

There will be a meeting on Cancun at the White House on Wednesday, September 16 at 4:30 pm.² The meeting has two objectives:

1. Provide policy direction and a strategy for the Cancun Summit so preparations can be completed (speech writing, talking points, etc.).
2. Initiate directives to get decisions on a body of programmatic initiatives, some of which could be announced at Cancun if desired, which will flesh out the Administration's policy on economic relations with developing countries.

Policy Direction and A Strategy For the Cancun Summit

Cancun will set the atmosphere for the next year or two of our multilateral relations with LDCs in general and will influence our relationships with key LDCs, although bilateral and regional issues will remain at the forefront of these relationships. The absence of the USSR but inclusion of key non-aligned nations as well as China and Yugoslavia can provide us with a major foreign policy gain if we are successful in handling the meeting and any follow-on process which may emerge.

Our objectives for the Summit are:

- Enunciate a basic US philosophy and an affirmative US approach to economic development of developing countries;
- Get agreement on follow-up arrangements for a consultative process consistent with US objectives.
- Continue the spirit of the August preparatory meeting by avoiding confrontation.

Our strategy for the meeting will be four pronged;

- a) Speeches by you at the UNGA and Donald Regan at the IMF/IBRD Annual Meetings laying out US policy on economic relations with developing countries;

¹Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—Policy; NLR-369-11-29-3-6. Confidential. Drafted by Meissner and Fox.

²According to an undated memorandum from Hormats to Haig, the September 16 meeting was cancelled. (Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981–1984, Lot 85D193: Cancun Summit—Miscellaneous II) In a September 16 memorandum from Hormats to Haig, Hormats provided supplemental recommendations to this memorandum. (Ibid.)

b) Bilateral consultations by high US officials out of Washington with key participants in their capitals to lay out our objectives;

c) Key bilaterals by the President in Cancun the day before the Summit begins to focus press on US concern for LDC problems while providing an opportunity for the President to tell other leaders just how far he is willing to go (means the President goes in a day early);

d) An effective presentation by the President in the plenary sessions at Cancun of US policy toward international economic cooperation and US economic policy including some follow-on process to Cancun, if appropriate.

The developing countries are not looking for a great deal from this Administration. They have interpreted our pronouncements of policy as neutral to negative to their objective of getting external resources and trade advantages to help them cope with economic development problems. They desire:

a) A philosophic commitment from the US to assist economic development for reasons of humanity rather than national security relations—because such a policy would ignore a large proportion of the developing world (no overlay of East/West over North/South);

b) A commitment to multilateralism rather than bilateralism and regionalism because in the latter case their political power as a group is substantially reduced and the direct leverage of large powers increased (the real political meaning of Global Negotiations in New York); and

c) An indication of immediate help on the pressing problems of financing energy production and imports, providing adequate food security and increasing assistance to the very poor countries who participate only marginally in the world economy.

The Europeans, Canadians and Japanese will be satisfied if the LDCs are satisfied although they, too, would like to see a greater commitment of the Reagan Administration to multilateral forums.

To finish final preparations and launch our strategy, we need three key policy decisions associated with the three general LDC “desires.” We do not believe we can or need to be responsive to them all nor, in responding, should we void the basic philosophy of this Administration. The decisions on these three key questions will determine whether the President adopts a posture at the meeting of a substantive leadership role or that of a “concerned sympathetic listener” who has come to learn but not make commitments. We can accomplish US objectives with either approach but the latter will present a greater degree of difficulty.

Key Decision 1

On the issue of a philosophic commitment to assist economic development solely for humanitarian reasons in a universal and undifferentiated manner.

Recommendation: that we stay with our present policy that we will support emergency relief and refugees, that our bilateral aid will focus

on the poor and that we will fulfill our commitments to the multilateral development banks, but our economic supporting funds and military aid will reinforce our political and security interests.

Key Decision 2

On the issue of multilateralism, the key symbolic issue is Global Negotiations in New York.

The Ottawa Summit Declaration commits the participants to “participate in preparations for a mutually acceptable process of global negotiations (lower case) in circumstances offering the prospects of meaningful progress.” The press release from the August 1–2 Cancun meeting expressly states that the Summit will “facilitate” Global Negotiations in New York. Some governments have misinterpreted this language as committing us to Global Negotiations in New York which it clearly does not. This language is very broad and allows a variety of options regarding participation in global negotiations (lower case).

All agencies agree that Global Negotiations in New York are unlikely to be productive and would prefer not to participate as currently structured. There are differing views, however, on how to respond to the situation. We see the following options:

Option 1. Make a direct announcement at Cancun of our non-participation in Global Negotiations. This would forcefully underscore our position, but it runs the risk of isolating the United States and giving the appearance that the Administration lacks concern for developing countries. This option would not preclude a Cancun follow-on process on major themes of the conference.

Option 2. Make a statement at Cancun that the US cannot accept Global Negotiations as presently structured but we are willing to return to New York in an attempt to negotiate acceptable procedures and agenda. This is the least confrontational approach without accepting the G-77 concept of Global Negotiations. It would benefit the President at Cancun, but it commits us to a process in New York. It fulfills all implied commitments from the Ottawa Summit and the Cancun preparatory meeting.

To be successful in New York we would have to put on the table our own ideas for a process we don’t really desire—at a maximum it can be only be a consultative and not a negotiating forum. This option would not preclude a Cancun follow-on process on major themes of the conference.

Option 3. Develop an alternative follow-on out of Cancun that may or may not lead back to New York but might satisfy some LDCs. There are a variety of possibilities, including a Cancun follow-on at a lower level to discuss the major themes of the Summit. This could then lead to a request to the specialized agencies for studies of specific problem

areas. The studies could later be presented to a Cancun follow-on meeting or to the UNGA. It is not certain that we can generate enough international support for this approach to avoid isolating us.

Recommendation: Our recommendation is option 3 if coupled with initiatives to be taken by the President. Our recommendation is option 2 if the President is to take the posture of a “concerned sympathetic listener.” It is our considered position that option 2 is forthcoming enough to finesse the President’s way through the Summit. It still allows us to attempt to negotiate for Global Negotiations that are to our liking. A straight acceptance of Global Negotiations by the President at Cancun will undercut any capability to negotiate better procedures and agenda in New York.

Key Decision 3

On the issue of initiatives for Cancun, there are only three areas that most LDCs believe must be addressed: Financing energy production and imports; providing adequate food security and increasing assistance to the very poor countries. We may wish to mention other initiatives that fit into the policy philosophy of the Administration, e.g. more liberal trade and more involvement of private enterprise in economic development.

Recommendation: If option 3 above is accepted, then we *must* push for initiatives in the three areas plus trade and investment before Cancun. (We address the increase in assistance to the very poor countries by getting passage of the aid bill by Congress prior to Cancun. Other initiatives are shown on the attached list.³ Asterisks indicate what we should do before Cancun.) Directives must be sent to the necessary bodies to get decisions before October 4.

If option 2 above is accepted, we still believe directives should be sent on asterisked issues to have decisions if we need them and to commence decisions on our economic policy toward developing countries.

Initiate Directives to Get Decisions on a Body of Programmatic Initiatives

Substantial efforts to redirect policies and programs have encountered very serious political, bureaucratic or budgetary problems or conflict with other US objectives. The list of actions at Attachment 1 constitutes, somewhat illustratively, the type of package that would support our themes in a meaningful way. Most are difficult and would require Cabinet or White House-level decision in order to overcome

³ Attachment 1, an “Illustrative package of initiatives,” is not attached. Attachment 2, Regan’s August 27 memorandum to Reagan, is not attached; see Document 38. Attachment 3, information regarding the preparation of briefing materials for Cancun, is not attached.

bureaucratic opposition to propose them as US initiatives. Moreover, Congressional approval is needed, requiring a major effort on the part of the White House. Thus, the major issue is how far the Administration is willing to commit itself to develop, sell and implement the economic policy toward developing countries.

Recommendation: That the White House should direct that an intensive effort be made over the next several weeks to reach agreement on a set of specific proposals, along the lines of Attachment 1, that would constitute an agenda for action in the coming months.

47. Memorandum From Henry Nau of the National Security Council Staff to the President's Assistant for National Security Affairs (Allen)¹

Washington, September 18, 1981

SUBJECT

Haig's UNGA Speech

Haig expects to give his UNGA speech on Monday, September 21. Except for the first two pages, it is entirely on the subject of development. Many of the ideas in the speech are excellent reflecting Reagan views on development, but it clearly scoops the President and it contains some ideas that are not very Reaganesque (e.g. laments the fact that aid has not kept pace with needs). It also contains one big proposal that has not been cleared with anyone in the U.S. government, let alone anyone in foreign capitals (Tab I).²

The big proposal calls for a special International Conference on Growth to be held before February of next year.³ Cancun would serve as a preparatory session for this Conference developing a conceptual framework for a strategy of growth which would then be fleshed out by

¹Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—Speeches. No classification marking. Sent for information. Sent through Bailey, who did not initial the memorandum. Allen wrote in the top right-hand corner of the memorandum on September 21: "Handled. Good job of providing heads-up on this."

²A draft copy of Haig's speech is attached but not printed. For the text of his UN General Assembly address, given September 21, see Department of State *Bulletin*, October 1981, pp. 1–6. The address is also printed in *Foreign Relations*, 1981–1988, vol. I, Foundations of Foreign Policy, Document 63.

³Allen placed a checkmark in the right-hand margin next to this sentence.

senior economic and finance officials of the participating countries at the Conference on Growth (presumably the same countries participating at Cancun). The Conference on Growth would design the specifics of a strategy to be pursued at the 1982 GATT Ministerial in the case of trade, at the International Finance Cooperation Ministerial in 1983 in the case of investment, and through the annual IMF/World Bank meetings in the case of finance.

This proposal is not that different from some of the thinking that we have been doing on an alternative to GNs. The key problem is that it has not been discussed with anyone, not even Treasury. If it is presented at the UNGA on Monday as a complete surprise, it will be read as a clear attempt to substitute for GNs and will be opposed. No one will stand with us in its defense since we have not solicited anyone's cooperation.

48. Memorandum From the President's Assistant for National Security Affairs (Allen) to the United States Trade Representative (Brock)¹

Washington, September 21, 1981

SUBJECT

Cancun and the Prospect of Global Negotiations

Your thinking tracks fully with my own on our approach to Cancun and global negotiations. It is time to take the offensive. The biggest benefit we can offer is our market, and if this economy gets moving again, developing countries will benefit enormously, including low income countries which export primarily raw materials and hence depend even more on economic conditions in the developed countries.

Do you think we can hold firm on a good MFA agreement from the standpoint of the developing countries? That will be important. Can

¹ Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—Policy. No classification marking. Bailey forwarded the memorandum to Allen under a September 16 covering memorandum. Under the same covering memorandum, Bailey also forwarded to Allen a September 14 memorandum from Brock to Allen in which Brock discussed the U.S. Government's approach to Global Negotiations. Brock sent an identical memorandum to Haig. See Document 45.

the President point to our role in these negotiations at Cancun or will we have to keep a low profile?

On the matter of fully integrating more countries into GATT, can we put trade issues with developing countries more at the center of our strategy for the GATT Ministerial and subsequent trade talks? Many of these countries are now important markets for us, and the benefits are reciprocal. The objective is to coopt these countries into these institutions. Then they will see no need for global negotiations.

I will recommend that your ideas be incorporated fully into our Cancun strategy.

FOR THE PRESIDENT:

Richard V. Allen²

*Assistant to the President for
National Security Affairs*

² Allen signed "Dick" above his typed signature.

49. Memorandum From James Rentschler of the National Security Council Staff to Henry Nau of the National Security Council Staff¹

Washington, September 21, 1981

SUBJECT

U.S. Policy and Tactics at Cancun Summit

I have read with interest and even admiration the initial Cancun gameplan set out in the materials you sent us earlier this month. A few quick observations follow:

— *The case for a relatively high-profile Presidential performance seems to me imperative*, for reasons that are both implicit and explicit in the framework papers and which can be summed up in this way: because the industrial countries will inevitably be cast in the role of heavies who have too long shirked their responsibilities vis-à-vis the LDCs, the best defense will be a strong offense;

¹ Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—Tactics. Confidential. Copies were sent to Allen and Blair.

— That offense should make *maximum use of the President's communications and interpersonal talents*, including the major keynote speech recommended in the papers² (where does this idea stand, by the way?);

— As both a fail-safe ploy for circumventing Mexico/Canada-type efforts to control the plenary discussions and an integral part of our offensive strategy, *the President should have the fullest possible schedule of bilaterals, concentrating on LDC leaders*, talking turkey to them as only he can (especially to turkeys like Nyerere). In fact, it would be psychologically beneficial for the U.S. image if the President dealt *exclusively* with the LDCs, rather than scheduling any Western bilaterals, a move which would preclude charges of Western “collusion” and, more positively, demonstrate our pragmatic interest in and priority for LDC views.³

² Reagan delivered the opening statement at the Cancun Summit on October 22. For the text of his statement, see *Public Papers: Reagan, 1981*, Book II, pp. 980–982.

³ Nau highlighted this sentence and placed a checkmark in the right-hand margin.

50. Memorandum From the President's Assistant for National Security Affairs (Allen) to the Counselor to the President (Meese), the White House Chief of Staff (Baker), and the White House Deputy Chief of Staff (Deaver)¹

Washington, September 28, 1981

SUBJECT

Cancun Dateline: Three Weeks to Go

In a recent editorial in the *New York Times*, William Safire suggested that the President “may be backing into a buzz saw” at Cancun.² Is there evidence to support this view?

At the Foreign Ministers Preparatory Meeting for the Cancun Summit in early August, there was a tone of moderation in the attitudes of the developing countries and a clear split in their ranks on the

¹ Source: Reagan Library, Executive Secretariat, NSC Trip File, President Reagan's Participation in the International Meeting on Cooperation and Development Cancun, Mexico 10/21/1981–10/23/1981 Plenary Sessions: Multilateral Economic Issues—Mr. Allen (Binder); NLR-755-2-44-2-1. Secret. A handwritten note under the memorandum reads: “9/28/81 sent JCP,” indicating that copies were sent to Darman, Fuller, Anderson, and Gergen.

² See William Safire, “Reagan Out of Town,” *New York Times*, September 20, 1981.

matter of forcing a decision on GNs at Cancun. Since then, two North-South conferences have been held—the U.N. Conference on New and Renewable Energy Sources in Nairobi, Kenya, in August and the Conference on Least Less Developed Countries in Paris in September. Reports from these meetings suggest that the LDCs continue to exercise some restraint compared to their normal behavior in such conferences.³ On the one hand, this may imply a certain resignation on their part that the industrial countries, particularly the U.S. will not be more forthcoming in the dialogue. Present budget circumstances and known U.S. skepticism about GNs seem to preclude it. On the other hand, it may also reflect expectations that the U.S. attitude is softening and that progress toward GNs and consideration of the issues on the LDC agenda can be best achieved if the U.S. is given more time to recognize its isolation and alter its attitudes.

Incomplete reports from the U.N. indicate that Secretary Haig's speech was generally well received.⁴ The fact that the speech was devoted almost entirely to development was considered to be significant. Many countries came forward after the speech to shake the Secretary's hand (this is said to be somewhat unusual in these circumstances). At the same time, reports also indicated some puzzlement and continuing concern about the direction of U.S. policy, especially concerning participation in GNs.

Despite the indications of continuing moderation, there are also some gathering clouds that indicate an approaching storm (or "buzz saw" to use Safire's metaphor). The principal developments here include:

- Algeria becomes the new spokesman for the G-77 in October, replacing Venezuela which exercised an important moderating role at both the Nairobi and Paris conferences. Algeria, it will be recalled, is the principal advocate of reaching a decision on GNs at Cancun;

- the African countries, led by Nigeria, and including the Ivory Coast, have met and agreed to push commodity agreements as a central issue at Cancun;

- despite rejection of the idea at the Foreign Minister's meeting, Mexico initiated a letter to all participants seeking to identify more detailed topics each head of government would address, undoubtedly in the hope of developing a more detailed agenda;⁵

³ In telegram 18591 from Nairobi, August 24, the Embassy reported on the conclusions of the UN Conference on New and Renewable Sources of Energy. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810395-0699) In telegram 27579 from Paris, September 16, the Embassy reported on the UN Conference on Least Developed Countries. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810436-0402)

⁴ See footnote 2, Document 47.

⁵ See footnote 8, Document 39.

— reports suggest that Saudi Arabia will support Algeria on the GNs issue as a cheap way of offsetting its current isolation in OPEC;

— Nigeria continues to be strongly opposed to U.S. policies in southern Africa and may find Cancun an attractive occasion to align with the hardliners (Algeria) in order to impress the U.S. with African and more broadly LDC dissatisfaction with U.S. policies;

— reports suggest that India and France are collaborating to revive and push the idea of a World Bank energy affiliate at Cancun.

Perhaps the most disturbing news comes from the activities of U.S. allies. The Germans are divided, with Genscher in the Foreign Ministry pressing GNs, Brandt proposing in a letter to the President a massive program of energy and infrastructure assistance to the developing countries, and Schmidt remaining skeptical but increasingly powerless to restrain his coalition partners. Austria, although a co-chairman of the meeting, is showing little heart for the contest and is joining the effort to secure a specific outcome from Cancun, either a launching of GNs or a consensus on the World Bank energy affiliate. Kreisky is said to favor the GNs even if they have no prospect of productive achievement. He feels it is always better for nations to talk and thereby avoid the rash acts of countries that feel excluded.

France may be the most troublesome of all the allies. Five recent developments indicate potential trouble from Paris:

— Mitterrand's speech in the LLDC Conference struck all the wrong emphases from the U.S. point-of-view—more aid, massive program to standardize commodity prices for LDC products, renewed support for the energy affiliate, emphatic support for GNs;

— in mid September, Cheyssen, the French Foreign Minister, said that France will not simply state its views at Cancun but will act in concert with other nations to press very hard for GNs and the creation of a World Bank energy affiliate. He noted parenthetically that the other nations include Sweden, India and Mexico;

— recent reports from reliable sources suggest that France is preparing a Memo of Understanding between developed and developing countries to be tabled at Cancun. This is precisely the kind of document (communique, resolution) that would turn Cancun into a typical UN slug fest over meaningless slogans.

— Mitterrand is said to be asking Mexico and Austria if he could appear together with Lopez Portillo and Kreisky at the concluding press conference of the Summit.

— Cheyssen's speech at the UN reiterated with emphasis all of the themes of French policies on Third World relations that conflict with U.S. interests.

The clouds gathering around Cancun are sufficiently disturbing to press the U.S. into action. Since the best defense is a good offense, it becomes even more important for the President to seize the initiative and to deliver a hard hitting and credible speech before Cancun.⁶

⁶ See Document 67.

The speech should be preceded by intensive U.S. lobbying in selected capitals (among LDCs, India, Nigeria, Yugoslavia, Venezuela and Brazil should receive priority), including possible communications (letters, phone calls) by the President. The speech itself will be more effective the closer into Cancun it is delivered. It will capture the headlines and press reporting for the several days prior to Cancun, and it will complicate and perhaps derail the strategy of any other group of countries that may seek to focus Cancun on issues such as GNs and the World Bank energy affiliate. If the President's program is forthcoming enough, our issues may even go so far as to displace other issues at Cancun.

Attached to this paper is a preliminary outline of the President's speech drawn together by Dick Darman from fragments developed by the agencies and the NSC.⁷ The outline indicates the potential of a major Presidential policy address on this subject. The policy issues related to Cancun are scheduled to be discussed at the Cabinet level next week and reviewed as a whole by the NSC on October 5.⁸ As policy pieces fall in place, the outline can be developed and fleshed out as a speech draft for the President.

⁷ The undated "Outline of President's Speech on Development" is attached but not printed.

⁸ According to the President's Daily Diary, Reagan attended a meeting in the Cabinet Room to discuss the approach to the Cancun Summit on October 5 from 3:19 until 4:34 p.m. (Reagan Library) Minutes of this meeting were not found.

51. Letter From Secretary of State Haig to Secretary of the Treasury Regan¹

Washington, September 28, 1981

Dear Don:

I want to share with you my concerns over the press reports, and some of the private reactions I have had to our new approach to the

¹ Source: Department of State, Executive Secretariat, S/S-I Records, Exdis Memorandum of the Secretariat 1981 and 1981 Nodis Memorandum, Lot 88D99: Nodis—September 1981. Confidential.

multilateral development banks.² The impression and tone left by the press is that somehow we are going to take dramatic actions to abruptly push a number of developing countries off of bank lending or from soft to hard lending in the banks. The Brazilian Foreign Minister has already expressed his great concern over this.

I know our people have been working closely together on the Treasury Report and believe it represents a moderate and well-reasoned document which does not imply a rapid graduation process but one based on credit worthiness. I am also aware that the overall objective is to strengthen these institutions and ensure that the money goes to those who need it most and can use it best. But the public impression is now one of extreme negativism and radical departure from past policies.

Especially in the period before Cancun, it is important that the attitude we take toward the LDCs and the banks be as constructive as possible. I know that this is your personal view, and I believe that your speech before the Bank/Fund meeting embodies a positive approach.³ I hope that this same approach can be actively pursued in meetings with the press and bilaterals as well. The more positively we can present our suggestions and our policies, the more likely the chance of acceptance. Moreover, this will set an excellent tone for Cancun, which will certainly improve the prospects of the President being able to obtain his objectives there.

I look forward to our having the chance to discuss with you the Cancun meeting as soon as possible.

Sincerely,

Alexander M. Haig, Jr.⁴

² See Documents 266 and 267.

³ The annual meeting of the Board of Governors of the World Bank Group and the International Monetary Fund took place in Washington from September 29 to October 2.

⁴ Haig signed "Al" above his typed signature.

52. Telegram From the Department of State to Secretary of State Haig's Delegation in New York¹

Washington, September 30, 1981, 0146Z

Tosec 100108/State 261147. To the Secretary From William P. Clark.
Subject: White House Prep Meeting for Cancun.

1. Jeane Kirkpatrick, Bob Hormats and I attended the White House preparatory meeting for the Cancun Summit today.² Don Regan, Bill Brock, Ed Meese, Mike Deaver, Jim Baker and Dick Allen were the major participants. The initiatives pulled together by Bob's working group were discussed. Additional comments will be provided by the Cabinet members attending (Regan and Brock). There seems to be broad agreement that we are on the right substantive track. The CCEA will discuss these issues further on Thursday³ at 8:45 a.m.

2. The discussion of Global Negotiations was particularly interesting. There is growing understanding in the White House that the price of isolation is high. Jeane and Bill Brock were particularly persuasive on this. As a result of the meeting, Bob and I are writing an option which permits us to join Global Negotiations but based on procedures which protect the IMF, GATT, and the World Bank. We would also make it very clear that we intended to put forward our own agenda for such negotiations, stressing an open trading system, improving the private investment climate and supporting LDC efforts to increase food and energy production. This would follow-up, and be consistent with, your UNGA speech and permit us to take the initiative in Global Negotiations. While others may not agree to our agenda, it would at least put us on the offensive.

Clark

¹ Source: Department of State, Central Foreign Policy File, Electronic Telegrams, D810460-0174. Secret; Immediate; Stadis. Drafted by Hormats; cleared by Alvin Adams (S/S) and Richard Erdman (S/S-O); approved by Clark. Haig was attending the UN General Assembly meeting in New York.

² The meeting took place on September 29 at 2:30 p.m. in the Roosevelt Room at the White House. A September 29 memorandum from Nau to Allen preparing Allen for the meeting is in the Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—Policy. A September 29 memorandum from Hormats to Clark preparing Clark for the meeting is in the Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981-1984, Lot 85D193: Cancun Summit—SEN Cancun Memoranda.

³ October 1. See Document 53.

53. Minutes of a Cabinet Council on Economic Affairs Meeting¹

Washington, October 1, 1981, 8:45 a.m.

Attendees: Messrs. Regan, Brock, Weidenbaum, Anderson, Porter Lyng, Davis, Trent, Wright, Lovell, Sprinkel, Gray, Hormats, Leland, McPherson, Dederick, Bailey, Denoon, Gribbin, Hopkins, Kass, Nau, Schneider, Tyson, Ms. Kirkpatrick and Ms. McLaughlin

1. *Cancun Summit*

The Council reviewed a series of papers on potential initiatives for the Cancun Summit.² Secretary Regan outlined the background of the Cancun Summit and the drive for Global Negotiations, and the schools of thought regarding various approaches to the Summit. He emphasized that the purpose of this meeting was not to discuss the merits of different approaches to Global Negotiations, but rather to systematically review possible U.S. initiatives relating to investment, foreign assistance, and trade.

The initial discussion focused on the thrust of the President's remarks at the IMF and World Bank meetings,³ the foreign reaction to the President's speech, the need to strengthen existing international agencies, the importance in expanding private sector investment of protecting against exploitation and expropriation, the need to articulate better the U.S. record in aiding developing countries, and the fact that international cooperation and economic growth depend on sound domestic policies.⁴

2. *Cancun Summit: Investment*

The Council reviewed three papers on possible investment initiatives including cofinancing, multilateral investment insurance arrangements, and incentives under bilateral tax agreements for investment in developing countries.⁵

¹ Source: Reagan Library, Ralph Bledsoe Files, Office of Policy Development, Cabinet Councils, Other Cabinet Councils, Cabinet Council on Economic Affairs III. No classification marking. Drafted by Porter. The meeting took place in the Roosevelt Room at the White House.

² An unknown hand underlined "reviewed a series of papers." The papers are attached but not printed.

³ See footnote 3, Document 38.

⁴ An unknown hand wrote "R/O" in the left margin.

⁵ In the left-hand margin next to this sentence, an unknown hand wrote "R/O" and crossed it out.

The discussion focused on the need for additional arrangements to increase the flow of private investment in developing countries, the role multilateral investment institutions can play as catalysts in generating greater private investment through cofinancing programs with commercial banks, and the impact of U.S. tax treatment on LDC investment tax incentives.

There was general agreement that a major constraint to the flow of direct investment to the LDC's is investors' perceptions of high political risk.

Decisions

The Cabinet Council approved recommending further development of a multilateral insurance arrangement,⁶ such as an International Investment Insurance Agency (IIIA), within the framework of the World Bank or its affiliate, the International Finance Corporation (IFC). The Council supported the concept that tying such an insurance arrangement to the World Bank could significantly increase its effectiveness since the potential loss of World Bank funding should prove a powerful deterrent to expropriation.

The Council requested Mr. McPherson to prepare a paper developing additional details of such a proposal including dispute settlement and arbitration mechanisms, financial obligations, and control mechanisms (weighted versus non-weighted voting rights).

The Council approved recommending active U.S. support for increasing substantially the level of private cofinancing activities of the World Bank and the International Finance Corporation.

The Council determined that it was premature to endorse any specific tax proposals but approved recommending that the U.S. express a willingness to discuss new arrangements without supporting any specific changes in advance.

The Council requested the Department of Treasury Office of Tax Policy to review a Department of Commerce suggestion to eliminate the loss recapture rules under Section 904(f) for U.S. investments in selected foreign countries. Most foreign investments have losses the first few years and, if conducted by a U.S. branch, can be offset against U.S. profits. Under 904(f) later incorporation of such a branch cannot be used to get a complete tax credit for the investment in profitable years—in effect, the prior losses reduce the complete availability of the foreign tax credit.

⁶ An unknown hand underlined “approved recommending” and wrote and circled an “S” in the left-hand margin.

3. *Cancun Summit: Energy Assistance*

The Council reviewed a paper on energy assistance programs prepared by the Department of State and A.I.D.⁷ The discussion focused on past A.I.D. energy assistance programs, the usefulness of energy feasibility studies and whether they should be undertaken exclusively by the private sector or also be funded through assistance programs, the value of training foreign nationals in the U.S., the use of energy assessment programs, the fact that half the countries in the world have energy prices below world market prices, the level of interest abroad in a World Bank Energy Affiliate, the amount of World Bank funding already committed to energy projects, the prospects for an OPEC oil facility, and the need to refocus U.S. bilateral aid on programs which provide technical assistance and concentrate on training.

Decisions

The Council approved encouraging sound LDC policies that promote development and that strengthen the private sector emphasizing the important role of market forces, especially in pricing policies; and continuing to support existing multilateral institutions and to honor our commitments to them.

The Council approved refocusing U.S. bilateral aid on programs which provide technical assistance and concentrate on training.

The Council approved placing increased emphasis in energy programs on technical assistance for energy assessment and training, reforestation, and research and development where our aid complements the private sector.

The Council requested Mr. Hormats to prepare a paper analyzing the energy assessment program to date.

4. *Cancun Summit: Agricultural Assistance*

The Council reviewed a paper on agricultural assistance programs prepared by the Department of State and A.I.D.⁸ The discussion focused on the steady U.S. emphasis on agriculture in its foreign assistance programs (it accounts for over half of U.S. foreign assistance), past priorities in aid programs, the impact of food price policies in developing countries undercutting production, the need to avoid an emphasis on small farms, and the attainability of self-sufficiency in food production for many developing countries.

⁷ An unknown hand wrote an "S" in the left-hand margin next to this sentence.

⁸ An unknown hand wrote an "S" in the left-hand margin next to this sentence.

Decision

The Council approved supporting continuing efforts to improve agricultural technology, encouraging LDC's to establish market pricing policies, and placing increased emphasis in agricultural programs on expanding food production.

5. Cancun Summit: Trade

The Council reviewed a paper, prepared by USTR, on trade policy for the Cancun Summit. The discussion focused on the U.S. record in an absolute and comparative sense in providing markets for LDC exports, the effect of a change in interest rates for selected LDC's, and the need to challenge other developed nations to join in strengthening the GATT in ways that encourage the further adoption of market-oriented, outward looking policies by developed and developing countries.⁹

Decisions

The Council supported recommending seeking at a 1982 GATT Ministerial a reduction in the barriers against LDC goods and services, pressing for strong discipline on safeguard actions to reduce arbitrary, secretive, inter-industry trade restraints, and supporting extending the Generalized System of Preferences, in some form, beyond its scheduled termination in 1985.

The Council requested Mr. Porter to prepare a paper for Mr. Deaver, the U.S. coordinator for the Cancun Summit, summarizing the Council's review of possible initiatives for review with the President.¹⁰

The Council also requested Mr. Porter to oversee redrafting the papers prepared for today's session to make them more concise.

Council members were also requested to provide their suggestions for the President's opening remarks at Cancun to the State Department within the next two days.

⁹ An unknown hand wrote "S" in the left-hand margin next to this sentence.

¹⁰ The October 3 memorandum from Porter to Deaver summarizing the CCEA's review of possible initiatives undertaken and conclusions reached during the October 1 CCEA meeting is in the Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981-1984, Lot 85D193: Cancun Summit—Initiatives.

54. Memorandum From the U.S. Representative to the United Nations (Kirkpatrick) to the Cabinet Council on Economic Affairs¹

Washington, October 1, 1981

SUBJECT

Cancun and Global Negotiations

1. Whether or not the United States will agree to participate in global negotiations in the United Nations has unfortunately become the central issue surrounding the Cancun Summit Meeting. It will prove impossible for us to sidestep or finesse this issue. All OECD countries and indeed all developed countries urge the United States to participate in global negotiations as a political gesture to poorer countries. The less developed countries attending Cancun feel themselves under great pressure from non-Cancun participants to “deliver” on an agreement to launch global negotiations. This has thus become the touchstone of the meetings “success” and the United States attitude toward the less developed nations.

2. We should expect no progress in concrete economic patterns to emerge from a global negotiation process in the United Nations. Such progress can only take place in smaller specialist groups.

3. The Europeans and other developed nations, e.g. Australia, Canada, Japan are convinced that unreasonable economic proposals can be deflected or watered down as many such proposals made at UN conferences have in the past.

4. The global negotiation framework presents developing countries an opportunity they badly want to argue their case. We have many indications that the LDCs (i.e., India, Brazil) will be flexible on matters of both a global negotiation agenda and procedures at Cancun. They do not expect much from us. This gives us an opportunity to be positive on the principle [of] global negotiations but very demanding about procedures, locations, and agendas.

5. UN experience teaches:

a) that the other developed countries are quite willing to bear the brunt of the defense of the developed countries economic and political interests. We should not let them do this.

¹ Source: Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981–1984, Lot 85D193: Cancun Summit—Global Negotiations. No classification marking. Printed from an uninitialed copy. Sent under an October 2 covering memorandum from Lollis to multiple recipients, in which Lollis explained that this memorandum was handed out at the October 1 meeting of the CCEA.

b) that there are many deep divisions of interest and points of view among the LDCs which will emerge in the course of actual negotiations.

c) that New York is a singularly poor place for prudent, non-political consideration of international issues. Paris, with its OECD structure, would surely prove more amenable to concerted action of the developed countries.

55. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Leland) to the Cabinet Council on Economic Affairs¹

Washington, undated

SUBJECT

Global Negotiations

The President's address to the World Bank/International Monetary Fund Annual Meeting established basic guidelines for U.S. economic relations with developing countries: engage in substantive, realistic discussions; work through existing international economic institutions; put aside artificial "North-South" bloc politics.² This approach will guide us through and beyond Cancun and should be the basis for the Administration's decision regarding further U.S. participation in the proposed U.N.-based Global Negotiations (GN).

There is no reason for the President to alter his longstanding position of deferring any U.S. decision on GN until after Cancun. The exchange at Cancun should be on *substantive issues*—investment, tax, trade, food, etc.—bypassing traditional North-South political issues like GN (in particular, their procedural aspects). Cancun presents a unique opportunity for this Administration to make its mark in the area of relations with developing countries and to shift discussions to a more substantive, pragmatic ground.

¹Source: Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981–1984, Lot 85D193: Cancun Summit—Global Negotiations. No classification marking. Printed from an uninitialed copy. Sent under the same October 2 covering memorandum from Lollis to multiple recipients, in which Lollis wrote that this memorandum was passed out by Regan at the October 1 meeting of the CCEA. See footnote 1, Document 54.

²See footnote 3, Document 38.

While a decision on GN has, for many, assumed symbolic significance as a measure of the “success” of the Summit (many countries expect the United States finally to “sign on”), such a decision in fact need not be a crucial element to a positive Cancun outcome. Essentially, the ‘mere’ occurrence of the Summit will mark the event as a success. The fact that 22 Heads of State will have had a virtually unprecedented exchange of views for two days will have to be defined in positive terms. Moreover, it is clearly not in the interest of other participants to seek to embarrass President Reagan at Cancun.

Ultimately (after Cancun), it will be both in the U.S. interest and consistent with the President’s announced policies to decide *against* U.S. participation in GN. The concept is directly opposite to the approach laid out by the President: a highly political (North-South) forum, subsuming or overriding the functions of international organizations, approaching economic development subjects as wealth transfer rather than wealth creation issues, and, in essence, seeking to guide if not overturn market forces.

Agreeing to resume GN preparations, for the sake of political harmony and “statesmanship”, offers no prospect that the ensuing process would be at all manageable. Rather, it would be highly contentious; a successful effort to mold more acceptable procedures and agenda is not in the cards, if only because developing countries have shown little or no ability to compromise on key points and will inevitably use bloc politics to resist change. (For the same reasons, they are unlikely to be able to embrace an “alternative” Cancun followup process as a substitute for the GN to which they are so heavily committed.)

Individually, Finance Ministers of some advanced developing countries have indicated to us that, given the present agenda of existing institutions, GN are both unnecessary and unlikely to accomplish substantive results. Their ability to “break ranks”, however, is highly constrained.

U.S. agreement at Cancun to resume GN preparations might yield a temporary appearance of unity there—but it would only put off confrontation on unacceptable proposals to a later day, at GN itself. As a political exercise, GN would be extremely hard for the United States to boycott when we became isolated on key substantive issues—which, in the light of past experience, would be inevitable. We would be under extreme pressure to agree to proposals against our interests and against the interests of existing institutions. A scenario of this sort illustrates the real politics behind GN and is one reason why IMF Managing Director de Larosiere, for example, who has championed LDC interests, has privately urged the United States not to participate in GN.

56. Information Memorandum From the Under Secretary of State for Economic Affairs (Rashish) to Secretary of State Haig¹

Washington, October 2, 1981

SUBJECT

U.S. Leadership in International Economic Policy

The Annual Meetings of the IMF and the World Bank group provide an excellent opportunity to take the pulse of the financial and economic leaders throughout the world.² I have seen a wide range of representatives from both developed and developing countries—and have received from them a rather clear message that I want to pass along to you.

The message is that strong, clear and consistent U.S. leadership in the international economic sphere cannot be ignored, and, in effect, sets the parameters in which the rest of the world must operate. Our friends have greeted our new-found confidence with enthusiasm; our detractors express grudging respect. All seem relieved that we have once again accepted the leadership role—after a long period of drift in the international economy.

The President's welcoming address was unusually substantive, and set the tone for the three "set piece" speeches that followed.³ The President's strong endorsement of the Bretton Woods institutions was particularly welcomed after the run of distorted press play our policy review had been receiving. The Uruguayan Finance Minister Arismendi, chairman of the meetings, echoed the themes of LDC responsibility for their own policies, of private sector initiative and the importance of trade, of fiscal responsibility and monetary restraint. Tom Clausen highlighted co-financing with private lenders, the key role of private investment flows and the tough financial criteria for IDA loans, refuting the criticism that "soft" loans are wasteful. He was particularly eloquent in declaring that the world cannot afford "the luxury of inefficiency." Jacques de Larosiere gave a ringing endorsement of the Administration determination to master inflation and revitalize the U.S. economy. All in all, it was a banner morning for our evolving

¹Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—Policy; NLR-369-11-37-2-8. Confidential. Drafted by Marshall Casse (E).

²The annual meeting of the Board of Governors of the World Bank Group and the International Monetary Fund took place in Washington from September 29 until October 2.

³See footnote 3, Document 53.

international economic policy and more particularly our policy toward the developing countries. I might add that your sensitive speech in New York contributed substantially to making the delegates more receptive to the U.S. line.⁴

We are clearly moving in the right direction. Let me mention one over-riding theme which concerns our friends, and which causes a number of LDCs to hold off in accommodating to our approach. We have clearly enunciated the principles on which our policy and our actions are founded. We must now be meticulously faithful to those principles. More than any other single factor, the rest of the world is looking for consistency and constancy. If we appear to be willing to compromise principle for one or another passing advantage—those so inclined will continue to test our resolve at every turn.

Cancun was, not unexpectedly, uppermost in the minds of all my interlocutors. I made a point of describing, in general terms, the strategy we have been developing over the past few weeks. This approach was well received by both developed and developing countries.

I have a very positive feeling about the atmosphere of these meetings. If we can produce on the substance of the problems faced by the LDCs—trade restrictions, interest rates, investment policy—we can handle the differences over procedures.

⁴ See footnote 2, Document 47.

57. Memorandum From the President's Assistant for National Security Affairs (Allen) to President Reagan¹

Washington, October 3, 1981

Mr. President:

I hesitate to inflict an additional ten pages of reading on you for the weekend, but the time you will invest in looking at these three articles will be amply repaid.

¹ Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—Policy. No classification marking. Copies were sent to Bush, Meese, Baker, Deaver, Anderson, and Weidenbaum.

Several years ago, you will recall, I sent you Jeane Kirkpatrick's article in *Commentary* magazine.² It was a significant piece, and it had an impact.

Now I am sending you a piece I consider to be of equal importance, especially in light of your preparations for the Cancun Summit. In "Speaking to the Third World" (from the October *Commentary*), Peter Berger summarizes both the problems and the opportunities in the "North-South Dialogue."³

The problem:

The most frequent "obstacles to development" are internal to the societies in quest of development. Among such obstacles are economic systems that stultify growth and impede productivity; political corruption; oppression of people to the point where they cease to be economically active; persecution of economically productive minorities (such as the Asians in eastern Africa and the Chinese in southeast Asia); and, in some cases, indigenous social patterns and cultural values that are not conducive to economic activity. The fixation on external villains is a convenient stratagem for Third World elites who are either unable or unwilling to face up to internal obstacles. There is no reason, however, why we should fortify them in this evasion.

The opportunity:

Americans must have the confidence to present a positive model of development that is properly their own—to present, that is, an American ideology of development. Americans had such confidence before the recent period of national self-criticism, and some of it, let it be conceded, was overconfidence. . . . What we must rather do (and this is by no means an easy task) is to isolate certain key elements of the American experience which are not necessarily dependent on the peculiar historical and cultural features of our society, and define the manner and degree to which they can be transplanted to different societies.

Two such elements stand out: democracy and capitalism. At the heart of any American ideology of development must lie the concept of democratic capitalism. . . . Specifically, what needs to be shown is that the human benefits associated with the democratic ideal are linked empirically (and perhaps linked necessarily) with societal arrangements that, minimally, leave important sectors of the economy to the free operation of market forces.

Two other short pieces by Lisle Widman and Bill Safire on the same subjects are also included.⁴

² See Jeane Kirkpatrick, "Dictatorships and Double Standards," *Commentary Magazine*, November 1979. For excerpts of the article, see *Foreign Relations*, 1981-1988, vol. I, Foundations of Foreign Policy, Document 2.

³ Not attached.

⁴ The articles, "US Should Say 'No' to Global Negotiations," by F. Lisle Widman and "'Can-Do' at Cancun," by William Safire, are not attached.

You will spend a great deal of time in preparation for the Cancun Summit, but these ten pages state the problem in a way that no briefing paper can: they get to the heart of the matter, and lay out a positive response.

Your speech to the World Bank laid down the first principles of a realistic approach. Cancun will test our ability to stick with that excellent first step.

Dick

58. Memorandum From Secretary of State Haig to President Reagan¹

Washington, October 8, 1981

SUBJECT

A Strategy for Cancun

We need a carefully constructed strategy to achieve US objectives at Cancun. A number of countries are already working in informal caucuses (France, Mexico, India and Sweden) to gain their objectives which are not necessarily ours.

The US has multiple objectives to achieve at Cancun.

1. To use the Summit to develop personal relationships between you and other heads of state or government that can be useful in achieving bilateral and regional objectives;

2. To emphasize that the US is sensitive to the economic development problems and concerns of the developing countries, that it has a positive record of support and that it is committed to further efforts by itself and in concert with others.

3. To demonstrate that we have a positive, substantive program for addressing the problems of the developing nations—one which integrates foreign assistance, trade, investment, and technical assistance;

4. To explain our foreign economic policy toward developing countries and launch, if possible, a cooperative international effort toward a “new era of growth;”

¹ Source: Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981–1984, Lot 85D193: Cancun Summit—Scope. Secret. A typed notation in the top right-hand corner of the memorandum reads: “Sent to Mr. Darman, White House, by courier 10/8 9:40 a.m. lcd.” Also printed in *Foreign Relations, 1981–1988*, vol. I, Foundations of Foreign Policy, Document 65.

5. To arrive at a satisfactory solution to the issue of Global Negotiations, including a follow-on consultative process if necessary; and
6. To reinforce our bilateral relationship with Mexico by contributing to Lopez Portillo's prestige and having the conference end successfully.

A majority of the countries attending Cancun views it as an opportunity to apply political leverage to the more conservative countries (UK, FRG, Japan and Saudi Arabia) but especially to the US. They want the US:

- a) To accept a commitment to assist in the economic development of the developing world through concessional assistance, technical help, and support for their objective of increasing exports and investment, without an overlay of East/West over North/South;
- b) To accept a commitment to negotiations in the political framework of the UN (i.e. Global Negotiations),
- c) To accept a commitment for immediate help on the pressing problems of financing energy production and imports, providing adequate food security, and increasing assistance to the very poor countries who participate only marginally in the world economy.

The objectives of the majority can best be achieved in multilateral political meetings. The US objectives are best achieved in the multilateral functional organizations (GATT, IMF, World Bank), regionally, and bilaterally. We therefore need a strategy that emphasizes multilateral functional, regional, and bilateral contacts over multilateral political participation.

A Bilateral Strategy

While the plenary meeting will be at center stage at Cancun and your statements there will be the major element of your presentation, the bilateral meetings will enable you to carry the US position and your commitment to development cooperation in a more personal manner. Given time limitations, you will need to focus your time on the participants from developing countries. I suggest you see all developing country heads of state or government for at least a courtesy meeting. You can spend more time with key developing countries (China, India, Tanzania, Algeria, and Nigeria) for discussion of bilateral and multilateral issues. These key countries should be seen first on Wednesday, October 21, to stress, bilaterally, our key multilateral objectives.

The US will attempt to hold the multilateral aspects of the meeting within the agreed procedures of the August 1-2 preparatory meeting: An open and informal meeting with no agenda and no communique. A summary of the conference will be provided by the co-chairmen, on their own responsibility, soon after its close on October 23.

A Press Strategy

The press will be frozen out of the conference hotel, and all contacts must be made elsewhere. We are setting up an American press center. There will be little coverage of the multilateral meeting until the final press conference by Lopez Portillo and Kreisky. The press will be hungry. We plan to arrange some way for the bilaterals to be covered by press and photographers so a constant stream of US meetings is the news from Cancun. Secondly, frequent press briefings by US spokesmen on the multilateral meeting should follow the pattern established in Ottawa.

Your Speech on or About October 14

This speech should put you in a forward posture, advocating a positive and specific program and seeking international cooperation. It should contain specific elements and your substantive approach, since you will not have the time to spell this out at Cancun.²

The speech should be oriented toward a domestic audience and stress US interests (economic, political and humanitarian) in developing countries. It should explain the link between domestic economic recovery and a healthy world economy. (One in eight jobs is tied to US exports; the product from one in every three acres harvested is sold abroad.) You are, therefore, going to Cancun to establish the basis of a “new era of growth” for the mutual benefit of all countries. Key to this program in the US view are open trade, increased investment flows, access to energy, and adequate food supplies. Concessional aid will be important for the poorest countries and for projects which cannot be financed by the private sector.

Your speech to the IMF/IBRD annual meetings, Don Regan’s speech to the same group, and my presentation to the UNGA lay out our general policy. The October 14 speech would put flesh on these bones and explains to the public why you are committing your time to the Cancun meeting.

*Statement for the Opening Session at Cancun*³

Timing of the statement will be important. This can be arranged with the Mexicans and Austrians. The statement will be the keynote off of which others will respond. I would suggest that you speak in third or fourth position, after the Mexican introductory statement.

² Under an October 7 memorandum from Allen to multiple recipients, Allen forwarded an outline of the speech. He wrote in the memorandum that the “elements of that speech would set the tone of the U.S. position at Cancun, and would constitute guidance for U.S. policy thereafter.” (Reagan Library, Executive Secretariat, NSC Trip File, President Reagan’s Participation in the International Meeting on Cooperation and Development Cancun, Mexico 10/21/1981–10/23/1981 Plenary Sessions: Multilateral Economic Issues—Mr. Allen (Binder)) Reagan delivered the speech on October 15. See footnote 2, Document 38. The speech is printed in *Foreign Relations, 1981–1988*, vol. I, Foundations of Foreign Policy, Document 66.

³ See Document 75.

The statement should express our sensitivity to LDC problems, explain our record, and lay out our policy, including the desire to establish a new “era of growth.” This new era must be built on certain basic elements (trade, investment, energy, food, and concessional assistance to the poorer nations). Our initiative package is tied to these basic elements (see attachment).⁴

The statement should also contain our first public word on the issue of Global Negotiations. I don’t believe an earlier announcement of our position would be useful. We will not satisfy everyone, and an early disclosure of the position will just set us up for criticism.

⁴ The “Summary of Possible Initiatives,” is attached but not printed.

59. Memorandum From Henry Nau of the National Security Council Staff to the President’s Assistant for National Security Affairs (Allen)¹

Washington, October 8, 1981

SUBJECT

Cancun Meeting with the President Thursday, October 8, 3:00 p.m.²

Haig would like to get past Cancun without the President rejecting Global Negotiations (GNs) *or* defining an alternative to GNs, such as an international conference on growth. Once past Cancun, he knows that he and Kirkpatrick will have primary control over the issue; White House interest will fade.

For the President to retain control of the issue, he must do two things:

1. Speak plainly at Cancun—In both options I or II, the United States rejects GNs.³ In option I we reject it explicitly; in option II we reject the LDC definition of it as a *negotiating* body with *authority* over the specialized agencies. Option II, however, is fuzzier, unless the *President* (and not someone else) spells out the conditions (including the need to

¹ Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—Policy. No classification marking. Sent for information. Sent through Bailey.

² According to the President’s Daily Diary, Reagan met with the Cancun planning group on October 8 from 3:40 to 5:02 p.m. (Reagan Library) Minutes for this meeting were not found.

³ A paper outlining three options for the Cancun Summit and Global Negotiations is in the Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—Policy.

conduct talks outside New York) and alternate agenda for a cooperative strategy for growth. By not mentioning GNs and defining an alternative, the President sets constraints on future State Department policy. Haig will argue that the President should leave this to the technicians.

2. Ask Haig to prepare a detailed strategy by early next week indicating how the State Department plans to work the United States out of its present isolation toward agreement on a cooperative strategy for growth (i.e., the U.S. concept of the global dialogue). This strategy should include:

- a. urgent, high-level contacts with key LDCs—go to LDCs first, outflank our allied interlocutors;
- b. key allies to be persuaded;⁴
- c. minimum number of governments agreeing to our conditions before we resume active discussions, preferably outside New York;
- d. agreement to formal coordination among a select group of industrial and developing countries (perhaps a Cancun caucus that would cut across North-South lines and ensure a different kind of dialogue);
- e. formal review with the President before *any* decision is made to actually convene an international conference on growth.

⁴ Nau added “and how” at the end of this point.

60. Memorandum From the President’s Assistant for National Security Affairs (Allen) to President Reagan¹

Washington, undated

SUBJECT

Cancun Summit, October 22–23, 1981

From our perspective, the International Meeting on Cooperation and Development in Cancun, Mexico is another step in the effort to explain and project U.S. policies for domestic and international economic recovery and worldwide development. In July, you met in Ottawa with America’s principal industrial allies accounting for more

¹ Source: Reagan Library, Executive Secretariat, NSC Trip File, President Reagan’s Participation in the International Meeting on Cooperation and Development Cancun, Mexico 10/21/1981–10/23/1981 Plenary Sessions: Multilateral Economic Issues (Binder); NLR-755-2-38-1–9. Secret.

than one-half of the world's wealth. At Cancun, you meet with these industrial partners again (minus Italy) plus fourteen nations of the developing world. Altogether, the countries at Cancun account for two-thirds of the world's population.

The Cancun Summit is the first such meeting of heads of government or state from both industrial and developing nations in the postwar period (excluding meetings of the Commonwealth nations). It comes after a decade or more of increasing political activity among developed and developing nations at the United Nations and other world conferences. It could offer an opportunity to influence in a practical way the direction of the international development dialogue, which has become increasingly rhetorical and polarized.

There is a growing sense of realism in *some* developing nations as they come to terms with the second oil price shock of 1979 and undertake domestic adjustments to reduce budget deficits and increase investments and exports. Even the tone of recent U.N. meetings has mellowed. The themes of your speeches prior to Cancun have sought to reinforce this developing focus on domestic responsibilities and practical international cooperation.

Nevertheless, the dialogue has gained considerable polemical headway over the past decade. It will take some time and firm U.S. leadership to refocus the issues. Some brief background on the "road to Cancun" may help to suggest how we arrived at this meeting and to put it into perspective.

Background

The majority of the developing countries, particularly in Asia and Africa, acquired their independence and joined the United Nations in the 1950s and early 1960s. Almost immediately these countries began to advocate a new set of institutions and principles to guide international economic relations, arguing that the General Agreement on Tariffs and Trade (GATT), World Bank and International Monetary Fund (IMF) had been created without their participation, practiced weighted voting which kept the developing countries in the minority, and benefitted predominantly the industrialized countries.

The first new institution to be created was the United Nations Conference on Trade and Development (UNCTAD). It met in general conferences in 1964 and 1968 and by the end of the decade created the Generalized System of Preferences (GSP). GSP provides preferential treatment for developing countries in trade by permitting duty-free entry of their goods, in contrast to the "most-favored-nation" principle of GATT (in which all trading partners, whether developed or developing, are treated equally). In other words, GSP sought to give the developing countries a break in their attempt to gain new markets for their products.

The pressure for new economic institutions and principles accelerated in the 1970s. The success of OPEC in 1973 encouraged developing nations to push through new resolutions in the UN in 1974 calling for the establishment of a New International Economic Order (NIEO) and creating the “Charter of Economic Rights and Duties of States.” At subsequent North-South meetings, including the Conference on International Economic Cooperation (CIEC) which met from December 1975 to May 1977, developing countries tabled the Integrated Commodity Program (ICP) designed to imitate oil price increases by establishing a Common Fund and commodity agreements to support and increase prices in some eighteen commodities exported primarily by developing countries. Developing countries also advocated the negotiation of codes to regulate private investment and the transfer of technology.

Altogether, from 1972–1981, nine major world conferences (food, environment, population, etc.), three general conferences of UNCTAD, and three Special Sessions of the UN General Assembly (UNGA) were held on specific development issues. After the conclusion of the Conference on International Economic Cooperation (CIEC) which included only selected countries, developing countries began to call for comprehensive negotiations in a global forum to deal with the interrelationship of issues, to go beyond the mere talk or recommendations of previous conferences, and to take decisions on a universal, one-nation, one-vote basis.

In December 1979, the UNGA passed Resolution 34/138 calling for the launching of Global Negotiations (GNs) at a special session of the UN in August 1980. The Special Session failed to reach agreement on the terms and conditions of such negotiations. Mexico and Austria then proposed convening a mini-Summit between industrial and developing countries. Originally recommended by the Brandt Commission report,² the mini-Summit or, as it is now known the International Meeting on Cooperation and Development in Cancun, Mexico, became the principal vehicle for pressing ahead toward comprehensive Global Negotiations.

Dynamics of Cancun

As Al Haig’s memo suggests, the Cancun meeting is informal, has no specific agenda or communique and is not intended to take any decisions.³ Its results have no binding force whatever. Nevertheless, some of the countries coming to Cancun actually expect specific decisions on

² See footnote 2, Document 27.

³ See Document 58.

two issues in particular—launching of Global Negotiations and establishment of a World Bank Energy Affiliate. President Mitterrand has circulated a memorandum indicating that he will seek to *force* decisions on these two issues. Reportedly, Mexico supports France, although Lopez-Portillo assured Ambassador Gavin, after inquiries were made, that “the Cancun Meeting is not the proper forum for discussing the launching of the Global Negotiations.” Algeria, Guyana, Tanzania, Canada and Sweden are also likely to press for a decision on GNs. All other countries will acquiesce in such a decision, even though some are at best lukewarm. Yugoslavia, India, the U.K. and Germany will take moderate positions and could be helpful to the United States in heading off a confrontation on this issue.

Your strategy is to hold the meeting to its original purposes—to exchange views, “to listen and to learn,” as agreed at the Foreign Ministers’ Preparatory Meeting in August, on “the future of international cooperation for development and the reactivation of the world economy, including areas such as food security and agricultural development; commodities, trade and industrialization; energy; monetary and financial issues.” We seek a good exchange on these issues among the heads of state. Other officials may discuss the detailed conditions and requirements to resume the dialogue. It is unlikely that an agreement to resume the dialogue will be reached easily, but it is possible that the meeting could produce an atmosphere that would lead to a consensus in the co-chairmen’s summary consistent with U.S. policy.

Agreed U.S. policy is that we will *not* return to preparatory talks under Resolution 34/138, but would resume talks with all countries, if present texts are set aside and new agenda and procedures worked out on the basis of detailed U.S. conditions. (See memo at Tab 3 in Global Negotiations section of this briefing book).⁴

If the United States remains firm with this position, the more moderate developing countries, seeking a cooperative spirit at Cancun, may be willing to accept less than an immediate return to preparatory talks, including a possible follow-up to Cancun where the United States could press the details of its conditions to resume talks.

⁴ Not attached.

61. Memorandum From the President's Assistant for National Security Affairs (Allen) to President Reagan¹

Washington, undated

SUBJECT

Bilateral Meetings and Your Objectives at Cancun, October 21–24, 1981

The bilateral meetings you will hold at Cancun will probably be more important to the outcome of this meeting than your bilaterals were to the outcome of the Ottawa Summit.

Al's memorandum identifies a number of common themes for all the bilaterals as they relate to our objectives at the Summit.² Let me elaborate a few points.

The meetings the first day with Lopez Portillo (Mexico), Zhao (China), Gandhi (India), Shagari (Nigeria), and Herrera Campins (Venezuela), and Thursday morning³ with Kraigher (Yugoslavia) are particularly critical. We have scheduled these meetings to take place before the plenary sessions begin in order to give you an early opportunity to influence these leaders. Their support is essential to a successful outcome at the Summit. As Al's memorandum suggests, such an outcome from our perspective implies no forced decisions and priority emphasis on personal rapport among the leaders and a broad exchange of views on serious issues (where differences are actually smaller than on the symbolic issues, such as Global Negotiations).

With Lopez Portillo, you should capitalize on the excellent personal relationship you have established to indicate that you are looking to his leadership to produce a cooperative and constructive outcome. Now that Kreisky (Austria), the other co-chairman, is not coming, Lopez Portillo is likely to be very cautious. You might suggest to him that, at a first meeting of this type among world leaders from both industrial and developing countries, the spirit of the meeting is far more important than specific results, particularly since Cancun is not empowered to take decisions and no consensus exists on specific points. Perhaps the

¹ Source: Reagan Library, Executive Secretariat, NSC Trip File, President Reagan's Participation in the International Meeting on Cooperation and Development Cancun, Mexico 10/21/1981–10/23/1981 Bilateral Meetings (Binder); NLR-755-2-28-3-8. Secret.

² A copy of an undated memorandum from Haig to Reagan on Reagan's bilateral meetings at the Cancun Summit is in the Reagan Library, Executive Secretariat, NSC Trip File, [Photos—Cancun 10/20/1981–10/23/1981].

³ Thursday, October 22.

leaders could agree on some form of continuing contact. That would demonstrate concrete resolve to back up a "new spirit of Cancun."

With Zhao (China), you should stress the importance of moderation and success at Cancun as the best way to dramatize the exclusion of the Soviets and the world's repudiation of Soviet actions in the Third World, particularly in Afghanistan and Indo-China. Point out to him that we need a success out of this meeting in order to keep the pressure on the Soviets in the Third World. Thus we hope China can help to tone down any possible conflict at Cancun over symbolic issues (e.g. Global Negotiations).

With Gandhi (India), you should appeal to the tradition of Indian influence in the developing world and suggest that her help is needed to assure other countries that the United States has a positive and sensitive program for world economic revival and development. Inform her that U.S. concerns about the dialogue between industrial and developing countries derive from fear that this dialogue, as presently structured, can only lead to further polarization. We seek a course that promises something more hopeful. According to a recent press report, Gandhi is said to be willing to accept a different type of forum than Global Negotiations as long as the aim remains the same.

Nigeria and Venezuela played helpful moderating roles at the Foreign Ministers Preparatory Meeting in August. You might refer to this when you meet Shagari (Nigeria) and Herrera Campins (Venezuela) and express your hope that the present meeting will build upon and advance this spirit. Venezuela, although frequently a leader of OPEC and the developing country caucus (known as the Group-77), is working closely with us in bilateral and regional affairs, particularly in the Caribbean. You might mention to Herrera Campins that we appreciate the fact that Venezuela is acting (i.e., committing its own resources) and not just talking about the development process.

Yugoslavia is eager to play a bridging role between the U.S. and more radical developing countries. You might indicate to Kraigher that you are deeply concerned that developing countries appreciate the positive approach the United States is taking. It is precisely because we are serious about the real problems of development that we do not believe that any dialogue, however constructed, can serve this purpose. Yugoslavia could play a pivotal role in obtaining an agreement on a Cancun follow-up.

The other bilaterals are also important to the outcome of the meeting, but more by way of limiting damage. The meetings on Friday with Algeria, Tanzania and Guyana may create some anticipation that will favorably influence the positions these countries take in the plenary sessions. Bangladesh is likely to play a moderate role, and the bilateral meeting will reinforce this. The Philippines and Saudi Arabia are key

U.S. partners in the quest for peace. While they may not be unusually helpful to us in the plenary meetings, they are also unlikely to take the lead against our interests.

We have not scheduled separate bilaterals with industrial countries both to emphasize the developing country focus of the meeting and to avoid any appearance of needing a go-between with developing countries or of ganging up on the developing countries. If appropriate, we have left open breakfast on Saturday morning for a possible, common meeting with the industrial country leaders.

62. Minutes of a Cabinet Council on Economic Affairs Meeting¹

Washington, October 13, 1981, 8:45 a.m.

Attendees: Messrs. Regan, Baldrige, Schweiker, Stockman, Brock, Weidenbaum, Anderson, Porter, Darman, Fuller, Clark, Lyng, Davis, Lovell, Sprinkel, Savas, Kudlow, Dederick, Hormats, Nau, Hopkins, Cribb, Gribbin, Elliott, Baroody, Leland, and Ms. McLaughlin

1. *Cancun Summit*

The Council reviewed a paper on “U.S. Policy Regarding ‘Global Negotiations’ and Development.”² The paper outlined the U.S. position on global negotiations and summarized the substantive themes and initiatives that comprise the administration’s approach to development.

Deputy Secretary Clark observed that the State Department felt the paper did an excellent job of summarizing the most recent meeting with the President on Cancun, recommended some modifications in phraseology in the paper, reported on a letter to Secretary of State Haig from Foreign Minister Genscher,³ and summarized information on the positions some developing countries might take at the conference.

¹ Source: Reagan Library, Ralph C. Bledsoe Files, Office of Policy Development, Cabinet Councils, Other Cabinet Councils, Cabinet Council on Economic Affairs III. No classification marking. Drafted by Porter. The meeting took place in the Roosevelt Room at the White House.

² An unknown hand underlined “Global Negotiations.” An updated version of this paper is printed as Document 63.

³ A copy of the letter from Genscher to Haig, transmitted October 9 by telegram, is in the Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981–1984, Lot 85D193: Cancun Summit—Miscellaneous III. The copy provides both a German language version and an English translation.

The discussion centered on U.N. Resolution 34/138, the conditions under which the United States would be willing to participate in talks with other countries, the investment insurance arrangements envisioned under the administration's proposal, the prospects for congressional support for a new international investment insurance scheme, the concept of a general agreement on investment allowing countries to harmonize their investment policies, the record of the Overseas Private Investment Corporation, and the cost of providing tax credits for investments in developing countries.

The discussion also included consideration of extending the Generalized System of Preferences, congressional attitudes toward GSP, the need to urge countries receiving U.S. agricultural assistance to move toward market-oriented agricultural policy, and the U.S. energy proposals.

Decisions

The Council approved amending the paper's treatment of global negotiations to include the following:⁴ "We would ask the Cancun countries to agree to instruct their delegations and encourage others to put aside the substance and agenda of U.N. Resolution 34/138 and begin afresh to work out a procedural basis and agenda that would offer the prospect of meaningful progress."

The Council approved modifying the four conditions under which the U.S. would be willing to participate in talks to state that "such talks must be entered into in a cooperative spirit rather than one in which views become polarized and chances for agreement are needlessly sacrificed."

The Council approved with respect to investment insurance arrangements indicating that the U.S. would explore the further development of multilateral investment insurance guarantees, arranged through an "International Investment Insurance Agency" (within the framework of the IBRD), and building on the successful bi-lateral experience with OPIC.

The Council approved stating that the U.S. would attempt to promote a general agreement on investment allowing countries to harmonize investment policies and to negotiate mutually beneficial improvements in the climate for investment.

The Council approved stating with respect to tax measures that an effort will be made to identify developed and developing country tax measures which might increase market-oriented investment from both external and domestic sources in the LDCs.

⁴ An unknown hand wrote "CD's" in the left-hand margin and underlined "approved amending the paper's".

The Council approved stating the U.S. will join with LDC's in working out an effective safeguards code that reflects mutual concerns and interests.

The Council approved announcing that the U.S. will continue to support the generalized system of preferences and will take the lead in urging other developed countries to match us in expanding developing nations' access to markets.

The Council approved urging that recipient countries move toward market-oriented agricultural policies which permit prices to find their own levels without production or consumption subsidies.

The Council approved stating that the U.S. would consider intensified energy training programs for technicians from developing countries, along with increased emphasis on helping LDCs assess and more efficiently utilize their resources.

63. Paper Prepared in the National Security Council¹

Washington, undated

U.S. POLICY RE "GLOBAL NEGOTIATIONS" AND DEVELOPMENT

This formulation is in two parts:

(I) a question and answer *re* the procedural issues raised by the phrase "Global Negotiations"; and

(II) a summary of substantive themes and initiatives that comprise the Reagan administration's approach to development.

(I) Q. & A. RE "GLOBAL NEGOTIATIONS"

Q. The *Ottawa Summit Declaration* committed the summit members to "participate in preparations for a mutually acceptable process of

¹ Source: Reagan Library, Executive Secretariat, NSC Trip File, President Reagan's Participation in the International Meeting on Cooperation and Development Cancun, Mexico 10/21/1981–10/23/1981 Bilateral Meetings—The President (Binder); NLR–755–2–33–31–1. No classification marking. Sent under an October 13 covering memorandum from Darman and Fuller to multiple recipients which reads: "Attached is a revision of the 'Cancun/Development Policy' memo previously circulated on October 9. It reflects modifications made through discussion at today's meeting of the Cabinet Council on Economic Affairs, and previously approved Presidential guidance. It is our understanding that this now represents fully agreed guidance for internal use within the Administration."

global negotiations in circumstances offering the prospect of meaningful progress.”² The co-chairmen’s press statement following the *Cancun Ministerial Preparatory Meeting* (in which the U.S. participated) stated that a purpose of the Cancun Summit is to “facilitate global negotiations.”³ *Is the U.S. now willing to return to the U.N. preparatory discussions on global negotiations?*

A. (1) The United States strongly favors the development of a *cooperative strategy for global growth*. We believe that experience—including our own development experience—confirms the importance of:

(a) *opening up markets*, both within individual countries and among countries;

(b) *improving the climate for private investment*, and the transfer of technology that comes with such investment;

(c) *orienting assistance toward the development of self-sustaining productive capacities*;

(d) *tailoring particular development strategies* to the specific needs and potential of individual countries and regions; and

(e) *creating a political climate in which practical solutions can move forward*—rather than founder on naive or contentious rhetorical debate.

(2) With this general framework as our guide, we are prepared to examine the specific needs and potential of particular countries and regions—while at the same time we examine how a common effort might best overcome identified obstacles and promote desired development.

(3) We have said that we would be willing to “participate in preparations for a *mutually acceptable* process of global negotiations *in circumstances offering the prospect of meaningful progress*. (Note emphasis.) *We do not believe that Global Negotiations as contemplated and defined in U.N. Res. 34/138 (December 1979) would offer the prospect of meaningful progress.*” The agenda is at once too general and too far-reaching to provide a practical basis for proceeding. And references to the “New International Economic Order” and the “restructuring of international economic relations” are undesirable reminders of the type of contentious ideological environment in which cooperative solutions are unlikely to be found. *We therefore would not return to preparatory talks if they were to be conducted on the basis of U.N. Res. 34/138.* We would ask the Cancun countries to agree to instruct their delegations and encourage others to put aside the substance and agenda of U.N. Res. 34/138 and begin afresh to work out a procedural basis and agenda that would offer the prospect of meaningful progress.

² See footnote 2, Document 32.

³ See footnote 5, Document 33.

(4) We are now, and would continue to be, willing to participate in talks with individual countries, with regional groups, with other interested parties—and even with all countries simultaneously—*provided that*:

(a) the talks must have a practical orientation toward identifying, case-by-case, the specific potential for and obstacles to development—obstacles which a cooperative effort might remove;

(b) the talks must proceed on a basis that would respect and preserve the competence, functions, powers, voting arrangements, and charters of the specialized international institutions—and not seek to create new international institutions;

(c) the general objective of such talks must be the identification of conditions necessary to increase economic development (rather than a restructuring of the international economic system); and

(d) such talks must be entered into in a cooperative spirit rather than one in which views become polarized and chances for agreement are needlessly sacrificed.

(5) We believe these conditions provide the only basis on which practical progress can be made. Preparatory talks conducted on the basis of U.N. Res. 34/138 have not and could not meet these conditions. But if talks at the U.N. could, on a new basis, meet these conditions, we would be willing to participate in them.

(II) *SUBSTANTIVE ELEMENTS OF U.S. DEVELOPMENT POLICY FOR CANCUN*

Long-term, non-inflationary growth depends upon:

(a) adoption of appropriate domestic policies by developed and developing countries,

(b) mobilization of internal (private sector) resources,

(c) recognition that external resources generated by trade and investment are more important than development assistance.

Emphasis must shift from “resource transfer” proposals which have characterized the dialogue with developing countries to “resource generation” measures. Our approach requires an integrated policy approach across economic sectors, specifically, investment, trade, agriculture, and energy.

INVESTMENT

It is essential to create an overall economic and political environment conducive to both domestic and foreign investment.

Proposals

(1) Increase co-financing and other private financing with the multilateral development banks.

(2) Enhance the International Finance Corporation activities—the IFC fosters private sector debt and equity financing of investments in

the developing countries. Its program is increasing in both size and diversity. The bulk of the IFC projects (about \$3.3 billion) are privately financed in the LDCs from domestic and external sources.

(3) Explore the further development of multilateral investment insurance guarantees, arranged through an "International Investment Insurance Agency" (within the framework of the IBRD), and building on the successful bilateral experience with OPIC.

(4) Attempt to promote a general agreement on investment allowing countries to harmonize investment policies and to negotiate mutually beneficial improvements in the climate for investment.

(5) Tax measures—an effort will be made to identify developed and developing country tax measures which might increase market-oriented investment from both external and domestic sources in the LDCs.

TRADE

The U.S. is committed to an open world trading system which will provide all countries an opportunity to strengthen and diversify their economies.

Proposals

(1) The U.S. will join with LDCs in working out an effective safeguards code that reflects mutual concerns and interests.

(2) Encourage further trade liberalization, especially with the advanced developing countries—use GATT.

(3) Launch extensive rounds of consultations with all countries, including developing countries, in preparation for the GATT ministerial.

(4) Announce that the U.S. will continue to support the generalized system of preferences and will take the lead in urging other developed countries to match us in expanding developing nations' access to markets.

AGRICULTURE

Emphasis will be on the importance of market-oriented policies, fostering greater reliance on markets and entrepreneurship. It is expected that this approach will create rising agricultural productivity, self-sustaining capacity for research and innovation, and stimulation of employment-creating entrepreneurship in rural areas.

Proposals

(1) Encourage LDC economic policies which: (a) reduce or eliminate subsidies to food consumers; and (b) provide adequate and stable price incentives to their agricultural sector to increase production.

(2) Emphasize innovative joint research and development activities undertaken through U.S. and LDC institutions.

(3) Encourage rural credit, improved storage and distribution facilities, and roads to facilitate marketing and education.

(4) Urge that recipient countries move toward market-oriented agriculture policy, which permits prices to find their own levels without production or consumption subsidies.

ENERGY

The U.S. will increase funding for energy-related activities in the years ahead, with emphasis on a mix of public and private efforts and the mobilization of LDC resources.

Proposals

(1) U.S. bilateral assistance program in energy must stress technical assistance rather than resources transfers. The U.S. will support energy lending by multilateral institutions provided projects are economically viable. Such lending should accelerate LDC energy development by encouraging private investment in energy development. (Note: U.S. opposed to new Energy Affiliate.)

(2) Greater private sector support will be sought in the energy area.

(3) The U.S. will support selected elements of the program of action of the U.N. Conference on New and Renewable Resources of Energy.

(4) Intensified energy training programs for technicians from developing countries will be considered, along with increased emphasis on helping LDCs assess and more efficiently utilize their resources.

NOTE: The foregoing proposals are elaborated upon in a set of papers developed through the Cabinet Council on Economic Affairs. In addition to detailed papers on the above, there are also papers which elaborate upon contributions already made by the U.S.—to be interwoven as appropriate.

64. Memorandum From Secretary of State Haig to President Reagan¹

Washington, October 14, 1981

SUBJECT

Global Negotiations Strategy for Cancun

In the last several days we have received a considerable amount of intelligence on what to expect at Cancun. It is increasingly clear that the issue of global negotiations will be the centerpiece of the discussions. Our developed country colleagues appear to feel as strongly about this as the developing countries. A recent letter to me from German Foreign

¹ Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—Policy; NLR-369-11-41-8-7. Confidential. Sent under an October 15 covering memorandum from Nau to Allen.

Minister Genscher stresses this point, and indicates that we would have an ample opportunity to pursue our strategy for global growth under the heading of global negotiations.²

In light of this, I have taken another look at the guidance memo summarizing the results of our discussion last Thursday on global negotiations.³ As presently written, the memo is needlessly contentious in attacking UN Resolution 34/138. If we stand on that negative ground, it will completely undercut the positive program you have developed and, despite our efforts, we will find ourselves on the defensive and isolated in Cancun.

We can easily avoid this self-inflicted wound by presenting our position on the negotiations—with which I am in complete agreement—in more positive terms. Attached is a suggested rewrite of that part of the memo which does the trick.⁴ The guidance states that we would be willing to participate in preparatory talks in the United Nations provided that the four conditions on which we insist are met. On an if-asked basis, we would note that we have proposed a set of conditions for our returning to the preparatory table and would not do so if the talks were conducted on the basis of UN Resolution 34/138. Our stress would be on our hope that others would agree to put aside the substance of that resolution and begin afresh to work out a procedural basis and agenda that would offer the prospect of meaningful progress.

This approach serves precisely the same interests we all have in avoiding preparatory discussions or negotiations under UN Resolution 34/138, but enables us to do so in a way which puts you in a leadership position. I recommend you approve this more positively phrased guidance.

² See footnote 3, Document 62.

³ Thursday, October 8. See Document 63.

⁴ The revised guidance is attached but not printed.

65. Memorandum From the President's Assistant for National Security Affairs (Allen) to Multiple Recipients¹

Washington, October 17, 1981

SUBJECT

President's Opening Statement at Cancun

Important substantive and stylistic changes must be made in the President's draft opening statement at Cancun. Some suggestions are contained in an attachment to this memo.²

There is one issue, however, that needs to be resolved before further drafting—how the President deals with the issue of Global Negotiations. The State draft raises two questions:

1. Should the President himself lay down the conditions and thereby link his personal prestige with the issue?
2. If he does, can he spell out the conditions with sufficient force and detail or will statesmanship require that he soft-pedal the issue? (Notice that in the State draft the President identifies our four conditions only as "considerations".)

DISCUSSION:

If the President himself lays down the conditions, he sets himself up for one of three possible outcomes. There is only a slim or no chance that the other countries at Cancun will agree to these conditions. They have not done so in New York for the past two years, and many of these countries argue that Cancun does not have the authority to take decisions on specific conditions related to the Global Negotiations (since Cancun is not a universal forum). Hence, three outcomes are likely:

1. Confrontation if the President spells out the conditions with force and detail and sticks to his conditions.
2. The appearance of caving in by the U.S. if the President modifies or withdraws his conditions.
3. Being rolled if the President states the conditions in a highly general way and identifies them only as "considerations", since other governments will say they have always accepted these conditions and hence are more than willing to return to New York on this basis.

¹ Source: Reagan Library, Edwin Meese Files, Cabinet Council Material, Cancun Summit Meeting 10/21–10/23 Preparation Materials. No classification marking. Sent to Meese, Baker, Deaver, Anderson, Weidenbaum, and Darman.

² The suggested changes are attached but not printed. A copy of the State draft of Reagan's opening remarks at Cancun is in the Reagan Library, Executive Secretariat, NSC Trip File, North-South Economic Summit Cancun Mexico 10/22/1981–10/23/1981.

ALTERNATIVE: An alternative way to state our position at Cancun is as follows:

1. The President reaffirms his interest in an international dialogue with developing countries, as he has done in his recent development speech.

2. The President recalls that at Ottawa, the U.S. indicated its readiness to "participate in preparations for a mutually acceptable process of global negotiations in circumstances offering the prospect of meaningful progress."

3. In an important sense, the dialogue we seek already exists; Cancun is another step in this process.

4. The President indicates that he has come to Cancun to exchange views on the substantive issues of development and that he has, in a series of speeches by himself and key Cabinet officials, laid out the vital and specific issues that must be addressed in this discussion and identified the principles and institutions that have achieved the greatest success in dealing with these issues in the past.

5. The President then notes that the U.S. Government (implying not only Ronald Reagan—see below) has always had reservations about the specific talks in the UN known as Global Negotiations. U.S. concerns about specific drafting points, etc. therefore are well known. The President avoids listing these conditions but indicates that his officials will be discussing these matters at Cancun and, if necessary, in some informal subministerial follow up contacts after Cancun. The President expresses his hope that heads of government will focus on substance, not procedural matters.

6. The U.S. delegation distributes in a separate official paper the detailed conditions for a return to preparatory talks. This paper spells out not only the conditions themselves but also point-by-point implementation of these conditions in a draft text of a new agenda and procedures to replace the present von Wechmar text.

ADVANTAGES OF ALTERNATIVES:

1. By taking a more general approach to the question of conditions, the President avoids staking his personal prestige on highly detailed points or having to state the conditions in watered-down form.

2. By distributing a highly detailed official paper referred to by the President, the U.S. government makes clear its positions on the issues.

3. By suggesting that the conditions represent "concerns" of the U.S. government since the passage of Resolution 34/138, the President establishes the continuity of U.S. policies and suggests that these conditions are not new, tough, confrontational policies devised by Ronald Reagan but are long established positions of the U.S. government.

4. This approach allows discussions about conditions to proceed at Cancun and after but among officials only. The President stays on the high ground of discussing serious issues, yet at the same time does not appear to be stonewalling further talks.

66. Memorandum From the Executive Assistant to the Secretary of the Treasury (Chew) to the Assistant to the President for Cabinet Affairs (Fuller)¹

Washington, October 17, 1981

SUBJECT

Comments on State draft Cancun opening remarks for the President

Put bluntly, State's draft opening remarks are an astonishing departure from the philosophy, themes, and substance already embraced by the President for his participation in the Cancun Summit.² His Philadelphia speech, only two days ago, outlined these at length and cast them explicitly as his platform for Cancun.³ The State draft has little in common and much in conflict [with] the Philadelphia speech. It is so inconsistent with the approved internal guidance circulated on October 13 by you and Dick Darman that it cannot even serve as a basis for further drafts.⁴

Moreover, on at least one major policy issue—the U.S. stand on U.N. Global Negotiations (GN)—State's draft announces a course of action explicitly rejected by the President and other participants in the recent Cabinet-level discussions, as recorded in your October 13 memorandum. (The approach is even at odds with State's own unilateral rewrite of that decision in Secretary Haig's memorandum of October 14 to the President.)⁵

The Administration's position since early spring has consistently been that we would defer a GN decision until after Cancun. The State draft rejects this and:

- volunteers, at the outset of Cancun, a U.S. return to the New York GN preparatory process;

- restates and softens each of the four conditions for talks in paragraph (4) of your October 13 memo (also found in paragraph (2) of the State rewrite);

- reduces the conditions to mere "considerations" which need only be accepted as "reasonable" by Cancun participants; and

¹ Source: Reagan Library, Executive Secretariat, NSC Trip File, North-South Economic Summit Cancun Mexico 10/22/1981–10/23/1981; NLR-755-3-16-3-0. Confidential.

² See footnote 2, Document 65.

³ See footnote 2, Document 38.

⁴ See Document 63.

⁵ See Document 64.

— omits the crucial point of the unacceptability of further GN preparations on the basis of UNGA Resolution 34/138—which, if not conveyed, would lead to total misunderstanding of the U.S. position.

As the to the rest of the State draft, its compatibility with the President's Philadelphia address is remote at best. For example:

— the President's "three solid pillars" for a "cooperative strategy for global growth to benefit both developed and developing nations" are nowhere referred to in the State draft, nor are the "five strategic principles" which comprise the framework for his action program;

— his basic philosophy of market-oriented policies and a better private/public sector balance goes unstated, in favor of vague references to "a new era of growth", interdependence, and the importance of public sector aid programs (the first mention of the private sector occurs in an apologetic explanation that "there are certain types of projects which the private sector cannot finance . . .");

— rather than stressing, as the President did, that assistance should purposefully develop "self-sustaining productive capacities, particularly in food and energy", with emphasis on domestic policy improvements, the draft highlights the *volumes* of assistance we are prepared to commit ("one-half of an bilateral development assistance to agriculture; . . . a considerable amount of resources" to following up the UN Energy Conference);

— where the President's speech praised the GATT, IMF, and World Bank for helping "to maintain maximum flexibility and opportunity for individual enterprise and an open international trading and financial system," the State draft focuses on resource transfer and assistance programs of the international institutions—even going so far as to compliment the "commendable role" played by the UNCTAD!

Many other examples could be cited. Taken together, *they most closely resemble the essential themes and approaches of the previous Administration.*

It would be far more appropriate, and entirely logical, for the President's opening Cancun statement to flow from and build on his Philadelphia speech. Not only does that address present a clear-cut philosophical and policy framework—which is entirely absent from the State draft—but it also includes a reasonably elaborate action program which is a key element in showing that there are practical alternatives to Global Negotiations. There is *nothing* to be gained by shortchanging either the President's philosophy or his action program, when other Heads of State are listening.

67. Telegram From the Department of State to the AlCancun Collective¹

Washington, October 17, 1981, 1741Z

277464. USEC/USOEDC also for Embassy. Subject: Speech by President Reagan on the Cancun Summit. Ref: State 275404.² Embassies pass PAO's.

1. Reftel provided text of speech delivered by President Reagan on October 15. Action addressees are requested to arrange a pre-Cancun briefing at highest level on U.S. policy towards LDCs as outlined in speech. It is especially important that Cancun participants have accurate and balanced perspective on President's views given tendency of early press coverage to single out certain elements of his address.

2. In summarizing the speech, posts should include the following points:

— This speech, combined with the President's and Secretary Regan's Bank/Fund addresses and Secretary Haig's UN speech in September demonstrate the high level of administration interest in developing countries.

— U.S. policy towards developing countries, for the first time, integrates all important elements into a single comprehensive package: trade, investment, finance, foreign assistance, and private sector activities.

— Our policy involves particular development strategies tailored to the specific needs and potential of individual developing countries. We see trade and private investment as central elements of the development process. We emphasize concessional assistance for the poorest countries, to help them address their pressing problem in ways which improve human productivity, and trade policy and investment opportunities for the more advanced developing nations.

— The private sector recommendations should be put into perspective. Critics have rebutted U.S. statements with "the private sector can't do it all". A close examination of this and other speeches

¹ Source: Department of State, Central Foreign Policy File, Electronic Telegrams, D810491–0349. Limited Official Use; Immediate. Sent for information priority to all diplomatic posts. Drafted by Constable (EB/IFD); cleared by Meissner and Nau; approved by Hormats.

² Telegram 275404 to all diplomatic posts, October 15, transmitted the text of Reagan's October 15 speech to the World Affairs Council of Philadelphia on the subject of economic development policy and the Cancun Summit. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810487–0567)

will make it clear that, far from viewing the private sector as the exclusive vehicle for development, we are proposing a balanced approach. In recent years insufficient attention has been given to opportunities for private sector participation not only in developing countries but internationally. Yet as World Bank President Clausen recently pointed out 50% of the gross domestic product in the developing world today is produced by the private sector.

— The speech explicitly recognizes the fact that “government and private enterprise complement each other. They have, can and must continue to co-exist and cooperate.” The fundamental objective is development and individual fulfillment through the mobilization of all resources, whether public or private, and support for policies and institutions which contribute directly and effectively to this process.

— The speech includes significant U.S. commitments on trade: our pledge to continue our GSP program and work for an effective safeguards code, and our intention to support continued expansion of developing nations’ access to our markets. We in particular want to work closely with LDCs in preparing for the GATT Ministerial.

— It is also important to underline the President’s firm and unambiguous support for the international finance institutions (World Bank and International Monetary Fund).

— Finally, the proposals in food and energy provide a constructive approach and lay the groundwork for future discussions on how the international community might improve and expand its efforts to assist developing countries in these areas.

Haig

68. Memorandum of Conversation¹

Williamsburg, Virginia, October 18, 1981, 4:30 p.m.

SUBJECT

Meeting between President Reagan and President Mitterrand

PARTICIPANTS

U.S.

The President
Vice President Bush
Secretary Haig
Richard Allen
Ambassador-designate Galbraith

FRANCE

President Francois Mitterrand
Foreign Minister Cheysson
Minister of Defense Hernu
Ambassador de Laboulaye
Jacques Attali, Economic Adviser to
the President

[Omitted here is discussion of issues unrelated to the Cancun Summit.]

Mitterrand said he was convinced that several commodities markets are rigged by a few inside speculators who are making money at the expense of Third World commodity producers. He cited the case of coffee as told him by Houphouet-Boigny of the Ivory Coast. Mitterrand said he knew Houphouet-Boigny well, since 1944 or 1945.

Mitterrand thought this was an area where we and France might be of useful service to some Third World producers. It would be something concrete to come from Cancun, for example, if we agreed to look into a price support system for raw materials prices. Mitterrand said we cannot just hand over money and watch it dissipate.

Mitterrand said he had received a letter from Tom Clausen of the World Bank which set forth several possible solutions to the Third World energy problem. He urged the President to review this.

As for Global Negotiations, Mitterrand said the G and the N should both be lower case. We don't want a new institution but we must be seen to be willing to help. Mitterrand said the President won at Ottawa by retreating as the French did in the Marne in 1914, but any retreat had to be carefully done. Schmidt would be helpful; nobody in

¹ Source: Reagan Library, Executive Secretariat, NSC Subject File, Memorandums of Conversation—President Reagan (11/02/1981–11/15/1981); NLR-753-49-4-3-1. Secret; Nodis. No drafting information appears on the memorandum. The text of the speech is scheduled for publication in *Foreign Relations*, 1981–1988, vol. VII, Western Europe, 1981–1984.

the West wanted to create or adopt a mechanism or an institution to hand over money.

Mitterrand said Cancun would last for 2-1/2 days and there would be 22 speakers. There would be little time for discussion, and no time for decisions. A good positive tone setting out a willingness to do something was the best the West could do. We must not let the Soviets benefit from a split between the Third World and the West.

The President said he would listen at Cancun and set forth some views. He wanted to help the Third World to help themselves, citing the success stories of South Korea (versus North Korea), Singapore, etc. He also cited our Caribbean Plan. The President said he was pleased to hear Mitterrand's views on Global Negotiations. They should not be a euphemism for handouts. The President referred to a few of the positive things he would say at Cancun.

Mitterrand said he and the President were not far apart on Cancun. They would help each other. The President welcomed French help.

Mitterrand noted that in November representatives of approximately 20 African states would be in France for a Francophone summit. Only five or six African leaders would not be able to attend this meeting.

Mitterrand said France was going to renew relations with Madagascar. Mitterrand had told their "progressive" leader that the Soviet base must first go and the leader agreed.

The President pointed out that the Marshall Plan had worked because the countries could help themselves. Many in the Third World cannot; they don't have developed markets. We have a difficult problem and our record of success through economic assistance is spotty.

[Omitted here is discussion of issues unrelated to the Cancun Summit.]

69. Memorandum of Conversation¹

Cancun, undated

SUBJECT

Summary of the President's Bilateral with President Jose Lopez Portillo of Mexico

PARTICIPANTS

President Ronald Reagan
Secretary of State Alexander M. Haig, Jr.
James A. Baker, III, Chief of Staff and Assistant to the President
Richard V. Allen, Assistant to the President for National Security Affairs

President Lopez Portillo
Jorge Castaneda de la Rosa, Minister of Foreign Relations of Mexico

PRESIDENT LOPEZ PORTILLO greeted the President, and after an initial exchange of pleasantries, stated that he had high hopes that this conference will bear fruit, that it will be based on candor and frankness. He said success for the meeting would depend on the position of the United States, and that the meeting would be what President Reagan sought to make of it.

PRESIDENT REAGAN thanked President Lopez Portillo saying he looked forward to the conference and believed much could be accomplished. He said the United States is committed to provide effective aid for the less developed countries, and that it is essential the whole world begins to prosper.

PRESIDENT LOPEZ PORTILLO said that he has great optimism. He believes that if we identify the problem clearly stated in its proper terms, then there is a good chance of achievement in this meeting. A problem well stated is the beginning of a solution. After we agree on the problem, we can discuss the possibilities for solution. This is a complex world, and we need to find many solutions, all based on the spirit of tolerance to explore the many solutions.

PRESIDENT REAGAN said this is our position too. It is well that you said what you did, because some see a single problem in the world and therefore incur a single solution. We're talking about many countries with different problems.

¹ Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—Proceedings; NLR-369-11-47-1-8. Secret. No drafting information appears on the memorandum. According to the President's Daily Diary, Reagan met with López Portillo and others on October 21 at Cancun International Airport from approximately 10:45 to 11:15 a.m. (Reagan Library) According to the memorandum of conversation, the meeting concluded at 1:20 p.m. The discrepancy between the memorandum and the President's Daily Diary could be due to the difference in time zone between the two locations. Brackets are in the original.

PRESIDENT LOPEZ PORTILLO said tomorrow he would underline North-South relations in a way of speaking.² He does not believe that there is a monolithic North, as countries of the North have their own characteristics, their own interests, their own conflicts. We know what brings them together is the need for development and for security. This unifies the North as a whole. We have to understand this. If there are differences in the North, there are many more in the South. To economic problems we have to add political problems and also security problems. Frequently we in the South find certain measures which limit our security, but we have to assure that these security measures still permit us to accomplish many things.

PRESIDENT REAGAN agreed, noting that we developed nations must look to ourselves to see how and where we make it difficult to permit the development of other countries.

PRESIDENT LOPEZ PORTILLO told the President that he believed the President was showing a wonderful spirit. He said that expansion of goods and services for the less developed countries is extremely important; and that frequently the rules that work in the North don't work in the South. For him, Aristotle's definition of justice is quite valid: it is that justice means that one treats those who are equal equally and those who are unequal unequally. At this time many developed nations are suffering because of their commercial problems. Raw materials earn foreign currency, and foreign currency can give them what they need for development, but frequently they are forced to sell under cost. This is the case of Mexico, but the Mexico situation is not so dramatic.

PRESIDENT REAGAN noted that Mexico can defend itself diplomatically and can adjust by degrees, but there are some less developed countries which are sinking and can do nothing. The most dramatic example in the region, he noted, is Costa Rica, and one could say the same situation prevails in Africa and Asia at even more dramatic levels, but that the general guidelines are these.

[Foreign Minister Castaneda arrived at 12:56]

PRESIDENT REAGAN said that he came to listen and do some learning, but also to be as helpful as possible.

PRESIDENT LOPEZ PORTILLO said while we have nothing to teach you, we do demonstrate good faith. We offer honesty. If this attitude serves a purpose, that would be perfectly fine. If not I'll have to remain disappointed.

PRESIDENT REAGAN responded that he found it very important and interesting for the United States to be in Cancun.

² Thursday, October 22.

PRESIDENT LOPEZ PORTILLO repeated that this meeting will be what the U.S. wants to make it. If you open a door, the rest of the industrial countries will follow. Many of the developed countries have good will toward the less developed countries, but no power. The United States has power, and that makes the difference. I just came from a state visit to France, he noted, and France is an extremely important country but without any meaningful chances for real influence in the world.³ Germany, Sweden and Canada are examples of countries which are particularly sympathetic to the problems of the less developed countries, but they cannot act effectively alone. If they come together, they can in fact achieve something. The main characteristic of the United States is its great size under one command, and in face of United States power, the rest of the world appears fractured and pulverized.

PRESIDENT REAGAN stated there are many things the developed nations can do by adjusting customs duties and taking other measures to make themselves better markets for the less developed countries. Forgive me for saying so, the President stated, but we buy more than half of the non-OPEC country exports, and we could use some partners in that effort.

PRESIDENT LOPEZ PORTILLO responded enthusiastically, saying that this is the spirit that should motivate our discussions. If we can travel along this road, I feel more optimistic than I did even a few minutes before your arrival.

PRESIDENT REAGAN said that if we're going to assist the less developed countries in their development, we must definitely provide adequate markets for their products.

PRESIDENT LOPEZ PORTILLO responded that if all countries followed the idea you have in mind, Mr. President, we will open up a door to hope. To lose hope is to despair. A man in the state of despair is a man without goals, one who could sink, and that is the worst thing that can happen. I hope we can achieve a ray of hope.

PRESIDENT REAGAN indicated his full and enthusiastic agreement with that point of view.

PRESIDENT LOPEZ PORTILLO said perhaps the problem is one of tone of voice in discussions between the North and South, but I wish to signify my complete and absolute dedication to achieving meaningful progress. Am I utopian? No, I am an optimist.

PRESIDENT REAGAN said I am an optimist too.

³ An unknown hand underlined "without any meaningful chances for real influence in the world."

PRESIDENT LOPEZ PORTILLO explained that this was a wonderful circumstance and noted that he is in very good company, indeed. He then asked President Reagan if he has any comment or special observations on the way in which the meeting at Cancun has been set up.

SECRETARY HAIG noted that President Kreisky of Austria, a co-sponsor of the Summit, would not be coming and that therefore we would expect Mexico to provide a summary of the results, or did President Lopez Portillo have another solution?

PRESIDENT LOPEZ PORTILLO said he was considering the idea of Trudeau becoming the co-chairman, and that he wished to talk about it with the other heads of state that evening. He said I am a representative of the South, and of course I have my preferences. Nonetheless, that four President's became ill and are unable to attend is disappointing to me.

PRESIDENT LOPEZ PORTILLO continued that he would open the proceedings with a short speech. After that, anyone who wishes to talk can do so. Then in the afternoon and the next day it will be free discussions. The Chairman would try to find a basis of common agreement and bring together the views of participants. Then we can come to some conclusions to inform the press and the world. Friday night,⁴ he noted, it would be his intention to work on a systematic document. He asked whether it should be an internal working document or should be made public?

PRESIDENT REAGAN indicated that, in his view, it should be a working document.

FOREIGN MINISTER CASTANEDA indicated that he wished to clarify that the document would be the responsibility only of the two co-chairmen, and no other opinions would be reflected in it.

PRESIDENT LOPEZ PORTILLO said that he wished to talk to the President in this manner so as to ensure a proper basis for getting to work.

PRESIDENT REAGAN said that he had prepared a few remarks, assuming the meeting would develop along the lines as described by the President of Mexico.⁵

PRESIDENT LOPEZ PORTILLO said that the President's intervention will be more than welcome, as it will make that part of the meeting all the more interesting. He said that he was determined that his

⁴ October 23.

⁵ See footnote 2, Document 49. A copy of Baker's handwritten notes of the first plenary session on October 22, which was devoted to the participating nations' opening statements, is in Princeton University, Mudd Manuscript Library, James A. Baker III Papers, Box 77, Folder 5, Cancun Summit, 1981.

attitude would be reasonable and not at all arrogant, that he was filled with hope. The President repeated that he is very optimistic about the results of this meeting.

The meeting concluded at 1:20 p.m.

70. Minutes of a Meeting¹

Cancun, October 22, 1981, 5:10–7:32 p.m.

Trudeau

We will start with food and agriculture tomorrow—1 hour on each of other subjects and p.m. tomorrow for general topics.

I. Points on which we all agreed:

- 1) Problem of hunger is global affecting 1/4 of human race
- 2) Is as much a problem of producers as consumers thus a problem
- 3) Will need rich and poor, producers and consumers to solve this problem

II. Has to be solved.

III. Is an international problem.

IV. Primary objective of most countries is to self provide.

V. Food aid is a temporary problem and is a platitude.

Remaining problems:

- 1) Self reliance—who can attain?
- 2) Can all be self reliant if helped?

No answers here—but we must begin to tackle.

Role of internal policies

a) prices are set administratively in many LDCs—do they help or hinder. We all subsidize, does this hurt producers so he doesn't produce any more and he moves to city

b) available funds—do rural areas get sufficient funds? It's easy to build roads and cities politically. Have LDCs put enough into rural areas

c) research, production, storage—transportation

¹ Source: National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Subject Files, 1982–1985, UD–11W, 56–86–1, Box 13, [No folder title]. No classification marking. No drafting information appears on the minutes.

d) population—controversial—self sufficiency will never be achieved in some countries till population is controlled

External problems of developed countries

1) Role of free markets, in international food trade—protectionism in food production as in common market

2) Will LDCs put up enough aid funds to solve these problems—as in Sahara. Teach them to fish—but give them nets (aid) first

3) Will IMF help in storage of lumber stocks for future crop failures. Who will pay for this.

These questions are as hard provocatively. Hopes all contribute to answering others.

5:25 Nigeria

Read a statement—(prepared for this) More than 400 million people without enough to eat. He is Africa spokesman.

36 African countries in deep food crisis—since 1967—not enough food production in Africa. Food ration less now than 10 years ago. Depending on food imports 64 million average cost per country per annum \$155 million by 1990 \$225 in 2000 or \$8.6 billion.

Livestock products also need to be imported—235 million per year 10 years ago and rising 862 million in 1980 now 100 million and per country. Same way for S.A. and Asia.

A solution to food and grain problems would lessen bitterness, and help solve other social and economic problems.

Most of problem is domestic—self reliance is goal. African nations agree on this—goal is 2000 for most countries.

Problems—drought, soil erosion, refugees,

Foreign aid and assistance (technical and machinery) is needed to help. Must come from North. And was 3 billion last year—needs to be \$10 billion.

IMF must broaden its funds to help where unexpected costs and balances due to crop failure and large imports.

Food aid convention must be continued.² World food programs also must be continued.

International Food Reserve is also needed IFAD must be central in this and funds replenished.

International community must ? hunger—may be a new conference is needed.

² The International Grains Arrangement of 1967 consisted of two legal instruments: the Wheat Trade Convention (WTC) and the Food Aid Convention (FAC). The FAC committed its signatories to providing a fixed amount of commodities to developing nations. In 1971, the signatories negotiated a new umbrella agreement for the WTC and FAC and renewed it in 1974, 1975, and 1976. In 1980, the signatories approved a new FAC.

Africa must be helpful.

Exports are also dropping in food crops. Prices falling, etc. Some form of stabilization is needed in prices. High interest rates also impede production.

Cancun can be a start in all these areas. African problem is a serious one. ³ statement is important Trudeau interrupted—14 minutes! Must not repeat this a.m.

Suzuki—Japan

5:43

Hunger is important problem (read statement—obviously prepared for this intervention in advance.)

Population is growing. Agriculture important to all countries of the world.

2 billion people live in rural areas. Excessive urbanization can be cured by higher farm incomes.

(Read very quickly—hard to get notes down)

Inadequate agriculture forces some countries to spend too much on imports.

Self reliance is needed—promoted by International assistance.

Rural development is needed including social structure.

LDCs must place highest priority on food and agriculture. Social systems must be reformed

Quoted from Rome—1979 conference.⁴

Japan places great stress on agriculture and rural areas.

Appropriate tax and marketing policies needed. More productivity as in Japan, ⁵ per household in Japan yet policies make Japan very self reliant in agriculture.

Official Development Assist (ODA) by Japan 837 Million 3 fold up from 1977 and 25% of all ODA in 1980 and will be continued.

Have a joint cooperation plan with Indonesia. Technical assistance. Forestry—rice, etc.

Also doing this with Bangladesh and other ASEAN countries including Philippines.

Japan also working and cooperating with United Nations and other agencies in food. We'll fund its obligation to IFDA.

³ Omission is in the original.

⁴ A reference to the World Conference on Agrarian Reform and Rural Development, held July 12–20, 1979, in Rome.

⁵ Omission is in the original.

India

6:08 p.m.

This is unexpected.

India tried to be self reliant but not much progress till 1966 and crop failures and independence.

Making small farmer independent and owner of land was started—not finished.

Assistance from World Bank, and Ford Foundation was very helpful. Rice from Philippines and Indonesia improved seeds—rust resistant grains, etc.

At independence was 50 million, now 130 million, by 1984 200 million.

Need more [garble], machinery 75% of population dependent on agriculture.

Lobby for farmers is very powerful.

Have a price support system on downside.

Are trying crop insurance but this is too big an undertaking.

Population explosion is a real problem in India.

Are 39 million people fewer than if they hadn't had controls.

If any country sets its mind to it it can succeed.

Have market prices, but sets minimum.

President Reagan

6:00 p.m.

Interested in what he has heard from Nigeria, in agriculture skills from 19 food production grew from 2.4—but no 40.

Africa did not grow at the rate S.A. did.

Most people are straddling law.

If we could bring agriculture up to U.S. standards all world could be fed from 1/10 of land now used.

So better technology is needed. Subsidies are deceptive. If not in market then in taxes.

Task forces to look at land to see if what is being produced.

Self reliance may be deceptive. What does land lend itself to?

Technology, extension courses are needed. Used school in Greece as example.

Collective farming in Soviet led to bad morale. Farmers given a small piece of the land 3% is private but produces, 30% of eggs, 33% of vegetables and 61% of potatoes.

As he said this a.m. food from U.S. to tide over, but need task forces to teach how to farm proper products in long run.

Tanzania

6:07

We can now begin to address each other. Two days is *not* enough to discuss, to say, what exactly we mean!!!

He wants to know what help he can expect.

He subsidizes farmers, others say “don’t subsidize.” Who doesn’t subsidize?

Does Canada subsidize? Does U.S. subsidize?

U.S. has a target price. If free price falls below farmer is subsidized. What about Gt. Brit, or France?

He doesn’t fix price of coffee—London, or Washington—says. If too low to subsidize.

Reagan

Since great depression we have subsidized. We want to get rid of this. A few years ago we almost did away with it—farm income up 16%. Last Administration did away with this, income down.

3 1/2 million farmers feed 56 Americans and 1/4 of crop left over to export to other countries.

Such a level is achievable elsewhere.

Tanzania

90% of farming done by peasants who own land in a fashion.

Needs minimum education for farmer—this is rural development better health, better roads, transportation.

Reagan

No argument—This is what new task forces could find out what the problem is.

Tanzania

Gandhi

Agrees on educational needs, but shrewd peasants, uneducated, can produce a green revolution and more production.

Genscher, Germany

6:20

Agrees on needs for production. Needs are more technology, will each country (LDC) agree to prioritize.

Would DC agree to put technical assistance up front to help.

Marcos

6:22

He has produced a document on food for distribution here.

1) Feeding in countries where there is no possibility of having social reform is important.

Education takes time. Philippines had to import while it was teaching farmers, and changing social problems.

8 countries are severe countries, 23 are in bad shape. Why not net right aid to these 31? Emergency basis.

IMF should give concessionary loans to them.

2) IFA—Food fund is in trouble. U.S. and OPEC need to get up their funds. It works under United Nations.

3) Some agencies in agricultural FAO, World Food, Council Group, World Food Council, etc. are counter productive. Should be consolidated and roles spelled out to prevent waste.

They should work out President Reagan's idea of task forces, and not waste time and money.

IFA & IMF are sources of funds.

Thatcher—Gt. Britain

She also listens to BBC to find out what farmers will complain about.

All countries protest and subsidize farmers as well as manufacturers.

Division between farm and town must be balanced and kept.

Most western countries grow some crops for security in case you have to feed yourself. This is answer to President Reagan's one crop or best crop basis.

What about food surpluses. Temptation is to produce more to export.

What is better, aid, or developing self-reliance.

Also what type of aid is best, if it goes to agriculture it can't go to energy.

International institutions are changing. For example:

IMF has a compensatory facility and it has responded well. We don't recognize this.

Nyerere—Tanzania

Is a major problem in Africa, don't remain in agriculture.

President Reagan

When we are helping with food, much of it is wasted in improper storage and help is needed here.

Algeria

6:40

This is a very important problem. Needs a long range solution.

We should agree to fight hunger. How to do it should be left to the existing organizations.

Sweden

6:42

Prices to farmers have led to a lively debate. Has personal experience as a small farmer.

1) Farmers who have a good climate (economic) can increase productivity. How can the market work. Wheat in 1974 reduced 3% prices up 350%!

2) It should be possible to transfer food from one country to another. International coordination of food stocks needed and a new wheat agreement.

3) Meager resources in LDC's result in cutting down forests and eroding arable land. Deserts expanding.

Productivity in agriculture is due to chemicals and cheap energy. Dangers in chemicals to land—ecological dangers. Need more research in biology for another revolution.

Bangladesh

6:50

Topmost priority to agriculture. Setting up irrigation.

Food for 90 million people or 98% of population. Deficit down from 2 million tons to 1 million. Will be even in 3 years and hopes for surplus in 5!

Natural gas is producing fertilizers. Thanks the U.S. help. Have plenty of gas. This helps self reliance.

Grant or easy loans is needed for imports.

Storage of reserves is needed. Must increase food production 4% annum.

Brazil

7:52

One is immediate problem is aid. Second is how to develop production and productivity.

Second is most important problem technology and investment are the key to solving it.

Brazil is trying to eliminate subsidies. No recipe for every country.

Subsidy is strategically needed in many cases.

China

7:58

Many countries have increased productivity. China needs irrigation and technology. Requires capital so it has difficulties.

It needs international cooperation and aid.

Food security reserves is worth extending. It is equitable principle.

Collective vs. individual production is not one he wants to discuss. But collective has raised output in China, but has shortcomings.

Have succeeded on 7% of worlds arable land support 25% of population in food sufficiency.

When under individual production had disasters, and starvation was going on regularly.

Mitterrand, France

7:03

Agrees it is a hard problem. France is industrialized, but has strategic reasons for agriculture. A question of life and death in food as in Tanzania.

Also expressed a lot of what has been previously said about helping LDCs without turning world upside down.

Not much more money is needed.

Aid comes after agricultural development.

World food reserve—is it sufficient? He has heard it is not. Needs more than one crop season.

Does present fund cover medium term? He thinks it should.

Farmers need guaranteed income. France does this so does EEC. But it is hard for LDCs to do this especially in one crop countries.

Producers are not responsible but they suffer.

Speculators control, not free market. Need guaranteed prices. Must be monetary stability also. For 5 years have been trying to get fixed prices on wheat. Why?

Cancun should be a place to take a decision on this. Try to guarantee incomes for farmers internationally.

Lopez-Portillo—Mexico

7:12

All of us give agriculture a fundamental status as a problem. We must prioritize hunger and establish solutions.

Two solutions:

a) coordinate internal strategy with international aid and agencies available

Production, productivity guaranteed incomes, technology investment must be coordinated. International agencies not well coordinated. FAO with IBRD for example.

b) Long term solutions must be found. Teaching people to fish. Emergency supplies needed. Education needed for production.

Waldheim, United Nations

7:18

Agrees with President Reagan on task forces. It is what FAO, World Bank are trying to do. Means are limited. Needs technical assistance particularly financial help in this area. Helping 60 countries now.

IFA is case in point. Countries need food aid until they can become self-sufficient.

Mitterrand has said this. U.N. paper has a possible solution for this. It is being circulated to members of Cancun.

He is concerned, as Marcos is, about overlapping of institutions *set up by membership* not Secretariat.

Better coordination is justified. Define roles of agencies especially FAO, and World Fund Council and bring it up in U.N.

President Reagan, U.S. 7:25

He can set up task forces of experienced farmers on short notice. Problem is not as large as it seems

Venezuela 7:26

If there is more grain needed what prevents it from being done? What does it cost? Can it be done? Let's find out.

Trudeau 7:28

We only covered one subject. Appreciates exchange, and dialogue makes meeting worthwhile. Let's continue over dinner.

Begins at 10:00 a.m. tomorrow.

Subjects:

Trade

Energy

Financial and related

After Lunch:

Global Negotiations

Free Wheeling

Ivory Coast

Does trade cover raw materials? Answer. yes. This was set at preparatory meeting, but can be discussed for only 1 hour. Be brief in setting out problems.

G.N. is important to discuss.

Adjourn 7:32

71. Memorandum of Conversation¹

Cancun, October 24, 1981, 9:45–10 a.m.

SUBJECT

President's Meeting with UN Secretary General Waldheim

PARTICIPANTS

The President

James A. Baker III, Assistant to the President

Richard V. Allen, Assistant to the President for National Security Affairs

Alvin P. Adams, Deputy Executive Secretary, Department of State

Kurt Waldheim, Secretary General of the United Nations

Albert Rohan, Director, Executive Office of the Secretary General

After a brief exchange of pleasantries, Secretary General Waldheim opened the conversation by noting that Cancun had been a "good conference." Its results, he said, were pleasant. Somewhat pointedly, he expressed a hope that the President was satisfied. The President indicated that he was pleased with the results and with the absence of rancor at the conference.

In connection with Cancun, Waldheim noted that global negotiations would be on the General Assembly's agenda for discussion in the coming week and that this timing fit in well with the conclusion of the conference. Asking how we should proceed on follow-up to Cancun, he indicated some uncertainty on the next steps, suggesting in passing that he might "try to set up a committee" on follow-up.²

The President said that setting up new institutions and organizations might be counterproductive. He pointed to his own proposal of agricultural expert teams as an example of an unbureaucratic, inexpensive and

¹Source: Reagan Library, Executive Secretariat, NSC Subject File, Memorandums of Conversation—President Reagan (October 1981); NLR-753-49-3-4-1. Secret. Drafted by Alvin Adams (S/S) on October 26. The meeting took place in the President's Suite of the Sheraton Cancun Hotel. The memorandum is marked "Draft" at the top.

²A paper outlining four Global Negotiations options, marked "October 23-1:00 p.m." is in Princeton University, Mudd Manuscript Library, James A. Baker III Papers, Box 77, Folder 5, Cancun Summit, 1981. A fuller description of Option 2 of the Global Negotiations options is attached to the options paper. (Ibid.) A fuller description of Option 3 of the Global Negotiations options is *ibid*. A copy of a memorandum of conversation of the Fourth Plenary session, held October 23 at 5:15 p.m., which briefly discusses Global Negotiations, is in the National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Subject Files, 1982-1985, UD-11W, 56-86-1, Box 13, [No folder title]. A copy of Baker's handwritten notes of the Fourth Plenary session, October 23, is in Princeton University, Mudd Manuscript Library, James A. Baker III Papers, Box 77, Folder 5, Cancun Summit, 1981.

effective method to solve practical problems. Expanding on his suggestion of agricultural task forces, the President expressed confidence that experts—farmers and academics—would be pleased and honored to visit countries with agricultural problems to offer their technical advice. The President continued that a similar approach might be followed in the energy area where experts could contribute much to proper development of energy resources. He emphasized the importance of impressing on “Third World leaders” the need to welcome and employ outside experts.

Secretary General Waldheim stated his impression that many developing countries—especially in Africa—increasingly recognized the importance of practical assistance measures such as the President’s proposal. These leaders, he added, now recognized that “propaganda won’t help.” Cancun provided a chance to get away from acrimony, the Secretary General was hopeful that we would be able to proceed with “realistic” approaches. He expressed gratitude for the President’s indications, October 22 and during the present meeting, of his willingness to provide task forces to help with agricultural and energy development. Noting that this idea would be of great interest to the United Nations Development Program (UNDP), he said he would discuss [with] the Director Bradford Morse “to see what we can do.”

Explaining the background to his views on the agricultural task force idea, the President described his own experience in California as Governor, where he called upon the expertise of volunteer private citizens and business leaders to help restore efficiency and financial soundness to the state. The President continued that, along the same lines, he has asked David Rockefeller and other business leaders to play a role in the Caribbean Basin initiative.

The Secretary General responded that these were “good examples” of how to obtain results.

[Omitted here is discussion unrelated to the Cancun Summit and development policy.]

72. Information Memorandum From the Under Secretary of State for Economic Affairs (Rashish) to Secretary of State Haig¹

Washington, October 26, 1981

SUBJECTCabinet Council on Economic Affairs—October 26, 1981—8:45 am²

Secretary Regan gave a brief review of the Cancun meeting. He indicated that the President did very well and his sympathetic attitude was very well received by the other delegations; the President had a very tough schedule of meetings, including bilaterals. He then indicated that the outcome in terms of Global Negotiations was acceptable to the U.S. and that we would now have to address ourselves to the follow-up in the UN. Ambassador Kirkpatrick was in attendance. She noted that she received a call from Waldheim yesterday evening to inform her that the debate scheduled to begin today in the UNGA on Global Negotiations had been deferred, probably a week. She suggested the establishment of a State-Treasury-USUN Working Group to define a practical strategy for how to deal with this subject in New York over the next weeks.

In a private discussion with Ambassador Kirkpatrick after the meeting she said she felt keenly the need for a strategy paper that would guide the U.S. position at the UNGA session with respect to Global Negotiations and suggested the possibility of a Thursday meeting in Washington to review this subject.

¹ Source: Library of Congress, Manuscript Division, Alexander Haig Papers, Department of State, Day File, Box 57, October 26, 1981. Confidential. Bremer's initials are stamped on the memorandum. "Cancun" is written and circled at the top of the memorandum. Attached but not printed are an agenda and a list of participants.

² A copy of the minutes of the October 26 CCEA meeting is in the Reagan Library, Ralph Bledsoe Files, Office of Policy Development, Cabinet Councils, Other Cabinet Councils, Cabinet Council on Economic Affairs III. According to the minutes, the Council agreed "on the need to periodically review economic relations with the developing world and developments with respect to 'global negotiations.'"

73. Letter From President Reagan to the Chairman of the Social Democratic Party of Germany (Brandt)¹

Washington, November 4, 1981

Dear Mr. Brandt:

Thank you for your letter of September 11, 1981,² and for the contribution which you and other members of the Independent Commission on International Development Issues have made in bringing global economic issues to the attention of governments and of the public.

As you know by now, the International Meeting on Cooperation and Development in Cancun, Mexico, was an extremely constructive and positive meeting. We demonstrated how useful a dialogue can be when it is frank, substantive and free of recrimination. I sincerely hope that we can move forward in this same spirit. Too much time has been wasted on words and conferences. We need to turn our attention to the practical issues and institutions where real progress has been achieved and can be further accelerated.

I am convinced that our approach to development must emphasize two efforts—the effort to revive world growth and expand open trade, investment and financial relations, and the effort to provide cooperative assistance to achieve self-sustaining growth in the poor countries, particularly in food and energy.

While foreign assistance remains a vital factor for development in many countries, constructive efforts to expand global trade and increase domestic and international private investment play an even more important role in many countries. The GATT Ministerial in 1982 offers the best hope to defeat protectionism and continue the trade liberalization process with developing countries' interests very much in mind. And efforts are underway in the World Bank and the IMF to use assistance more effectively to help poorer countries acquire capabilities and attract investment, ultimately earning their own way as full participants in the international economic system.

I appreciate the personal contribution you made to the process that brought us to Cancun and look forward to your continuing ideas and assistance in the great task ahead.

Sincerely,

Ronald Reagan

¹ Source: Reagan Library, Douglas McMinns Files, Economic Summit Files, Mexico—Follow up. No classification marking. An identical letter was sent to Shridath Ramphal, Commonwealth Secretary General. (Ibid.)

² The letter is attached but not printed. Brandt served as the Chairman of the Independent Commission on International Development Issues. See footnote 2, Document 27.

74. Intelligence Information Cable From the Central Intelligence Agency to Multiple Recipients¹

Washington, November 5, 1981

[*number not declassified*]

[*cable number and distribution date not declassified*] Country: Mexico.

SUBJECT

Evaluation by Mexican Foreign Secretary Castaneda of the Cancun Summit Conference [*less than 1 line not declassified*]

SOURCE

[*3 lines not declassified*]

Summary: Mexican Foreign Secretary Jorge Castaneda de la Rosa, shortly after the 22–23 October 1981 Cancun Summit, evaluated the results of the Summit conference, noting that in terms of achieving the objective of re-opening the North-South dialogue, the Summit must be considered a success.² However, Castaneda cautioned against excessive optimism over the Summit's results, noting that there were still doubts as to whether the North was actually interested in pursuing Global Negotiations. The Foreign Secretary also pointed out that a number of the basic North-South issues—prices of raw materials, energy, financial assistance from the North to the South, high interest rates and external debts—had not been adequately treated at Cancun. Castaneda felt the next step in pursuing the North-South dialogue was for President Lopez Portillo to convoke a meeting of Latin American leaders and later of the leaders of Third World organizations to evaluate the results of Cancun, and establish the bases for Global Negotiations. End summary.

1. Shortly after the conclusion of the 22–23 October 1981 North-South mini-summit in Cancun, Mexican Secretary of Foreign Relations Jorge Castaneda de la Rosa discussed the results of the conference and the next steps in pursuing the North-South dialogue. Castaneda said that the Summit could be considered an international political success for his government and President Jose Lopez Portillo, but cautioned against excessive optimism over the Summit's results, stating that the actual results of the Summit and the possibility of sustaining the North-South dialogue must now be carefully analyzed and evaluated.

¹ Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—Follow-up; NLR-369-10-47-6-4. Secret; [*handling restrictions not declassified*]. Sent to State/INR, JCS/MC (DIA), CIA/NMCC, SWS, NSA, Treasury, SOO, DOE/OCR, Commerce, USTR, FRB, NSC/S, NFAC, and WHSITRM OCR.

² An unknown hand circled "the Summit must be considered a success."

Although an atmosphere of good will and optimism prevailed at the conference, it was now important to analyze what will happen in the future and what repercussions Cancun will have in the Third World and in the industrialized countries which were not present at Cancun, Castaneda said.

2. According to the Foreign Secretary, it is necessary to address the doubts which remain among the Third World delegates concerning the actions of the President of the United States (U.S.) and British Prime Minister Margaret Thatcher. These doubts were based in a vague but general feeling that the basic problems of the Third World were not discussed at Cancun, or were only touched upon in a generalized way. There was also a question whether the U.S. and British representatives were actually interested in establishing the bases for Global Negotiations. Castaneda specifically noted that the rigid attitude of Prime Minister Thatcher, who had cordially rejected all propositions in favor of the Third World, was disquieting.³

3. The fundamental objective of the Cancun Summit, according to Castaneda, was to overcome the deadlock in the North-South dialogue, and that was achieved. All the parties, even Prime Minister Thatcher in a minor way, expressed their interest in confronting the problems in the United Nations (U.N.). In view of the North's previous opposition to discussing North-South issues in the U.N. where the Third World has a majority, that can be considered a victory. But the North's, and particularly the U.S.'s, acceptance of Global Negotiations now requires Mexico and the developing countries to critically examine the future for Cancun and the errors made at that conference.

4. This analysis must focus on several points, Castaneda said. The problems created by the massive external debts of the developing countries were not sufficiently discussed at Cancun. It was obvious that the U.S., Great Britain and Canada were not interested in discussing this issue, which is a vital point on the Global Negotiations agenda. Nor was there a clear position on the question of financing to the underdeveloped countries, and nothing was said about the high interest rates which these countries are paying for U.S. investment capital and the serious disequilibrium resulting from these high interest rates.

5. On the contrary, Castaneda remarked, the industrialized countries refused to discuss ways or mechanisms for channeling financial assistance from the North to the South. The U.S. President and Prime Minister Thatcher stood by their position that the International

³ An unknown hand circled "were actually interested in establishing the bases for Global Negotiations. Castaneda specifically noted that the rigid attitude of Prime Minister Thatcher, who had cordially rejected all propositions in favor of the Third World, was disquieting."

Monetary Fund (IMF) and the World Bank must continue to be the means for channeling financial assistance to the Third World, but the Third World knows that these organizations are controlled by the U.S.⁴ and have served as a means of repression on the South. Other means for channeling aid to the South must be found, said the Foreign Secretary, and the IMF and World Bank eliminated.

6. Castaneda also expressed his concern over the problem of stabilizing the prices of raw materials, which he said is a fundamental and priority issue for the Third World, an issue which has been at the center of the North-South discussions since 1974. However, this point was accepted at Cancun as a general topic which could be discussed in the future, so treated according to Castaneda because of the "agreement" among the delegates not to create frictions and to conduct the conference in a cordial atmosphere.

7. An even more serious error at Cancun, in the Foreign Secretary's opinion, was the elimination of the energy question from future North-South discussions. Energy cannot be separated from the issue of prices of raw materials, Castaneda said, since the world economy is based on energy produced from petroleum; the question of petroleum prices is vital to any petroleum exporting country, and particularly to Mexico whose economy is fed by petroleum revenues. Castaneda thought it strange that President Lopez Portillo had been silent on this issue, and attributed the President's silence to poor advice from Mexican Secretary of Patrimony Andres Oteyza.⁵ Castaneda also noted the silence of Venezuela and Saudi Arabia, members of the Organization of Petroleum Exporting Countries (OPEC) and countries whose economies are based on petroleum.

8. Noting again that Cancun was a relative success in terms of reopening the doors of the North-South dialogue, Castaneda reiterated that some of the basic issues of the New International Economic Order had been lost at Cancun. The Third World had also lost leverage over the North;⁶ previously, the Third World, as a producer and supplier of petroleum, had an instrument to pressure the industrialized countries to cede to their demands. That aspect of the South's tactics had been wiped away at Cancun because of the conciliatory attitude and the desire not to provoke negative reactions from the U.S. The elimination of the energy problem from Global Negotiations was a clear triumph for the U.S., Castaneda said, and will have consequences for

⁴ An unknown hand underlined "are controlled by the U.S." and placed a question mark in the right-hand margin.

⁵ An unknown hand underlined "thought it strange that President López Portillo had been silent on this issue, and attributed".

⁶ An unknown hand circled "Third World had also lost leverage over the North."

the unity of the Third World,⁷ which is fighting to stabilize and improve the prices of their raw materials and for OPEC countries whose basic raw material is petroleum.

9. Castaneda commented that he had expressed these views to President Lopez Portillo during the private meetings of the Mexican delegation, but the President had accepted the thesis of not creating frictions at Cancun which could endanger the central objective of the conference, the re-opening of the stalled North-South dialogue. In order to create an atmosphere of cordiality at the conference, Mexico had sacrificed fundamental aspects of its and the Third World's policy, according to the Mexican Foreign Secretary.⁸

10. Nevertheless, Castaneda recognized that the most important goal was to re-open the dialogue and begin discussions leading to Global Negotiations. To do so, he personally felt and was going to suggest to President Lopez Portillo that the Mexican President convoke a meeting of Latin American leaders, and after, a meeting of the heads of international organizations such as the Group of 77, the Non-Aligned Movement (NAM) and the Organization of American States (OAS) to study ways to accelerate movement in the North-South dialogue. Such meetings would provide a means of evaluating the re-opening of the dialogue and of establishing bases for discussion in Global Negotiations, including those areas which had not been fully discussed or were ignored at Cancun, areas such as energy, prices of raw materials, external debts, high interest rates and the creation of a world energy bank. Such North-South activity must take place apart from conversations with the U.S. and/or the North, Castaneda said, in order to rapidly formalize the agreements of Cancun and to prevent the dissipation of good intentions.

11. Castaneda then remarked that he personally would telephone Cuban President Fidel Castro to discuss the NAM's participation in this evaluation of Cancun, and would then advise President Lopez Portillo of Cuba's views and those of the rest of the Third World. He commented that he did not feel that Castro should criticize Cancun and its participants as that could endanger the re-opening of the North-South dialogue and noted that he intended to tell Castro that.

12. [1 line not declassified]

13. Field Dissem: Embassy at Mexico City for Principal Officers only: [2½ lines not declassified]

⁷ An unknown hand highlighted "the desire not to provoke negative reactions from the U.S. The elimination of the energy problem from global negotiations was a clear triumph for the U.S., Castaneda said," and placed a question mark in the right-hand margin.

⁸ An unknown hand underlined this sentence.

75. Telegram From the Department of State to the AlCancun Collective and All OECD Capitals¹

Washington, November 5, 1981, 1918Z

295207. SEC /USOECD Also for Embassy. ALOECD Take Immediate Action. Subject: Global Negotiations: Post-Cancun Action. Ref: USUN 3660² and 3826 Notal.³

1. (C) Entire text.

BACKGROUND

2. As you know, Global Negotiations (GNs) were major issue at the Cancun Summit, October 22–23. In his opening statement Thursday October 22 (full text by State 286552),⁴ President Reagan outlined four “essential understandings,” said that “if these understandings are accepted, then the U.S. would be willing to engage in a new preparatory process to see what may be achieved,” and suggested “that officials of our governments informally confer in the months ahead as to appropriate procedures.”

3. Passage on GNs in the co-chairmen’s summary at the end of the Summit received intensive discussion among all participants on Friday, October 23. Although it was the only section of the summary subject to prior consultation before release, the message, like all of the summary, was issued only on the responsibility of the co-chairmen (Trudeau of Canada and Lopez Portillo of Mexico) and does not commit the other participants.

4. On Friday afternoon, the Canadians presented a proposal which would have the two co-chairmen and the UN Secretary General “in their personal capacities to convene, after appropriate consultations and by the end of the year, an informal group to discuss preparations

¹ Source: Department of State, Central Foreign Policy File, Electronic Telegrams, D810527–0618. Confidential; Immediate. Sent for information to all Diplomatic Posts. Drafted by Lollis and Hormats; cleared by Doral Cooper (USTR), Leland (Treasury), Fox, Rutherford Poats (NSC), Adams, Constantine Michalopoulos (AID), and Ted Strickler (S/S–O); approved by Abrams (IO).

² In telegram 3660 from USUN, October 27, the Mission reported on consultations within the UN on how to approach Global Negotiations in the General Assembly. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810508–0629)

³ In telegram 3826 from USUN, November 3, the Mission reported on the plenary debate on Global Negotiations, scheduled to begin on the morning of November 4. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810521–0811)

⁴ Telegram 286552 to the AlCancun Collective, October 27, transmitted the text of Reagan’s October 22 statement to the opening session of the Cancun Summit. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810508–0593)

for . . . GNs.” According to the Canadians, India, Yugoslavia, Nigeria, Mexico, Brazil, and most of the OECD countries accepted the Canadian proposal. Momentum behind the Canadian proposal was broken when Venezuela (apparently fearing the dilution of the UN role) introduced the first of the two sentences actually used. The final co-chairmen’s summary (full text in State 286553)⁵ says merely that “the Heads of State or Government confirmed the desirability of supporting at the United Nations, with a sense of urgency, a consensus to launch Global Negotiations on a basis to be mutually agreed and in circumstances offering the prospect of meaningful progress. Some countries insisted that the competence of the specialized agencies should not be affected.”

5. President Reagan accepted the final language which is preferable to the Canadian draft because it contains no fixed time frame for follow-up. It also has the virtue of leaving open precise meeting mechanism and under-scoring the competence of the IMF, World Bank Group and GATT. (Reporting cable on this part of the Cancun Summit is being prepared, but you should not wait for it before taking action requested below.)

6. Secretaries Haig and Regan commented on GNs at the Summit in response to repeated questions on this subject at their joint press conference in Cancun on October 24.⁶ Excerpts of all relevant portions by L.

7. GNs are formally on the agenda of the current regular session of the UNGA in New York and were taken up November 4. We understand that G-77 has already met at least three times since Cancun to review GNs and that UNGA President Kittani has instituted bilaterals with both developed and G-77 countries on next steps. (See reftels which have been repeated to all addressees.)

STRATEGY

8. It is essential that we have an opportunity to hold informal bilateral and small group consultations in capitals, New York, and elsewhere for the purpose of ascertaining other countries’ reactions to the four understandings presented by the President at Cancun.

9. The purpose of this cable is to initiate such consultations with Cancun participants and other interested governments. This carries out the President’s suggestion in his statement of October 22 “that officials

⁵ Telegram 286553 to the AICancun Collective, October 27, transmitted the text of the Summary by the Co-Chairmen of the International Meeting on Cooperation and Development. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810508–0929)

⁶ Telegram 294813 to the AICancun Collective, November 5, forwarded excerpts of the White House transcript of the October 24 press briefing given by Haig and Regan at the conclusion of the Cancun Summit. The cable reported that the excerpts mainly covered remarks on the issue of Global Negotiations. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810524–0592)

of our governments informally confer in the months ahead as to appropriate procedures" and the view which Secretary Haig expressed in the October 24 press conference that the next step will be "a process (of informal discussions) that I anticipate will begin very quickly" and will be "among the participants here at Cancun and broadened to other interested parties . . . in a number of different venues . . . with a view towards trying to develop a consensus on how (the four U.S.) understandings will become the framework for formal negotiations at the appropriate time."

ACTION REQUESTED

10. All posts in OECD and Cancun participating countries should approach appropriate officials to ascertain host government reactions to the four understandings and to initiate informal discussions with them on Cancun's effects on GNs and how to proceed with GNs. This should be done as soon as possible. Addressees may also do so if appropriate. USUN should make the same approach with appropriate delegations and should confer with Waldheim and/or Kittani. (FYI: We will also ensure that this subject is discussed during the November 12–13 meeting of the OECD North-South group.)

11. Your objectives are:

- to ensure that the President's statement of October 22 (State 286552) has been received and is understood by other governments.

- to restate the willingness of the U.S., as expressed by the President, to conduct a more formal dialogue and, based on the four U.S. understandings, to engage in a new preparatory process to see what may be achieved.

- to note, if the issue arises, that we would not resume the preparatory process under UNGA Resolution 34/138.

- to consolidate the positive reaction which the President's statement received in Cancun and to perpetuate the "spirit of Cancun" (whereby developing and industrial countries examined global problems with a minimum of rhetoric and no country was politically isolated) and the widespread perception that Cancun was successful.

- to ascertain host government thinking on the lessons of Cancun and on the next steps to be taken in re-establishing a meaningful dialogue

- to discuss steps which could be taken during the current session of the General Assembly consistent with the four understandings expressed by the President.

- to prevent any precipitate action at this session of UNGA or elsewhere which would prejudice the outcome of consultations now being undertaken in New York and initiated in capitals as a result of this cable.

12. In making your approaches, draw on (1) the President's statement of October 22, (State 286552) (2) the Haig/Regan press briefing

of October–24, (septel), and (3) the set of four U.S. policy speeches which preceded Cancun (Haig to UNGA, the President and Regan at the Bank/Fund meetings, and the President’s Philadelphia speech on October 15).

[Omitted here are talking points provided by the Department of State on how to handle Global Negotiations.]

16. In addition to the foregoing, you may discuss the following positive aspects of the Cancun chairmen’s summary.

— First, the summary expresses the determination to attack certain problems on an urgent basis in the institutions existing for this purpose. We anticipate that topics of particular interest to certain Cancun participants and others will be followed-up in the specialized agencies. The U.S. wishes to ensure that major substantive work is done in these institutions.

— Second, although the co-chairmen’s summary was on their own responsibility and does not necessarily reflect all Cancun participants’ views, we believe that discussions at Cancun described in the summary suggested many topics for further discussions. In the area of food security, the emphasis was placed on the eradication of hunger. It was pointed out that substantive and long-term internal effort on the part of developing countries to increase food production is the basic element in obtaining the real answer to the problem of hunger, although timely and sufficient international technical and financial support is needed in coordination with internal policy strategies.

— The co-chairmen recognized that there needs to be a review of international agricultural and food organizations within the framework of the UN in order to avoid duplication of work and to use available resources more effectively.

— The Summit recognized trade barriers against agricultural products hinder the growth of agricultural activities and the achievement of food security objectives. In the area of trade, it recognized the need on the parts of all governments to resist protectionist pressures. There was a stress on the importance of proposed GATT Ministerial meeting. In discussing energy, there was recognition of the need for increased energy investment from private as well as official sources.

— In discussing monetary and financial issues, the Summit stressed the role of the relevant multilateral institutions, in particular the IMF and the World Bank, in light of the current economic and financial problems facing the governments of developing countries.

Haig

76. **Memorandum From the President's Assistant for National Security Affairs (Allen) to the United States Trade Representative (Brock)**¹

Washington, November 17, 1981

SUBJECT

Follow-Up to Cancun Trade Discussions

Cancun confirmed our expectations that trade liberalization could be moved to the center of the economic relations between industrial and developing nations. This shift of attention would be advantageous in both economic and political terms, provided the process of trade negotiations with and for the benefit of the LDCs were carried out in the GATT, so as to enhance rather than undermine the multilateral system. As you point out, only in the GATT can we and the LDCs realistically hope to have "global negotiations" on trade issues that get results. To the extent GATT succeeds in engaging the LDCs and expanding their access to markets—in newly industrializing nations as well as the developed countries—their interest in the bloc confrontation type of UN Global Negotiations will diminish.

As preparations for the 1982 GATT ministerial meeting and the subsequent negotiations proceed,² I suspect that we will be urged by special pleaders to agree to a diffused and cautious agenda. We also may be tempted to exclude the LDCs from the real decisions. I understand that your Geneva deputy, Mike Smith, is alert to these pitfalls and determined to demonstrate to the LDCs that GATT offers them fair participation in the making of trade rules and the best means of dismantling obstacles to their trade expansion. He will need all of our support in holding to these objectives.

Richard V. Allen

*Assistant to the President
for National Security Affairs*

¹ Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, Mexico—Follow-Up. No classification marking.

² See footnote 2, Document 99.

77. **Memorandum From the President's Assistant for National Security Affairs (Allen) to Multiple Recipients¹**

Washington, November 28, 1981

SUBJECT

President's Policy on World Development

Before and at Cancun, the President put forward a politically and intellectually powerful case on world development issues. The attached cable and recent article from *Fortune* magazine indicate the highly favorable response to the President's initiative.² Now there is another point of view being discussed in the development dialogue besides the NIEO and Brandt Commission perspective.

As the *Fortune* article says, "The Brandt Commission report might well have set the terms of the discussion at Cancun had it not been for the new U.S. policy, which puts things in an entirely different perspective."

We should sustain this intellectual and political counter-offensive by putting forward our own ideas (e.g. on Global Negotiations, regional development in the Caribbean, etc.). We can avoid a posture of merely reacting to the ideas of others by charting a clear course. Other countries, even when they disagree with us, find this posture easier to deal with than indecision.

FOR THE PRESIDENT:

Richard V. Allen

*Assistant to the President
for National Security Affairs*

¹ Source: Reagan Library, Douglas McMinin Files, Economic Summit Files, Mexico—Follow-Up. No classification marking. Sent to Haig, Regan, Meese, Kirkpatrick, Brock, Baker, and Deaver. Copies were sent to Anderson, Darman, Fuller, Gergen, McPherson, and Weidenbaum.

² Telegram 6587 from Ottawa, October 27, and the article from *Fortune* magazine are attached but not printed.

78. Telegram From the Department of State to the Embassy in Australia¹

Washington, December 4, 1981, 1751Z

321405. Subject: Message from the President to the Prime Minister concerning CHOGM and Cancun.

1. (C)—Entire text.

2. Please convey the following message from the President to Prime Minister Fraser at the earliest opportunity. There will be no original.

Dear Malcolm:

Thank you very much for your letter of October 15 reporting on the results of the Commonwealth Heads of Government Meeting and giving your views and those of your Commonwealth colleagues.² Your letter was timely, because it arrived when I was in the midst of preparing for the Cancun Summit where many of these same issues were discussed. I read the Melbourne Declaration with interest.³ We have also studied the Commonwealth communiqué carefully in view of the importance attached to its provisions by many members of the Commonwealth.

Cancun provided a valuable opportunity for exchanging views on global issues. I used this opportunity to present my own views, which I discussed with you in June,⁴ and to gain insight into the views of other world leaders on key global issues. I believe we made real progress in a number of important areas. I was particularly encouraged by the greater emphasis on domestic policies and responsibilities, both in the public and private sectors. These efforts are so essential to support international actions to expand free trade, facilitate capital flows, and provide critical foreign assistance to poorer countries for self-sustaining growth.

¹ Source: Department of State, Central Foreign Policy File, Electronic Telegrams, D810577–0658. Confidential; Niact Immediate. Drafted by Richard Zorn (EA/ANZ); cleared by Katherine Shirley (S/S) and Edric Sherman (S/S–O); approved by John Holdridge (EA).

² The text of the October 15 letter from Fraser to Reagan is included in this telegram but not printed. In telegram 10294 from Canberra, October 21, the Embassy reported on the 1981 Commonwealth Heads of Government Meeting, which took place in Melbourne from September 30 to October 7. The Embassy reported that it had pouched copies of the meeting's final communiqué and the Melbourne Declaration to all addressees. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810495–0882)

³ Telegram 1761 from Melbourne, October 5, transmitted the text of the Melbourne Declaration issued at the 1981 Commonwealth Heads of Government Meeting. (Department of State, Central Foreign Policy File, Electronic Telegrams, D810468–0036)

⁴ Reagan met with Fraser on June 30 in Washington. The text of the memorandum of conversation of this meeting is scheduled for publication in *Foreign Relations*, 1981–1988, vol. XXXII, Southeast Asia; Pacific.

I appreciate your deep interest in these matters and your role as chairman of the Commonwealth Heads of Government Meeting. Our two governments should continue to consult on the issues discussed at the Melbourne and Cancun meetings.

In particular, I share the Commonwealth's concern about the precarious state of world food security. In this connection, I applaud your decision to establish an Australian center for international agricultural research and also the decision of Prime Minister Trudeau's government to establish an international center for ocean development and a training program for agricultural extension workers. In a similar vein, I announced at Cancun that the United States Government would form agricultural advisory task forces composed of American experts from government, private industry, and academia to assist developing countries in analyzing and expanding production in their domestic agricultural sectors.⁵

I also stated at Cancun that the United States takes seriously the commitment made at Ottawa quote to participate in preparations for a mutually acceptable process of global negotiations in circumstances offering the prospect of meaningful progress unquote. In our view, such circumstances can only arise on the basis of the four essential understandings I set forth there.

If these four understandings are accepted, then my administration would be willing to engage in a new preparatory process to see what can be achieved. I am urging officials of all concerned governments to confer informally in the coming months on appropriate procedures. In the days ahead, we will be formulating our plans for continuing the dialogue, including what actions, if any, should be supported in the United Nations. It is critical that all countries make the greatest effort to sustain and build on the constructive character of recent meetings such as your Melbourne and the Cancun meetings. I sincerely hope that the situation, especially in New York, will not deteriorate once again into fruitless maneuvering to confront or isolate individual participants. Any concrete suggestions you or your government have on this delicate stage of the dialogue will be very welcome here in Washington.

[Omitted here are discussion of African and other issues, and the text of Fraser's letter.]

Stoessel

⁵ In a November 13 meeting of the Cabinet Council on Food and Agriculture, McPherson and others discussed Reagan's commitment to send American task forces to assist developing countries in their agricultural development and how the United States could coordinate the effort. The meeting minutes are in the Reagan Library, Ralph Bledsoe Files, Office of Policy Development, Cabinet Councils, Other Cabinet Councils, Cabinet Council on Food and Agriculture.

79. Minutes of a National Security Council Meeting¹

Washington, December 8, 1981, 10:15–11:30 a.m.; 2:20–3:35 p.m.

SUBJECT

Global Negotiations and FY83 Foreign Assistance Budget

PARTICIPANTS

The President

The Vice President

State:

Secretary Alexander M. Haig, Jr.

Dep. Sec. William P. Clark

Under Sec. James L. Buckley

Under Sec. Richard T. Kennedy

Treasury:

Secretary Donald T. Regan

OSD:

Dep. Sec. Frank C. Carlucci

Justice:

Attorney Gen. William French Smith

OMB:

Dir. David Stockman

Mr. Edward Harper

Mr. William Schneider

CIA:

Dir. William J. Casey

USUN:

Amb. Jeane Kirkpatrick

JCS:

Acting Chairman Thomas B. Hayward

Lt. Gen. Paul F. Gorman

AID:

Admin. Peter McPherson

White House:

Mr. Edwin Meese III

Mr. James A. Baker III

Mr. Michael K. Deaver

Admiral James W. Nance

Admiral Daniel Murphy

Mr. Richard Darman

Mr. Craig Fuller

Mr. Edward Hickey

NSC:

R. Adm. John Poindexter

Major Robert Kimmitt

Mr. Henry R. Nau

OPD:

Dir. Martin Anderson

GLOBAL NEGOTIATIONS

A.M. Session

KIRKPATRICK began the discussion by arguing that the U.S. should go along with the emerging consensus in New York to launch

¹ Source: Reagan Library, Executive Secretariat, NSC Meeting File, NSC 00029 12/08/1981 [Global Negotiations, Libya, Foreign Assistance, Budget, Terrorism]; NLR-750-3-1-11-2. Secret. The meeting took place in the Cabinet Room. The portion of the meeting dealing with the FY 1983 foreign assistance budget is printed as Document 270 and is printed in *Foreign Relations*, 1981-1988, vol. I, Foundations of Foreign Policy, Document 73.

the Global Negotiations. All countries, she pointed out, were ready to accept the resolution at Tab A of the documents distributed for this NSC meeting.² She had made clear in New York, however, that the U.S. could not accept this resolution as is, and she was asking the NSC to approve the amendments to this resolution suggested in Tab B and on that basis to indicate U.S. acceptance of the resolution.³ She has concluded that the political costs of not going along with the resolution with these amendments were higher than any political or economic costs which might result from the Global Negotiations themselves. Like it or not the Global Negotiations had become the litmus test of a country's good will and support for the developing countries. It was time for the U.S., which has thrown a lot of money at development, to start throwing some politics at development. We would get more credit for our real assistance if we would play along in the game of "rhetorical assistance" in such organizations as the United Nations.

HAIG supported Kirkpatrick's recommendation and itemized the changes in the UN text (November 30) that we would require. First, the preamble should note and not reaffirm UN Resolution 34/138.

MEESE asked if we had to note it. Couldn't we just leave it out?

HAIG responded that we would have to note it and that moreover some parts of 34/138 were good, while other parts which Jim Baker read to us in the meeting before Cancun were unacceptable.

BAKER said that he thought we had decided before Cancun not to agree to return to preparatory talks in the UN if they were based on 34/138.

HAIG restated his view that we must note it. He went on to review the rest of the resolution. Paragraph 1, he pointed out, convenes the conference for Global Negotiations but paragraph 2 indicated that the conference must first establish an agenda, procedures, and time frame for the negotiations. In effect, therefore, the conference convened by paragraph 1 was a preliminary conference. Paragraph 3 provided a firm rule of consensus which protected the U.S. from being isolated on any issue taken up by the conference. He felt that this paragraph enabled the U.S., if pressed, to break up the Global Negotiations on substance and argued that this would be a much better way to terminate Global Negotiations if they did not conform to our basic interests

²Not attached. A copy of Tab A, an undated "UN Draft of the Proposed Resolution," is in the Reagan Library, Executive Secretariat, NSC Meeting File, NSC 00029 12/08/1981 [Global Negotiations, Libya, Foreign Assistance, Budget, Terrorism].

³A copy of Tab B, an undated "Proposed Resolution with US Amendments," is *ibid*. A copy of an "NSC Discussion Paper" on Global Negotiations outlining Kirkpatrick's analysis of the proposed resolution presented in Tab B, including her judgment that submitting the Tab B version would certify the United States' "good faith," is *ibid*.

than to block the launching of the negotiations. Paragraph 4, as revised, fully protected the specialized agencies.

MEESE asked whether the term specialized fora in paragraph 4 included GATT.

KIRKPATRICK replied yes, she had three legal opinions to that effect.

REGAN stated that he was opposed to the resolution as amended in Tab B.⁴ He felt that we were rushing into something that we still had not defined. The resolution launched Global Negotiations, not a preparatory process to define agenda and procedures. We have not yet defined all of the points with respect to agenda and procedures. Ambassador Kirkpatrick is doing a good job in developing these points and should continue to do it for a while longer. Consensus doesn't mean necessarily that we are protected. The chair sometimes rules consensus even when there are two or three objections. Those objecting are then encouraged to insert reservations. We must have some idea of what we are getting into, otherwise we should do nothing. The understandings which the President laid out at Cancun are not all incorporated in this resolution. We are not ready to go to Global Negotiations themselves. We should insert the word preliminary before the word conference in each paragraph of the resolution at Tab B.

HAIG pointed out that Kirkpatrick had done an outstanding job in New York. She has not allowed herself to be pinned down. She has led the Europeans to believe that we will accept more than we actually can accept. This has caused the Europeans some concern and put them in a mood to support our changes.

REGAN pointed out that for two years the U.S. government has said that agreement on agenda and procedure must precede the launching of Global Negotiations.

HAIG responded that he would be happy with preliminary in or out of the resolution.

THE PRESIDENT noted that he would feel better with it in.

DARMAN noted that we should be sure and nail down our understanding of the consensus rule early in the negotiations of the procedures of the conference.

MEESE expressed concern that the resolution misleads other countries into thinking that the U.S. is prepared to go in one direction when in fact we are not.

⁴ In a December 8 memorandum to Regan, Leland wrote that Kirkpatrick's Global Negotiations paper was a "disaster" and "written for third graders with only analysis of the pros and not the cons." Leland presented points for Regan to stress at the NSC meeting, concluding that Kirkpatrick's proposed resolution "does not meet U.S. objectives." (National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Official Files, 1981, UD-10D27, 56-83-71, Box 35, Memo to the Secretary Classified December 81)

HAIG pointed out that we could insist on our conditions in the preliminary talks.

MEESE wondered if we are not falling into the same trap by recognizing UN resolution 34/138.

HAIG responded that we were only noting it.

THE PRESIDENT pointed out that he did not say no at Cancun. He said that he wanted to help with private investment, agricultural task forces, and so forth. This is where the U.S. wants to make a contribution. We want to be positive but in these substantive areas.

ANDERSON pointed out that the impression would exist domestically that we have changed our position. He thought that our intention before Cancun was to say no to 34/138 and to Global Negotiations. Now he is not so sure.

THE PRESIDENT said that he agreed to preliminary negotiations and to provide help in substantive areas.

MEESE worried about selling our position here at home. Kirkpatrick's assessment of the views of other nations was correct, but we also had to be concerned about the views of the American people. At Philadelphia and Cancun, the President had set out an economic program and point-of-view which had gained wide respect not only at home but in many countries abroad. We must not give the impression that we are sliding back from this point-of-view.

THE VICE PRESIDENT agreed with Kirkpatrick and Haig. He pointed out that it is unlikely that the UN will accept the resolution even without the word preliminary in it. And if the UN does accept it, the results will not harm us.

REGAN repeated his view that it was dangerous when you don't know what you are getting into.

HAIG agreed with the Vice President that the chances of passing the resolution without changes were slim. He noted that the President had threaded the needle at Cancun and that we had to preserve this delicate balance. He believed that we should lawyer this thing a little more.

REGAN pointed out that we don't have agreement on our understandings.

HAIG replied that we are talking about foreign policy—breaking the Third World away from the Soviets. This was what it was all about.

P.M. Session

HAIG urged that the participants look at the resolution.

THE PRESIDENT expressed his concern that we were proceeding down the line step by step and wondered when we would reach the point of no return. He queried whether we could stick in the word preliminary.

KIRKPATRICK pointed out that the consensus in the UN is strong against us. It probably will not make much difference. We could accept preliminary and still be able to argue that we were acting in good faith.

THE VICE PRESIDENT pointed out that our allies should stick with us on this one. Some participants in this dialogue seek a restructuring of the international economic system. Others seek to remove obstacles. These issues must be discussed somewhere.

KIRKPATRICK noted that the odds were 9 to 2 that the resolution would not be accepted.

REGAN asked what we would do if the UN proposed the resolution at Tab A (without the U.S. recommended changes)?

KIRKPATRICK said she had been begging countries to go ahead without us.

HAIG said they would not go ahead without us however.

MEESE asked then whether we had agreement on inserting the word preliminary. He then raised the problem of new institutions which is implied in paragraph 4 where the conference is given the right to create new fora.

HAIG replied that this referred only to committees in the UN, not to separate organizations.

THE PRESIDENT noted that he had talked about task forces at Cancun and that is what we are talking about in paragraph 4. There might be committees that would look into the availability of resources in developing countries or that would seek to provide advice or assistance in developing countries in certain sectors, such as the U.S. task forces would do in the agricultural sector.

KIRKPATRICK summarized the agreement by noting that we would insist on the insertion of the word preliminary before the word conference in paragraphs 1 and 2 of the resolution at Tab B. In addition we would eliminate the word first from paragraph 2 of the resolution at Tab B.

MEESE ended the discussion by noting that we now had a position that was fully consistent with the President's policy at Cancun.

[Omitted here is discussion of the FY 1983 Foreign Assistance Budget.]

80. Memorandum From Secretary of State Haig to President Reagan¹

Washington, December 27, 1981

SUBJECT

No UN Decision on Global Negotiations

The UN General Assembly adjourned Friday night² without acting on the draft resolution to launch Global Negotiations (GNs) in 1982. Although the Group of 77 Spokesman blamed the U.S. for intransigence, the Group itself could not agree on a united response to the U.S. amendments decided December 8 by the NSC.³

The European Community tried to position itself politically between the U.S. and the G-77 by proposing a compromise, but this attempt failed for lack of G-77 support. Austria, Australia, Japan, and a few other countries appreciated our willingness to commit the U.S. to a new GNs process and urged members of the G-77 to accept the U.S. amendments.

Algeria, Venezuela, the Philippines, and some others might have taken our amendments, but many G-77 members objected to U.S. language on “noting” resolution 34/138 and on the protection of the specialized agencies. Iraq, Libya, and Cuba were especially hostile. We have no evidence that any of the Cancun heads of state from developing countries acted to bring about a favorable G-77 decision.

Comment: Responding to the proposed resolution with constructive amendments prevented U.S. isolation and the onus of preventing progress on GNs. But the issue remains. A Vice-President of the UNGA is expected to continue consultations in January, and there could well be another push for a resolution at a resumed session of the UNGA.

One way of attempting to preempt an undesirable form of GNs, preserve the spirit of Cancun, and fulfill the four essential understandings you presented there may be to make a proposal of our own. The State Department has already circulated such an idea to other U.S. agencies for comment.⁴ Although preliminary, the idea would be for a

¹ Source: Department of State, Bureau of Economic and Business Affairs, Office of International Finance and Development Files, Lot 86D112: North/South Global Negotiations. Confidential. The date “81 Dec 28” is stamped at the top of the memorandum. The memorandum was sent under a December 21 covering memorandum from Johnston and Platt to Haig for his initials.

² December 18.

³ See Document 79.

⁴ Not further identified.

UN Conference on Global Growth and Development in 1983, preceded by four planning conferences in 1982 on the four subject areas of Cancun: Food and agriculture, energy, trade and commodities, money and finance. The planning conferences would be held out of New York in association with the specialized agencies to increase staff expertise and to reduce the politically charged atmosphere.

Assuming interagency agreement, we could begin multilateral consultations in the OECD on January 12–13.⁵

⁵ Below this sentence, Haig wrote: “Mr. President, your good sense prevented a catastrophe on this issue. I do hope this coming year will permit us to continue this play without excess direction from those who indulge in theology *exclusively*. We can and should manage this problem intelligently!! Al.”

81. Memorandum From the United States Representative to the United Nations (Kirkpatrick) to President Reagan¹

Washington, December 30, 1981

SUBJECT

Global Negotiations

1. As you know the group of less developed nations (the G-77) at the United Nations rejected the revisions we proposed in their draft resolution (“Kittani text”) on global negotiations.²

2. The G-77 was divided but their leadership made counter proposals, which I rejected on our behalf—in spite of some urging by the Europeans that the U.S. reconsider.

3. As of the recess of the General Assembly in December, we had come out of these troublesome negotiations reasonably well. We were perceived by most as “positive” and “forthcoming”. We got a good deal of credit for “trying” to accommodate other nations’ interest in launching global negotiations; we split their ranks and prevented a

¹ Source: Washington National Records Center, RG 56, Records of the Office of the Assistant Secretary for International Affairs, 1950–1985, Meeting and Policy Files, 1979–1992, 56–10–60, Box 3, [No folder title]. No classification marking. Copies were sent to Bush, Haig, Clark, Meese, and Nance.

² See Document 79.

generalized condemnation of the U.S. We avoided becoming involved in global negotiations. So far, so good.

4. The State Department has now proposed to you that our government “take the initiative” on the issue by proposing a U.N. conference on Global Growth and Development. (Secretary Haig’s memorandum to you of December 27, 1981, # 8137007).³

5. Unfortunately I had no opportunity to discuss this proposal with Secretary Haig before it was transmitted to you. I therefore feel it necessary to let you know directly that in my view we should not propose or encourage such a conference—at least at this stage.

a) We have already demonstrated our “seriousness” about following-up Cancun. Nothing else is required at this stage to prove our good will.

b) The U.N. is *not* a good arena for solving any problems including problems of development. Furthermore, U.S. “initiatives” are not generally well received there.

c) The U.S. will not be influential in any U.N. conference. Therefore we should not encourage one.

6. Furthermore, there are different views among other nations about what the U.N. should do now: some want to forge ahead with new efforts on global negotiations; some want to try a “sectoral” approach and consider only food or energy. The Europeans are especially eager to have negotiations on energy. Some of the least developed want to focus first on food.

RECOMMENDATION

I recommend that we do *nothing* for now;⁴ specifically, I do not think we should propose a U.N conference on “global growth and development” which would be an expensive boondoggle that could easily turn into a “first phase” of global negotiations.

A case by case approach has a better chance of success.⁵ Therefore, our best course would be to work quietly in support of other nations’ initiatives for conferences on specific subjects.⁶

³ See Document 80.

⁴ Nau circled “for now.”

⁵ Nau underlined “case by case approach,” highlighted this sentence, and wrote: “What is this?” in the right-hand margin.

⁶ Nau underlined “other nations’ initiatives for conferences on specific subjects.”

82. Memorandum From Henry Nau of the National Security Council Staff to the President's Assistant for National Security Affairs (Clark)¹

Washington, January 15, 1982

SUBJECT

Global Negotiations (GNs)

Ambassador Kirkpatrick has sent a memorandum to the President on the issue of Global Negotiations (Tab A).² She is responding to an earlier memo Haig sent the President on the same issue (Tab II).³ Neither memo was discussed with any other agency. Coordination on this controversial issue is simply not taking place.

State sought to develop the initiative which Haig mentions in his memo (a U.S.-sponsored Global Conference on Growth in lieu of Global Negotiations), but the other agencies objected fearing State would assume agreement and then run with the initiative on its own. Kirkpatrick also objects and recommends that we do nothing for the time being. This satisfies neither the State Department desire to be cooperative on this issue, particularly with our European allies, nor the President's desire to avoid being drawn into a massive UN exercise which has little domestic support or understanding.

Three times since Cancun, Allen and then Nance recommended to Meese the creation of an NSC-chaired coordinating group (Tab III).⁴ No action was taken. I have consulted once again with staff at the Assistant Secretary level in State, Treasury, USUN and USTR. All agree that an *informal* NSC-chaired group to monitor this issue and identify differences on a possible U.S. initiative would be helpful. Kirkpatrick was consulted directly by her staff member and agreed. State officials did not consult Haig.

I recommend that you consult Haig on this matter and seek his agreement to an informal group.⁵ Its informal character would not challenge State's formal coordinating responsibilities. Alternatively,

¹ Source: Reagan Library, National Security Affairs, Office of the Assistant to the President Files, Chron File, [Case file unavailable]; NLR-812-64-5-1-3. Confidential. Sent for action. An unknown hand placed a checkmark and circled it at the top of the memorandum. Lenz initialed the memorandum.

² Tab A is not attached, but is printed as Document 81.

³ Tab II is not attached, but is printed as Document 80.

⁴ Tab III is not attached.

⁵ Clark underlined "informal group" and placed a line in the right-hand margin next to this paragraph.

you may wish to encourage Haig to have State coordinate this issue more vigorously.

Meanwhile, I have drafted a memo from you to the President forwarding the Kirkpatrick memo and informing him of what you are doing.⁶

RECOMMENDATIONS:

1. That you sign the memo at Tab I to the President.⁷
2. That you consult with Haig.⁸

and decide whether to

_____ create an informal NSC-chaired monitoring group (if so, I will immediately draft a follow-up memo)

_____ encourage Haig to have State coordinate this issue more aggressively.⁹

⁶ Tab I, an undated memorandum from Clark to the President, is not attached. An unknown hand wrote: "continued" with an arrow under the paragraph.

⁷ Clark did not indicate approval or disapproval of this recommendation.

⁸ Clark checked the "Approve" option.

⁹ Clark did not indicate approval or disapproval of either recommendation.

83. Letter From President Reagan to Canadian Prime Minister Trudeau¹

Washington, February 24, 1982

Dear Mr. Prime Minister:

I congratulate you and President Lopez Portillo for bringing to the attention of our Cancun colleagues the need for their direct involvement in consultations on economic issues of global concern.²

¹ Source: Reagan Library, Executive Secretariat, NSC Trip File, North-South Economic Summit Cancun Mexico 10/22/1981–10/23/1981; NLR-755-3-18-1-0. No classification marking.

² In a January 22 memorandum to Reagan, Haig reported that the Mexican and Canadian Ambassadors had given Stoessel a letter on January 22 from Trudeau and López Portillo urging that Reagan "take a direct interest in the consultations on global negotiations which will resume soon in New York." The letter had also been sent to all other Cancun participants. (Department of State, Executive Secretariat, S/S-I Records: Haig's Correspondence and Meetings with Weinberger, Casey, and the President, Lot 83D288: Evening Reading—January 1982)

Immediately after Cancun, Ambassador Kirkpatrick pursued the issue of global negotiations at the United Nations with the sense of urgency called for in your summary. The series of breakfast meetings that she initiated eventually led the President of the General Assembly, Ambassador Kittani, to circulate informally a draft resolution on the matter. I decided that the United States should accept this draft, provided other states agree to four amendments that we feel are necessary for meaningful progress.

With the exception of yourself, President Portillo, and a few other colleagues, no other state has, to my knowledge, considered our suggested amendments at the Head of State level. It is important that we treat these issues at the highest levels so they do not lose their significance.

The spirit of Cancun is one of commitment, concern and cooperation. I would emphasize with you the importance of ensuring that our countries foster this spirit wherever consultations and negotiations take place.

With warm regards,
Sincerely,

Ronald Reagan

84. Minutes of a Meeting¹

Celle St. Cloud, France, February 28, 1982

SUMMIT PREPARATORY MEETING

[Omitted here is discussion not focused on North-South issues.]

FRANCE—Main North-South issues will include role of LDCs in economic crisis and GNs. Underdevelopment is aspect of industrial country crisis. Helping them is a selfish way to help ourselves,

¹ Source: Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: Versailles Summit—Preparatory Meeting February 27–28, 1982. No classification marking. The meeting was held to prepare for the Versailles Economic Summit. No drafting information appears on the minutes. A different set of notes on this meeting, written by Sprinkel, is in the Reagan Library, Executive Secretariat, NSC Trip File, Versailles Summit 1982 Preparatory Meeting—February 27–28.

not only economically but also politically. The U.S. Caribbean Basin Initiative is going in the right direction. On GNs, three steps are necessary: 1) it has to begin, 2) it has to protect frontiers/walls between UN and Specialized Agencies (SAs)—issues in SAs could not be taken up in general forum, 3) two problems important besides energy—food and stabilization of commodity prices. We cannot believe there is nothing new on North-South issues. The French President will be back from long trip to Africa and will have visited UN officials, etc. before Summit. We hope that GNs will begin before Summit.

EC COMMISSION—Third world is too important to ignore. We cannot repeat what was done at Cancun or we will lose credibility.

US—We do not agree that there has been no progress on North-South relations. Perhaps some background is helpful. We began last year with some significant differences of view. We worked hard on a common paper that eventually developed a consensus view. We agreed that two aspects were most important: 1) economic revival of our economies and the world economy, coupled with sound domestic policies in the LDCs; 2) concessional aid for the poorest countries aimed at helping them eventually to participate in the world economy. We placed different emphases on these two points but we all agreed that both were important. On the substantive front, the U.S. did not wait. It moved forward to develop a comprehensive view of its development policy which the President presented before and at Cancun. Since then, we have completed the formulation of our policy toward multilateral banks, which will ultimately free up more concessional resources for the poorest countries. We announced only a week ago our Caribbean Basin Initiative.² Look at this program. It is a practical example of the principles we articulated at Cancun. It shows how world economic measures—trade and investment—can work together with foreign aid to promote self-sustaining growth. And it involves costs which this Administration is nevertheless willing to incur even in the difficult domestic economic circumstances we face. Now, on top of all this, we adopted a helpful attitude toward GNs. Don't forget, we never believed these discussions would be worth much. But because our friends and the LDCs seemed to want them, we went along. We asked only that these talks be structured in such a way to prevent damage to the institutions where the real development action would take place. Our Ambassador in New York took the initiative after Cancun. Our President spent numerous hours on this subject and chaired a long

² For the text of Reagan's February 24 remarks on the Caribbean Basin Initiative to the Permanent Council of the Organization of American States, see *Public Papers: Reagan, 1982*, Book I, pp. 210–215.

NSC meeting in December.³ And what has happened. We have not one response from the G-77. Maybe GNs has lost its appeal for others. Don't expect us to revive it. But we are not waiting; we are moving ahead on what counts. Maybe GNs will ripen again later.

FRANCE—Why did US not accept EC compromise?

US—Why did LDCs not accept EC text?

FRANCE—Can we find new ways to move forward; new steps toward GNs?

CANADA—If there is a hint of loss of interest in GNs, it will collapse. So Trudeau and Lopez Portillo decided there could be no hint of loss of resolve.

GERMANY—If current situation continues, West will lose its credibility. On replenishment of the banks, we regret the recent developments. It is not of our making. We should not spend much time on North-South issues.

JAPAN—There is no answer yet from South. Facing this situation, what can we as the North do? There is not much to do then at this Summit.

CANADA—Trudeau's position before Delhi was that we needed one last-minute surge of adrenaline.⁴ He addressed Cancun participants. He acknowledged great efforts in New York and the openmindedness of the U.S., the spirit of compromise it has shown. Trudeau's diagnosis is mildly cautious and optimistic, as a result of U.S. efforts. There is no report yet from Delhi. Smith, however, is reported to be very gloomy. How Delhi events will percolate at UN is the question. Perhaps efforts should be coordinated to create an upbeat note after Delhi.

FRANCE—French President will insist on a clear position on GNs.

UK—This is where discussion must focus at Versailles. We must get these things right for communiqué.

US—There should be no doubt about the US commitment to help the poorest countries and alleviate poverty. But we will not do this in ways that we know have not worked. A recent study commissioned by

³ See Document 79.

⁴ The Government of India hosted a G-27 conference in New Delhi February 22-24, which focused on building a consensus within the G-77 on a Global Negotiations position, South-South cooperation, and India's leadership within the G-77. Telegram 2296 from New Delhi, February 6, outlined a recommended U.S. strategy for the meeting. (Department of State, Central Foreign Policy File, Electronic Telegrams, D820067-0919) Telegram 4347 from New Delhi, March 3, reported on the meeting. The Embassy noted that the "U.S. was reportedly identified as main obstacle to launching GNs, but we believe, from what we have heard, that consultations had positive benefit of making clear the firmness of U.S. position on GNs." (Department of State, Central Foreign Policy File, Electronic Telegrams, D820115-0234)

our Treasury Department examines the policies that have been successful in developing countries.⁵ Those countries that have not allowed money supply to grow unchecked, that have exercised budgetary discipline, that have not subsidized interest rates, controlled prices and maintained unrealistic exchange rates, that have participated aggressively in international trade, welcomed foreign capital and encouraged savings—these are the countries that have succeeded. We must do everything we can to encourage policies that we know work. Aid is important but it has never helped when other conditions were not right.

⁵ Presumably a reference to the paper, “Economic Outlook of the Non-OPEC Developing Countries,” prepared by the Treasury Department’s Office of Developing Nations’ Finance and distributed on January 29. A copy of the paper is in the Reagan Library, Norman Bailey Files, International Economics File, International Debt (01/29/1982).

85. Memorandum From the United States Representative to the United Nations (Kirkpatrick) to the President’s Assistant for National Security Affairs (Clark)¹

Washington, March 30, 1982

SUBJECT

Update on Global Negotiations and Relations with Developing Countries

The issue of Global Negotiations has been “urgently” considered at the United Nations since the Cancun Summit. However, the outlook for Global Negotiations is not good due to obstructions from hardline OPEC members (Algeria, Iraq, Libya, Kuwait).

Last December the U.S. introduced a text for a Global Negotiations resolution which was widely regarded as a positive step in fulfilling the President’s commitments undertaken at the Cancun Summit. Many developing nations were prepared to accept the U.S. text as presented, and with minor modifications most developing countries would have accepted it. However, as the prospects for Global Negotiations improved, the OPEC hardliners doubled their efforts to derail the process. It is clear that under current circumstances, OPEC hardliners are less prepared

¹ Source: Reagan Library, Douglas McMinn Files, Subject Files, Global Negotiations; NLR-369-3-27-18-1. Confidential. An unknown hand initialed for Kirkpatrick.

than ever to discuss energy in a U.N. forum. They see such a discussion as one in which they would be isolated against oil importing nations both developed and developing. To prevent such a situation from developing, *OPEC has hardened its position by insisting that Global Negotiations discuss issues which lie within the competence of the international financial institutions (IMF, World Bank, etc.).* This is intended to force the OECD in general, and the U.S. in particular, either to reject Global Negotiations and thus take the blame for the failure to launch the conference, or to create a conference in which there would be unacceptable linkages between energy and financial issues. In New York, of the Versailles Summit participants, Japan has been the closest to our position. Germany and the U.K. have been passive on our side. France and Canada have been the most anxious to seek accommodation with the developing countries. (Although not a Summit participant, Belgium has been the most supportive of our views.) *Our objective continues to be not to take the blame for the failure to move forward on Global Negotiations, and we are now in a much better position to attain this objective than a year ago.*

Nevertheless, given the current impasse on Global Negotiations in New York, *we should expect to be under pressure from France and perhaps others at Versailles to be more "forthcoming" on North/South issues.* In response to such pressures, we should not propose an alternative conference to Global Negotiations, but, instead should be prepared to react sympathetically to proposals by others, especially if they are presented on a sector-by-sector basis. *We should, however, take care not to accept responsibility for a "successful" outcome of the Summit.*

86. Memorandum From Secretary of State Haig to President Reagan¹

Washington, April 2, 1982

[Omitted here is information not related to Global Negotiations.]

2. *UN Global Negotiations.* On Wednesday,² the developing countries (Group of 77) presented a new draft resolution on global negotiations (GNs). The draft is a step backwards from the work of UNGA

¹ Source: Department of State, Executive Secretariat, S/S-I Records: Haig's Correspondence and Meetings with Weinberger, Casey, and the President, Lot 83D288: Evening Reading—April 1982. Secret.

² March 31.

President Kittani which we had found helpful and to which we presented amendments in December. The draft ignores the understandings which you presented at Cancun and the U.S. amendments which the NSC approved in December. The text appears to be an initiative of Mexico and India. They may have been trying to be helpful but Algeria and some other developing countries are counting on us to reject the text and take the blame for ending GNs. The Canadians and Australians can accept the text. The UK and Belgium have reservations. The Germans and Japanese are ambivalent but do not wish to isolate us. The French are pushing the other Europeans very hard to accept the text. We intend to contact the Versailles summit countries to ensure that this does not become a major issue for the summit.³ Our objective is to reestablish the Cancun understandings and to expose the cynicism of some G-77 members.⁴

[Omitted here is information not related to Global Negotiations.]

³ Telegram 92598 to multiple diplomatic posts, April 7, transmitted the text of a letter from Hormats to the personal representatives of the Versailles Summit countries on the subject of Global Negotiations and the tabling of a new draft resolution on GNs by the G-77. Hormats urged that the Versailles Summit process keep its focus on "new substantive issues, while contributing whatever we can to avoid polarization in New York that would freeze texts and positions." Hormats communicated that the United States did not plan to respond hastily to the new text on GNs from the G-77. (Reagan Library, Executive Secretariat, NSC Trip File, Versailles Summit 1982—N/S; NLR-755-13-8-4-7)

⁴ In an April 5 memorandum to multiple recipients, Meissner outlined a strategy and objectives for Global Negotiations in light of the new draft resolution tabled by the G-77 on March 31 in New York. The draft resolution did not respond to the major U.S. concerns as outlined by Reagan at Cancun, Meissner wrote, but it did put the "diplomatic ball" back in the U.S. court. Meissner communicated that it was generally agreed that the U.S. should not respond quickly. (Reagan Library, Douglas McMinn Files, Subject Files, Global Negotiations; NLR-369-3-27-12-7)

87. Information Memorandum From the Director of the Policy Planning Staff (Wolfowitz) to the Under Secretary of State for Political Affairs (Eagleburger)¹

Washington, April 22, 1982

SUBJECT

US Policy Toward the Third World

A Conceptual Overview of the Third World: Diversity and Complexity

Conventional stereotypes about the Third World fail to recognize the fundamental diversity and complexity that characterize the nations usually so described. It is misleading to conceive of the Third World as a single entity for it includes not only the poorest nations of the world in which starvation and disease are still the most pressing problems, but also nations like Singapore that have worked miracles of economic growth through free market policies, sparsely populated oil-producing countries that have acquired enormous wealth through the OPEC cartel, and major potential economic powers like Brazil.

The common identity provided by anti-colonialism still feeds on powerful currents of national pride and historic resentment but it increasingly is overshadowed by economic, ideological, religious and other differences. And it should be increasingly clear that the common desire for development and growth is best satisfied neither by autarchy nor a new dependence on redistribution and restriction, but by increased participation in a dynamic international economy.

The conventional concept of North-South relations focuses too narrowly on *economic* problems. We must also recognize the need for *political* development in nations whose weak governmental institutions leave them prey to subversion, unable to accommodate legitimate opposition, even willing to accept external intervention or to embark on external aggression.

¹ Source: Department of State, Executive Secretariat, S/P Records, Memoranda/Correspondence From the Director of the Policy Planning Staff to the Secretary and Other Seventh Floor Principals, Lot 89D149: S/P Chrons PW 4/21-30/82. Confidential. Drafted by Tarcov, Keyes, Feldstein, Kaplan, and Thornton on April 23; cleared by Benedict, Pratt, Levitsky, Michalopoulos, Graner, George Brown, McMullen, Wilcox, and Dodd, and in substance by Miles and Wolf. Alex Wolff initialed for all clearing officials. The memorandum was apparently backdated. Also printed in *Foreign Relations*, 1981-1988, vol. I, Foundations of Foreign Policy, Document 97. Sent under an April 23 covering memorandum from Wolfowitz to Eagleburger, which stated: "Attached is the paper that you requested on U.S. policy toward the Third World. This whole exercise has brought home the need for a more fundamental look at this issue."

Nor, finally, can we ignore the imperatives of *peace and security*. Many of the developing nations face endemic internal and international violence, fueled from many sources—ethnic, religious, economic, ideological, and territorial. This violence threatens all aspirations for economic and political development. It is made even more dangerous by the possibility of additional states acquiring nuclear weapons. And the potential it affords for Soviet exploitation constitutes one of the most serious long-term threats to US and Western security.

US Interests and Objectives

Rejections of conventional stereotypes about North-South relations must not lead us to lose sight of the huge stake that the US has—economic, political, strategic and moral—in the progress of the developing world. Early in this Administration, Secretary Haig announced that promoting peaceful progress in the developing world is one of the four pillars of our foreign policy.

The US and even more so our industrialized European and Japanese allies have become increasingly dependent on Third World products and markets. Dependency has given way to interdependence as the flows of commodities, manufactured goods, and capital increase in *both* directions. Protectionism now threatens the interests of all sides.

Frustrated aspirations for development lend instability to many new states and international economic disarray heightens the problem. The results open opportunities for encroachments by the Soviet Union and its radical allies in key strategic areas of the developing world which threaten vital US and Western interests. These threats have involved the West in morally ambiguous interventions not easily explained or understood in open societies. By encouraging a logic of violence in the Third World, the Soviets hope to exploit the resulting moral confusion in the West and to involve us in situations where military hardware and the techniques of repression count for more than diplomatic sophistication and economic development.

The complex and diverse problems of the developing world present not only serious threats but also historic opportunities for the West. As developing nations move beyond the bitter experience of colonialism, they are increasingly likely to reconsider the market-oriented economic models that traditionally have spurred Western growth. They will also look to the West for the aid, trade, capital, training, and technology needed for development. Many are increasingly inclined to accept Western help in negotiating peaceful solutions to their conflicts. They may come to see that Soviet assistance and the socialist model are neither a panacea for underdevelopment nor a spur to political legitimacy or regional security. And they should recognize that the US shows far more respect for the genuine non-alignment that inspired the

NAM and for the North-South dialogue proposed by the G77 than does the Soviet Union. US policy must seek to grasp the opportunities that would be lost by a rigid adherence to either North-South or East-West clichés.

A US policy that reflects the diversity and complexity of the developing world cannot be guided by a single goal or rely on a single instrument. Our efforts to promote peaceful progress and to protect Western interests in the developing world require mutually supporting efforts to: (1) foster *economic development*, (2) support *democratic political evolution*, (3) *resolve or dampen conflicts*, and (4) *address threats to security*.

Basic Policy Approaches

The foregoing analysis suggests the broad strategic objective of US policy toward the Third World—to transform the ground of super-power competition from the logic of violence to the more favorable ground of development.

A. Countering the Logic of Violence

Reagan Administration foreign policy seeks to prevent the logic of violence from perverting Third World aspirations for independence and development. We do this by pursuing both peace and security, by addressing both the indigenous causes of violence and Soviet attempts to exploit them.

1. We pursue *peace* through structured processes for negotiation and compromise, for example, in the Middle East (Camp David, Habib's ceasefire) and Namibia (Western Contact Group).

2. We bolster *security* against those who attempt to impose violent solutions by

- Supporting international peacekeeping forces (e.g., UN in Lebanon, Cyprus, and Golan Heights, MFO in Sinai, OAU force in Chad).

- strengthening our own military capabilities through our own and NATO rearmament efforts.

- developing the RDF and insuring access to facilities in Kenya, Oman, Somalia, and other countries.

- bolstering the capabilities of threatened Third World states to defend themselves through U.S. and allied security assistance.

- pressing for the withdrawal of Soviet forces from Afghanistan and Vietnamese forces from Kampuchea and the restoration of Afghan and Kampuchean independence.

- acting to counter Soviet proxies and allies such as Cuba, Nicaragua, Ethiopia, Libya, South Yemen and Vietnam and supporting countries threatened by them.

- devising pragmatic nuclear non-proliferation policies to deny weapons to dangerous states (Libya) and reduce the incentive for their acquisition by threatened states (Pakistan).

Countering Soviet intervention in the Third World also helps to promote a more constructive US-Soviet relationship based on restraint,

reciprocity, and respect for the independence of others. By settling conflicts and enhancing regional security, we create conditions that prevent Soviet intervention and US-Soviet confrontation.

Peace and security are mutually reinforcing goals: making our friends more secure often makes them more able and willing to take risks for peace and settle their disputes; settling disputes among our friends often makes them more able and willing to cooperate for our common security. At the same time peace and security provide the best environment for economic development and democratic political evolution.

B. Promoting the Logic of Economic and Political Development

The positive objective of our policy is to demonstrate that the West, despite the colonial past, is the best partner in promoting development.

1. Economic development

— At Cancun the President reaffirmed the American interest in and commitment to economic growth in the developing world.

— In following up Cancun, we try to avoid fruitless “North-South” polemics and to ensure that any “global negotiations” protect the integrity of existing international financial institutions.

— We maintain the US commitment to bilateral (\$6.3 billion in FY83) and multilateral (\$1.8 billion) economic assistance, but restructuring it to focus on areas that are most important to our interests, to maximize the effectiveness of free enterprise, and to encourage LDC policies conducive to growth. Early emphasis on Jamaica (\$112 million) and the CBI (\$660 million) exemplify our approach.

— We promote trade, private investment, and reliance on free markets, which together with US programs for technology transfer, institution building, and training are indispensable keys to economic growth without which aid alone is ineffective.

— We place emphasis on agriculture, focus concessional assistance on poorer LDCs, and maintain assistance to voluntary family planning programs where appropriate. In many countries, unprecedented population growth, resulting in a doubling of population in two-three decades, has implications for both political and economic stability.

— Our assistance is closely integrated with our other objectives: supporting democratic development (El Salvador—\$226 million), promoting peaceful settlements (Egypt—[illegible] billion and Israel—\$2.5 billion; Zimbabwe—\$78 million); bolstering security against Soviet or proxy threats (Pakistan—\$532 million; Tunisia—\$154 million; Somalia—\$9 million; Sudan—\$230 million).

— We remain faithful to traditional American humanitarian objectives (largest donor to African, Afghan refugees—\$419 million for migration and refugee assistance).

— The result of our reshaped approach and of the President’s personal commitment was the first passage of a foreign assistance bill by Congress in three years.²

² A reference to the Foreign Assistance and Related Programs Appropriations Act of 1982 (P.L. 97–121), which was signed into law on December 29, 1981.

2. *Democratic evolution*

— We have adopted a pragmatic human rights policy aimed at producing results, preferably through traditional diplomacy that emphasizes respect for human rights as a foundation for political cohesion and for better relations with the US.

— In El Salvador we have supported free elections and efforts to curb human rights abuses.

— The Caribbean Basin Initiative is designed partly to encourage and protect promising democratic institutions in Jamaica, Costa Rica, Honduras and elsewhere in the Caribbean and Central America.

— In Liberia we are assisting efforts to return to civilian rule.

C. *Fostering Allied and Regional Cooperation*

In seeking to counter the logic of violence and promote the logic of development we cooperate with our allies and with regional groups and powers.

— In the CBI, we cooperate with Canada, Mexico, Venezuela and Colombia, as well as the other nations of the Caribbean region.

— We work with the Central American Democratic Community to promote economic development, democracy, and security.

— We work with ASEAN on Kampuchea, the OAS on Central America, and the OAU's peacekeeping force in Chad.

— We seek to build our strategic association with China while maintaining the security of all our traditional friends in Asia.

— We encourage prosperous friends to provide needed assistance such as Japan to Egypt and Pakistan or Saudi Arabia to Sudan.

88. **Memorandum From Henry Nau of the National Security Council Staff to the President's Assistant for National Security Affairs (Clark)**¹

Washington, April 27, 1982

SUBJECT

Versailles Summit Preparatory Meeting April 24–25

This meeting, which began with the usual difficulties and complaints about U.S. economic policies, ended on a note of excitement and potential historic significance. Versailles could become the most

¹ Source: Reagan Library, Executive Secretariat, NSC Trip File, President's Trip to Versailles Economic Summit June 4–6, 1982; NLR-755-14-11-5-1. Confidential. Sent for information. Copies were sent to Bailey, Blair, Gregg, Rentschler, and Tyson. Wheeler initialed the top right-hand corner of the memorandum.

important Summit since Rambouillet (which was the first one in 1975).² The French would dearly love such an outcome, and it could also be in our interests. But the risks, in terms of both policy and public relations issues, especially the President's leadership image, are substantial.

[Omitted here is discussion unrelated to North-South issues.]

The North-South issue experienced a revival at this meeting. As I informed you earlier, the G-77 recently tabled a new text on Global Negotiations (GNs) in New York,³ just in time (coincidentally, I am sure) to allow America's allies to press us in the context of another Summit to cave on the President's Cancun conditions for launching GNs. We made a spirited defense of the President's policies and urged that the Summit countries stick with us in the consensus approach we developed at Ottawa and Cancun. Japan supported us, but Canada and the EC warned that they were bending over backwards to avoid isolating the U.S. and could not continue to do so much longer. This may be a bluff. The issue is not so important to heads of states and to the context of this Summit (in contrast to Ottawa) to risk isolating the U.S. President, especially when there are potentially bigger agreements in economic and monetary policy to be achieved. We should use this leverage to encourage the Summit allies to go to bat for us in New York (that has always been the answer to this GNs dilemma) and to offer a new text that is fully consistent with the President's position. This puts them on the spot since they may now have to choose between displeasing us and displeasing a few radicals in the G-77, who are manipulating the process in New York.

[Omitted here is discussion unrelated to North-South issues.]

² The Rambouillet Economic Summit took place November 15–17, 1975, in Rambouillet, France. For documentation on this Summit, see *Foreign Relations*, 1969–1976, vol. XXXI, Foreign Economic Policy, 1973–1976, Documents 91–129.

³ In an April 19 memorandum to Clark, Nau informed Clark of the G-77's tabling of a new draft resolution on Global Negotiations and explained that he, Hormats, and Sprinkel would be discussing the issue with the Summit allies at the April meeting in France. (Reagan Library, Douglas McMinin Files, Subject Files, Global Negotiations; NLR-369-3-27-27-2) Hormats provided a report, dated April 29, on the April preparatory meeting to the CCEA. A copy of Hormats' report is in the Reagan Library, James Jenkins Files, Versailles Summit Issues (CM234) 05/03/1982, CCEA).

89. Memorandum From the United States Special Negotiator for Economic Matters (Meissner) to the Assistant Secretary of State for Economic and Business Affairs (Hormats)¹

Washington, May 18, 1982

SUBJECT

Versailles: Proposal to trade global negotiations for something we want, e.g. East Bloc credits

We are getting increasing pressure in the Sherpa process to move our position on global negotiations (GNs). George Shultz in his report to the President also records our isolation on this issue.²

The Secretary presently has an action memo from EB and IO that recommends the tactical move of tabling a new U.S. draft in New York just prior to the Summit.³ The draft is optically different from the amended text we tabled in December but substantively without real change. We had hoped this would allow us to hold our position while protecting the President from criticism.

After the Sherpa meeting of May 15–16 I do not believe this will be adequate.⁴ I therefore would like to propose a bolder move. We should

¹ Source: Reagan Library, Douglas McMinn Files, Subject Files, Global Negotiations; NLR-369-3-28-3-6. Secret.

² In a May 14 memorandum to Reagan, Shultz reported on his meetings with principals planning to attend the Versailles Summit, which Shultz conducted during a trip to Europe on Reagan's behalf. Shultz summarized that the "so-called North-South area is almost universally seen as one where the U.S. is on a different wave length from the rest. But everyone agrees that UN sponsored talks must not be allowed to infringe on the jurisdiction, integrity, and governance of existing international economic institutions (IMF, GATT, World Bank, etc.)." The leaders Shultz spoke with believed the U.S. should go along with Global Negotiations under UN sponsorship, but did not want to argue with Reagan about the issue at the Summit. (Reagan Library, Stephen Danzansky Files, Summit File, Toronto Summit 1982–1987; NLR-733-17-1-1-7) The memorandum is scheduled for publication in *Foreign Relations*, 1981–1988, vol. XXXVI, Trade; Monetary Policy; Industrialized Country Cooperation, 1981–1984. Shultz presented the memorandum and reported on his trip in a meeting with Reagan on May 15 in the Cabinet Room. The memorandum of conversation of this meeting is also scheduled for publication in *Foreign Relations*, 1981–1988, vol. XXXVI, Trade; Monetary Policy; Industrialized Country Cooperation, 1981–1984.

³ A copy of the May 11 memorandum from Johnston and Streeb to Haig is in the Department of State, Central Foreign Policy File, P820078-0070. The memorandum is marked "OBE per Hormats 5/20."

⁴ In a May 18 memorandum to Clark, Nau summarized the May 15–16 preparatory meeting for the Versailles Summit and reported that it did not go well. He wrote that the French and Canadians "lambasted the U.S." for not supporting the G-77 text on Global Negotiations and for not meeting its commitment to IDA VI funding. (Reagan Library, Executive Secretariat, NSC Trip File, President's Trip to Versailles Economic Summit June 4–6, 1982; NLR-755-14-11-2-4)

accept at the summit the launching of global negotiations in exchange for two concrete gains: (1) unqualified protection of the specialized agencies GNs and (2) something we want at Versailles, e.g. multilateral action to officially support export credits to the USSR or a favorable decision on the Yamal pipeline.

On the issue of unqualified protection of the specialized agencies, the language proposed in your memo to the Secretary (attached) is adequate. I have noted in the attachment the other minor changes necessary in our draft language to launch globals.⁵ I think it is necessary at the summit for all seven to agree on language. French and German views on protection are different from ours. We must have our language.

On the issue of something we want at Versailles, there are a number of points. *First*, as you know, the consultations on credits that paralleled the Sherpa meeting did not go well. The French were particularly obstinate insisting that their bilateral arrangement with the USSR would not allow them to join any consensus. Parenthetically, they will not show us their bilateral agreement so we cannot verify their position. *Secondly*, it is the French who want GNs and want a north/south initiative of importance at the Summit. The Germans also share this view and are starting to push Schmidt's old idea of a global foreign exchange earnings stabilization scheme for LDC commodity exports. The French like this idea because of their penchant for a more centrally run world economy. We are definitely not for it. *Thirdly*, the linkage between GNs and export credits, the pipeline, or something comparable would achieve a real economic gain for the U.S. while trading a procedural item at the UN there is no real guarantee that GNs will go anywhere. *Fourth*, the linkage between GNs and something we want may help us in the U.S. bureaucracy. Treasury will be exceedingly difficult to sell on GNs but has a deep commitment on limiting credits to the USSR.⁶ The linkage might make GNs more palatable to them. *Fifth*, as Henry Nau points out, Treasury and USTR are likely to argue that we do not need to give on GNs because after Versailles the issue will fade away.

⁵ The memorandum is not attached. See footnote 7, below.

⁶ In a May 5 memorandum from Leland to Regan, Leland wrote that Treasury and USTR had "strong reservations" about the Department of State proposal that the NSC approve the tabling of a new U.S. text of a Global Negotiations resolution to counter the G-77 text introduced on March 31. Leland indicated that the Treasury Department had "suggested another approach to State and NSC: the President should use the Summit to explain how the G-77 text ignores fundamental issues—despite his personal efforts at Cancun and subsequently by putting his personal stamp on alternative GN resolution language last December—and concede that the differences are irreconcilable. We would try to position ourselves to spread the 'blame' for GNs' failure all around." (National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Subject (Official) Files, 1982, UD-10D26, 56-84-25, Box 30, Memo International Affairs, May June 82)

We must be prepared for a French attempt to negotiate a wide open GNs in an attempt to kill our linkage to something else. Hopefully cool heads will prevail.

If you believe this linkage would be of merit, we can rework the action memo to the Secretary to reflect two prongs of this strategy which the President and White House Group could consider. The first prong is what the action memo now recommends: The submission of a new US draft in New York prior to Versailles which would reflect no substantive change in the U.S. position. At Versailles we could always fall back on this draft and protect the President by insisting that the ball is not in our court. The second prong would be to take to Versailles a willingness to launch GNs by amending our draft provided that:

(A) All seven support the amended U.S. draft to include unqualified protection for the specialized agencies, and

(B) Some agreement is reached on credits to the USSR, the pipeline, or something of similar concern to the US.

Attached is the draft resolution on GNs presented by the G-77 on March 31 and the U.S. response which your action memo to the Secretary proposes be submitted in New York prior to Versailles.⁷ The memo already proposes one minor phrase (the words bracketed in paragraph 5) which we would add only in the course of negotiations, i.e. which the text we table in New York would *not* contain. To give our Versailles delegation the authority actually to accept the launching of GNs, there need to be only two additional amendments—as shown on the attached text in handwriting.

I have discussed the thrust of this memorandum with Gordon Streeb and Henry Nau. They agree in principle. I shall present the idea to Jose Sorzano in New York tomorrow.

⁷ The “G-77 Text of March 31, 1982” and “Proposed U.S. Response” paper are attached on one sheet of paper but not printed.

90. Memorandum From Secretary of State Haig and Secretary of the Treasury Regan to President Reagan¹

Washington, undated

SUBJECT

Strategy for Success at Versailles

The Versailles Economic Summit is an historic opportunity to reverse the tendency of nations to look inward as a result of domestic economic difficulties. Your leadership is required to strengthen international economic cooperation, the international trading system and allied unity on economic issues vis-a-vis the USSR. Positive results in these areas will also set the tone for the rest of your European trip, particularly the NATO Summit. Each participant at Versailles has a shopping list, with inevitable conflicts among objectives and among means of pursuing those objectives. In the final phase of preparation, progress will depend, to a degree, on the willingness to engage in some “give and take” to arrive at a package acceptable to all.

Country Positions

We plan to stress the need for improved *consultation* and *coordination* in the setting of medium-term *economic policies*, with the objective of achieving greater *economic discipline* and greater *international financial stability*. Our other priorities are to *strengthen the multilateral trading and investment system* and to reinforce *Western solidarity in economic relations with the East*.

The *Europeans*, suffering from weak economies and high unemployment, are cautious; many would rather avoid specific or “overly ambitious” commitments on trade and East-West issues at the moment. On the other hand, they will play up North-South issues, specifically the “global negotiations,” largely for symbolic reasons. The *Japanese* will support the broad trade objectives for their own reasons, but are closer to the Europeans on East-West questions. The *French* will be pushing a technology initiative, which is a Mitterrand pet, but which envisages a large government role in the identification, development and control of technology. This issue gives us an opportunity to stress how our market-oriented approach stimulates new technology and innovation.

¹ Source: Reagan Library, Douglas McMinn Files, Economic Summit Files, France—Senior WH Group Meetings. Secret. Sent under a May 21 covering memorandum from Clark and Deaver to multiple recipients as a preparatory document for a May 21 Senior White House Group meeting with Reagan on the Versailles and NATO Summits.

Trade-offs

There are some trade-offs within each of these issues, and we may be able to trade off between some areas:

[Omitted here is information not focused on North-South issues.]

— On *North-South* issues, we recognize the importance of aid especially for the poorest countries, but we are pressing an approach that stresses the importance of sound economic policies, effective use of aid, of financial flows other than aid and of a free market orientation in trade, investment and domestic policies in developing countries as essential ingredients in the development process.

The Europeans, largely for symbolic reasons, are pressing for Summit acceptance of a number of points: global negotiations, an IBRD energy affiliate, an IDA special fund, and more financing for stabilization of LDC export earnings. These are in bracketed language in the draft Declaration. Provided we could get firm European agreement to protect, in global negotiations, the specialized agencies such as the IMF and GATT, we would explore some procedural compromises which could buy us stronger commitments from other nations in support for our positions. This might also improve prospects for progress on credits to the USSR.

[Omitted here is information not focused on North-South issues.]

91. Telegram From the Mission to the United Nations to the Department of State and the White House¹

New York, May 26, 1982, 2153Z

1480. For Secretary Haig and Hormats From Ambassador Kirkpatrick. White House for Clark and Deaver. Dept Pass Treasury for Secretary Regan and Leland. Subject: Global Negotiations and Versailles Summit. Ref: My Memo of May 23 Delivered To NSC—Henry Nau.²

1. (S—Entire text)

2. I remain concerned about strategy for treatment of Global Negotiations issue at Versailles Summit.

¹ Source: Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: Versailles Summit—North/South 1982. Secret; Immediate; Exdis. “Action copy” is stamped on the telegram.

² Not found.

3. I understand that current strategy is to hold no consultations with our allies about Global Negotiations between now and the Summit, but for the President or aides to be ready to discuss issue at the Summit if it is raised by others. We would then seek to persuade Summit participants to agree with text proposed by us. If U.S. text was unacceptable at Versailles, U.S. text would nevertheless be presented in New York after the Summit.

4. This approach is dangerous. If Summit countries could endorse one of U.S. texts this would, of course, be ideal, but in my judgement this is unlikely. Most European leaders very much want Global Negotiations to go forward as a political gesture to developing countries. For that to happen G-77 must agree. Europeans know that neither U.S. texts I have seen are acceptable to the G-77, if for no other reason than language suggests there would be an ad hoc group only on energy. Europeans will therefore reject our texts and press the President at Versailles to make more concessions. Anything Europeans would want is not likely to be acceptable to us. We would then be faced with the probability of returning to New York completely isolated, presenting a text which had already been rejected by our closest allies.

5. In my view the President would be better protected from pressure at Versailles, and our credibility enhanced, by tabling U.S. text (text would be the already approved text which U.S. is prepared to first present at Versailles) in New York no later than the middle of next week which makes a step towards meeting G-77 concerns, but would not be accepted by the G-77, thus demonstrating U.S. flexibility, and perhaps isolating and again exposing OPEC hardliners as guilty of blocking agreement. With most G-77 leaders at NAM meetings, the G-77 is not likely to be able to put forward an authoritative counter-proposal before Versailles. We then could ask other industrialized countries to support our text, and the President would be protected at Versailles.

Kirkpatrick

92. Memorandum From the Assistant Secretary of State for Economic and Business Affairs (Hormats) to the Deputy Secretary of State (Stoessel)¹

Washington, May 28, 1982

SUBJECT

Global Negotiations

Given your interest in North/South issues and in US relations with our closest allies, you should know the US position on global negotiations (GNs) which has emerged as part of the preparations for the Versailles Summit and which was adopted by the President on May 21.² The specific issue was how to respond in New York and at the Versailles Summit to a draft UN General Assembly resolution on GNs tabled March 31 by the Group of 77.

Situation.

Most industrial countries would be willing to accept the G-77 text, but the EC, Canada, Japan, Australia, and other OECD countries have so far refrained from saying so formally in order not to isolate the US diplomatically. The ball is in our court, however, and pressure has been mounting for the US to respond to the G-77 text. Mitterrand and other participants at the annual economic Summit in Versailles June 4-6 are pressing us very hard to send a "positive signal" to the developing countries in the Summit declaration. Currently we have bracketed language in the declaration which calls for GNs by Autumn.

Analysis of the G-77 text.

The G-77 text interrupts the process of accommodation which had been taking place in New York and ignores well-known concerns of the US. Specifically, it contains six points which we do not like. The text would:

- (1) launch a UN Conference for GNs before procedures, agenda, and timeframe are agreed;
- (2) leave open the relationship between the Conference and the IMF, World Bank, GATT, and other specialized agencies;
- (3) grant the Conference the right to set objectives for decentralized negotiations in the specialized agencies;

¹ Source: Reagan Library, Executive Secretariat, NSC Trip File, Versailles Summit 1982—N/S; NLR-755-13-10-9-9. Secret. Drafted by Lollis (EB/SEN) and Meissner on May 27; cleared in IO, NSC, Treasury, and USUN. A copy was sent to Eagleburger.

² See Document 90. Minutes of the meeting were not found.

- (4) refer directly to the 1979 resolution on GNs;
- (5) allow the Conference to create ad hoc groups to negotiate issues rather than refer them to the specialized agencies;
- (6) suggest the negotiation of a package agreement at the end of GNs which might infringe on the specialized agencies.

Review of options.

The US response to the G-77 text has required a review of our substantive position and objectives. Essentially two options were considered: Standing pat with our December 8 position or developing a new US position for Versailles that would indicate some flexibility and show the President negotiating in good faith. Either option necessitated a further tactical decision on implementation.

The Decision.

Interagency consultations as part of preparations for the Versailles Summit resulted in agreement on developing a new position. This recommendation was presented to the President and adopted by him on May 21. The decision is to be prepared in case others raise the issue at Versailles to indicate our willingness to make some procedural compromises in exchange for the other Summit countries' firm agreement to guarantee all of the language in US paragraph 5 (on the protection of the specialized agencies and on ad hoc groups) and make a united response to the G-77 in New York.³ It was also decided to seek appropriate language for the Summit declaration and to consider using our flexibility on GNs to obtain leverage on other issues at the Summit.

Trade-off.

Inherent in this decision is a procedural compromise which we are willing to make in return for a substantive position to protect the specialized agencies.

The procedural compromise is agreeing to launch GNs before procedures, agenda, and timeframe are agreed. This is reflected in paragraph 1 in the change of prepositions—"of" in lieu of "for"—which determine the relationship of the organizational meeting to the Conference for GNs. Paragraph 4 caveats this position by stipulating that the organizational meeting of the Conference would determine the procedures, agenda, and timeframe prior to the commencement of the formal Conference meetings.

³ The "Synoptic Table of Texts Proposed for UNGA Resolution on Global Negotiations," which includes language for paragraphs 1-7 of the "Initial US offer at Versailles," and was revised in EB/SEN on May 28, is attached but not printed.

In exchange, we would insist that:

(A) The draft resolution must use the US paragraph 5 language (the protection of the specialized agencies and restricted use of ad hoc groups) and must omit the language of the G-77 text (paragraph 5) which says that the issue of the interrelationship between the Conference and the specialized fora will be dealt with after the commencement of the Conference.

(B) All Summit countries make a united response to the G-77 text and thereafter concert their positions in follow-up negotiations in New York; and

(C) New language be inserted in the Versailles Summit declaration on the need to encourage and support effective development policies and on a commitment to pursue mutually beneficial growth and development as the major objective of GNs.

The trade-off does *not* affect our previous positions on the reference to UNGA resolution 34/138, the right of the conference to set objectives, the limitation of ad hoc groups, and language suggesting a package agreement. In other words, we would continue to insist that the formulations of any UNGA resolution meet our concerns on these points and not contain the formulations of the G-77 text.

Tactics at Versailles.

If pressed on the issues of GNs, we will implement the foregoing decision by attempting to negotiate with the other Summit countries the text of a draft UNGA resolution which would be used as the basis of our response in New York after Versailles. The texts of our initial and final offers are given in the attached synoptic table. Appropriate language for the Summit declaration will also be negotiated.

93. Report Prepared in the National Security Council¹

Washington, June 8, 1982

REPORT:

GLOBAL NEGOTIATIONS AT THE VERSAILLES SUMMIT

There are two results on Global Negotiations coming out of the Versailles Summit.²

1. The language in the Declaration (Communique) which reads:³

“The launching of global negotiations is a major political objective approved by all participants in the Summit. The latest draft resolution circulated by the Group of 77 is helpful, and the discussion at Versailles showed general acceptance of the view that it would serve as a basis for consultations with the countries concerned. We believe that there is now a good prospect for the early launching and success of the global negotiations provided that the independence of the specialized agencies is guaranteed.”

2. The working document of a North-South group of experts chaired by Jean-Claude Paye (Tab B)⁴ which sets out the agreement of the Summit leaders to a series of amendments in the G-77 text and commits the Summit leaders to have their delegations stand by the so amended text in New York and not depart from it except by unanimous decision.⁵

The two results are not formally related, since there is no mention in the Communique of the agreement among the experts. But the process by which we arrived at the two results and, more importantly, the discussion in the last plenary session among the heads of government and state confirmed the relationship between the two commitments.

The North-South Working Group reached the agreements recorded in the working document at a 3 hour Saturday morning meeting.⁶ The entire discussion at that meeting was premised on the commitments

¹ Source: Reagan Library, Norman Bailey Files, International Economics File, Global Negotiations June–August 1982. No classification marking. Drafted by Nau on June 8. Sent under a June 14 covering memorandum from Nau to Clark, in which Nau wrote that he used the June 8 report to brief agencies on what was done at the Versailles Summit on Global Negotiations. The covering memorandum was stamped: “WPC Has Seen.”

² Minutes of the Versailles Summit meetings are scheduled for publication in *Foreign Relations*, 1981–1988, vol. XXXVI, Trade; Monetary Policy; Industrialized Country Cooperation, 1981–1984.

³ For the text of the Versailles Summit Communiqué, see Department of State *Bulletin*, July 1982, pp. 5–6.

⁴ Tab B is not attached.

⁵ Nau drew an arrow with a line after the word “text” and wrote “(Tab C)” in the right-hand margin. Tab C is not attached.

⁶ June 5.

expressed in paragraph 1 of the working document, meaning that the US would retract any commitment to the amendments if the commitments in paragraph 1 were altered. In addition, as the document indicates, I reserved on "recalling" since I had no instructions to accept it.

The Working Group agreed to meet again Saturday afternoon by which time I hoped to have a decision on "recalling." I had no opportunity to meet with Hormats, Leland and Darman and also had to serve as notetaker during part of the afternoon session among the heads of government. So I came to the afternoon meeting of the Working Group one hour late. The group in my absence had already drafted new Communique language reflecting an optimism based on our morning session. It had also modified the working document in one critical respect from my point of view—substituting in paragraph 1(c) the words "common agreement" for "unanimous decision." I asked for a delay and said I would review the working document.

Saturday evening, we briefed Haig and Regan on where we stood, and in discussions among ourselves, generally agreed that if "unanimous decision" was restored in the working document, we would drop our reservation to "recalling." Sunday morning, we briefed the President, Baker, Clark and Deaver.⁷ The President gave the go-ahead to this approach.

The Working Group never reconvened. The issue passed to the plenary session Sunday morning where the following exchange ensued:

1. Secretary Haig introduced an amendment to alter the third sentence of the Communique language on GNs (see above) to read:

"We believe there is now, on the basis of agreements reached by our experts at the Summit, a good prospect for the early launching and success of the global negotiation."

2. President Thorn said it was inappropriate to cite experts in a declaration of heads of government and state.

3. There ensued a discussion of an amendment to the Communique introduced by PM Thatcher that eventually resulted in the addition to this same sentence of the phrase "provided that the independence of the specialized agencies is guaranteed."

4. Following this discussion, Secretary Haig intervened to assert that it was his understanding that we would be acting in New York on the basis of unanimity. (He did not specifically mention the amendments.)

5. President Thorn said he wanted to make it clear. "We will be acting on these amendments in New York on the basis of unanimity." (He did refer specifically to the amendments.)

6. It was so agreed.

⁷June 6.

After the conclusion of the Summit, I conferred with Paye and told him that if all of us had the understanding that the exchange among the heads constituted a clear commitment equal in force to Communique language to implement the agreement expressed in the working document, we would conclude that we had an iron clad agreement. Paye agreed but said that he wanted to check one more time with Cheysson who seemed to have given some slight indication of doubt (probably smarting from our clear victory on “limiting export credits”). Paye called me on Tuesday, June 8, to confirm the agreement. He is sending me a final copy of the working document.⁸ If it conforms to our discussion, the agreement is final.

Analysis of Agreement

1. The Communique language goes beyond Ottawa and Cancun by:

- a. approving GNs as a major political objective;
- b. accepting the G-77 text as “helpful” and a basis for discussion;
- c. projecting “a good prospect for the early launching and success of the global negotiations, provided that the independence of the specialized agencies is guaranteed.”

2. It is premised on the agreement to amend the G-77 text as recorded in the working document and not to depart from this amended text in New York except by unanimous decision.

3. The amendments implement the US delegation’s instructions to trade procedural flexibility for protection of the specialized fora as follows:

- a. by agreeing to go to GNs and settle agenda and procedures in a preliminary phase as long as it was clear that the conference could not go beyond this preliminary phase without consensus (see Amendment 2b of working document);

- b. by requiring insertion of “by the conference” in paragraph 4 (see Amendment 2c of working document).

4. It goes technically beyond those instructions as follows:

- a. by accepting the language “without duplication of existing appropriate fora” as a substitute for “where no such fora exist” (see Amendment 2d of working document);

Comment: The two are the same except for the word appropriate. It provides us with additional protection since without it, the conference could create ad hoc groups for specific subjects not within the formal mandate of existing fora. With appropriate added, we can argue that, even if the subject is not within the formal mandate of an existing institution, there is an “appropriate” institution to handle it.

⁸Telegram 19892 from Paris, June 8, transmitted the text of the North-South Group’s report with instructions to pass to Nau. (Reagan Library, Norman Bailey Files, Versailles Summit [1982])

b. by not requiring changes in other parts of the G-77 text, including language about “coherent and integrated approach” in paragraph 1, the first part of paragraph 5 down to specialized fora, and the word objectives at the end of paragraph 5.

Comment: The reason for not contesting these other parts is that they are all now governed by paragraph 4. The conference must respect the jurisdiction, competence, functions and powers of the specialized agencies, meaning it cannot do more than make recommendations to the specialized fora in ensuring a “coherent and integrated approach” or in considering “the interrelationship between the central role of the conference and the specialized fora” or in providing “relevant and appropriate objectives and guidance.”

5. It goes beyond the instructions by accepting “recalling” in place of “noting” (see Amendment 2a of working document). The decision to accept “recalling” was made on the spot by the President.

94. Memorandum From the President’s Assistant for National Security Affairs (Clark) to the Cabinet Council on Economic Affairs¹

Washington, June 21, 1982

SUBJECT

Global Negotiations

At Cancun, the President stated that “we are prepared to carry out the commitment in the Ottawa Summit Declaration to conduct a more formal dialogue—bilaterally, with regional groups, in the United Nations and in specialized international agencies.” He further stated that “the United States would be willing to engage in a new preparatory process” for Global Negotiations (GNs) if there were acceptance of four essential understandings:

- talks should have a practical orientation;
- talks should respect the competence, functions and powers of the specialized international agencies;
- talks should be oriented toward mutually beneficial international growth and development taking into account domestic economic policies;
- talks should take place in an atmosphere of cooperative spirit.

On December 9, 1981, the United States submitted a draft resolution in New York which called for a preliminary conference (i.e. preparatory

¹ Source: Reagan Library, Edwin Meese Files, Cabinet Council on Economic Affairs. Confidential.

process) to decide upon agenda and procedures and required that the conference respect the jurisdiction, competence, functions and powers of the specialized fora (see Tab I).²

On March 31, 1982, the developing countries (known as the G-77) submitted a draft resolution (Bedjaoui Text). It did not explicitly require the conference to respect the specialized fora, and it convened the conference directly without a preliminary conference to decide upon agenda and procedures. Already before the Summit, other OECD countries had accepted the G-77 text as a basis for discussion, and the Summit countries pressed the United States to take a similar position.

In the Summit preparations, the United States decided to try and put its allies on the spot by securing their agreement at the Summit to changes in the G-77 text protecting the specialized agencies in return for our willingness to settle agenda and procedures in a preliminary phase of the Global Negotiations rather than in a preliminary conference.

The Summit produced communique language and a separate, confidential working document. The communique accepts the G-77 text as a basis for discussion and foresees a good prospect for launching GNs provided the independence of the specialized agencies is guaranteed. The working document sets out amendments to the G-77 text protecting the specialized agencies and commits the Summit leaders to have their delegations support this text in New York and not to depart from it except by unanimous agreement.

The amendments to the Bedjaoui text (see Tab II) explicitly protect the specialized agencies:³

- by adding the words “by the Conference” at the end of paragraph 4;
- by adding “without duplication of existing appropriate fora” in paragraph 5;

COMMENT: This wording provides better protection than the December 9 US draft. The latter limited the creation of ad hoc groups by the Conference to subjects “where no fora existed.” Under this formulation, the Conference could create ad hoc groups for specific subjects not within the formal mandate of existing fora. The new formulation allows us to argue that, even if the subject is not within the formal mandate of an existing forum, there is an “appropriate” existing forum to handle it.

- by rendering harmless other language in the G-77 text (e.g. “coherent and integrated approach” in paragraph 1, giving “due attention . . . to the interrelationship between the central role of the conference and the specialized fora,” and “relevant and appropriate objectives and guidance” in paragraph 5), because the conference, in whatever it

² Tab I is attached but not printed.

³ Tab II is attached but not printed.

does, must now respect the specialized fora, meaning it can do no more than make recommendations to the specialized fora.

The amendments further ensure that the substantive or negotiating phase of the conference cannot begin until a consensus has been reached in the preliminary phase on agenda and procedures. This provision protects the US position that we will not enter into negotiations until we know what it is that we are negotiating.

For the first time in 2 ½ years, the United States has secured explicit protection of the specialized agencies *in agreement* with its six Summit country partners plus the European Community. We have not only avoided isolation in New York, but locked our Summit country partners into a consensus arrangement whereby no further changes in this text can be made except on a unanimous basis. Since this is a commitment among Summit leaders, our partners can isolate us in the future only if they bring the issue to the heads of government level and have their heads personally intervene with President Reagan (a very unlikely prospect). We will now see if the developing countries can accept these talks on our terms.

95. Memorandum From Norman Bailey of the National Security Council Staff to the Military Assistant to the Assistant to the President for National Security Affairs (Poindexter)¹

Washington, June 22, 1982

SUBJECT

Global Negotiations at Versailles

You have asked me to comment on the treatment of the Global Negotiations issue at Versailles (Tab I).² Obviously I cannot comment on the processes and procedures used since I was not there. I do know that Marc Leland was displeased with the procedures followed by our illustrious “notetaker,”³ but I cannot exercise any independent judgment on this.

¹ Source: Reagan Library, Executive Secretariat, NSC Trip File, President’s Trip to Versailles Economic Summit June 4–6, 1982; NLR-755-14-15-3-9. Confidential. Sent for information. Wheeler initialed the top right-hand corner of the memorandum.

² Tab I, a June 14 memorandum from Nau to Clark, is attached but not printed. Attached to Tab I is Tab A, “Report: Global Negotiations at the Versailles Summit,” which is printed as Document 93.

³ Presumably a reference to Nau.

As to the substance, the memo correctly points out that we made important concessions which substantially modified our previous stance on the issue.⁴ It is not clear to me what we got in return for this, other than reinforcing our allies' already strong belief that we will fold on any issue if they bitch long and loud enough. On the other hand, important safeguards remain, and I can't see any grave danger, assuming that we don't give anything further away, of losing anything other than time in an endless series of meaningless meetings. In this regard, I strongly support the appointment of Henry Nau as permanent representative of the U.S. to the Global Negotiations.

For your amusement, Ambassador Loncar of Yugoslavia told Roger Robinson and me yesterday that his country was very concerned that we might actually be taking Global Negotiations seriously and that we *must* protect the World Bank, the IMF and the GATT at all costs.

⁴ In a July 17 memorandum to Clark on the Versailles Summit, Bailey wrote: "It is quite clear to me that the Versailles Summit was a failure in every important respect. We gave up our position on two important points, exchange rate intervention and global negotiations, and we got absolutely nothing in return." (Reagan Library, Norman Bailey Files, Chronological File, Chron 06/17/1982–06/20/1982; NLR–25–12–35–3–5)

96. Minutes of a Cabinet Council on Economic Affairs Meeting¹

Washington, June 29, 1982, 8:45 a.m.

Attendees: The Vice President, Messrs. Regan, Baldrige, Block, Lewis, Pierce, Weidenbaum, Brock, Harper, Porter, Davis, Leland, Nau, Mehle, Hormats, Kudlow, Garrett, Gray, McPherson, Thompson, Bledsoe, Cicconi, and Denend, Ms. Dunlop and Ms. Dyke

1. *Global Negotiations*

The Council reviewed a paper, prepared by the National Security Council staff, on the status of global negotiations.²

¹ Source: Reagan Library, Ralph Bledsoe Files, Office of Policy Development, Cabinet Councils, Other Cabinet Councils, Cabinet Council on Economic Affairs IV. No classification marking. The meeting took place in the Roosevelt Room at the White House. No drafting information appears on the minutes.

² Possibly a reference to Document 94. Leland also prepared a memorandum for the CCEA updating the Council on the status of Global Negotiations since Clark's June 21 memorandum. Leland's June 28 memorandum is in the Reagan Library, Douglas McMinn Files, Subject Files, Global Negotiations.

Mr. Nau's presentation focused on U.S. objectives in our economic relations with developing countries including promoting mutually beneficial growth without government directed resource transfers, and supporting LDC outward looking trade and finance policies in conjunction with sound domestic economic policies. He noted that while economic aid would continue to play a significant role in U.S. foreign policy, our assistance in the context of global negotiations would concentrate on: providing technical assistance; supporting trade liberalization; encouraging and protecting private investment; and stimulating cofinancing arrangements.

Mr. Nau outlined the major features of the agreement reached at the Versailles Summit and the progress that has been made since then to ensure common understanding. The U.S. agreed to drop the demand for a preliminary conference in exchange for agreement by our Summit partners that the G-77 text of the resolution establishing global negotiations, as amended by the U.S. to protect the role of existing international organizations, would be the only text under consideration. Any changes would require unanimous agreement or the issue would be elevated to the head of state level for resolution.

The Council's discussion centered around the prospects for holding our allies to our interpretation of the agreement, the likelihood that the less developed countries will accept the resolution as amended, and the need to keep the Cabinet Council informed regularly as this issue moves forward at the United Nations.

Secretary Regan asked Mr. Porter to arrange for a Cabinet Council working group to regularly provide the Council with information on the progress of developments concerning global negotiations and to prepare appropriate materials on issues requiring the Cabinet Council's consideration.

[Omitted here is discussion unrelated to Global Negotiations.]

97. Memorandum From Henry Nau of the National Security Council Staff to the President's Assistant for National Security Affairs (Clark)¹

Washington, July 2, 1982

SUBJECT

Post-Versailles Clarifications of Summit Agreement on Global Negotiations

I am sending to you, mainly for the record, a full set of the documents defining the agreement reached by the Summit leaders at Versailles on Global Negotiations.²

After the Summit, we initiated a correspondence with the French chairman of the Summit North-South Working Group (Jean-Claude Paye) and subsequently with the other Summit countries, to clarify technical points in the secret working document and to confirm the status of this document. We insisted that the working document have the same status as the Versailles Declaration, since it defines the guarantee of the independence of the specialized agencies which is the basis, *and the only basis*, in the Declaration on which we agreed to sound hopeful about the launching of the Global Negotiations.

Moreover, the working document contains the procedural agreement among the Summit leaders that their delegations will cooperate in New York on the basis of unanimity in ensuring that the guarantee of the specialized agencies defined in the working document is not subject to change or qualification by the developing countries. The seven must *all* agree to any further changes beyond amendments specified in the working document. If they do not, i.e., if the allies try to isolate the U.S. as they have done so often in the past, they must raise the issue to the heads of government level. At that level, we feel confident that the President can at least count on Prime Minister Thatcher to resist actions that might harm the specialized agencies.

This is the first time *ever* that we have established a unified position among the key industrial countries in New York and tied them to us in subsequent discussions with the developing countries.

¹ Source: Reagan Library, Executive Secretariat, NSC Trip File, President's Trip to Versailles Economic Summit June 4–6, 1982; NLR-755-14-16-1-0. Confidential. Sent for information. Wheeler initialed the top right-hand corner of the memorandum.

² Not attached. The full set of documents, Tabs A–N, is attached to a June 29 memorandum from Nau to multiple recipients in the Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: Versailles Summit—North/South 1982.

98. Memorandum From the President's Assistant for National Security Affairs (Clark) to the Counselor to the President (Meese), the White House Chief of Staff (Baker), and the White House Deputy Chief of Staff (Deaver)¹

Washington, August 31, 1982

SUBJECT

Status of GNs Discussions

At Versailles, we reached agreement with our allies on a common text for launching the GNs. Our objective was to escape the persisting pressure on the U.S. to enter these discussions without adequate safeguards by drawing the allies into a consensus which we ultimately felt the LDCs would not accept. We gambled, because the allies entered into this consensus only because they believed the LDCs would accept it. Even if the allies had been right, we felt we had a text that would have fully protected the specialized agencies.

As it turned out, we guessed right. The LDCs rejected the text. Meanwhile, the Versailles Summit countries remain united on a text agreed to by the heads of government/state which cannot be changed except by agreement among the heads themselves. Nailing this agreement down at the Summit has eliminated the constant maneuvering by the Foreign Ministries and the New York Missions of the Versailles governments to isolate us on this issue. The result is that all the pressure to change is now on the LDCs (G-77). Since they cannot change without appearing to cave to the industrialized countries, the GNs issue is rapidly fading away.

There may be one last attempt to save it at the approaching UN General Assembly Session in New York. I, therefore, wanted to provide you the attached information to suggest the strength of our current position and the need to hold tenaciously to the agreement with the allies, which is all documented in writing.²

¹ Source: Reagan Library, Douglas McMinn Files, Subject Files, Global Negotiations; NLR-369-3-22-16-8. Top Secret. McFarlane initialed for Clark. Sent under a covering memorandum from Nau to Clark.

² Tab A, "Status Report," is not attached. In telegram 1885 from USUN, July 6, the Mission reported on the G-77's failure to accept the Versailles Summit Global Negotiations text. (Reagan Library, Executive Secretariat, NSC Trip File, Versailles Summit 1982—N/S; NLR-755-13-12-2-4)

99. Telegram From Secretary of State Shultz's Delegation at New York to the Department of State and the Embassy in the United Kingdom¹

New York, September 29, 1982, 1811Z

Secto 13020. Department Please Pass all OECD Capitals. Subject: Secretary's Sept. 28 UNGA Bilateral With UK Foreign Secretary Pym: World Trade and Development.

1. (C—Entire text).

2. Summary: During their September 28 bilateral breakfast on the margins of the UNGA, Secretary Shultz and Foreign Secretary Pym agreed that growing protectionist sentiment must be resisted. Pym pledged that the UK could do so vigorously, and he joined his UN Ambassador in urging that attention being given to Global Negotiations at the UNGA be redirected to concrete approaches to the GATT Ministerial in November.² The Secretary urged that world leaders be prepared to strike off in new directions to challenge the world's trading and development problems. End summary

3. The Secretary raised the issue of the world trading system and the need to support free trade. He said that he was frustrated by his inability to get others to address this issue in depth even though the GATT Ministerial will take place in November. Pym said the UK attitude with regard to free trade is similar to that of the U.S. The UK, of all countries, cannot support protectionism. He could not imagine a

¹ Source: Department of State, Central Foreign Policy File, Electronic Telegrams, D820504–0781. Confidential; Immediate; Exdis. Shultz was in New York for the UN General Assembly meeting. Reagan named Shultz Secretary of State on June 25, after Haig's resignation on the same day. Shultz assumed the Office of the Secretary on July 16.

² The 1982 GATT Ministerial took place from November 24–27 in Geneva. Under an April 28 memorandum to the members of the Trade Policy Committee, Brock forwarded a proposal for a GATT round of trade negotiations between developed and developing countries, which he wanted to be the centerpiece of the U.S. approach to developing countries at the GATT Ministerial. (Reagan Library, National Security Affairs, Office of the Assistant to the President Files, Chron File, [Case file unavailable]; NLR-812-88-15-2-5) The memorandum and the proposal are scheduled to be printed in *Foreign Relations, 1981–1988*, vol. XXXVI, Trade; Monetary Policy; Industrialized Country Cooperation, 1981–1984. In telegram 201537 to the GATT Min Collective, July 21, the Department further explained the U.S. North-South round of trade negotiations proposal and requested LDC posts to brief appropriate host government officials. (Department of State, Central Foreign Policy File, Electronic Telegrams, D820377–0515) In telegram 11985 from Geneva, December 3, the Mission reported on the GATT Ministerial declaration from the November meeting, which did not include a commitment to a North-South trade round of negotiations. (Department of State, Central Foreign Policy File, Electronic Telegrams, D820626–0981) Further documentation on the 1982 GATT Ministerial is scheduled to be published in *Foreign Relations, 1981–1988*, vol. XXXVI, Trade; Monetary Policy; Industrialized Country Cooperation, 1981–1984.

greater catastrophe than a move in the direction of protectionism, and the UK could be counted on to resist passionately any such process. The Secretary observed that there is mounting protectionist sentiment in the U.S. which must be resisted. Pym noted that this issue is related to the steel question but one has to fight to the end for the principle of anti-protectionism.

4. The Secretary said that there did not seem to be enough confidence among world leaders that anything could be done at meetings to encourage them to invest time and political capital in laying the groundwork for productive meetings such as the GATT Ministerial. In his view, a three-fold strategy is needed. In the first place, we must fight off protectionist tendencies. Secondly, we must work hard on GATT codes resulting from the Tokyo Round.³ Finally, we must strike off in new directions. A good offense is the best defense. It changes the mood. The Tokyo Round produced substantial achievements, one of which was to beat off a generally pessimistic mood in the 1973–75 period that was not unlike the one we are seeing today.

5. Pym said he completely agreed with the Secretary. However, Britain experienced economic expansion in the mid 70's. Now it faces zero growth and a lack of confidence. The Versailles Summit did not show enough imagination, and we appear to be drifting. At this point we need some dramatic looks—or at least a more determined look—at new directions. With unemployment at an historically high level in EC nations, those countries should be much more imaginative about how they cope with economic challenges.

6. UK PermRep Thompson said he had a sense that delegates had come to the UNGA hoping for Global Negotiations but have become aware that such negotiations are not going to take place during this session. In his view, that is welcome because one can now raise one's eyes and focus on the GATT Ministerial in November and UNCTAD next June.⁴ He believes that it would now be possible to reach general agreement that time at the UN should not be wasted on Global Negotiations when everyone recognizes that they will not take place.

7. The Secretary observed that the development outlook is very difficult at present. We face a world that is vastly over-extended in debt. As a result, financial institutions are going to be much more cautious as they address the problems before them. At the same time the concept of world savings is changing considerably. The importance of oil prices had put the savings pool in the hands of the few in recent years, but that

³ Reference is to the multilateral trade agreements that were negotiated at the 1973–1979 Tokyo Round of GATT negotiations. See *Foreign Relations, 1977–1980*, vol. III, Foreign Economic Policy, Document 209.

⁴ The sixth session of UNCTAD was scheduled to meet June 6–30, 1983, in Belgrade.

situation is changing very fast. We have to think of investment as drawing on this savings pool. Assistance on commercial terms draws on this pool as does concessional aid. We must make certain that we make the best use of world savings. This has a great bearing on assistance to the poor nations, and thinking in terms of the rich giving to the poor simply is not in the cards.

8. The Secretary added that the problem of dealing with unstable commodity prices and its effect on the developing countries must be of concern to all. The fall in commodity prices has had a devastating effect on numerous countries. Pym observed that these economic forces had played a large role in leading to political destabilization. The Secretary said he would like to focus further on income support activities of the type that had resulted from the Lome Convention, and Pym said he believed the convention might provide a good pattern.⁵ In his view the pool of savings is essentially controlled by the oil producers. The Secretary said that had been the case but now we have a situation in which Saudi Arabia may have a negative trade account. Petroleum production is way down. This suggests a shift in recent patterns, one that has been so great that the financial system has had a difficult time accommodating it.

9. Moreover, the Secretary said, savers have had different ideas as to how best to put money out on loan. The Arabs have generally relied on keeping their funds on a relatively short leash. We tend to think hard about the position of an Argentina, Brazil or Poland when they [garble] but not about what people's attitudes will be a year from now. Pym observed that in the new era we face there is a real danger that we will talk ourselves into a worse situation. The two Secretaries agreed that we must identify the reality of the situation and be able to work with it creatively.

10. Also present at the meeting were: UK Ambassador Wright, UK PermRep Thompson, FCO Political Director Bullard, Private Secretary Fall. U.S. Ambassador Kirkpatrick, Under Secretary Eagleburger, EUR Assistant Secretary Designate Burt and EUR/NE Deputy Director Pendleton (notetaker).

Shultz

⁵ A reference to the Lomé Convention, a trade agreement between the European Economic Community and African, Caribbean and Pacific (ACP) countries. The first agreement, Lomé I, was signed in 1975.

100. Information Memorandum From the Assistant Secretary of State for Economic and Business Affairs (McCormack) to Secretary of State Shultz¹

Washington, October 20, 1982

SUBJECT

Status of Efforts to Launch Global Negotiations

Summary

The EC Ambassadors in New York, and the LDCs, are once again mounting pressure on us in the UN to accept a text on Global Negotiations (GNs) which deviates from that agreed to at Versailles and which violates our long-standing position on GNs. The Ambassadors suggest that some of our long-standing position on GNs. The Ambassadors suggest that some of our Versailles Summit partners, particularly France, may be prepared to renege on the Versailles agreement and seek a compromise with the G-77. They are pressing us to agree and will try to place the responsibility on us for failure to launch GNs. Contacts with capitals do not confirm the UN Ambassadors' views and we believe from these contacts that the Versailles agreements are holding.

Background

At the Versailles Summit four amendments to the G-77 text on Global Negotiations (GNs) were agreed upon by the heads of state, including the EC presidency. Willingness to accept the G-77 text with these amendments represented a significant concession on the part of the United States, especially when coupled with forthcoming Versailles communique language indicating that GNs were important and had a high political priority. Specifically we agreed to launch GNs without an agenda and without an agreement on what issues would be assigned to the specialized agencies. In return we received an agreement from our summit partners that:

1. there would be no change in the summit position unless agreed to by all seven of the heads of state,²
2. there would be strong guarantees for protection of the specialized agencies (embodied in the Versailles amendment to paragraph 5 of G-77 text); and

¹ Source: Department of State, Central Foreign Policy File, P820158-1601. Secret. Drafted by Meissner and James Landberg (EB/SEN) on October 19; cleared in E, IO and EB/ODF. Sent through Wallis. A stamped notation reading "GPS" appears on the memorandum, indicating Shultz saw it. The "Synoptic text of draft resolutions" was not attached. A copy of the "Synoptic Table of various texts proposed for UNGA resolution on Global Negotiations" is attached to a December 6 briefing paper on Global Negotiations in the Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975-1991, Lot 93D490: 1983 Williamsburg Summit Meeting of Personal Representatives December 11-13, 1982.

² Shultz highlighted this point in the right-hand margin.

3. the foundation of GNs would rest on a broader basis than UN Resolution 34/138, which calls for a restructuring of the international economy to achieve the new international economic order (embodied in the Versailles amendment to paragraph 1 of the G-77 text).

The Versailles amendments were accepted by the EC and eventually all the OECD countries. However, the G-77 in July offered counter language gutting the Versailles amendments to paragraphs 5 and 1. The result has been a standoff since July.

A majority of EC countries, and also OECD countries, can accept the new G-77 position and could probably have done so even before the Versailles amendments. They believe the US position of holding with the four Versailles amendments will torpedo GNs and they do not wish to share the political cost of that outcome. They have begun to maneuver to pin the blame for killing GNs on the US.

What is at stake

The common agreement at Versailles was intended to provide real movement on GNs while protecting us from future isolation by tying the seven together. Erosion of the agreement would further denigrate the concept of Summit cooperation and consultation. Apart from New York, we do not yet see serious cracks in the agreement.

Secondly, accepting the G-77 counter offer or the EC Ambassador's tactical position compromises the US position on the integrity and independence of the specialized agencies and the UNGA role in economic negotiations. Resolution 34/138 envisions the UNGA as the supreme global economic negotiating body. In contrast, US efforts have focussed on decentralizing negotiations to the specialized agencies and preserving their competence, functions and powers.

Thirdly, no one has been able to specify in economic terms why GNs must be held or what the concrete results might be. The returns on launching are short-term and political but the cost may be long-term and economic.

What we are doing

In New York Ambassador Sorzano is holding a tough position and explaining the rationale base for the Versailles agreement. We are taking the same stand in Washington and in dealing with capitals.

Next week Under Secretary Wallis will be in Europe discussing the summit follow-up and plans for the next meeting.³ He will address the issue of holding to the Versailles consensus on GNs in London, Bonn

³ According to telegram 283588 to multiple diplomatic posts, October 8, Wallis was traveling in Europe from October 25 to 30 to attend the OECD Executive Committee in Special Session and to consult in Bonn, London, and Paris with his counterparts concerning the 1983 economic summit. (Department of State, Central Foreign Policy File, Electronic Telegrams, D820520-0027)

and Paris. He will also attend the OECD/XCSS meeting and will reinforce solidarity among the OECD countries as best as this can be done. The Nordics are already breaking away from the OECD consensus along with a number of others.

As to the future, we are looking to UNCTAD VI in Belgrade in June 1983.⁴ With the exception of energy, it will cover the same topics as proposed for GNs in New York.

⁴ See footnote 4, Document 99.

101. Memorandum From Henry Nau of the National Security Council Staff to the President's Assistant for National Security Affairs (Clark)¹

Washington, December 16, 1982

SUBJECT

Trip Report: U.S.-EC Bilateral and Sherpa Meeting

You have probably seen the full reporting cables on the U.S.-EC Bilateral and the Sherpa meeting which I participated in on this trip. Wallis' cable to you and Deaver on the Sherpa meeting was a particularly complete and useful report.² The following are a number of additional impressions on that meeting and the Bilateral which might be interesting to you.

Sherpa Meeting

— Despite some histrionics about the dates and a pained reluctance to yield the chair, *Attali cooperated*. He mentioned privately several times to Wallis and me that he would like to help to overcome future problems (see below). He and Mitterrand do have their internal problems with bureaucracy and politics, no less than we do. But then again, we have heard this kind of sweetness and light from Attali before.

— The overriding mood for Williamsburg at this point is *uncertainty*. There is some cautious expectancy that U.S. recovery may

¹ Source: Reagan Library, Norman Bailey Files, International Economics File, Versailles Summit [1982]. No classification marking. Sent for information. Copies were sent to Bailey, Blair, Boverie, Childress, Fontaine, Kemp, McMinn, Reed, Robinson, and Tyson. An unknown hand wrote: "will summ." on the memorandum.

² Not found.

actually begin. At least, there was considerably less complaining about U.S. interest rates and the dollar and surprisingly less demagoguery about unemployment. Nevertheless, there was also the feeling that, if the U.S. economy did not begin to grow, things could get much worse and the world economy could swiftly unravel. Hence, there was a palpable fear hovering in the room, and it concentrated the mind.

— Realism prevailed. There was a desire to see our *problems as inter-related and not separated from one another*, with each country pushing its own pet priority. Unemployment was not seen apart from the painful gains we have made in the fight against inflation. Protectionism in the North was not separated from debt and debt repayment in the South. We proposed our three topics—relations between domestic and international policy, international institutions and E-W relations; and it was agreed that the first two topics should be viewed together, since domestic policies, international trade and financial relations and international economic institutions (GATT, IMF, etc.) are all parts of the same whole. E-W relations, on the other hand, was seen as a separate topic since these relations exist in a totally different policy and institutional context.

— As a consequence of this integrated approach, we *rejected treating North-South issues separately* from macroeconomic and monetary questions. This was music to my ears (as was the discussion on GNs—see below) since this is the position with which we began the discussions leading up to the Ottawa Summit almost two years ago. At that time, however, North-South was the fashion and Trudeau made it and GNs separate and key issues at Ottawa.

— The trade issue aroused considerable concern, revealing fears that the *U.S. would yield to protectionism* to reduce the massive trade deficit next year and that LDCs would also be cutting back imports because of their debt servicing obligations.

— The French and the EC all but *pronounced GNs dead and said explicitly it would not be on the agenda at Williamsburg*. First, the EC praised the work done at Versailles to unify the Summit countries' positions on the GNs issue, pointing out that, in contrast to the E-W issue, the N/S agreement was detailed and unambiguous (a bit self-congratulatory, of course, since the EC mediated this agreement). As a result, the EC emphasized, the agreement endured. The French then said it was a pity that the LDCs did not accept the Versailles amendments. But now the situation was blocked; and no one should spend any time lamenting this fact. There may be further efforts to see if movement is possible in New York, but this development would not have much effect on our relations elsewhere. The Canadians put it most succinctly: We would like to see GNs happen, they said, but we will pressure no one anymore to see that it happens. (Having worked this issue since February 1981, I thoroughly enjoyed its passing from the Summit scene. For all practical purposes, we have laid GNs to rest and gained points with our allies

in the process. Now, we need to unify our positions for UNCTAD. If UNCTAD is reasonably successful, GNs will *never* return.)³

[Omitted here is information unrelated to North-South issues.]

³ In a January 26, 1983, memorandum to Shultz on U.S. participation in UNCTAD VI, McCormack wrote: "The impasse over Global Negotiations increases the importance LDCs attach to UNCTAD as a forum for pressing their demands upon the industrialized countries." (Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981–1984, Lot 85D193: UNCTAD VI, General)

102. Memorandum From the Under Secretary of State for Economic Affairs (Wallis) to Secretary of State Shultz¹

Washington, April 8, 1983

SUBJECT

UNCTAD

I am forwarding a memo on strategy for UNCTAD VI even though I fundamentally disagree with the recommendation.²

This building has a love-hate relationship with UNCTAD. No one has anything good to say about the institution—but everyone cites the dire consequences (in terms of our relations with developing countries and with most of our Western allies) that would flow from a clean break with it. I judge that the description of all the bad things that might happen is greatly exaggerated.

Nearly all governments find it politically rewarding at home to taunt the U.S. and, often, to use abusive and undiplomatic language while doing it. They feel free to do so because there is no penalty for doing it. The U.S. response is perfectly predictable, namely the type of response favored by the tilt and final recommendation of the memorandum. It proposes to reward such behavior by introducing "modest initiatives . . . which would be of particular benefit to the poorest LDCs . . ." and by other similarly rewarding conduct.

It would be wise to establish the principle that the U.S. does not reward other countries for opposing our interests nor for verbal abuse.

¹ Source: Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987–1987, Lot 89D378: Memos to the Secretary 1983 #1, Jan.–July. Confidential.

² The March 30 memorandum from Constable to Shultz is not attached. See also footnote 2, Document 107. The March 30 memorandum recommended that Shultz approve "Option D: Active Participation" for the U.S. approach to UNCTAD VI.

The memorandum shows no understanding of this principle, except in reverse: it says that “no other OECD countries would follow our lead and their reaction would complicate our overall relations with them” and that “it would lead many of the developing countries to be less cooperative with us in our bilateral economic, political and strategic interests, and to refuse to do business on our terms in other forums. . . .” That is, other countries can inflict penalties on us to back up extortionate demands, but we can’t use any leverage on them. That is false, but if any bureau believes it is true they should explain the basis for believing it, clearly and directly.

Continued coddling of UNCTAD perpetuates it as a source of ruinous ideas such as those emanating from the UNCTAD Secretariat for this meeting: debt moratoria, massive transfers, including excessive quota increases and SDR creation, grandiose commodity schemes, UNCTAD encroachment on the IMF, IBRD, and GATT, and assistance for national liberation movements. It provides a forum in which the LDC collectivity must perform to the music of peer pressure, even if they behave reasonably on a bilateral basis.

The Congress rightly questions why we devote U.S. Government resources to such activities. If there were a chance of converting UNCTAD into a useful international economic forum, I could support Option D as EB recommends. That does not, however, seem to be the case, nor, if I read EB correctly, do they believe that UNCTAD will become a constructive force if you agree to their recommendation.

Since the beginning of the year, I have been discussing UNCTAD VI at length with Bill Brock and more briefly with Beryl Sprinkel. They agree with an approach which crudely put is: “Shape up or we ship out.” We would be represented in Belgrade at a reasonably high level (Brock and myself), deliver a strong statement on market-based economic policy (along the lines of your remarks on the World Bank at Brookings a couple of years ago), take a firm position on all of the issues not mincing words on proposals destructive to economic progress and state that at the conclusion of the meeting we will be undertaking a fundamental review of our relationship to UNCTAD. There are several precedents for such a review—the extensive evaluation of the MDBs at the beginning of the Administration, the review of our participation in the IAEA, the study which led to withdrawal, temporarily, from the ILO.

My prejudice is that the review would lead to a recommendation close to Options A or B. An alternative that at present has no support in any bureau nor in other agencies outside State, but that could result from the study is to propose that UNCTAD follow the example of UNIDO and become a permanent specialized agency. A brief discussion of its merits is attached.³

³ The attachment, “Convert UNCTAD into a specialized agency, like UNIDO,” is attached but not printed.

Recommendation

That you authorize me to organize an informal inter-agency steering group to develop the U.S. approach to UNCTAD VI along the lines that I have discussed with Brock and Sprinkel. I would assign Martin Bailey to work closely with IO, EB and S/P to insure that the preparations within the building conform to this approach.

Allen Wallis⁴

⁴ Wallis initialed "AW" above his typed signature.

103. Information Memorandum From the Chairman of the Policy Planning Council (Bosworth) to Secretary of State Shultz¹

Washington, April 9, 1983

SUBJECT

U.S. Participation in UNCTAD-VI (June 6-30 in Belgrade)

You have received separately an options memorandum on U.S. participation in UNCTAD-VI.² I support strongly the recommendation in that memorandum that we play an active role in the conference. UNCTAD can be a circus, but the political tone of North-South relations set there affects the atmosphere in other institutions that are important to us. We therefore have to present a constructive stance.

The Administration has a coherent, positive and defensible approach to development questions, and it is important that we advocate it forcefully in the forum the LDCs have chosen as their preferred instrument. If we fail to do so, we cede the field to the more radical LDCs and the Soviet bloc. We also create new pressures on the LDCs to establish alternative forums which would be no more manageable, such as the now-moribund global negotiations. We make it more difficult for moderate LDCs—whose numbers have increased with hard economic times—to support us in the forums which *we* prefer, such as the IMF and the GATT. Finally, we unnecessarily create problems for ourselves with our OECD allies, who will be participating actively.

¹ Source: Department of State, Executive Secretariat, S/P Records, Memoranda/Correspondence From the Director of the Policy Planning Staff to the Secretary and Other Seventh Floor Principals, Lot 89D149: April 1-15, 1983. Confidential. Drafted by Michael Boerner (S/P).

² See footnote 2, Document 102.

Used constructively, the UNCTAD can provide a forum to gain support for our development philosophy and policies. We need to drive home our view that the problem of development is best approached not through more government intervention and unlimited amounts of concessional aid, but rather through a policy of open markets and actions to improve the flow of private goods and investment.

Because of space limitations, the options memorandum unfortunately does not sufficiently address the substantive content of active U.S. participation. I think it is important to understand this as a basis for your decision on our UNCTAD participation. I draw your particular attention to the section below on commodities and compensatory financing, since I understand the Department of the Treasury favors tightening up rather than liberalizing the IMF Compensatory Financing Facility and will be in touch with us next week on this subject.

Trade

We have a good record, for example, on trade liberalism and opposition to additional protectionist moves. This latter point is going to be particularly important in the light of the great improvement in trade balances many key LDCs need to achieve. The pressures this process will create may make it the right moment to launch a North-South trade round.

We suggested this in the GATT Ministerial last fall, but received an unenthusiastic response. The Europeans were suspicious about any further liberalization during economic recession, and the advanced LDCs are averse to anything other than unilateral trade concessions by the developed countries applicable to all developing countries. The idea of reciprocity in concessions for the newly industrialized LDCs was rejected by these states.

There is also the problem of obtaining a Congressional mandate for a new round in the current protectionist climate. I know that the view last fall when the proposal was introduced was that there was no additional risk and actually some advantage in introducing the subject into the Congress. The reasoning was that the GSP renewal raises the issue anyway, and the reciprocal concessions by the newly-industrialized countries (NICs) envisaged for the proposed North/South round should present a sellable package.

I understand Bill Brock has instructed his staff at STR to look at the proposal further to see whether it could be a useful initiative at the May OECD Ministerial and the Williamsburg Summit. A positive statement at Williamsburg, followed by strong advocacy of the proposal at the UNCTAD meeting (but making clear that it would be negotiated and implemented in the GATT) could give some momentum to our proposal.

Investment

Similarly, I feel that we need to be very positive at UNCTAD about the role that private investment plays in development. There is still far too much emphasis in the attitudes of developing country leaders on the role of the state, and official capital flows. I believe that the recession of the last two years, which even with an upturn this year in the Western economies could persist into 1984 for the developing countries, may have softened LDC attitudes on foreign investment. This might be an excellent opportunity to get a better understanding, and maybe even constructive statements from the developing countries on the tricky issues of fair treatment for foreign enterprises operating in these countries. Perhaps an endorsement by the UNCTAD of the World Bank scheme, newly pushed by Claussen, to guarantee such investments against political risk is a possibility in this present climate. Resuscitating earlier ideas about a GATT study of trade issues resulting from impediments to investment is another possibility.

Commodities

Our challenge here is to demonstrate that there are constructive responses, not involving price fixing, to the plight of low-income LDCs devastated by depressed commodities markets. My staff has been working with EB on modest changes in the IMF system of compensatory financing for commodity earnings shortfalls which could greatly benefit the poorest of the LDCs, many of which are located in Africa. Basically, this scheme would build on the present IMF Compensatory Financing Facility, opening up additional access on a non-discriminatory basis but at the same time insisting that conditionality be maintained or even increased.

Our studies show that by using the new quota increase in the Fund and raising the current limitations in the IMF's Facility, we could increase the ability of the poorest countries to draw up to \$1 billion in the next several years from the Facility to cover their shortfalls. Given the amount of social and political uncertainty on the African continent at present, that additional sum could be important. Obviously, we would have to play carefully any proposal on IMF resources to make sure we do not encumber Congressional consideration of the quota increase.

None of these schemes is world-shaking by itself. They all need further refinement. But combined with other actions we are already taking, they present a constructive and evolving approach to enhancing the benefits LDC's derive from international trade and finance. Furthermore, they are consistent with our self interest in enhancing LDC's capacity to purchase more U.S. exports and their climate for U.S. investments.

Head of Delegation for UNCTAD–VI

The options memorandum also addresses briefly the issue of who should represent the U.S. at the UNCTAD meeting. It suggests, correctly, that we should not address that issue until we know more about what types of initiatives we might wish to pursue at the Conference (assuming, of course, that you choose the active participation option).

The Deputy Secretary would be a good choice if he can afford the time. Bill Brock of STR could be another possibility if we decide to make a serious push on the trade issue. Both understand the trade problems of the developing countries and could effectively encourage LDC interest in the proposal (which is a prerequisite for moving the Europeans).

The time commitment would not be too great, probably involving only a few days at the meeting to give the opening U.S. address at the Conference, which sets the tone of our participation, and to consult with leading LDC figures.

It seems to me that the Vice President would not be a good choice to head the delegation, in spite of a suggestion to this effect from the host Yugoslavs and our Embassy in Belgrade. Such a high-level appearance by the U.S. would be unusual for an UNCTAD Conference, and would inevitably raise the ante in terms of anticipated changes in U.S. policy.

104. Telegram From the Embassy in Algeria to the Department of State¹

Algiers, April 10, 1983, 1919Z

1577/Polto 2002. For the Secretary, the Deputy Secretary, Under Secretary Wallis and Asst. Secretary McCormack From Under Secretary Eagleburger. Subject: UNCTAD.

1. (S) Entire text.

2. I have just read (enroute from Zurich to Algiers) the EB memo to you on UNCTAD, and Allen Wallis' commentary thereon.² Since the upcoming conference will have some impact (how much remains to be seen) on U.S. foreign policy in its broadest sense I feel constrained to comment. But, in all honesty, I find it hard to say much worthwhile on

¹ Source: Department of State, Central Foreign Policy File, Electronic Telegrams, D830198–0696. Secret; Immediate; Exdis; Stadis.

² See Document 102 and footnote 2 thereto.

the basis of the EB paper, which is so lacking in anything specific that it was ten minutes before I realized it wasn't one of Larry Pressler's Senate speeches. Allen's memo, on the other hand, hardly lacks clarity or specificity. It is good advocacy, but, I believe, [bad?] policy.

3. On the EB paper: I fail to see how you can make any enlightened decision based on the Goldilocks options (the porridge is too hot, or too cold, or just right) presented to you. Someone else may be able to determine what "minimal and selective" participation means in terms of specific initiatives or issues, and how that differs from "defensive" or "active" participation, but I cannot. Someone should, and fast, at least tell you what the issues are; without that you could be deciding to participate actively or passively in the maiden voyage of the Titanic (I take it Allen believes this to be the case) without ever knowing it. If that is so, then of course no participation is the proper choice.

4. Allen's position is, as I said, clear. But it also suffers (sorry, Allen) from unwillingness to deal—or at least describe—what will be debated at Belgrade. But that aside, Allen and I do have a fundamental disagreement which can be described. Let me try for a paragraph or so.

5. Allen is absolutely correct to take the EB paper to task for proposing to reward bad LDC behavior, for citing dire consequences that will derive from our failure to "go along", and for implying that others can hurt us more than we can hurt them. But to knock down wimpy arguments is not to establish the obverse: in this case, advocating something close to telling the 77 to take a flying leap at the moon. Such strong medicine needs defending in specific terms; in that sense I'd find Allen's arguments as hard to get my teeth into as I do EB's.

6. But I do have two philosophical arguments to make. First, there is the question of foreign policy consistency. The U.S. has, for many years, followed a different approach to UNCTAD; we have participated at a high level (Kissinger went, Andy Young went) and at least acted as if we gave a damn. What Allen seems to be proposing would be a radical departure from that pattern. Perhaps that is what should happen, but for it to happen without warning and without substantial consultation with allies before and at the OECD Ministerial and the Williamsburg Summit is hardly in keeping with the responsibilities for steadiness and consistency that must, repeat must characterize our leadership role. And I don't believe there is time enough left before those two meetings to develop a position, explain and defend it before highly skeptical allies, adjust it (if possible) to meet some of their concerns, etc. That is, with all respect, not the way to conduct foreign policy; we have not laid the groundwork for such a major shift, and there is no way to do so in the time remaining.

7. Second, it is time we came to grips with what our North-South policy should be. Allen's formula is clear, and I suppose in straight economic terms is the right one. But it is too one-dimensional. As events in Central America, Southern Africa, the Chad, etc., etc., must demonstrate, it is in the developing world that the chances of conflict—with substantial danger of escalation—are greatest. I am not arguing that UNCTAD, or our North-South policy, whatever it might be, will cure that condition. But I am saying that we need to be engaged, we need to talk, on occasion we need to compromise, and, always, we need to appear concerned. A goodly part of our North-South policy (particularly given the often fundamental philosophical differences Allen rightly seeks to maintain) must be theater. But the shape up or I'll ship out approach is lousy choreography.

8. There is also more than theater involved. The Soviets are in growing disrepute among the 77, who have yet to see a penny in other than military assistance. They are coming to realize where their futures lie, as the economic portion of the recent New Delhi NAM communique demonstrated.³ We are making progress, albeit slowly, and the way to further market forces in the Third World over the long term is to remain engaged: arguing, debating, never giving on principle, reacting with firmness when we are attacked, but keeping that in perspective, too.

9. Enough preaching. What follows is hardly well thought out, but I put it forward as at least a framework for thinking about UNCTAD VI. It is illustrative only, and may have holes I don't see. But it is at least something of a strategy (relax, I have not suddenly become an economist; most of the ideas come from a paper Meissner did on UNCTAD).⁴

10. Rather than turning away from the conference, we should make a strong statement on the type of economic world we would like to build and the systemic responsibilities we and others must accept if interdependence is to work. The U.S. should enter into UNCTAD VI preparations with a four pronged strategy. First, we should select those agenda areas in which we intend to be positive.

(A) The U.S. should go to UNCTAD VI and push the relevant elements of our own objectives—specifically we should lead with the issue of open trade, anti-protectionism and structural adjustment through market forces. (The Europeans and the Japanese will have a difficult time with this issue).

³ The NAM New Delhi Declaration was adopted by the Non-Aligned Heads of State on March 12.

⁴ Not found.

(B) We should stress the necessity for governments to be responsible for their own development policies, specifically in the area of food sufficiency. We might initiate a major new development thrust in this area tied initially to U.S. exports; the proceeds of the sales could be used for agricultural development programs as envisioned in PL 480, Title III. The key is high domestic food prices in the recipient country to stimulate local production.

(C) We can push private investment for interested developing countries but the "capitalist, post colonial overtones" always make success in the UNCTAD difficult. (S/P is developing some ideas on this, I understand.)

(D) We should advocate fiscal responsibility and budgetary control within UNCTAD itself. I gather we already have tabled some proposals.

11. The second prong is to assure that we are not isolated from our allies on key issues in the fields of commodities and money and finance. (There may well be a trade-off between our stridency on trade and the European and Japanese view on commodities.)

(A) Work with the FRG (President of the EC) to assure that their idea of a global STABEX stays within reasonable bounds and is discussed as a facility to be used after compensatory financing at the IMF is exhausted. Possibly it could be tied to conditionality on structural adjustment.

(B) Work out a position on debt issues through the Finance Ministries prior to the conference so that it is agreed that debt will not be treated as an aid issue. Some potential revision of debt features may be possible.

(C) Assure that the NAM conference idea of an international monetary conference is receiving a sympathetic hearing within the Bretton Woods institutions.

(D) Attempt to defuse the concessionary aid issue by making progress on IDA VII discussions prior to UNCTAD VI. (Progress doesn't mean completion but it also doesn't mean stonewalling.)

12. The third prong of our strategy should be an attempt subtly to split the G-77 by offering at the conference a little to each interest group that comprises the LDC caucus. They are:

(A) The LLDC's and micro-states (interest: concessional transfers);

(B) The commodity exporters (interest: stabilization of export earnings);

(C) The NIC's (interest: trade, investment, technology); and

(D) The balance of payments surplus countries (interest: real interest rates, financial stability).

13. Furthermore, we can use the conference to announce other efforts in the Caribbean Basin and in Black Africa if these are agreed within the administration by June.

14. The fourth prong of the U.S. strategy should concentrate on our relationship with the Yugoslavs (this is not special pleading). As host they will be the President of the conference. They will not have high expectations but they will hope for something. We can anticipate that they will, as they have done in the past, link our multilateral performance with the importance of our bilateral relationship. Close stroking of the Yugoslavs will be necessary.

15. As to tactics, they should be developed for each prong of the general strategy. In general, we need to work in the OECD to assure our group B caucus partners that we are taking the conference seriously. We will need their assistance throughout; first to back us in the areas we push, and second, to stick with us on difficult issues. Key in this effort will be close working relationships with the FRG, the EC President until June 30.

16. Our objectives: we must lead in trade; I gather USTR has yet to decide how to play the trade issue in UNCTAD VI in relation to GATT and the post Ministerial work program we have launched. USTR should be pushed to get this in place. Our strength in trade, and the threat to the EC of discussing agriculture in UNCTAD, may give us some leverage to control the Europeans and keep the Japanese from going overboard on commodities.

17. Peter McPherson and Agriculture need to be pulled in on food issues. With low agricultural prices, we have the opportunity to marry domestic interest with foreign policy concerns. The real issue is that per capita food production has dropped in Latin America and Africa. These countries are eating the foreign exchange they need for economic development.

18. Finally, on the institutional issue of how the UNCTAD Secretariat is run, we should draw up a resolution that lays out what we want. We should sign up the Europeans early. Interestingly this is an issue in which we have USSR support. They don't like runaway expenses either.

19. Avoiding isolation: the best tactic is to develop, through the Williamsburg Summit process, agreed positions on how these issues will be treated. We cannot avoid discussing N/S issues at Williamsburg; the Europeans will push it on us. We may be able to use this desire to get a somewhat broader consensus on East-West trade issues. Binding the Japanese and European UNCTAD delegations by Chief of State decisions could strengthen our delegation's position. Certainly, what we desire is a process that deals with these [garble—trade?] issues in institutions outside UNCTAD and UNGA.

20. Splitting the G-77: seek to give each broad interest group in the G-77 something so there is a reduced incentive to stall the entire conference on a given regional issue (the G-77 caucuses by regional groups and any region can prevent a consensus). At UNCTAD V there were only five substantive resolutions passed—each affected a different constituency in the G-77, none involved an increase in N/S expenditures.⁵

21. How to develop tactics to carry out this strategy will depend on how the G-77 decides to play the conference. They are, I think, meeting now in Buenos Aires to develop their negotiating platform and approve it at Ministerial level.⁶ A charter of B.A. or a declaration of B.A. will be forthcoming with a broad range of unilateral demands. Once these are public, we will have to analyze them, decide where the G-77 political focus will be and develop a conference floor strategy to achieve our objectives.

22. Stroking the Yugoslavs: the Yugoslavs want a good conference in an optical sense—high level attention and some substance. Since we will be tight on substance, a high political profile is called for. What about Ken Dam as official head of the U.S. delegation, with Allen Wallis and someone from STR as deputies? I gather Bill Brock is going; if so he, I suppose, would have to be chairman (or co-chairman?). But the problem with Brock is that we do not wish to bless UNCTAD as a trade negotiating forum. Brock's presence would be a heavy laying on of hands.

23. Ministerial representation at the Dam-Wallis or Brock level will do a lot for relationships with the Yugoslavs. UNCTAD IV in Kenya⁷ was graced by Henry Kissinger and UNCTAD V in Manila by Andy Young. Dam or Brock would not be out of place in terms of precedent.

24. I recognize that we cannot make North-South policy by last minute efforts to come to grips with UNCTAD. But at the same time, we should not do so by throwing the baby out with the bath water, particularly given the administration's position at Cancun. I have two recommendations: that in the short term we make a modest effort with UNCTAD and that in the longer term we undertake a major inter-departmental effort to define just what our North-South policy should be.

Newlin

⁵ The fifth session of UNCTAD took place May 7–June 3, 1979, in Manila.

⁶ The G-77 Ministerial meeting to define its negotiating strategy and position for UNCTAD VI took place April 5–9 in Buenos Aires.

⁷ The fourth session of UNCTAD took place May 5–31, 1976, in Nairobi.

105. Memorandum From the Under Secretary of State for Economic Affairs (Wallis) to Secretary of State Shultz¹

Washington, April 13, 1983

SUBJECT

UNCTAD

Larry Eagleburger's cable,² commenting on my UNCTAD memo,³ does a good job of setting out the details of how to do what I proposed to do. As I spell out in the attached notes, in the actual substance of what should be done, he and I agree on about eighty-five percent of the items.⁴ We do disagree in that he wants to give away something while we are there, proposing some unsound initiatives for unwise reasons, whereas I don't see any reason to do so. But apart from three or four specifics of that kind, we agree on all the rest, until I get to the part about saying at Belgrade that after UNCTAD VI the US will have a fundamental review of its continued participation.

In my February meeting with my OECD counterparts⁵ they started out by assuring me that the G-77 attitudes are changing, and that they are now inclined to be more constructive. As the conversation went on, they noted how officials from G-77 countries talk very differently in private from the way they talk when they get together in public; in public, they feel they have to posture for each other. Finally, late in the evening, I asked them if they thought there was really any chance that the posturing would stop and serious work would get done at UNCTAD; after thinking it over, my counterparts all agreed, well, no, not at UNCTAD.

Although many people in this building are afraid of our being "isolated" at UNCTAD, it has little or no effect on the real interests of our OECD partners whether we give things away at UNCTAD or not. Nor does it affect our real interests if they all vote against us. We should bear that in mind when we later review whether we want to continue our participation. In the meanwhile, I welcome Larry's

¹ Source: Department of State, Executive Secretariat, S/S-I Records, The Executive Secretariat's Special Caption Documents, Lot 92D630: Not for the System April 1–15, 1983. Secret. Drafted by Martin Bailey on April 12. Copies were sent to Dam, Eagleburger, and McCormack. A stamped notation on the memorandum reads: "Not for the System." Hill initialed the memorandum on April 13.

² See Document 104.

³ See Document 102.

⁴ Notes are attached but not printed.

⁵ Wallis traveled in Europe February 6–15.

very valuable suggestions about how to be diplomatic about doing the right thing at UNCTAD VI.

Of course Brock and I will want to speak softly and adopt a positive tone in presenting our position. Larry sets out much of the right way to do that. We would also draw on President Reagan's Cancun declaration of "four understandings" necessary for entering into global negotiations,⁶ and would point out that those understandings are necessary for useful discussion in *any* forum, including UNCTAD.

Do I have your approval to go ahead as my memo proposes?⁷

Allen Wallis⁸

⁶ Reagan outlined "four understandings" that the United States deemed essential for future talks in his opening statement at the Cancun Summit on October 22. See footnote 2, Document 49 and Document 75.

⁷ See footnote 1, Document 107.

⁸ Allen initialed "AW" above his typed signature.

106. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Leland) to Secretary of the Treasury Regan¹

Washington, April 14, 1983

SUBJECT

U.S. Participation at UNCTAD VI—Possible Approaches

Issue

Secretary Shultz will shortly be making a decision on how the U.S. should approach the UNCTAD VI Conference (Belgrade, June 6–30). We expect he will call you, Brock, and Baldrige to discuss his preferred approach.

¹ Source: National Archives, RG 56, Records of the Office of the Under Secretary for Monetary Affairs, Subject Files relating to Meetings, Working Groups, Trips, Summits, and Currency Talks, 1/1/1981–12/31/1985, UD–13W105, 56–89–45, Box 2, April Chron 1983. Confidential. Sent for action. Sent through Sprinkel. A stamped notation next to Sprinkel's name reads: "(Initialed) BWS." A stamped notation next to Leland's name reads: "(Signed) Marc E. Leland."

Discussion

The sixth session of UNCTAD will be a politically important event in North-South relations this year. Typically UNCTAD is dominated by LDCs engaging in inflated rhetoric, making unrealistic demands, and attempting to encroach upon the mandate of the IMF, GATT, and World Bank. At Belgrade we expect attention to focus on monetary and financial issues, with the G-77 pushing for increased resource flows from the IMF and World Bank, debt relief, and arrangements to stabilize commodity export earnings.

For the United States, UNCTAD has little or no practical value in addressing specific economic development issues. On the other hand, U.S. participation in UNCTAD has political value in terms of our multilateral and bilateral relations with developing countries. The Belgrade Conference will allow the G-77 to air concerns in *their* organization about the state of the global economy and to suggest action proposals. A U.S. presence at the Conference would indicate a willingness to maintain a dialogue in a variety of international fora, and would protect U.S. interests, given that most other OECD countries are inclined, at least superficially, to be more accommodating to G-77 concerns.

Secretary Shultz is being presented with options on U.S. participation at Belgrade ranging from “non-participation” to the “cynical European tradition” (Tab A).² Under Secretary Eagleburger supports a course of “active participation,” i.e., treating UNCTAD VI as one of several vehicles for implementing an overall U.S. strategy for global recovery to be developed and pursued at the OECD Ministerial, the Williamsburg Summit, and the Bank/Fund annual meeting. Under this recommendation, the United States would actively discuss issues; and possibly introduce modest initiatives on trade, investment, and compensatory financing for commodity export shortfalls. Under Secretary Wallis, on the other hand, does not think highly of UNCTAD and believes the United States should seek to transform the organization into a U.N. specialized agency with its own budget—which would give the U.S. the option to withdraw its membership.

Treasury Response

Although the Wallis idea has a certain appeal, the thrust of the “active participation” option is basically sound. The most pragmatic choice for the United States is to treat the Conference as one event in the multifaceted process currently underway to address the economic and financial problems of developing countries and to assure sustained,

² Tab A, “State Options,” is attached but not printed. Tab B, “Overview of UNCTAD VI Issues” is also attached but not printed.

non-inflationary global recovery. The U.S. delegation at Belgrade should be prepared to exchange views on the full range of issues before the Conference, work closely with our OECD partners, and seek common ground with G-77 moderates.

There are, however, two areas—protection of the specialized agencies and possible U.S. initiatives—where we have concerns. Treasury would need firm assurance from State that the United States would consider and negotiate only on issues clearly within UNCTAD's mandate and resist any encroachment on the competence of the IMF, World Bank, and GATT.

In addition, Treasury is skeptical of U.S. initiatives in UNCTAD. They are usually designed for political pay out, tend to muddy the waters surrounding the specialized agencies, and, if "modest" in scope, don't appeal to the G-77 and risk unacceptable modification. While we would not, *prima facie*, reject the possibility of proposing initiatives, it is State's responsibility to define and present them for high-level consideration by interested U.S. agencies. Treasury would resist proposals which implied budgetary expense; conflicted with the Administration's philosophy on trade, investment, finance, debt or commodities; or threatened the IMF/World Bank. (For example, State staff is considering a proposal for liberalizing the IMF's CFF. We are seriously concerned that such a proposal would undermine IMF support for adjustment and erode Congressional support of the IMF legislation at a crucial time.)

RECOMMENDATION:

That, when contacted by Shultz, you seek to clarify State's approach to UNCTAD VI, stressing our two concerns and the need for SIG/IEP review of the U.S. approach and any initiatives.³

³ Regan did not indicate his approval or disapproval of the recommendation, nor did he check the "Other" line.

107. Memorandum From the Under Secretary of State for Economic Affairs (Wallis) to Secretary of State Shultz¹

Washington, April 14, 1983

SUBJECT

United Nations Conference on Trade and Development (UNCTAD)

(1) A memorandum nominally from EB but actually the joint product of EB, SP, IO and perhaps others.² It represents the predominant views of this building.

(2) A memorandum from me (drafted by Martin Bailey) suggesting a very different approach than that of the EB memo.³

(3) A cable from Larry Eagleburger disagreeing with both the EB and the AW views.⁴

(4) A memorandum from me (drafted by Bailey) pointing out that in fact the Eagleburger memo is 85 percent in agreement with me, and disagreeing with the other 15 percent.⁵

Since February, I have been considering the UNCTAD question and discussing it circumspectly with people in Europe and here, including yesterday with the Secretary General of UNCTAD.⁶

¹ Source: Reagan Library, George Shultz Papers, Official Memoranda (04/21/1983). Confidential; Exdis. Hill initialed the memorandum on April 14. The date: "'83 Apr 21" is stamped on the memorandum. A stamped notation reading "GPS" appears on the memorandum, indicating Shultz saw it. Shultz wrote in the top right-hand corner of the memorandum: "AW, I agree with your approach but it seems to me we should focus on the real problems of development, as you suggest, rather than a threat to withdraw. Pls get into my North-South speech being drafted in S/P. GPS."

² The March 30 memorandum from Constable to Shultz is attached but not printed. See also footnote 2, Document 102.

³ The April 8 memorandum from Wallis to Shultz is not attached, but printed as Document 102.

⁴ The April 10 telegram from Eagleburger is not attached, but is printed as Document 104.

⁵ The April 13 memorandum from Wallis to Shultz is not attached, but printed as Document 105. Shultz drew an arrow from the left-hand margin to the space after the fourth point and wrote: "(5) Memo from S/P" and "(6) [illegible]."

⁶ According to telegram 108218 to all diplomatic posts, April 20, Wallis, Brock, and Sprinkel met with UNCTAD Secretary General Gamani Corea in Washington on April 13 to "sound out U.S. views on the conference and promote a successful non-confrontational session based on a new mood of G-77 'seriousness' and 'moderation.'" The Department's view of the G-77's "moderation" was that "while the tone of the G-77 rhetoric seems to have eased somewhat, reflecting a sense of recession-induced urgency, the substance of the demands—for greatly increased resource transfers and other unilateral concessions by the industrial countries—remains unrealistic and radical." (Department of State, Central Foreign Policy File, Electronic Telegrams, D830219-0948)

In particular I have discussed it in detail several times with Bill Brock. He is prepared to make the speech at UNCTAD, or to have me make it. The general approach would be that taken by the President at Cancun.

A relevant anecdote: During the GATT meetings in November, the British (Walker and Rees), Germans (Lambsdorff and Steeg), and U.S. (Brock and I) had a private lunch. Suddenly, one of the Brits burst out, "Ronald Reagan has changed the world. He went to Cancun, got up in front of all those LDC's, and said 'BALLS'. The LDC's had known all along that it was balls, so he changed the world in an instant." I think we may find an equally susceptible audience at UNCTAD and, more important, back in the home capitals.

Allen Wallis⁷

⁷ Wallis initialed "AW" above his typed signature.

108. Memorandum From the Chairman of the Policy Planning Council (Bosworth) to Secretary of State Shultz¹

Washington, April 20, 1983

SUBJECT

U.S. participation at UNCTAD-VI

The number and variety of submissions you have received on the UNCTAD-VI issue reveal some wide areas of agreement:

- all view UNCTAD as an LDC-dominated forum where the U.S. has limited influence;
- all agree that UNCTAD is not the forum where serious specific agreements can be negotiated on trade, financial, commodities or investment issues;

¹ Source: Department of State, Executive Secretariat, S/S-I Records, The Executive Secretariat's Special Caption Documents, Lot 92D630: Not for the System April 15-30, 1983. Confidential. Drafted by Boerner. A stamped notation on the memorandum reads: "Not for the System." A stamped notation reading "GPS" appears on the memorandum, indicating Shultz saw it. Shultz wrote: "SB, good memo. G." on the memorandum. The initials "KS" are also written on the memorandum.

- all also agree that we need to present a spirited and confidently assertive exposition of U.S. policy on development at the Conference;
- finally, there is agreement that the U.S. has important economic, political and security interests in LDCs attending the Conference and that many of these are in a severe crisis to which we and our allies must continue to respond.

Disagreements arise over the role the UNCTAD meeting should play in our overall North-South strategy which clearly sees the real action taking place in other international institutions—the GATT, the IMF, the development banks in particular; and over the question of whether a tough or “responsive” tone for the U.S. at UNCTAD best serves our interests in encouraging LDC pragmatism and moderation in other institutions. Allen Wallis has also raised the issue of whether we should press to convert UNCTAD into a specialized agency where we would have more financial leverage on its activities.

It seems to me that our overall strategy should be to

- present a constructive U.S. position that lays out part of the agenda for future action in other institutions, as well as by the LDCs themselves.
- be prepared to discuss all subjects related to economic development of LDCs.
- work for some modest UNCTAD resolutions to encourage movement where we and our OECD allies can reasonably perform (e.g. some encouragement for a North-South trade round in GATT, asking the World Bank to develop an approach to agricultural/food crisis in Africa).
- protect ourselves, where necessary, by making it clear that when the LDCs insist on placing on the agenda proposals we cannot support, these simply will not prosper in the competent institutions.

U.S. Positions at UNCTAD

In presenting our position we should emphasize the following:

- We should make a spirited and thorough presentation of U.S. views on the development process, emphasizing the primacy of the domestic policies of the LDCs and the need for structural reforms, in particular greater use of markets, the price mechanism and private initiative, to allocate resources;
- we should emphasize the joint responsibility of the North and the South to maintain the open and stable international financial system that underpins growth;
- we should give major attention to the results achieved to date and at the Economic Summit, including the IMF quota increase, continued emergency financing for LDCs, and the President’s leadership opposing protectionism.
- we should change our previous “low profile” in UNCTAD discussions of *East/South* issues, and actively point out the failures of the Soviet bloc in aid and trade with the LDCs;

— on *finance*, we should state that the LDCs' proposal for an International Conference on Money and Finance for Development, a vehicle for debt relief and reform of the major international financial institutions, is premature until greater convergence of economic performance takes place, i.e., progress on inflation.

With regard to Conference resolutions, we could support the following initiatives:

— on *investment*, encourage LDCs to open doors for private investment and offer to help gain recognition and support for their efforts in this regard through negotiation of bilateral investment treaties and support of the World Bank's multilateral investment insurance scheme, and a GATT study of the trade effect of investment barriers;

— on *trade*, urge the Conference to issue a general declaration endorsing freer trade and opposing protectionism applicable to *all* members of the Conference and support for a new North/South trade round to be negotiated under the auspices of the GATT; (with an organizational conference(s) and pre-negotiations in late '83 and '84 and U.S. legislative mandate in '85);

— on *commodities*, accept a special conference on the processing, marketing and distribution of commodities, as requested by the LDCs, but specify that we must be able to raise our own issues during such a meeting, e.g., LDC-trade-distorting action on commodities;

— also on *commodities*, ask the Conference to request the IMF to examine the operation of its Compensatory Financing Facility with a view to better coverage of LDC export earnings shortfalls and improved (i.e., more rigorous) conditionality;

— on *food*, emphasize the risk of deep crisis in Africa because of declining food production and indicate our willingness (using primarily PL-480 Title III) to cooperate in a World Bank led effort to help African nations in the reform of their agricultural sectors.

These modest initiatives will need further interagency coordination, but they are all feasible. (Most difficult will be the item on IMF compensatory financing since Treasury wants to cap this facility, rather than improve it, as suggested here and by Allen Wallis). This minimal list will convince at least our fellow industrialized country partners, and some LDCs, that we take seriously the agonizingly difficult problems the developing countries are now facing.

Allen Wallis's suggestion that we consider converting UNCTAD into a specialized agency of the United Nations, (to give us both better financial control and the option to get out) is one that needs examination, but *not* on the eve of this upcoming Conference. Time is simply too short to explore it thoroughly, line up support and have any chance of carrying the day at Belgrade in June. The time to explore this is after the conference and in the light of its outcome. It could be considered in a more general USG review of North/South issues which all of us agree would be desirable.

Tactics, Including Coordination with Other Countries

Our best tactic would present much of this position in the speech you are planning to give on North/South issues, preferably within the next few weeks.² This would stake out a constructive U.S. stance for UNCTAD VI. But by speaking before and looking beyond UNCTAD VI, you do not dramatize its role. We need to use the OECD Ministerial meeting scheduled for May 8–10, and the special meetings of ministers of trade and finance which follow, to coordinate our position on the key issues of trade, finance and commodities. The Williamsburg Summit would then give us an opportunity to put the final touches on a coordinated approach by all major industrialized countries to the UNCTAD meeting, which begins only four days after Williamsburg ends.

The crucial point here is that even if we go forward with the above items for our UNCTAD position, the United States will still be the least forthcoming on development issues of the major industrialized countries; we need to line up the others so that they do not undercut us once we get to UNCTAD.

U.S. Representation at UNCTAD-VI

All memorandums submitted mention Bill Brock as a logical candidate to head the U.S. delegation. This choice seems a good one, particularly if we wish to highlight the trade issue at the Conference. Allen Wallis's suggestion that he accompany Brock also seems a good one.

² Shultz delivered his speech, "The U.S. and the Developing World: Our Joint Stake in the World Economy," on May 26 before the Foreign Policy Association in New York. For the text of the address and the question-and-answer session following the address, see Department of State *Bulletin*, July 1983, pp. 57–62.

109. Memorandum From the Under Secretary of State for Economic Affairs (Wallis) to Acting Secretary of State Dam¹

Washington, April 28, 1983

SUBJECT

UNCTAD VI Preparations

In preparation for your meeting tomorrow on UNCTAD VI,² I thought it would be useful to bring you up to date on the state of play since the Secretary signed off on my proposed approach to the meeting.

Our basic approach to the Belgrade Conference has been worked out with USTR, Treasury, and the NSC, and approved by Secretary Shultz. We have drafted an overall strategy paper (Tab B) that is cleared for substance with those agencies and is now being cleared with them in the detailed language.³ It will provide the appropriate guidance and talking points for our representatives at the Leeds Castle, England, meeting this Sunday and Monday.⁴ (Brock and Smith will go from USTR, and Gordon Streeb from State; about seventeen governments will send representatives.) Draft strategy papers on four substantive areas have been around for several weeks, and are now being redrafted to fit our basic approach.

For several months Bill Brock and I (and more recently Beryl Sprinkel) have been talking about changing the basic approach of the U.S. delegation to the UNCTAD conference from what it has been in the past. While not accepting the radical G-77 demands, we have tried to conciliate them and "avoid confrontation" by giving something away or promising to consider or promote this or that initiative. At Cancun, Mexico, President Reagan took an entirely different tack on the subject of global negotiations: he said that there wouldn't be any negotiations unless the other participants accepted the jurisdictions of established institutions and scaled down their demands to the point that there could be some realistic prospect of constructive negotiations. Brock and

¹ Source: Department of State, Executive Secretariat, S/S-I Records, The Executive Secretariat's Special Caption Documents, Lot 92D630: Not for the System, April 15-30, 1983. No classification marking. Not for the system. Drafted by Martin Bailey. Dam was acting for Shultz, who was in the Middle East negotiating the withdrawal of foreign forces from Lebanon.

² A record of the meeting was not found.

³ Tab B is attached but not printed. Wallis wrote in the left-hand margin: "Tab B is the [illegible] of this batch of papers. AW."

⁴ Sunday, May 1, and Monday, May 2.

I thought that we should say the same thing about our continued participation at UNCTAD, in the opening speech by one of us at Belgrade. Then for the remainder of the conference we shouldn't offer any concessions of any kind unless other governments stop posturing and get serious.

When I surfaced this idea here in the building, it stirred up quite a commotion; see the attached stack of memoranda at Tab A.⁵ The Secretary's decision, written in on my cover memorandum,⁶ ruled out threatening to withdraw from further UNCTAD conferences but otherwise supported the approach Brock, Sprinkel, and I had in mind. Accordingly, we are going forward with the preparations on that basis.

We still have objections from AF—Crocker (Tab C),⁷ who doesn't see the point of the way we propose to handle things, and from S/P—Boeker, whose strategy paper has so gentle a tone that our own people wouldn't get the message. (His alternative is at Tab D.)⁸ The main point is, in the appropriate forum and in case the other governments are prepared to behave responsibly and to bargain realistically, in good faith, we can make some concessions and take initiatives that make sense to us. Otherwise we cannot. Hence our opening position at UNCTAD will be that we won't give them anything until and unless they climb down from their present extreme and unreasonable positions. We will say that gently and diplomatically, as the President did at Cancun; to our allies, we will privately say it quite firmly, (since their present inclination is to disagree) and give them good reasons to go along.

Allen Wallis⁹

⁵ The "stack of memoranda" at Tab A are attached. All but one of the memoranda are printed as Documents 102, 104, 105, and 107.

⁶ See footnote 1, Document 107.

⁷ Tab C, an April 26 information memorandum from Crocker to Wallis, is attached but not printed.

⁸ Tab D, Boeker's redraft of the UNCTAD strategy paper, which he sent to Wallis under an April 25 typewritten note, is attached but not printed.

⁹ Wallis initialed "AW" above his typed signature.

110. Memorandum From the Chairman of the Policy Planning Council (Bosworth) to Acting Secretary of State Dam¹

Washington, April 29, 1983

SUBJECTYour May 2 Meeting on Strategy for UNCTAD VI²

Since Paul Boeker and I will be in Brazil, neither of us can make your meeting but I wanted to give you my views.

The basic difference I think you will find at your meeting is in judgments of the tactical situation at UNCTAD.

Allen Wallis (or his staff) view UNCTAD as somewhat threatening and want to confront the LDC group there with the need to revise their demands and reform UNCTAD in the hope that this pressure will split the moderates and the radicals, leading to more pragmatism at least from the former.

Others (including me) view UNCTAD as more of a North-South dialogue than a serious negotiation. Presenting a constructive posture and discussing all the LDC issues are seen as important therapy. The dividend of so avoiding confrontation at UNCTAD comes in LDC pragmatism in other forums (the World Bank, GATT, IMF, etc.) where the absence of deadlock in the general dialogue increases the freedom of action of pragmatic, moderate LDCs.

This needs to be discussed a little so that you can understand Allen's views, which seem to have moderated somewhat. The actual tactical situation is likely to be more like the others' view, so I would encourage this approach.

On substance the one issue worth discussing is a new round of trade negotiations with a special role for liberalization of North-South trade. Trade is the most important and constructive part of our position. Our continuing to expand on the modest North-South trade initiative we tried at the GATT Ministerial could lead to two years of constructive diplomacy and preparatory meetings with a Congressional Mandate not needed before 1985.³ Bill Brock needs support and encouragement on this issue. I think everyone at your meeting should agree on this.

Stephen W. Bosworth⁴

¹ Source: Department of State, Executive Secretariat, S/S-I Records, The Executive Secretariat's Special Caption Documents, Lot 92D630: Not for the System, April 15-30, 1983. Confidential. Not for the system.

² A record of the meeting was not found.

³ See footnote 2, Document 99.

⁴ Bosworth signed "Steve" above his typed signature.

111. Memorandum of Conversation¹

Washington, May 5, 1983

SUBJECTS

Williamsburg Summit; UNCTAD VI; High Level Visitors

PARTICIPANTS

State Department

Yugoslav Embassy

E—Under Secretary Wallis

Ambassador Loncar

E—Martin Bailey

Mr. Galovic

EUR/EEY/YO—Joseph R. McGhee
(notetaker)

Mr. Panev (notetaker)

Ambassador Loncar requested the meeting, his first visit to Mr. Wallis' office, primarily as a courtesy call. He asked for Wallis' views on the prospects for the upcoming Williamsburg Summit, and for information on how the U.S. would approach the UNCTAD VI Conference.

Williamsburg Summit: Wallis stated that the leaders of the Western industrialized nations meeting at Williamsburg would above all project optimism over the continuing economic recovery in the West. They would point to positive signs not only in the American economy, but in those of Canada, West Germany, and Great Britain as well. The leaders would also look at the international debt question and the strain it was placing on the entire international financial system. They would emphasize the need for realism in approaching this problem and, Wallis thought, would call for more rational and responsible domestic and foreign economic policies on the part of the LDC's. This would be a key factor in resolving the LDC's massive debt problem. In response to a question from Loncar, Wallis stated that East-West trade was unlikely to receive much attention at Williamsburg. The main lines of policy were already drawn, and the details could be dealt with more effectively at a lower level. Wallis thought the Summit would almost certainly take note of the upcoming UNCTAD VI meeting in Belgrade.

UNCTAD VI: Wallis stated that he intended to visit UNCTAD VI for at least a part of the proceedings and that U.S. Trade Representative William Brock also would be there. He thought other high level USG participation might also be possible. He expressed the hope that the meeting would not break down into strident posturing and demands.

¹ Source: Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981–1984, Lot 85D193: UNCTAD VI—General. Confidential. Drafted by Joseph McGhee (EUR/EEY/YO) on May 10; cleared in EUR/EEY, EUR, and E. The meeting took place at the Department of State. The date "May 16, 1983" is stamped on the memorandum to indicate when it was received in the Secretary's office.

It was most important at the moment that developing economies get moving again, and this would require a responsible approach. The U.S. used about one half of the Third World's manufactured products and was keenly aware of the need for continued development. However, development required above all sound domestic economic policy. The U.S. was willing to provide assistance and technical advice to support sound policies in individual countries. We would also back international measures, including steps to make multilateral development banks effective and more responsive to the needs of the LDC's. This was the message the U.S. would take to UNCTAD. We hoped it would lead to constructive discussion.

Loncar noted that as host Yugoslavia hoped to create a constructive atmosphere that would bring a moderate, realistic and productive approach to the conference by all participants. The GOY hoped the emphasis would be on debt and other current problems, such as ways in which the locomotive economies could help pull the world out of the recession. However, they also wanted to discuss approaches to long-term structural changes, including commodity arrangements and Global Negotiations.

Wallis expressed the view that Global Negotiations were a dead issue. The U.S. had put forward some constructive proposals on Global Negotiations, and they were all but ignored. There was little chance that we would take the matter up again. He did not see much point, from the U.S. point of view, in dealing with the G-77 as a group. The South nations seemed to have little in common beyond a desire to get funds from the North. It made more sense for the U.S. to deal with G-77 nations individually. The type of structural changes Loncar referred to, including translocation of function, were best brought about by market forces.

High Level Visits: In the course of the meeting Wallis mentioned to Loncar that it was his understanding that Vice President Bush would visit Belgrade in September.²

² Bush and his wife visited Belgrade September 16-18. In telegram 7776 from Belgrade, September 21, the Embassy reported on the visit. (Department of State, Central Foreign Policy File, Electronic Telegrams, D830546-0875)

112. Minutes of a Senior Interdepartmental Group–International Economic Policy Meeting¹

Washington, May 13, 1983, 3 p.m.

ATTENDEES: (U)

Treasury
 Secretary Regan
 Marc Leland
Office of Vice President
 G. Philip Hughes
State
 W. Allen Wallis
 Elinor Constable
 Martin Bailey
Defense
 Fred C. Ikle
Agriculture
 Secretary Block
 Richard Lyng
Commerce
 Albert Kington
 Michael Liikala
CIA
 Henry Rowen
 Maurice Ernst

OMB
 David Stockman
USTR
 William Brock
 Robert Lighthizer
 Harvey Bale
AID
 Peter McPherson
 John Bolton
CEA
 William Niskanen
OPD
 Edwin L. Harper
 Les Denend
NSC
 Norman Bailey, Executive Secretary
 Roger Robinson
 William Martin

[Omitted here is discussion unrelated to UNCTAD.]

UNCTAD Strategy (U)

The Chairman then asked Under Secretary Wallis to review the proposed U.S. strategy for UNCTAD VI.² The Under Secretary noted that the U.S. position would be based on the President's 1981 speeches at Cancun and Philadelphia. The greatest threat to U.S. interests would be a move toward more commodity agreements. The Chairman noted that we would want to avoid interference with the work of existing institutions such as the World Bank and IMF. AID Director McPherson said that this would offer a good opportunity to describe the very positive U.S. approach to aid, including the fact that our bilateral assistance

¹ Source: Reagan Library, Executive Secretariat, NSC Subject File, SIG–IEP (Senior Interdepartmental Group–International Economic Policy) (March 1983–April 1983); NLR–753–96–3–10–2. Confidential. The meeting took place in the Roosevelt Room at the White House. No drafting information appears on the minutes.

² A copy of the proposed “U.S. Strategy for UNCTAD VI” is in the Reagan Library, Roger Robinson Files, Subject File, SIG–IEP Meetings 04/28/1983–05/12/1983.

program is larger than ever. Others noted that this may afford an opportunity to join with LDCs in protest over EC agricultural subsidies. After a brief discussion, the SIG–IEP gave its approval to the strategy as outlined in the documents presented to the SIG. The Chairman noted that it might be useful to consider this topic again after the Williamsburg Summit and before the UNCTAD meeting. (C)

[Omitted here is discussion unrelated to UNCTAD.]

113. Information Memorandum From the Acting Assistant Secretary of State for Economic and Business Affairs (Constable) to the Deputy Secretary of State (Dam)¹

Washington, May 25, 1983

SUBJECT

A Positive Trade Overture at UNCTAD VI

Our UNCTAD VI strategy is based on an unequivocal presentation of our economic philosophy. Clearly, the trade agenda item is the most promising in terms of a positive approach to the Conference, due to our conviction that open trade, elimination of protectionism, and structural adjustment through the free play of market forces are vital to development.

At Belgrade we will underscore the good record of the United States in advocating trade liberalization, resisting protectionism, allowing structural adjustment to take place, and absorbing a large share of LDC exports, including nearly half of the manufactured exports from the non-OPEC Third World to the developed world.

Furthermore, we will restate our commitments to fulfill the pledge of the GATT and OECD Ministerials, refer to our active pursuit of the

¹ Source: Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987–1987, Lot 89D378: Chron May 1983. Confidential. Drafted by Manuel Barrera (EB/GCP) on May 24; cleared in EB/GCP, EB/OT, USTR, and IO, and in substance in EB/SEN and EB/ODF. Hill initialed the memorandum. Sent under a May 26 covering memorandum to Dam, in which Wallis wrote that the memorandum and draft resolution “cause me some concern because the resolution is not ‘optimal’ as the memo claims, but is a compromise that fails to push hard for trade liberalization by the LDC’s. We shouldn’t be doing that at this stage, or taking any risk of tipping our hands.”

objectives laid out in the GATT Ministerial declaration,² and acclaim any agreement on trade achieved at Williamsburg.³

Translating Rhetoric into Reality

The risk we face in leading with strong words at Belgrade is that our rhetoric will be seen to outpace our actions. Despite the pledges at GATT and the OECD, resistance to protectionism in the United States seems to be weakening. Democratic party spokesmen are calling for fair or managed trade to protect American jobs. Calls for local-content rules, "reciprocity," severe restrictions on GSP, and the like, arouse fears that further protectionist actions are imminent. The Administration's own case for free trade, forcefully articulated by the President in the State of the Union Message⁴ and at the Commonwealth Club in San Francisco,⁵ appears to lack support or at least evidence of concrete implementation. At the OECD Ministerial, Bill Brock said that the U.S. is prepared to take steps to implement a commitment to dismantle trade restrictions. Many are asking what we mean.

UNCTAD VI is an opportunity to reverse the perception that our commitment to free trade is merely rhetorical. Our strong rhetoric will be bolstered by a detailed description of our accomplishments and intentions: open markets, renewal of a Generalized System of Preferences targeted at the needier developing countries, active support of the GATT Ministerial work program, and willingness to pursue liberalization of North/South trade.

In the day to day discussions and in negotiating resolutions, we will be supportive, opposing only wording that poses a danger to the mandate of the GATT. We can agree to an UNCTAD work program which promotes greater openness in the formulation and implementation of national trade policies. We can readily agree to improving transparency by encouraging UNCTAD to continue work on its inventory of non-tariff measures affecting trade. We will not block UNCTAD examination of the impact of agricultural trade barriers,

² See footnote 2, Document 99. The 1983 OECD Ministerial meeting took place May 9–10.

³ In a June 23 memorandum to Clark, McMinn summarized the work done by NSC, State, and USTR to develop a strategy to implement the Williamsburg Summit commitments on trade. (Reagan Library, Henry Nau Files, Williamsburg Summit (1983): Miscellaneous Bilateral) McMinn included a paper outlining the general strategy of implementation, including that on North-South trade relations and the commitment by Summit participants to expand trade with and among developing countries.

⁴ The text of Reagan's 1983 State of the Union address, delivered on January 25, is in *Foreign Relations, 1981–1988*, vol. I, Foundations of Foreign Policy, Document 139.

⁵ For the text of Reagan's March 4 remarks and the question-and-answer session at the Commonwealth Club of California in San Francisco, see *Public Papers: Reagan, 1983*, Book I, pp. 330–338.

including the effects of export subsidies on developing countries. We can agree to UNCTAD work in services, provided its role does not prejudice the GATT.

Clearly, the best outcome on trade would be a resolution which led to UNCTAD support of U.S. trade policy objectives in the GATT: strengthening international commitments to trade liberalization, achieving transparency in trade practices, bringing new areas under GATT disciplines. A trade resolution along the lines of Tab A would be optimal.⁶ In drafting this, we have dealt with the more objectionable elements of the G-77 trade resolution—commitments only by developed countries, mandatory government intervention in the market, monitoring of the GATT—by calling for action by all UNCTAD members, softening or eliminating any references to government intervention, and allowing only review or examination of the effects on trade of current trade practices.

Finally, we should recognize that any trade resolution which emerges by consensus at Belgrade may have a number of elements which could make us uncomfortable. But our trade philosophy is such that as long as the appropriate GATT/UNCTAD division of responsibility is preserved, our discomfort should be less than that of the Europeans. If the trade agenda at Belgrade fails, it should not be due to U.S. inflexibility.

Tabs B and C are the Trade Strategy Paper and the paper on the GATT/UNCTAD Division of Responsibilities.⁷

⁶Tab A, "Draft Resolution on International Trade in Goods and Services," is attached but not printed.

⁷Tab B, "Trade Strategy for UNCTAD VI," and Tab C, "GATT-UNCTAD Division of Responsibilities" are attached but not printed.

114. Minutes of a Senior Interdepartmental Group–International Economic Policy Meeting¹

Washington, June 30, 1983, 1 p.m.

ATTENDEES

| | |
|-------------------------------------|--------------------------|
| <i>Treasury</i> | <i>CIA</i> |
| Secretary Regan | Henry Rowen |
| Charles Dallara | [name not declassified] |
| <i>Office of the Vice President</i> | <i>AID</i> |
| G. Philip Hughes | Jay F. Morris |
| <i>State</i> | <i>USTR</i> |
| Deputy Secretary Dam | Ambassador William Brock |
| Richard McCormack | Ambassador Michael Smith |
| John McCarthy | <i>OMB</i> |
| <i>Defense</i> | Alton Keel |
| James R. Blaker | <i>CEA</i> |
| Lt. Col William Weida | Martin S. Feldstein |
| <i>Agriculture</i> | <i>OPD</i> |
| Leo Mayer | Edwin Harper |
| John Hudson | Roger Porter |
| <i>Commerce</i> | <i>NSC</i> |
| Secretary Baldrige | Roger Robinson |
| Albert Kingon | Arthur Manfredi |

Secretary Regan began the meeting promptly at 1:00 p.m. The meeting was to review the UNCTAD VI meeting.

Deputy Secretary Dam introduced the issue, noting that UNCTAD had been scheduled to break up today, but was being extended. By and large, there remain large differences between the G–77 and G–B countries on most key issues, although there would be agreement on the less controversial issues.

Deputy Secretary Dam made two introductory comments:

— We are not negotiating with the G–77 at this time, but rather the G–B countries.

— Since we are in a negotiation, there must be movement somewhere.

Up until now, G–B unity has been good, but now Ministers are at the meeting for its close, and this introduced uncertainty.

¹ Source: Reagan Library, Roger Robinson Files, Subject File, SIG–IEP Meetings 07/01/1983–07/31/1983; NLR–487–7–2–1–1. Confidential. The meeting took place in the Roosevelt Room at the White House. No drafting information appears on the minutes.

Deputy Secretary Dam said he wanted agreement to engage in bilateral discussions with the appropriate agencies for last minute adjustments. There was no disagreement.

The first issue for SIG-IEP decision was on the proposed International Monetary Conference. Mr. McCarthy from State noted the current UNCTAD draft referenced Williamsburg in the preamble and had only vague references in the text. Deputy Secretary Dam said he looked to Treasury for the lead on this issue. Secretary Regan noted Treasury had sent a cable to all seven Summit countries expressing firm opposition to any reference to a monetary conference.² Canada and Japan strongly backed our position, Britain generally did, France and Germany had not been heard from but generally are known to back our position. We have also not heard from Italy. Secretary Regan continued that we do not want to get our hopes up that a big International Monetary Conference is in the offing. In deference to President Mitterrand, we bought modest language at Williamsburg but we did not want UNCTAD to get involved in this issue. As a fallback, Deputy Secretary Dam suggested we propose the addition of many other things from the Williamsburg communique, which would be unacceptable to everyone.³

The next issue was the Common Fund. Mr. McCarthy said we had basically achieved our objectives in this area. The delegation can say we will consider ratification after we get a sufficient number of suitably structured commodity agreements and after a suitable number of other countries ratify. Secretary Regan cautioned that the delegation go no further.

The next issue was compensatory financing. Deputy Secretary Dam said here we have a problem; we must not permit any conflict with the responsibilities of the IMF. This goes to the heart of what UNCTAD is set up to do. We do not want an UNCTAD compensatory financing facility, but it is difficult to hold that it is not their business. Several delegations claim that there is nothing wrong with a study; we believe this may well present a problem depending upon the structure and conclusions, if any. The question is do we go along with a reservation or vote against it. State's recommendation was to go along with a study which does not discuss *proposals*. Mr. McCarthy summarized a recent options cable from the delegation which needed a quick response.⁴ One option is to go along with an "experts group" study. Another is to slow the

² Not found.

³ See footnote 3, Document 172.

⁴ Reference is to telegram 5258 from Belgrade, June 30. (Department of State, Central Foreign Policy File, Electronic Telegrams, D830373-0359)

process down with a reservation. The third, a NO vote, will lose, and we would as a by-product lose influence over the study.

USTR noted that a reservation does not show in the minutes. Since the matter was not crucial, as it would probably not surface for two years, we could influence the terms of reference of a study if we went along. The G–B would desert us if we voted NO. Hence, they see little harm in acquiescing.

Secretary Regan expressed concern that this is an IMF issue, which we are fighting there, and we do not want UNCTAD into it. He wants to put UNCTAD off somehow, concerned that a study will lead to results which might commit us. Mr. McCarthy reiterated that an experts group report would not be back for two or perhaps four years from now, so this puts the matter off sufficiently. Deputy Secretary Dam said we could preclude the report from making specific recommendations by shaping the terms of reference. Secretary Regan asked if there was any support for us. There is only very limited support, from Canada and Australia. Secretary Regan inquired about a fallback position. USTR suggested a NO vote. An attendee noted that no matter what we do UNCTAD was going to get involved somehow. Deputy Secretary Dam noted that a NO vote would not slow the process down. OMB noted that going along but shaping the study may not solve the problem for two reasons:

— In two years the study will be done and we will have to contend with its results then; we will have supported it.

— Our position in the IMF would be a problem because countries could feel we misled them at UNCTAD by supporting a study.

The consequences and merits of voting NO were discussed. A NO vote would probably result in a more radical paper, but we would have distanced ourselves from it. All agreed we would not like what the report says in two years.

A consensus built around the position that we would go along with the study, but make our concerns exceedingly clear, viz., the report is not to discuss policy options, but rather effects and implications, and the USG does not agree to support the results in advance. Secretary Regan wanted the thought included that in no way would the functioning of other international organizations, e.g., the IMF, be impeded. It was also noted that the language chartering the study must be completely neutral and not lean toward a certain result. At Deputy Secretary Dam's invitation, Secretary Regan said that Treasury would be glad to supply language for prompt cabling to the delegation.

The final issue discussed was trade in services. The consensus was that as long as UNCTAD does not take total control, at the expense of GATT, we could go along with almost anything. We will ask for a paragraph by paragraph vote on whatever language is proposed.

Deputy Secretary Dam made a closing comment that some things do get accomplished at these UNCTAD conferences.

115. Information Memorandum From the Assistant Secretary of State for International Organization Affairs (Newell), the Assistant Secretary of State for Economic and Business Affairs (McCormack), and the Chairman of the Policy Planning Council (Bosworth) to the Deputy Secretary of State (Dam)¹

Washington, July 22, 1983

SUBJECT

UNCTAD VI and its Consequences

I. General Assessment

The US achieved all of its minimum objectives at UNCTAD VI, but the Conference's contribution to a more pragmatic North-South dialogue over the longer term is still unclear.

By avoiding a conference breakdown, we protected our basic interest in a cooperative atmosphere for negotiation at the bilateral and regional level and in the specialized agencies.² We prevented significant encroachment on the specialized agencies and thus protected our systemic economic concerns. New momentum or broadening of participation for any future monetary conference were avoided. The Soviet bloc not only was largely ignored by the LDCs, but for the first time was unable to avoid specific reference to its responsibilities for supporting their development.

The rest of Group B displayed surprising unity and support for most US positions. This partly resulted from the G-77's inflexible negotiating posture, but it also derived from the fortuitous timing of the Williamsburg Summit and well-coordinated pre-conference preparations in the OECD North-South Group as well as the fundamental similarity of our positions.

¹Source: Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981-1984, Lot 85D193: UNCTAD VI—Outcome and Assessment. Confidential. Drafted by James Landberg (EB/SEN) on July 20; Manuel Barrera (EB/GCP), Michael Shelton (EB/ICD), Charles English (EB/ODF), Basora, and Bernard Engel (IO/E) contributed; cleared by Constable, Streeb, Boeker, and Bailey. Hill's stamp appears on the memorandum.

²A July 6 memorandum from Leland to Regan summarizing the results of UNCTAD VI highlighted two cables that cited the U.S. decision to join other developed countries in accepting the proposed resolution on monetary issues as "the most important development in bringing the conference to an acceptable conclusion." The U.S. shift in position on this issue undercut French efforts to isolate the U.S. and "stalled the threat" of the G-77 "from walking out of the conference and declaring it a failure." (National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Official Files, 1983, UD-10D28, 56-86-2, Box 44, Memo to the Secretary, August '83)

Despite these damage limiting accomplishments, little positive was achieved and UNCTAD gained some new footholds from which to move in directions we do not like. While we got our message across to a wide audience, there was little “meeting of the minds” on how to assess or deal with global and North-South economic problems nor on the degree to which LDCs should share responsibility for strengthening the trade and financial systems.

Reports from our overseas posts on initial reactions to UNCTAD VI indicate disappointment but no real surprise by most G-77 governments with the meagre results. Other OECD governments share our disappointment at G-77 unwillingness to accept mutual responsibilities, for example in resisting protectionism or making more effective use of aid, but some were encouraged that so many resolutions did pass by consensus.

Many LDC governments also expressed to us disillusionment with universal fora as a means to deal with their economic concerns and their inclination towards greater reliance on bilateral economic relationships. This is a useful reaction. A pragmatic and productive North-South economic relationship can best be advanced in bilateral and regional contexts and in the specialized agencies. What this means for the future of the multilateral North-South dialogue, however, will become clearer when we see how LDCs pursue their interests at the fall UNGA and at UNCTAD’s Trade and Development Board (TDB), as well as in the specialized agencies (i.e., the September Bank/Fund meeting).

II. *Unfinished Issues.*

The following is our initial reading of the major issues which will warrant high-level attention:

Commodities.

The Common Fund received a boost from the Canadian and Malaysian announcements that they will ratify and from statements by the Directors of the Tin and Rubber Agreements that they expect to associate with the Fund. It now appears that the US will be seen as the only obstacle to the Fund’s coming into force. Since we can expect increasing pressure to join, we may soon have to decide if and when the Agreement should be submitted to Congress.³

We will also have to decide whether to try to influence the results of the UNCTAD “experts group” on compensatory financing by supporting a solid US economist as one of the experts or to dissociate ourselves from it.

³ See Documents 336 and 337.

Trade.

Three potentially sensitive issues resulted from the Belgrade trade resolution: (1) TDB review of developments in the trading system, (2) TDB "monitoring" of the standstill and rollback commitments in the trade resolution, and (3) UNCTAD's continuing work in services.

The section of the trade resolution on services does not prejudice GATT's work on services, but neither does it contain the explicit acknowledgment of GATT's competence in services which we sought. This omission, and our concern with an expanded UNCTAD work program in services led us to vote against the services section. Whether this will provoke a further hardening of the LDC position will have to be judged in future GATT and TDB consideration of services issues.

Money and Finance.

The US and Group B agreed to resolutions on money and finance issues which are more specific and detailed than any we have supported in UNCTAD in recent years. Although these resolutions have some positive features and were carefully caveated by Group B reservations, we and Treasury are concerned that the LDCs will try to use them inappropriately in the IMF, IBRD and elsewhere.

There are only two specific items which call for immediate action, however: the compensatory financing issue (mentioned under commodities above) and a decision at this October's TDB on whether to support creation of an Export Credit Guarantee Facility (ECGF). Nevertheless, we will need to be vigilant in UNCTAD and in other fora against LDC efforts to misuse or misrepresent the UNCTAD VI results on money and finance topics. We will also need to decide whether to return to the prior US posture of refusing to discuss most money and finance issues in UNCTAD in any detail.

Basket Items.

We were largely successful in our efforts to simply review the basket items. An ECDC resolution was passed, but only by avoiding reference to the fundamental issue of universal participation. We will be faced with this issue at the October TDB meeting.

Transfer of technology and shipping resolutions give UNCTAD an ambitious work program for the next two to three years. Our efforts to promote institutional reform failed but will be followed up in the TDB. The East/South item was handled with a procedural resolution which torpedoed Soviet efforts to make propaganda gains.

III. The Broader Implications of UNCTAD VI.

We see three broad issues which have substantial implications for US interests in the wake of UNCTAD VI.

The first is how to deal with the North-South impasse which occurred at the GATT Ministerial and UNCTAD VI on trade. This primarily involves the need to progressively integrate advanced LDCs into the global trading system and the institutional roles of GATT versus UNCTAD. We also should not rule out the possibility of further LDC stonewalling in GATT in order to get a new international trade organization. We will continue to be faced with these fundamental disagreements in the TDB and the GATT. Failure to resolve them will impair achievement of our long-term trade objectives.

The second is the future of the North-South dialogue and its relationship to the specialized agencies (IMF, IBRD, GATT, etc.). We stressed at UNCTAD VI that the proper place for negotiations is in the specialized agencies. We successfully resisted Conference reference to a future monetary conference, and interest has diminished in Global Negotiations. But failure to show some responsiveness to LDC concerns in the specialized agencies could rekindle LDC emphasis on multilateral confrontation as a way to press for economic and political benefits, especially if OECD recovery fails to ameliorate their economic situation dramatically.

It is unlikely that the G-77 and the Non-Aligned Movement will completely give up on a multilateral North-South dialogue; they have little to lose by continuing it. We may now have a chance, however, to keep the balance on the side of cooperative LDC participation in the specialized agencies, and on our bilateral and regional relations.

Finally, and related to the above, is the question of whether and how the US should proceed with its participation in the UNCTAD system. We intend to undertake an interagency assessment of this question prior to the October TDB.

116. Memorandum From the Executive Assistant to the United States Special Negotiator for Economic Matters (Landberg) to the Assistant Secretary of State for Economic and Business Affairs (McCormack)¹

Washington, July 28, 1983

SUBJECT

The North/South Dialogue in the Wake of UNCTAD VI: Where Do We Go From Here?

Before leaving on vacation I want to leave with you my own thoughts on the next steps in the North-South dialogue.

We achieved our minimum objectives at Belgrade because we obtained Group B unity on most issues, articulated a well-thought-out and firm U.S. position, and used flexible negotiating tactics. The G-77 helped by being inflexible and by deciding not to engage in confrontational tactics. We need to continue to build on the united U.S./Group B approach at UNCTAD VI and to foster continued G-77 moderation in future North-South encounters.

U.S. Objectives

Our principal objectives for the future should be to encourage developing countries to adopt a pragmatic, cooperative attitude in the specialized agencies and to progressively integrate them into full membership in the global trade and financial systems.

Secondly, we want to avoid or minimize a reappearance of LDC confrontational tactics and/or non-cooperative or disruptive behavior in the trade and financial systems, including in the specialized agencies. We are already near an impasse on the future of the trading system, both in terms of shared responsibilities for future liberalization and on the respective roles of GATT and UNCTAD. This situation poses serious obstacles to our long-term trade interests.

Upcoming Events in North-South Fora

It would be tempting to conclude that LDC disappointment with the meagre results of UNCTAD VI will lead them to abandon or downgrade the North-South dialogue in favor of more realistic discussions in the specialized agencies. Alas, the political dynamics of the process alone are unlikely to permit this. Third world leaders have too much

¹Source: Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981-1984, Lot 85D193: UNCTAD VI—Outcome and Assessment. Confidential. Drafted by Landberg; cleared in IO, EB/IFD, S/P, E, EB/ODE, and IO/E.

to gain from universal fora where they can posture before their domestic constituencies and before each other by tweaking the noses of the industrial powers. Moreover, many of the largest LDCs (India, Mexico, Brazil) still believe in the North-South dialogue as a vehicle for making incremental economic gains.

Thus, we will continue to be faced by North-South economic meetings and by the fundamental disagreements so evident at Belgrade. Upcoming events include the fall UNGA, the September Bank/Fund meeting, the October TDB and UNCTAD meetings on ECDC, technology transfer, shipping and ECGF, starting in late September.

Fortunately, we have some breathing room. The G-77 will not have had time to regroup its forces for these meetings, so it is likely to continue the relatively non-confrontational negotiating posture used at Belgrade, and substantively, with the Buenos Aires platform. It should be relatively easy for Group B to protect its interests provided it maintains the unity and positions displayed at Belgrade.

Possible G-77 Alternative Courses

As these events unfold, however, I expect that the G-77 will itself engage in the process of reassessing its prospects and options in the North-South dialogue. The G-77 Ministers customarily meet late in the UNGA. The next Non-aligned Summit will occur in the spring of 1984. We may be challenged by new and presently unpredictable initiatives arising from those meetings. We should encourage a constructive outcome of these LDC deliberations as we proceed through the fall schedule of North-South meetings.

The G-77 has several alternative courses to follow. One choice is between seeking new vehicles for the North-South dialogue (Global Negotiations or an International Monetary Conference) or accepting present venues for pursuing their multilateral objectives.

Global Negotiations seem to be fading. They were not mentioned in the final documents at Belgrade. The structural reform emphasis of Global Negotiations had a secondary importance in the G-77's program for UNCTAD VI. A more conservative Algerian Government may mean reduced interest by this heretofore major GNs advocate. Finally, as the G-77 assesses the results of UNCTAD VI, and particularly the firm US position there, it could well conclude (correctly) that the likelihood of persuading this U.S. administration to agree to GNs is nil. There is a good prospect, therefore, though not a certainty, that Global Negotiations will disappear into oblivion.

A monetary conference, on the other hand, has several important proponents and could fulfill in part the new vehicle the LDCs sought in Global Negotiations. This issue may not easily go away.

In any event, it appears in our interest to encourage the LDCs to content themselves with the existing North-South mechanisms (UNCTAD etc.) rather than seek new ones.

A second choice the G-77 has is between continued "moderation" in the dialogue or return to a more confrontational approach. (Moderation in this case means in terms of style, not substance, since LDC economic objectives are anything but modest from the U.S. perspective.) At Belgrade, and so far at the summer ECOSOC, the G-77 has avoided drastic political polemics and confrontation, despite the relatively non-forthcomingness of Group B.

A third choice is the relative balance LDCs will give to their participation in universal fora as opposed to participation in the specialized agencies. Although LDCs are unlikely to give up completely on UNCTAD, ECOSOC, etc., it would be in the U.S. interest for them to devote more of their energies to the specialized agencies provided this were done constructively. An unconstructive G-77 attitude, on the other hand, would probably be less disruptive to U.S. interests if it primarily occurred in an UNCTAD-type setting.

Factors Influencing the LDC Approach to the N-S Dialogue

The direction which LDCs take will be influenced by several major factors:

First is how well their interests and concerns are dealt with in the specialized agencies. The increase in IMF resources and its subsequent utilization.

Second is whether and at what pace global economic recovery spreads. Failure of recovery to spread will generate frustration and desperation, which will be manifested in N-S relations.

Finally is the continued unity of the OECD countries on major North-South economic issues. LDC options for adopting unconstructive courses are constrained by consistent and close coordination of Group B positions in UNCTAD, ECOSOC, and the UNGA. A breakdown of Group B unity would tempt the G-77 to try to isolate the U.S.

What Actions Should We Take?

1. First and most obvious, we should work actively in the OECD North-South Group, in Geneva, and at the UNGA to maintain Group B cohesion on N-S economic issues.

2. Secondly, clear, consistent and forthright enunciation of U.S. economic positions, along the lines of our posture at UNCTAD VI is essential. Our message was not welcomed by LDCs, but our leadership of Group B and firmness of purpose were recognized and seem to have had a salutary effect.

3. Third, we should do all we can, within our limitations, to assure that legitimate LDC concerns (particularly insofar as we have interdependent interests) are addressed in the specialized agencies. If LDCs continue to believe that their interests are ignored in these fora, they will pursue other courses. U.S. approval of the IMF quota increase is vital. Failure to do that will undercut our argument at UNCTAD VI that the real action is in the specialized agencies, and it also will make Group B unity in support of U.S. positions difficult or impossible.

It has been suggested that we consider putting more emphasis on the IMF/IBRD Development Committee as a place to discuss North-South economic issues, including trade matters. This may be useful. However, since these meetings are mostly attended by finance and trade ministry officials, LDC foreign ministries are unlikely to let themselves be squeezed out of the action, and will continue to look to the UN fora as a focus of the North-South dialogue. A basic question is whether constructive dialogue could occur in the Development Committee if it does not in other fora.

4. We should fashion an organized effort to discuss N-S issues in depth with key LDCs, with a view to defusing unnecessary conflict in multilateral fora and promoting our economic philosophy. India, Brazil, Mexico, some Arab states, and the ASEANs are countries to consider. More detailed discussion with India might have prevented some of the conflict over trade and monetary matters at UNCTAD VI, led on the G-77 side by Indian officials.

5. In the longer run, we may wish to consider whether to treat some of the most fundamental differences between us and LDCs, particularly the near impasse over trade, at a summit level *à la* Cancun. It seems unlikely that such a meeting could be organized in the remaining 18 months of this Administration, and there seems to be little international interest in such a meeting. It is something to keep in mind, however, as we proceed through the upcoming events in the "dialogue".

6. Finally, we should take into account these general North-South considerations as we proceed with our interagency review of U.S. participation (or non-participation) in the UNCTAD system.

117. Action Memorandum From the Assistant Secretary of State for Economic and Business Affairs (McCormack) and the Assistant Secretary of State for International Organization Affairs (Newell) to the Deputy Secretary of State (Dam)¹

Washington, December 23, 1983

SUBJECT

Review of US Policy Towards UNCTAD

Issue for Decision

UNCTAD VI and the subsequent October Trade and Development Board meeting added to our disillusionment with the Organization's ineffectiveness and the increasing sterility of the North-South dialogue. The G-77 also pursues its NIEO objectives incessantly in the UNGA, ECOSOC, and UNESCO, and calls for new mechanisms (i.e. Global Negotiations and/or an international monetary conference) to promote its demands. Aside from the great amount of time and effort involved in protecting US interests in these discussions, we get much of the political blame for the current deadlock in the "dialogue". A new approach to UNCTAD is needed; one with more fruitful possibilities for US interests and which complements our efforts in other UN organs. US policy options and our recommendations are outlined below.

Background

Although UNCTAD has had some modest accomplishments, such as GSP, more often it has had, or threatened to have, a negative influence on the international economy and related US interests. A particular concern is the UNCTAD Secretariat, which is biased against market principles and private initiative and spawns unsound schemes which the G-77 adopts (our 25% share of the Secretariat budget was \$13 million in FY84).

We have limited the damage by devoting considerable effort to our UNCTAD participation, and by exerting strong leadership in the OECD. Many of our OECD colleagues would be more conciliatory

¹ Source: Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987-1987, Lot 89D378: Chron File—December 1983. Confidential. Drafted by Landberg on December 16; cleared in EB, EB/ODE, EB/OMA, E, IO/E, IO, and S/P, and in substance in EB/IFD. Sent through Wallis and Eagleburger. Wallis did not initial the memorandum. Hill initialed the memorandum on January 19, 1984.

towards the G-77 in our absence out of concern for their commercial and political interests among LDCs.

Improvements which would make UNCTAD more acceptable to us include: 1) a more favorable climate for discussion of market forces, private investment and domestic economic policies, 2) a more objective and accountable secretariat, and 3) limits on repetition, duplication, and politicization of issues.

We see three realistic options for US policy:

OPTION I: Withdraw from participation in UNCTAD.

Pros:

- Withdrawal might shock LDCs into taking a more practical and realistic approach to the North-South dialogue.

- It would reduce pressures on us to agree to measures of dubious economic merit, such as the Common Fund.

- Damage to US interests from UNCTAD programs adopted in our absence would be limited by our key global economic role.

Cons:

- We would risk outcomes more damaging to our interests than at present. The US private sector generally supports our active involvement in UNCTAD for this reason.

- On most issues we have achieved OECD support for tough US positions, not only at UNCTAD, but in other bodies where the G-77 presses its demands, e.g. the UNGA. Withdrawal would threaten OECD unity and our leadership role.

- Other OECD countries and the Soviets would try to take advantage of our departure to strengthen their political and commercial relations with LDCs.

OPTION II: Continue our participation, but work within UNCTAD for improvements, while reducing our costs and effort. This would include selective reduction of our involvement in UNCTAD activities. (We have already agreed on this at the interagency working level). We would reduce delegations to the minimum level and size necessary to protect our interests.

Pros:

- Would be easy to implement, consistent with our traditional posture in UNCTAD, and preserve our OECD leadership role.

- It recognizes that UNCTAD has achieved some modest positive results.

Cons:

— This option is unlikely to produce any significant improvement in UNCTAD. Past US efforts of a similar nature have been ignored by the G-77 and the Secretariat.

— Failure to act more strongly will add to the image of US impotence in the UN.

OPTION III: Launch an effort with our OECD partners to achieve a major reform of UNCTAD. If the OECD does not support our initiative, we will have to decide whether or not to proceed alone.

The OECD North-South Group has already agreed to review the dialogue process. We would discuss our proposals at the next North-South Group meeting (January 24-25).

Our ideal solution would be to abolish UNCTAD or convert it to a specialized agency, as is occurring with UNIDO. This would give us direct control over our contribution to UNCTAD's budget. Neither of these alternatives would be acceptable to the G-77 or most of the OECD, in our estimation, but might serve as a starting point for negotiations.

More realistic objectives, however, would include:

1. Actively working for selection of a new UNCTAD Secretary General (the present SG is due to leave in 1984) with whom we could work for UNCTAD reform and Secretariat improvements.

2. Reorganization of UNCTAD to avoid duplication of issues properly discussed in other agencies.

3. Integration of UNCTAD and ECOSOC, or their joint reorganization to avoid duplication.²

4. Agreement with the G-77 that UNCTAD meetings would avoid fruitless repetition of discussions.

5. Strict accountability and management control of the Secretariat, including external audit of budgets and programs.

We will need to make clear to our OECD partners that failure to take our concerns seriously or to achieve improvements in UNCTAD could result in a stiff US reaction, which might include:

1. US unwillingness to attend many UNCTAD meetings, including the proposed UNCTAD TDB at ministerial level in 1985, or the next UNCTAD Conference.

2. A determined US effort to reduce UNCTAD's budget.

3. Ultimately, US withdrawal from UNCTAD participation.

² The spring ECOSOC session covers social issues, while the summer session concentrates on economic and development matters. The latter duplicates much of the UNCTAD discussions. [Footnote is in the original.]

Pros:

— Would convey a clear signal to our OECD colleagues and the G-77 that we are unwilling to continue indefinitely with the present situation and that we will consider more drastic action if our views are not taken seriously;

— Failure to act strongly will perpetuate the G-77's effort to whittle away at us in UNCTAD and other fora;

— If we failed to obtain OECD support we could still go it alone or fall back to Option II.

Cons:

— Would require greater USG time and energy than Option II. The results might not be worth the effort;

— We would suffer some embarrassment if in the end we called off our effort without success;

— A hostile G-77 reaction could adversely affect our other UN interests.

Recommendation

A decision to withdraw from UNCTAD at this juncture (Option I) is premature. Option II does not sufficiently reflect our growing unhappiness with UNCTAD or offer the prospect for significant improvement. EB, IO and S/P, therefore, recommend Option III as offering the best prospect for improving the present situation. If the OECD does not agree to support our proposals we will have to decide whether to proceed on our own.

If you agree, we will seek concurrence of other USG agencies involved and will then launch our initiative with a demarche to OECD capitals preparatory to the January OECD North-South Group meeting.³

³ Dam did not indicate his agreement or disagreement with the recommendation.

118. Briefing Memorandum From the Under Secretary of State for Economic Affairs (Wallis) to Secretary of State Shultz¹

Washington, undated

SUBJECT

Foreign Ministers Meeting June 8, 9:45 a.m.–12:30 p.m., Economic Aspects

Geoffrey Howe has said that he wants the Foreign Ministers, during their meeting on Friday morning,² to go over some of the economic issues which will be discussed at the Summit. The principal issues on which you should concentrate are trade, energy, North/South dialogue, and East-West economic relations. (I expect the Finance Ministers will discuss, during their separate meeting that morning, financial issues, monetary reform, debt and the economic recovery and outlook.) Other issues which could come up during your meeting include environment, technology and cooperation on the space station.

Following are brief statements of the issues. I have attached the talking points on each from the President's book.³

[Omitted here is information on trade and energy.]

North/South Dialogue

We expect the Italians, French and probably Japanese to argue strongly for a favorable reference to the need for a "dialogue" on essentially political grounds.⁴ We oppose such a reference for both economic and political reasons: On *economic*, because the dialogue would have no substantive content apart from what we are trying to do in the GATT, IMF and IBRD (Development Committee), and it remains essential that we preserve the integrity of those institutions from "second guessing" by another forum; on *political*, because a suggestion that we are prepared to set up an alternative process (or convene another North/South summit) will relieve the pressure which has been building on both reluctant DCs and LDCs to face the real issues (e.g., adjustment,

¹ Source: Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: London Summit—Briefing Papers 1984. Secret. Robert Morris initialed for Wallis.

² June 8.

³ The talking points are attached but not printed.

⁴ In a June 7 memorandum to McFarlane on the subject of a June 7 luncheon with Reagan to prepare him for the London Summit, McMinn wrote that they should warn Reagan that "Mitterrand, Craxi and others may press for a favorable reference to the North/South dialogue—'global negotiations' and/or the Gandhi proposal." McMinn wrote that the United States should resist this objective. (Reagan Library, Douglas McMinn Files, Economic Summit Files, London—Summit meetings & Correspondence)

trade liberalization, market-oriented development strategies) in the fora which exist, as well as to cast public doubt on the value of the substantive strategies which the rest of the Economic Declaration will have articulated. As a fallback, we could, if necessary, accept some reference to North/South relations in general along the following lines: Noting we have received several communications on issues of trade, debt and finance from a number of LDCs, and recognizing that the issues we have discussed are of critical importance to them, we urge all to join with us in a search for solutions to our common problems in a spirit of mutual respect and cooperation.⁵

[Omitted here is information on East-West economic relations.]

⁵ Telegram 175066 to all diplomatic posts, June 14, assessed the “economic aspects” of the London Economic Summit, and reported that the Summit Economic Declaration reflected the U.S. position that “North/South issues cannot be addressed in isolation or separately from” proposals designed to address debt, trade, and finance problems facing the world economy. The Declaration deflected “pressure for a revived North/South ‘dialogue’ outside the framework of the institutions created to deal with these issues in an operational way (GATT, IMF, IBRD).” Finally, the Declaration invited “the LDC’s to join us in the search for practical solutions, stressing that our approach will be characterized by ‘a spirit of goodwill and cooperation.’” (Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: London Economic Summit—1984)

119. Telegram From the Department of State to the Embassy in India¹

Washington, June 7, 1984, 0228Z

166763. Subject: London Economic Summit and North-South Dialogue (S/S 8416315). Ref: State 153687.²

1. Please deliver the following letter dated June 5 from President Reagan to Prime Minister Gandhi, in response to her letter of May 22 (reftel).

¹ Source: Reagan Library, Executive Secretariat, NSC Trip File, [London] Summit—May–June 1984; NLR-755-19-9-4-0. Limited Official Use; Immediate. Sent for information to Bonn, London, USUN, Ottawa, Paris, Rome, and Tokyo.

² Telegram 153687 to Bonn, London, and Ottawa, May 24, transmitted the text of Gandhi’s letter to Reagan, in which Gandhi advocated for reviving the North-South dialogue. (Department of State, Central Foreign Policy File, Electronic Telegrams, D840340–0873)

2. Quote:

Dear Madame Prime Minister:

Thank you for your letter of May 16, 1984, and for sending an emissary of Ambassador Jha's high stature to explain, in greater detail, your thoughts on revitalizing the North-South dialogue.³ It is extremely useful, I think, that we maintain an open line of communication on matters of central importance to the world economy.

Let me outline for you the perspective that the United States brings to bear on the specific issues of changes to the international monetary and financial system.

First, we are open to new ideas; indeed, our own nation's history is one of continual innovation in the face of changing circumstances. At the same time, we try to take a very realistic view of what will work and what will not, concentrating our efforts on policy measures which are based upon sound economic analysis, and likely to yield lasting benefits.

At this time, the United States continues to have reservations about the utility of an international conference on money and finance, principally because we do not yet perceive a consensus on practical, concrete proposals for improving the system now in place.⁴ For all of its imperfections, the Bretton Woods structure has served us well through very difficult periods. Before considering changes, I think we should have a clear idea of where we want to go, and that means more basic groundwork to develop specific, realistic approaches to deal with specific problems. Indeed, most of the ideas surfaced to date can be dealt with in existing forums such as the Interim Committee or the Development Committee of the IMF and the World Bank, which are specialized agencies of the United Nations.

Please be assured, Madame Prime Minister, that the United States will be prepared to discuss your proposals at the London Summit, and we remain open to constructive dialogue. I value the contact we have

³ Telegram 157702 to multiple diplomatic posts, May 30, reported on the visit of Gandhi's economic adviser, L.K. Jha. Jha met with Dam, Wallis, and members of the NSC in meetings May 22 and May 26 to outline the Non-Aligned Movement proposal (also referred to as the Indian proposal) for an international conference on money and finance. Jha reported that the NAM perceived opposition to the idea of Global Negotiations was strong, but sought to advance one aspect of the GN idea—the international conference on money and finance—as a practical first step toward a constructive North-South dialogue. Jha advocated that the London Summit participants approve the creation of a “steering committee” which would undertake the preparatory work leading to such a conference. (Department of State, Central Foreign Policy File, Electronic Telegrams, D840348–0224)

⁴ The United States held this position at UNCTAD VI, where the G-77 attempted unsuccessfully to promote the idea of an international monetary conference. See Documents 114 and 115.

maintained over the years, both directly and through emissaries such as Ambassador Jha. Upon his return from New Delhi, George Bush briefed me thoroughly on your discussions ranging from global to bilateral issues.⁵ Allow me to thank you, on his behalf, for your warm reception and to express the wish for a continued frank and friendly exchange of views in the future.

Sincerely,
Ronald Reagan
End quote

Dam

⁵ Bush visited India May 12–15. Telegram 11386 from New Delhi, May 18, reported on the visit. (Department of State, Central Foreign Policy File, Electronic Telegrams, D840324–0959)

120. Action Memorandum From the Assistant Secretary of State for International Organization Affairs (Keyes) and the Assistant Secretary of State for Economic and Business Affairs (McMinn) to Secretary of State Shultz¹

Washington, May 29, 1987

SUBJECT

U.S. Approach to the Seventh Session of the United Nations Conference on Trade and Development (UNCTAD VII)

ISSUES FOR DECISION

What approach to UNCTAD VII is most consonant with the continuing U.S. objective of turning UNCTAD toward more constructive activity.

¹ Source: Department of State, Executive Secretariat, S/S Files, 1987 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D155: Through Memoranda, May 1987. Confidential. Drafted by Geoffrey Wolfe (IO/E) on May 28; cleared in EB/ERP/ICD, EB/IFD/ODF, EB/OT, EB/OT/ODC, EB, IO, IO/E, ARA/ECP, EUR/RPE, EAP/ECP, AF/E, and AID/PPC/DC. Sent through Whitehead and Wallis. Whitehead did not initial the memorandum. Sent under a handwritten May 30 covering memorandum from Wallis to Whitehead.

ESSENTIAL FACTORS

The seventh session of the United Nations Conference on Trade and Development (UNCTAD VII) will take place in Geneva from July 9 through 31, 1987. The conference will proceed in two phases, a two-week meeting of senior officials, followed by a one-week ministerial session. We approach UNCTAD VII with serious reservations. The provisional agenda adopted in October, 1986, sets as the theme "Revitalizing Development, Growth and International Trade: Assessment and Policy Options." The U.S. alone voted against the provisional agenda for UNCTAD VII, in part because neither the G-7 nor our OECD partners supported our call for prominent consideration of the role of the private sector in development.

A U.S.-led reform initiative in UNCTAD, launched in 1984, has elicited some positive, albeit modest, change in the operations of UNCTAD.² Our effort to bring about a redirection of treatment of substantive matters has not yet borne fruit, although there have been a few hopeful signs. For example, the new secretary general has taken some steps to reduce overt collaboration of the secretariat with developing countries, to ensure preparation of more objective documentation, and to facilitate more businesslike meetings. We have recently been able to work satisfactorily toward establishment of an important copper study group under UNCTAD auspices.³

Our assessment of UNCTAD's ability to address effectively the critical problems of global economic development leaves us with serious concerns. The Secretariat and the G-77 continue to seek to intrude on the mandates of other multilateral institutions; for example, UNCTAD seeks a role in negotiations aimed at global solutions on debt and trade issues, as well as critically pronouncing on Group of Seven macroeconomic policy coordination. Soviet nationals in the secretariat continue to slant some of UNCTAD's work, and political bias against Israel continues. Although the U.S. is willing to pursue realistic initiatives on a few selected topics within UNCTAD, the organization is still an unattractive venue.

² Telegram 199 from the Mission in Geneva, January 12, updated the Department on the status of the U.S. reform effort of UNCTAD initiated in 1984. The Mission viewed the "progress to date as both significant and justifying continued efforts by the U.S." (Department of State, Bureau of Economic and Business Affairs, Office of Developing Countries and Trade Organizations, General UNCTAD Country and Subject Files, 1975-1987, Lot 88D345: Gerberak UNCTAD General 85-87)

³ See Document 376.

Reports of the preparatory meetings on the agenda topics and the meeting of G-77 ministers in Havana⁴ indicate that the developing countries will again present a host of unrealistic demands for action by the industrialized nations, as was the case at UNCTAD VI. The Havana Declaration of the G-77 ministers presents much the same list of complaints and demands that surfaces regularly at the UN General Assembly and in regional bodies. It holds virtually no promise for reasonable discussion or compromise in Geneva.

Three possible options, designed to respond to the situation at UNCTAD, are analyzed below.

ANALYSIS OF OPTIONS

A. Condition Active Participation on Conduct of UNCTAD VII as a Discussion Forum Only

The U.S. could press to organize UNCTAD VII in a less contentious way, e.g. to avoid negotiations and produce only a report of proceedings. If we fail to achieve this, as is all but certain, we would decline active participation in UNCTAD VII and would authorize a U.S. "observer" delegation only. The delegation would intervene only to state that it opposed or did not associate itself with actions taken at the session. This would clearly signal our conviction that UNCTAD should confine itself to discussion only and that we are not prepared to engage in negotiations there. Failure on our part to send a suitably high level delegation would probably elicit complaints, even high level phone calls to you, from both OECD and from G-77 countries and the UN Secretary General. The Eastern bloc would try to capitalize on our "downgrading" of participation in a development organization. We could encounter strong public criticism for "abandoning" the concerns of the LDC's. USTR fears a negative spillover on GATT negotiations.

B. Senior Participation as in the Past

A senior State Department official (e.g. Under Secretary Wallis) could attend UNCTAD VII to deliver a strong message to the plenary, as Deputy Secretary Dam did at UNCTAD VI.⁵ The U.S. delegation, led by a DAS for the rest of the session, would express U.S. views and work to prevent unrealistic proposals from gathering momentum. Our OECD allies would have less difficulty with this approach. However, such a delegation would signal that, despite our unhappiness with

⁴ The sixth Ministerial meeting of the G-77 took place in Havana from April 20–25, in preparation for UNCTAD VII.

⁵ Telegram 4608 from Belgrade, June 13, 1983, transmitted the text of Dam's UNCTAD VI speech, entitled "The Challenge of Economic Growth." (Department of State, Central Foreign Policy File, Electronic Telegrams, D830334–0617)

the agenda and with the work of UNCTAD in general, the U.S. will continue its previous approach to the organization. The presence of a senior U.S. official would lend our implicit endorsement to the session and the Conference, regardless of the content of his address, or the U.S. positions on the various issues.

C. Reduce the Level of Our Delegation

Our delegation would be headed by an official no more senior than a Deputy Assistant Secretary. The absence of a Department principal would signal our serious concern about the inadequacy of UNCTAD's approaches to economic development issues. The delegation would participate in the substantive discussions, speak out against hostile positions, and generally avoid entering into negotiations. It would, however, have discretion to negotiate in those instances which hold potential for furthering our interests. As in options A and B, the U.S. would risk criticism for its failure to participate in an unqualified fashion. While our OECD colleagues might be uncomfortable with this approach, many in Group B share our frustrations with the sterile and unproductive proceedings in UNCTAD. USTR, together with USDOC, EB, regional bureaus, AID and IO, favor this option, which would give our delegation flexibility in deciding which areas, if any, show potential for negotiation.

Recommendation:

That you approve Option C.⁶

⁶ Shultz did not indicate his approval or disapproval of the recommendation. Telegram 197044 to all diplomatic posts, June 26, conveyed the U.S. approach to UNCTAD VII and informed posts that the U.S. delegation would be headed at the Deputy Assistant Secretary level. (Department of State, Central Foreign Policy File, Electronic Telegrams, D870505-0238)

International Debt

121. Memorandum From Norman Bailey of the National Security Council Staff to the President's Assistant for National Security Affairs (Allen)¹

Washington, November 9, 1981

SUBJECT

Conversation with Camdessus (U)

On November 5, 1981 I had a conversation of approximately one hour with Michel Camdessus, Chief of the International Department of the French Ministry of Finance. The subject of the meeting was the international debt problem. Camdessus divided the problem into three parts: (1) the poorest countries, lining up for rescheduling but in the ensemble not a significant amount, (2) the intermediary countries (Brazil, Mexico, Argentina, Philippines, etc.), a more serious problem but probably still manageable and (3) "the sword of Damocles," the countries of the Soviet Bloc. According to Camdessus, the European banks are "on the verge of disaster" because their outstanding dollar obligations to the Soviet Bloc countries are uncovered and uncoverable by their respective central banks.² He claimed that besides Poland and Romania, East Germany and Czechoslovakia are in serious trouble. He pled for constant consultations among governments involved, among governments and banks and among banks themselves, as well as greatly increased prudence on the part of the private banks. (C)

Camdessus agreed that the Siberian pipeline project was most unfortunate from the standpoint of greatly increased debt exposure to the Soviet Bloc and that the Soviet Union itself may have debt service problems later in the decade. He claimed that the Soviets themselves do not realize the enormity of the problem or they would not be trying to raise a large loan currently to pass on to Poland.³ (C)

¹ Source: Reagan Library, National Security Affairs, Office of the Assistant to the President Files, Chron File, [Case file unavailable]; NLR-812-51-15-3-4. Confidential. Sent for information. Copies were sent to Rashish, Poats, Nau, Weiss, Pipes, Stearman, Dobriansky, Rentschler, Blair, Leland, and Wallich. Lenz also initialed the memorandum.

² Allen highlighted this sentence in the right-hand margin.

³ Allen highlighted this sentence and placed a checkmark in the right-hand margin.

Camdessus told me his department was completing a study of the debt problem and he would send me a copy. Also present at the meeting were Camdessus' aide and Mr. Gelbard of the American Embassy, Paris.⁴ (U)

⁴ Allen wrote in the margin below this paragraph: "Sounds like a productive mtg. Have you informed Leland? Send a copy of this to Martin Anderson."

122. Minutes of a Cabinet Council on Economic Affairs Meeting¹

Washington, February 11, 1982, 8:45 a.m.

ATTENDEES:

The Vice President, Messrs. Regan, Baldrige, Donovan, Porter, Lyng, Jordan, Hormats, Leland, Mehle, Gray, Cicconi, Dederick, Bailey, Borsting, Freierson, Garrett, Hopkins, Hudson, Stanley, Bledsoe, Cribb, and Ms. McLaughlin

1. *Report of the Working Group on LDC Financial Problems*

The Council reviewed two papers from the Working Group on LDC Financial Problems on "Debt Problems of LDCs and East European Countries"² and "U.S. Debt Policy—The Role of Comparable Treatment."³

Mr. Leland reported that the Working Group was examining both LDC and East European debt; noted that LDC debt had grown enormously in recent years and that it was concentrated in a few countries; and observed that there was growing concern about the proliferation of government guaranteed credit programs.

¹ Source: Reagan Library, Ralph Bledsoe Files, Office of Policy Development, Cabinet Councils, Other Cabinet Councils, Cabinet Council on Economic Affairs Executive Secretaries Meeting. No classification marking. The meeting took place in the Roosevelt Room at the White House. No drafting information appears on the minutes.

² The paper, "Debt Problems of LDC's and East European Countries," dated February 4, is in the Reagan Library, Ralph Bledsoe Files, Office of Policy Development, Cabinet Councils, Other Cabinet Councils, Cabinet Council on Economic Affairs III. The paper explained that a Working Group of the CCEA was established in September 1981 to "examine the financial problems of developing countries—especially the rapid growth of LDC debt."

³ The paper, "U.S. Debt Policy—The Role of Comparable Treatment," dated February 4, is *ibid*.

He also discussed the general misunderstanding of the Commodity Credit Corporation guarantees—they only cover at most the first six percent of interest payments. Thus, the lending institutions bear a portion of the risk. He also reviewed new credits for the U.S.S.R. from French government-controlled banks.

He also reviewed several issues that will require the Cabinet Council's attention in the coming months including:

1. The preferential treatment enjoyed by countries who do not participate in debt reschedulings;
2. The roles of international institutions in debt reschedulings;
3. The relationship between the U.S. government and U.S. banks with regard to loans to financially troubled LDCs; and
4. The phenomenon of private banks "pulling back" from loans to LDCs experiencing financial difficulties.

Mr. Leland noted several difficulties associated with current Eastern European debt: the Romanian rescheduling request which the U.S. government has not agreed to; the problems the Yugoslavs are having in financing their debt; and the question of who possesses more leverage, the creditor or the debtor.

Mr. Hormats emphasized the need to distinguish between individual countries and the need to be sensitive to the confluence of political and economic interests; hence, the value in a case-by-case approach to addressing specific problems.

He also reviewed the French and Swedish financing of the Soviet pipeline with low interest loans roughly half the prevailing domestic rate, and recent Soviet corn purchases.

The Council discussed the policy guidelines outlined in the working group paper on comparable treatment.

*Decision*⁴

The Cabinet Council approved adopting the following four policy guidelines:

1. Comparable treatment between private and official creditors should continue as an important element of U.S. policy on extending debt relief to foreign countries.
2. U.S. Government policy should aim toward "comparable" but not necessarily "identical" treatment for official and private creditors. In specific cases, the objectives and constraints for official and private creditors may properly differ. The term "comparable treatment" allows for needed flexibility in applying U.S. policy.

⁴ An unknown hand wrote and underlined "CO" in the left-hand margin.

3. Comparable treatment does not necessarily require that commercial banks provide relief on interest payments when governments do so. The U.S. Government policy against involvement in the commercial judgments of private banks extends to debt relief decisions.

4. The U.S. Government recognizes the necessity, from time to time, of innovative approaches by official creditors for dealing with "prolonged debt crises." Comparable treatment may pose difficulties for innovations in these cases but it should remain as an objective.

[Omitted here is discussion of the Commodity Futures Trading Commission.]

**123. Memorandum From Consultant to the Department of State
Michael Ledeen and the Director of the Policy Planning Staff
(Wolfowitz) to Secretary of State Haig¹**

Washington, May 25, 1982

SUBJECT

Possible World Banking Crisis

Let us begin with a quotation from *The Economist* (March 20):

"... if Brazil, Mexico and South Korea all decided in the same year not to pay back their loans to western banks (a not totally inconceivable event) then 100% of the capital and reserves of America's nine biggest banks would be wiped out. They would be technically bust and that would be the end of the international financial system as it is now known."

The argument of this paper is that we have failed to seriously address the prospect of a major international banking catastrophe; that such a catastrophe could well come about in the next year (triggered by the default of one or more East European countries, of Argentina, or of Brazil); that measures exist to prepare for this eventuality,² and

¹ Source: Department of State, Executive Secretariat S/S, Special Handling Restrictions Memos 1979–1983, Lot 96D262: 1982 ES Sensitive. Secret; Sensitive. Sent through Eagleburger. Wolfowitz did not initial the memorandum. Bremer initialed and wrote "5/27" on the memorandum.

² An unknown hand highlighted "we have failed to seriously address the prospect of a major international banking catastrophe; that such a catastrophe could well come about in the next year," "East European countries, of Argentina, or of Brazil); that measures exist to prepare for this eventuality," and "we should take those measures forthwith."

that we should take those measures forthwith. If we do so, it will not only protect us against the effects of a banking catastrophe, but it will give us greater flexibility in planning our international economic policies (including the use of default or the threat of default as a policy weapon).

Summary of the Problem

— Yugoslavia,³ Poland, and Romania are all in de facto default;

— There is now an acknowledged failure of the “umbrella theory” according to which the Russians would pay debts for their Warsaw Pact allies. The result has been to close lines of credit from Western banks to Warsaw Pact countries;

— State Secretary Schalk of the GDR has called his country’s current trade deficit “catastrophic,” thus raising the possibility of East German “default;”

— Brazil holds at least 1.5 billion dollars’ worth of Polish debt, and owes roughly 80 billion dollars to Western banks and governments. Furthermore, Brazil’s debt is spread around some dubious credits (Liberia, for example, with whom Brazil is attempting to work out a bizarre three-way deal involving Poland). To make matters worse, since Brazil is the leading coffee exporter in the world, it may well have major debt relationships with the GDR, Romania and Yugoslavia.

Consequently, any default involving the above countries could result in a Brazilian default or moratorium, etc.

— Argentina is in parlous economic shape, and may soon find itself compelled to call in its notes (involving some Polish paper). Thus one spin-off from the Falklands crisis may be to provoke a series of defaults.

Thus, several countries are involved in an intricately interlocked network of dubious debt. There is therefore a real possibility that default of one country could produce default in others,⁴ Brazil being the main candidate for “secondary victim” of an East European default, and East Europe being the “secondary victim” of a Brazilian default.

It is not automatic that default of an Eastern European country would result either in a Brazilian default, or in a widespread financial crisis, but the risks are growing alarmingly:

— Brazil needs new loans to service its current debt (its import earnings being insufficient for this purpose);

³ Eagleburger drew an asterisk after Yugoslavia and wrote at the bottom of the page: “*Not true, but will be by the end of the year if things go badly.”

⁴ A hand, presumably Haig’s, highlighted “There is therefore a real possibility that default of one country could produce default in others.”

— Brazil's new loans are for shorter terms and are more expensive than in the past, thus increasing cost and risk;

— Many banks have reached their legal limits on loans to Brazil, thus making it harder to find new creditors;

— If an East European country defaults, the whole Brazilian house of cards may come down.

The Brazilian case is one among many, and for all these cases the existing international financial mechanisms seem unprepared to handle a large-scale emergency.

— Traditional "swap" arrangements were designed to deal with exchange rate crises, not for channelling multi-currency liquidity to affected banks in the Euromarket (the most directly affected by the scenarios discussed above).

— Many major international banks are now overexposed to countries experiencing debt-service problems;

— European banks have no reserve requirements for Euro deposits and loans in the Euro banks;

— There is no formal agreement concerning which Central Bank has responsibility for what Euro bank;

— The sums involved are very large indeed. The Euromarkets now add up to some 900 billion dollars, of which some 50–180 billion is highly liquid.

— By 1981, some 25 countries were in arrears and the amount involved was at least 6.5 billion dollars.

Conclusions

The international banking system is on the edge of a potential catastrophe for which it is unprepared and which would gravely damage the American economy. Most analyses have downplayed the effects of the default of one or another country primarily because they do not investigate the interlocking structure of international debt, and do not calculate the psychological effect of one country's default on the domino structure of the banking system.

Moreover, the failure of Western central banks to prepare for such scenarios makes us hostage to the debtors, since the effects of default become unpredictable and there is no game plan in place. If we were prepared for likely scenarios, we could calmly address future threats of default.

At a minimum, we should design an early-warning system among the major Western countries that would enable us to get in front of the crisis before it takes on dimensions we would fear.⁵ We should also reach agreement on how certain scenarios would be resolved (for example,

⁵ A hand, presumably Haig's, highlighted this sentence.

there is no general agreement on who is the “bank of last resort” in certain default scenarios).

Eagleburger comment

There is, I believe, a potentially very serious problem facing us. This paper only touches the edges of the problem, but points out the parameters of the concern I have. Perhaps I’m overly concerned, but I doubt it. If things are as bad as I suspect, then the question becomes how to alert the rest of the USG.

At my request, EB has produced a preliminary, broad look at the problem (attached).⁶ EB and S/P should now join forces to produce a more finished analysis and a more far-reaching look at institutional innovations and other broad policy courses, including the ideas of early-warning and safety-net that S/P and Ledeen have flagged. I have tasked this work. Once it’s completed, we should address the issue and our ideas in the interagency community.

LSE

⁶The information memorandum from Johnson to Haig, drafted May 14, is attached but not printed.

124. Minutes of a Cabinet Council on Economic Affairs Meeting¹

Washington, July 27, 1982, 8:45 a.m.

ATTENDEES:

The Vice President, Messrs. Regan, Block, Baldrige, Donovan, Pierce, Stockman, Harper, Fuller, Porter, Macdonald, Leland, Hormats, Angrisani, Jordan, Oglesby, Cicconi, Cribb, Bolton, Garrett, Bonitati, Nau, Bailey, Bledsoe, and Denend, and Ms. Dunlop

1. *Report of the Working Group on LDC Financial Problems*

The Council reviewed two papers prepared by the Working Group on LDC Financial Problems dealing with the multilateral banks in debt

¹ Source: Reagan Library, Ralph Bledsoe Files, Office of Policy Development, Cabinet Councils, Other Cabinet Councils, Cabinet Council on Economic Affairs IV. No classification marking. The meeting took place in the Roosevelt Room at the White House. No drafting information appears on the minutes.

rescheduling, and on four problem countries—Mexico, Argentina, Sudan and Zaire.²

Mr. Leland's presentation focused on whether or not the multilateral banks (MDBs) should be included in debt rescheduling efforts. Even though it appears inconsistent to exclude the MDBs in rescheduling, private banks and creditor governments prefer to do so because it allows the MDBs to continue to provide financing even after a country develops debt service problems. Every case of rescheduling except Poland has been accomplished with an IMF agreement. Mr. Hormats added that in most cases it is in the U.S. interest to exclude the MDBs from rescheduling. On the question of projects cofinanced by the MDBs and private banks, the working group felt that these loans should be subject to rescheduling.

The Council's discussion centered on the advisability of excluding the MDBs from debt rescheduling, the impact of a more conservative view among private banks on the availability of LDC financing, and the lack of congressional interest in increasing foreign assistance funds to offset shortfalls in available loans.

Mr. Leland outlined the financial outlook for four problem countries. Mexico has accumulated an external debt of roughly \$80 billion and must borrow approximately \$40 billion in the private capital market this year. In order to raise this amount, Mexico must implement austerity measures which will give the market confidence that it is serious about solving its debt situation. Argentina is in a similar situation to Mexico with a large external debt, much of which must be refinanced this year. The Falklands conflict has served to sharpen Argentina's financial difficulties. Like Mexico, Argentina is not prepared at this point to accept an IMF program. Sudan and Zaire are examples of seriously mismanaged economies. Both countries are important to U.S. security interests. Additional financing will be required for them until their economies can recover.

The working group concluded that the world financial system is sound and capable of handling the debt problems of countries likely to experience difficulties; however, the basic solution lies in these countries undertaking austerity measures which demonstrate they are serious about resolving their debt situation.

The Council supported the Working Group's recommendation that the Administration continue a policy of excluding the MDBs from multilateral debt reschedulings.

² The paper, "U.S. Policy on MDB Participation in Debt Rescheduling," dated July 14, is in the Reagan Library, Edwin Meese Files, Cabinet Council on Economic Affairs. The paper, "Status Report on Problem Countries," dated July 14, is *ibid*.

The Council requested the Working Group to follow closely new MDB procedures on cofinancing arrangements to assess their impact on rescheduling agreements and on the credit worthiness of MDBs.

The Council discussed the possibility of measures which the U.S. might take to assist Mexico in the near term and requested that the working group review this issue and report its findings to the Council.

[Omitted here is discussion of employment and training legislation.]

125. Information Memorandum From the Director of the Policy Planning Staff (Wolfowitz) to Secretary of State Shultz¹

Washington, August 5, 1982

SUBJECT

The International Financial System—Heightened Risks

INTRODUCTION

The international financial system is more vulnerable to sudden shocks today than any time since 1945. Strains on a system that so far has demonstrated great resilience have intensified enormously. Some banks have failed, and more individual institution crises are anticipated. Most observers grant that the probability of a chain reaction set off by a large default or debt repudiation is positive. How large it is, however, is itself highly uncertain. A breakdown would be so grievous for the world economy and vital U.S. and allied governments' interests that we would be foolish to be too complacent about the situation.

THE SITUATION

The system's increased vulnerability results in large measure from the concentration of high levels of external debt among a few countries. The number of lenders involved is also comparatively few. Faced with highly disappointing export earnings and high (mostly floating) interest rates, major borrowers—e.g., Poland, Mexico, Brazil, Argentina—are

¹ Source: Department of State, Executive Secretariat, S/P Records, Memoranda/Correspondence From the Director of the Policy Planning Staff to the Secretary and Other Seventh Floor Principals, Lot 89D149: PW—August 1–10, 1982. Confidential. Drafted by David Luft (S/P) and Joseph O'Mahony on August 4. Sent under an August 5 covering memorandum from Wolfowitz to Dam.

confronting extreme difficult-to-manage debt-service problems. The following illustrates the conditions they are in:

Debt Service as a Percent of Export Earnings

| | <u>1973</u> | <u>1981</u> |
|-----------|-------------|-------------|
| Poland | 19 | 157 |
| Brazil | 35 | 72 |
| Mexico | 36 | 48 |
| Argentina | 27 | 50 |

Among lenders, Western European banks are heavily exposed in Eastern Europe (their average exposure is 25 percent *vis-a-vis* 4.5 percent for U.S. banks). Our banks, in turn are deeply committed in Latin America (exposure to Mexico, Brazil and Argentina by the nine largest U.S. banks equal 100 percent of their capital and reserves).

The environment for borrowers, lenders, and governments has become far from compatible with maintenance of a highly sound financial system. The global recession, making things difficult for everyone, is spurring intense pressures for protectionist policies, and is contributing very significantly to growing corporate (including bank) failures and to the contraction of Western public and commercial credit to Eastern Europe and the LDCs. Adding to the problems of the major borrowers, some 45 percent of all international long-term debt must be repaid or rolled over this year. Vulnerability, of course, will largely lessen or increase as international economic conditions improve or worsen.

MAKING THINGS WORSE

Potential Achilles' heel: The Eurocurrency market, functioning quite well at present, has built-in high risks. Some 70 percent of its operations involves "wholesale" lending bank to bank. A large default or repudiation affecting just one of them (it probably would affect many from the beginning) could stimulate deposit withdrawals and lines of credit suspensions. As the affected bank(s) failed to meet obligations to others there could be set in motion a situation of falling dominos and a consequential contraction of a highly important financial market. The implications, of course, would be global.

Less productive financing: Credit quality deteriorated during the 1970s on a massive, global scale. The switch has been toward non-self-liquidating loans, and as a result less production capacity is being generated by the loans to provide the basis for repayments.

Early warning problem: Two of the four Euromarkets are on the opposite side of the globe. It is possible that a serious problem of

confidence affecting international banks in Singapore or Hong Kong would find markets and authorities in London and Luxembourg out of action for what could be quite critical hours.

Risk premium burden: Heavily indebted countries are paying higher risk premiums—Mexico is now up to the very high Brazil level. Other countries, such as Hungary and Yugoslavia, are experiencing extreme difficulties obtaining private sector loans at more conventional terms.

Overexposure limits: For a considerable period of time lenders can be induced to increase their exposures in high-debt countries to avoid default/repudiation losses. There are risk limits individual lenders can accept, however, for reasons of prudence, law or (as has happened) credit rating deterioration associated with overexposure.

SAFEGUARDS IN PLACE?

Are there mechanisms in place to avoid a falling dominos scenario? The central banks of the G-10 plus Switzerland are parties to a 1974 gentlemen's agreement which pledges them to provide funds to solvent banks in crisis. Large segments of the Euromarket are not covered by this loose arrangement, however, and there is no deposit insurance system or reserve requirements. To avoid contagious failures, central bank funds would have to be moved efficiently and rapidly. This situation almost certainly has been a topic of discussion among central bankers but we are unaware of any reliable, all-encompassing arrangement having been even informally agreed upon. Because central bankers legitimately wish to avoid any revelation of rescue mechanisms that might lead private banks to become less careful in their lending policies, they hold such information very tightly. You may know more about these informal mechanisms than I do. If, however, you share our uneasiness, I would recommend that you discuss this matter with Regan and Volcker. For your reference there is a table attached showing the extent of Eastern European/LDC debt burdens and the exposure of U.S. and European banks in these areas.²

² The World Debt Burden Table is attached but not printed.

126. Memorandum From Norman Bailey of the National Security Council Staff to the President's Assistant for National Security Affairs (Clark)¹

Washington, August 12, 1982

SUBJECT

The Impending International Financial Crisis

This memo is in response to a comment by Bud McFarlane on the last item of my August 6, 1982 Weekly Report (Tab I).² Instead of writing a memo to the President, I decided to lay out the matter in a memo to you so that you can digest it and then decide whether you want to show it to the President.

Since I joined the Administration, I have had direct responsibility on the NSC staff for international monetary and financial matters. I immediately went to work trying to set wheels in motion so that the government would begin to take the measures necessary to face up to the possibility of an international financial crisis due to the following factors:

- The buildup of a huge pyramid of international debt, much of it unproductive and unsecured.

- Gradual withdrawal of Western commercial banks from traditional balance of payments Eurodollar lending to the semi-developed non-oil producing countries due to having reached exposed ceilings and the assessment of inordinate risk.

- A decline in OPEC surpluses available for recycling.

- Historically high bunching of debt maturities (46% in 1982).

- A long period of historically high real interest rates.

- A worldwide recession.

- A substantial decline in commodity prices.

- Possibility of a domestic financial panic spilling out into the international arena.

¹ Source: Reagan Library, Executive Secretariat, NSC Subject Files, International Debt Situation (5/82–9/82). Confidential. Sent for action. Copies were sent to Nau, Weiss, and Robinson. Wheeler initialed the top right-hand corner of the memorandum.

² The last item of Bailey's August 6 Weekly Report and McFarlane's comment on it, Tab I, is attached but not printed. Bailey reported on the August 6 CCEA meeting: "The most important aspect of the meeting was Secretary Regan's announcement that the Mexican government has closed its markets and declared a financial crisis. I despair at getting the government to realize and react to the magnitude and imminence of the impending international financial and monetary crisis." McFarlane wrote in response: "Why don't you lay this out in a memo to the President? RCM." Minutes of the August 6 CCEA meeting are in the Reagan Library, Office of Cabinet Affairs, Southwest Border Initiative, OA 09972, Cabinet Council Minutes 1981–1982 [Binder] [Cabinet Council on Economic Affairs].

Recently, the signs of crisis have multiplied, including:

— Sovereign risk reschedulings and de facto defaults at a level not seen since the depression. At the moment, the countries of greatest concern are Poland, Romania, Mexico, Sudan, Zaire and Argentina, totalling some \$156 billion in private and public debt. Several other important debtors are on the brink.

— Domestic financial crises due to the liquidity crunch being added to severely impaired industrial and banking solvency, including the Alfa Group in Mexico; Dome Petroleum and Massey-Ferguson in Canada; AEG Telefunken in Germany; Banco Ambrosiano in Italy, and Drysdale, Braniff, International Harvester, Penn Square and Abilene banks, etc. here. Some of our largest and most prestigious banks, such as Continental Illinois, Chase and First Seattle have been damaged. The situation of the savings banks and the S&L's is well known.

There is one international banking system now. No country can any longer isolate its banks from a systemic crisis. The bulk of the Eurocurrency market, now perhaps one trillion dollars, consists of interbank deposits based on which international lending takes place. Most of these deposits are short-term (from overnight to one year). Much of the lending is medium- or long-term. If a bank or a banking system gets into serious trouble, its first move will be to withdraw its interbank deposits in other banks as they mature. They will then do the same to try to protect *their* liquidity and the whole structure will literally implode, with quantities of unsecured credit simply disappearing from the system, but leaving the legal debt obligations of the borrowers intact with no way to fund them.

Government awareness of the dangers has increased somewhat. The Interdepartmental Working Group on LDC and Eastern European Debt has produced some useful papers (it reports to the CCEA).³ The International Monetary Group is finally taking up a Federal Reserve paper dating from April suggesting enhanced borrowing power for the IMF to confront such situations (curiously, the Fed, which a year ago was most airily unconcerned, is now the most concerned agency). I have recommended that the matter be taken up by the SIG-IEP. I was unable to get consideration of the issue at Versailles.⁴

The sense of urgency in all of this is, in my opinion, completely inadequate. The bureaucracy is grinding along with agonizing slowness, and with the exception of the Fed paper mentioned above (taken up four months after submitted), there aren't even any concrete suggestions being made. I know from personal experience that the Europeans and

³ "Useful papers" are not further identified.

⁴ Presumably a reference to the Versailles Economic Summit, which took place June 4–6.

the Japanese would welcome an initiative on our part along the lines of increased swap lines among central banks, Ministries of Finance and the Bank for International Settlements, and strengthening of the IMF in this area. Unfortunately, not only Versailles but the IMF/IBRD September meetings will be wasted from this standpoint.

However, although absolutely essential, all this is insufficient in the longer run because it addresses the symptom (illiquidity) and not the disease (insolvency). For the latter to be addressed, there must be a fundamental change in Federal Reserve policy and preferably also in Federal Reserve structure. This, however, is out of my area of direct responsibility.

I attach a table indicating the magnitude of the problem (Tab II).⁵

RECOMMENDATION:

That you show this memo to the President, if you feel it to be appropriate.⁶

⁵ Tab II, the "LDC and EE Debt Burden Table," is attached but not printed.

⁶ Clark checked the "No" option and wrote "President has been briefed" under it.

127. Minutes of a Cabinet Council on Economic Affairs Meeting¹

Washington, October 20, 1982, 8:45 a.m.

ATTENDEES:

The Vice President, Messrs. Regan, Stockman, Feldstein, Harper, Porter, Wallis, Lyng, Fiske, Trent, Darman, McNamar, Knapp, Feldman, Leland, Kudlow, Cogan, Platt, Cicconi, Nau, Ernst, and Denend, Ms. Risque and Ms. Dunlop

1. *Latin American Debt Situation*

Deputy Secretary McNamar reported on the status of the debt problems of three Latin American countries:

1. *Mexico*—The IMF negotiating team which left Mexico in mid-October made substantial progress and departed with a draft letter of intent. Negotiations to resolve the principal remaining issue, the ratio

¹ Source: Reagan Library, Edwin Meese Files, Cabinet Council on Economic Affairs. No classification marking. The meeting took place in the Roosevelt Room at the White House. No drafting information appears on the minutes.

of the budget deficit to gross domestic product, should resume again soon. As a result of the most recent negotiations, interest rates should begin to stabilize before the end of the month, and the peso will begin a controlled devaluation.

On October 18, the final \$137 million was drawn on the first tranche of the \$1.85 billion Bank for International Settlements (BIS) swap arrangement. The U.S. position is to go slow on replenishment.

An interagency group is examining a variety of trade, financial and investment measures which might be used to provide additional assistance to Mexico after President-elect de la Madrid is inaugurated December 1.

The Council discussed additional measures which might be necessary to restore health to the Mexican economy. A major part of U.S. assistance has been CCC credits for agricultural loans. Despite the amount of aid committed to date, the Mexican economy remains in crisis; there will be major liquidity demands in 1983. There is a fundamental requirement to restore the confidence of potential investors in Mexico.

2. *Argentina*—Although negotiations between Argentine officials and the banks broke down in early October over the necessity for an agreement with the IMF, they are expected to resume again shortly. Argentine financial relations with the United Kingdom continue to improve; however, trade relations remain stalemated. The pace of negotiations with the IMF has picked up since the lapse in talks with the commercial banks. A letter of intent could be signed soon.

The Council concluded that Argentina's prospects to avoid default are good. The Argentine economy was not damaged during the Falklands War, and Argentina is currently maintaining a current account surplus. An agreement with the BIS for short-term liquidity assistance has not proved possible, but the negotiations are underway. The real key to Argentina's future is political will. It appears that Argentina is prepared to put its economic house in order.

3. *Brazil*—The financial markets remain nervous about lending to Brazil as deterioration in Brazil's reserve position becomes more widely known. The Brazilian government has agreed to make some significant economic policy adjustments to improve its external account.

The Council reviewed the sensitive reserve situation created in Brazil due to political factors. Because of pending elections in the middle of November, the Brazilians feel unable to make the necessary policy changes to provide them with needed access to the financial markets. It is not clear whether the Brazilian government will be able to sustain the perception until after the elections that reserves are adequate.

The Council discussed the broader dimensions of current LDC debt problems. Present debt problems are at least in part the result of the current disinflation phenomenon. Taken in the aggregate, it is possible to project a pessimistic scenario regarding the requirements

for new liquidity next year and the exposure of U.S. banks. However, such an outcome is unlikely. With the political will necessary to modify domestic policies, it should be possible to handle each of the problem countries within the international financial system. U.S. policy makers must remain mindful of the potential drain on U.S. resources and the implications for global inflation.

[Omitted here is discussion of issues unrelated to debt.]

128. Memorandum From Norman Bailey and Roger Robinson of the National Security Council Staff to the President's Assistant for National Security Affairs (Clark)¹

Washington, January 6, 1983

SUBJECT

Overlooked Implications of the Debt Crisis

Enough time has now passed since the international debt crisis erupted in August of 1982 to discern some of the trends in dealing with the problem and their implications:²

1. The problem is being dealt with on an ad hoc basis rather than a systematic one.

2. Partially as a result of the above, more and more debtor countries are taking unilateral actions to delay or suspend principal and sometimes interest payments. The terminology of default, repudiation and moratorium is being avoided, but the reality is beginning to appear.

3. The banks are beginning to break ranks and try to cut separate deals, singly or in groups.

4. More and more of the debt is becoming concentrated in the larger banks and in governments (read taxpayers), thereby concentrating risk.

5. Congress will not easily agree to an increase in IMF resources, an absolutely essential element.

6. The USG will soon run out of emergency funds. If and when that happens, the only recourse will be Federal Reserve purchases of debtor country currencies, a highly questionable asset at best. In other words, our central bank would become the lender of last resort to the

¹ Source: Reagan Library, Norman Bailey Files, International Economics File, International Debt (January–February 1983). No classification marking. Sent for information. A copy was sent to Weiss.

² See Documents 126 and 127.

entire world. The implications of such a development would be staggering. It may emerge as the only alternative to worldwide financial and commercial collapse, however, unless we get out of the ad hoc rut and adopt more flexible systematic and imaginative solutions.

129. Minutes of a Senior Interdepartmental Group–International Economic Policy Meeting¹

Washington, February 22, 1983, 3 p.m.

ATTENDEES

Treasury
Secretary Regan
Marc Leland

State
Secretary Shultz
W. Allen Wallis

Defense
Secretary Weinberger
Richard Perle

Agriculture
Secretary Block
Richard Lyng

Commerce
Secretary Baldrige
Lionel Olmer
Lawrence Brady

Office of the Vice President
Admiral Daniel Murphy
G. Philip Hughes

Justice
Michael Shepparel
America Cinquerana

OMB
Joseph Wright
USTR
William Brock
David Macdonald
John Ray

CIA
Henry Rowen
Maurice Ernst

OPD
Edwin L. Harper
Roger Porter

CEA
William Niskanen
Paul Krugman

NSC
Roger Robinson
Norman Bailey, Executive Secretary
Arthur Manfredi

[Omitted here is discussion of the Export Administration Act and agricultural issues.]

¹ Source: Reagan Library, Roger Robinson Files, Subject File, SIG–IEP Meetings 02/25/1983–03/07/1983; NLR–487–6–38–6–8. Confidential. The meeting took place in the Roosevelt Room at the White House. No drafting information appears on the minutes. Attachments related to the omitted portion of the minutes are attached but not printed.

Debt Strategy

Secretary Regan provided a brief summary of the issue of the IMF quota increase and the LDC debt situation.

IMF. A 47 percent increase in resources has been approved, the U.S. portion of which is \$5.8 billion. The GAB arrangement will be increased to \$19 billion and the availability of this facility extended from just the G-10 to all member countries. The U.S. portion of this increase is \$2.6 billion. Secretary Regan stated that we will ask Congress for a total of \$8.4 billion and reiterated that there is *no budgetary impact*. He noted that the increased resources will be used for interest-bearing loans, and we will receive increased drawing rights at the IMF commensurate with our new contribution.

Secretary Regan predicted a tough fight in Congress and requested that everyone assist in this effort. We must respond to charges that these funds should be used for domestic employment and other needs with persuasive arguments concerning preserving international monetary and economic order as well as the international trading system. In support of these arguments are the facts that no country has defaulted on IMF loans since its inception 40 years ago, although some have required successive programs, and that we have drawn down on IMF resources (although never borrowed).

Debt Situation. Secretary Regan said Treasury hoped to wrap up Mexico this week and Brazil is still confronting serious difficulties. Brazil remains about \$0.5 billion short on the fourth part of its four point financial package (Interbank deposits), but they are reasonably current on their bills. Secretary Baldrige recommended coordination of all the SIG-IEP efforts in this area. He said if more personnel were needed, they should be provided. His concern was that Treasury and Commerce were separately writing position papers on the debt situation and the impact of the Third World austerity programs on the international trading system. He suggested that an effort be made to approximate the impact of the Third World debt problems on U.S. employment [which] could be a useful issue for the group to study and would assist our efforts to have Congress approve the IMF quota increase. Secretary Regan committed to look into this suggestion.

130. Memorandum Prepared in the Department of State¹

Washington, undated

WILLIAMSBURG SUMMIT

Summary

This memorandum provides background and recommendations from the Sherpa team for the President's use in formulating instructions to guide the substantive preparation for the Williamsburg Summit. The approach taken by the Sherpa team is based on the success of the President's domestic program, and relies heavily on the President's leadership at the Summit.

The memorandum suggests the following as U.S. objectives at the Summit:

1) *Economic Policy*: Agreement that world economic recovery depends on each country establishing the domestic conditions for sustainable, non-inflationary growth and job creation, not on an international "blueprint" of expansionary action. The leaders would build on and strengthen the multilateral "surveillance" mechanism agreed at Versailles.

2) *Trade*: Positive steps to fight protectionism, avoid predatory trade practices, resolve outstanding trade problems, and pursue greater trade liberalization. Specific action is recommended on trade with developing countries, high technology, and new institutional initiatives to assure a more integrated approach to the problems of trade and finance.

3) *Debt and Finance*: Agreement to a set of principles to guide our collective approach to problems of international debt and finance. In particular, the Summit leaders should reaffirm their support for the increase in IMF resources by the end of this year and otherwise signal their determination to safeguard the international financial system.

4) *Security and East-West Economic Relations*: Endorsement of the principles governing our future approach to East-West economic relations, welcoming agreements which will have been reached in this area before the Summit and resolving to continue work toward greater coordination of our policies as a permanent feature of our cooperation to insure Western security.

[Omitted here is information not focused on debt issues.]

¹ Source: Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: 1983 Williamsburg Summit, Williamsburg Sherpa Meeting April 15–17, 1983. Secret. Sent under a March 15 covering memorandum from Wallis to multiple recipients in which Wallis explained that the memorandum had been approved by Reagan "in general terms as instructions for the preparation of the U.S. participation in the Williamsburg Economic Summit."

U.S. Strategy

We propose the following as elements of a U.S. Summit strategy:
 [Omitted here is information on general economic policy and trade.]

Debt and Finance

The world financial system is faced with a potential crisis which need not develop into an actual crisis, provided all participants cooperate. To this end, our objective is to get agreement at Williamsburg to the following key principles:

— Any long-lasting remedy to the debt problems of less-developed countries requires effective policies of economic adjustment that must be adopted and followed by the countries themselves.

— Official financing on a transitional basis must be available where needed, in order to permit orderly domestic adjustment to take place. (The International Monetary Fund is the institution best able to provide this support, and to assure that the adjustment programs of borrowing countries are appropriate. Other forms of official financing, through Multilateral Development Banks and bilateral programs, can also provide longer term assistance.) The Summit should reaffirm support for increases in the International Monetary Fund quotas and the General Arrangement to Borrow, and stress the need for completing the increases before the end of 1983.

— The role of commercial banks overshadows that of all other lenders combined. Commercial banking institutions must be aware of the dangers to them and to the world financial system should they attempt to withdraw funds during the adjustment period. As the adjustment process succeeds, commercial banks will have an incentive to increase their lending.

— Treasuries and Central Banks must demonstrate the will to provide immediate and sufficient ad hoc liquidity in emergency situations while the countries involved conclude an agreement to draw on the International Monetary Fund.

— The major industrialized countries must counter the pressures for inward-looking protectionism and provide markets for developing countries' exports. Economic recovery among the Summit countries provides the best hope of meeting this requirement.

We will propose that these points be worked into the "economic policy protocol" to be discussed by Finance Ministers at Williamsburg.²

[Omitted here is information unrelated to debt issues.]

² An unknown hand wrote "No" in the left-hand margin.

131. Minutes of a Senior Interdepartmental Group–International Economic Policy Meeting¹

Washington, March 10, 1983, 10:30 a.m.

ATTENDEES

*Treasury*Secretary Regan
Marc Leland*Office of Vice President*Admiral Daniel J. Murphy
G. Philip Hughes*State*Kenneth Dam
William Schneider*Defense*Secretary Weinberger
Fred C. Ikle*Agriculture*Richard Lyng
Alan Tracy*Commerce*Secretary Baldrige
Lionel H. Olmer*CIA*Henry Rowen
Maurice Ernst*Justice*Edward Schmults
Michael Shepherd*OMB*

Alton Keel

*USTR*Ambassador David Macdonald
John E. Ray*CEA*

Martin Feldstein

OPD

Edwin L. Harper

*Ex-Im Bank*William Draper
Charles E. Lord*NSC*Henry Nau
Roger Robinson
William Martin*International Debt*

The Chairman opened the meeting by reviewing a proposal for an NSSD on international debt.² The study would include an analysis of the international debt situation and its implications on international trade and U.S. domestic economy. Political and security issues would also be addressed. The SIG–IEP approved the broad guidelines for study and agreed that all members of the SIG–IEP should be included in the working group. The study should be completed by April 15 for

¹ Source: Reagan Library, Roger Robinson Files, Subject File, SIG–IEP Meetings 03/09/1983–04/06/1983; NLR–487–6–40–4–7. Secret. The meeting took place in the Roosevelt Room at the White House. No drafting information appears on the minutes.

² See Document 132.

SIG-IEP consideration, after which the report will be forwarded to the NSC and the President.³

The Chairman noted that there have recently been many suggestions of possible solutions for the international debt problem in the press as well as in interagency papers. He stressed that in commenting on these proposals, it should be stated that our strategy for dealing with the problem is the five-point strategy outlined in the debt strategy paper distributed to the SIG, and that while we are analyzing all suggestions to make a comprehensive list of pros and cons, we do not envisage new proposals beyond the five-point strategy of the debt strategy paper.⁴

[Omitted here is discussion of the Exim Bank Charter and Export Administration Act.]

³ A copy of the final SIG-IEP report, "Approach to the International Debt Problem: A Policy Overview," dated April 25, is in the National Security Council, NSC Institutional Files, Box SR-073, NSSD 3-83.

⁴ A Treasury Department copy of a description of the five-point debt strategy with talking points, dated March 8, is in the Reagan Library, Roger Robinson Files, Subject File, Williamsburg 10/27/1982-03/31/1983. The elements of the strategy were approved by Reagan for use at the Williamsburg Summit. See Document 130.

132. National Security Study Directive 3-83¹

Washington, March 14, 1983

U.S. APPROACH TO THE INTERNATIONAL DEBT PROBLEM (C)

Introduction

This National Security Study Directive establishes guidelines for a review of the U.S. approach to the international debt problem. The current international economic environment and financing constraints are requiring substantial economic adjustments by borrowing countries, entailing in part reductions in the pace of economic growth, and inhibiting their ability to adjust through export expansion. The consequences and management of the current world financial situation affect other areas of critical concern to the United States and other industrialized

¹ Source: National Security Council, NSC Institutional Files, Box SR-073, NSSD 3-83. Secret. Sent under a March 14 covering memorandum from Clark to multiple recipients. Reagan initialed at the top of the NSSD.

democracies, including the international trading system, economic recovery and employment prospects and international political stability. The review should take as its starting point the analysis and strategy developed under the auspices of the SIG–IEP and should utilize the following guidelines for further analysis and consideration of alternative or additional management and policy responses by the United States. (S)

Scope

The NSSD will cover the following topics:

I. *Dimensions of the Debt Situation and the U.S. Approach to Resolving It*

II. *Implications of the Debt Situation for International Trade and Trade*

Policy

III. *Effects on U.S. Domestic Economy*

— Employment

— Non-inflationary growth

IV. *Macroeconomic Considerations*

— The implications of the debt situation for U.S. and world recovery.

— The implications of alternative world growth results for the debt situation.

V. *Political and Security Considerations*

VI. *The U.S. Policy Response*

— Adequacy of the present strategy

— Alternative or additional measures

— Administration/management questions

— Public affairs/legislative questions (S)

Administration

The review will be conducted by an interagency group, composed of representatives of the members of the SIG–IEP, responsible for existing interagency work on the debt situation, utilizing the working groups already established in the areas listed above and such other working groups as may be necessary. The interagency group will report to the SIG–IEP, whose Chairman will be responsible for scheduling and management of the review. (C)

The review, with recommendations, should be forwarded to the Assistant to the President for National Security Affairs no later than April 15, 1983, for review and decision by the President.² (U)

Ronald Reagan

² See footnote 3, Document 131.

133. Memorandum From the Under Secretary of State for Political Affairs (Eagleburger) to Secretary of State Shultz¹

Washington, March 21, 1983

MEMORANDUM FOR THE SECRETARY

You will recall that you asked how we might take advantage of Secretary Regan's request for transfer of the debt rescheduling billet to Treasury to bring about better coordination. I, in turn, asked Chuck Meissner for his views; they are attached.

Meissner argues forcefully—and with some substantial reason—that you should not agree to the transfer, on the grounds that while systemic issues belong in Treasury, bilateral issues belong in State. He also has some suggestions on other ways in which we can improve coordination. And finally, his memo gives an interesting view of current practice from the vantage point of someone who no longer has an axe to grind.

Rather, than try to take the edge off Meissner's thoughts at this stage, I recommend you read this memo and let him have, thereafter, 30 minutes for discussion. He is worth hearing, even if you decide not to act as he suggests.

If, in the end, you decide to shift the debt rescheduling job to Treasury we can still propose the other steps Meissner recommends.

While the memo has some action recommendations at the end, I suggest you decide nothing now.²

LSE

¹ Source: Department of State, Executive Secretariat S/S, Special Handling Restrictions Memos 1979–1983, Lot 96D262: 1983 ES Sensitive March 16 thru 23. Confidential. A stamped notation reading "GPS" appears on the memorandum, indicating Shultz saw it. An illegible marking and the date "3/21" are written on the top of the memorandum.

² A handwritten note at the bottom of the memorandum reads: "Secretary discussed 4/7/83."

Attachment

**Action Memorandum From the Under Secretary of State for
Political Affairs (Eagleburger) to Secretary of State Shultz³**

Washington, March 21, 1983

SUBJECT

Improving the Department of State's Influence in the Formulation of Foreign
Economic Policy

Summary

The Secretary of Treasury has asked the Secretary of State for the diplomatic portfolio associated with the rescheduling of official debt. This memo addresses how State should respond and if there is a way to use this response to strengthen State's role in the formulation of U.S. foreign economic policy. This memo recommends that we preserve our present role in formulating bilateral and regional economic policy. Within this framework State should keep its debt rescheduling responsibilities.

Over the past 20 years, there has been a slow evolution of foreign economic policy decision making. What we now have is the systemic issues dominated by Treasury (international monetary, IMF and multi-lateral development banks) and USTR (trade, commodities and some investment).

Bilateral and regional economic matters—including the application of systemic issues in the regional/bilateral context—are largely controlled by State (debt rescheduling, East-West, aid, ESF, military assistance, some investment, EC and OECD relations, bilateral aviation, FCN treaties, etc.). This is essential because of the interaction between our strategic, political and economic interests in individual countries and regions.

The memo concludes that it is not practical to challenge the systemic responsibilities of Treasury and USTR or attempt to take over institutional coordination now in the CCEA, CCCT, SIG-IEP and TPC. The best solution for State to gain influence is to solidify our bilateral and regional economic policy role and strengthen our bureaucracy to do a good job as well as substantively contribute on systemic issues. The last section of the memo deals with implementing this option.

³ Confidential. Drafted by Meissner on March 18. A stamped notation reading "GPS" appears on the memorandum, indicating Shultz saw it.

Attached is a draft letter to Secretary Regan responding to his request and reflecting the conclusions of this memo.⁴

The Treasury Request

The Secretary of Treasury has requested of the Secretary of State that the debt renegotiating portfolio now held in EB be transferred to Treasury. This is not a new request and talks have been held previously with Treasury on the Assistant Secretary level. Treasury has no complaint about the arrangement except that the portfolio is at State. This portfolio was passed to State from Treasury in 1972 or 1973 because debt reschedulings were of a highly political nature. It was agreed that all negotiating positions would be mutually agreed between Treasury and State. The agreement has been observed.

Treasury's main observation is that other Finance Ministries have this portfolio and they do not. In reality, only about half of the head delegates at a debt rescheduling are from Finance Ministries, the other half are from various official agencies. FRG is represented by their Economic Ministry; UK by their export credit agency (except at larger reschedulings such as Poland and Yugoslavia, when the UK Treasury was in charge); Swiss by their Economics Ministry; Sweden, Denmark and Italy by the Foreign Ministry; Norway by their Trade Ministry.

Agreeing with Secretary Regan on the basis of promised future cooperation would be an error. The Treasury bureaucratic motto is "Cooperation is what you ask of others". The International Monetary Group (IMG) has not met in nine months. The National Advisory Council only meets on a staff level. There is little desire by Treasury leadership or staff to coordinate except at cabinet levels. (The only bright spot is that the Treasury/State lunches at the Under Secretary level have been revived.) A verbal agreement between cabinet officers on coordination will have some short-term effect but it will fade away and finally disappear when one of the cabinet members party to the agreement leaves office.

There are very strong reasons for retaining the debt rescheduling portfolio in the State Department. Such reschedulings are inseparable from our broader foreign policy interests in individual countries and they need to be controlled by State to assure that these interests (political, strategic, regional security) are taken account adequately. Other western countries, which do not have our global security role, can afford to treat debt rescheduling as a more technical economic matter. We cannot.

Present U.S. Foreign Economic Policy Decision Making System

The system of formulation of U.S. foreign economic policy is diverse as it is complex. There is no center of policy but many centers. Policy

⁴ The draft letter is attached but not printed.

making is split among numerous bodies and among a number of major agencies: Treasury, USTR, State, Commerce, Defense, Agriculture and NSC. In theory broad policy decisions are made by consensus through cabinet councils or interagency groups. Once policy is formulated, lead agencies proceed to implement with minimal interagency clearance.

The attached chart, Exhibit 2, reflects the present organization, varied subjects entailed and those agencies interested.⁵ However, the IMG functions have been assumed by the SIG–IEP. The other financial coordinating mechanism, NAC, only meets at staff level.

Conceptually it is easier to understand the formulation of U.S. foreign economic policy if it is divided into systemic issues and bilateral/regional issues. The prime systemic issue is trade and trade cannot exist without the international monetary system. USTR and Treasury, respectively, provide the lead roles in these fields. USTR uses the Trade Policy Committee (TPC) but this overlaps with the CCCT chaired by Commerce. (Commerce should actually be limited to the trade enforcement function. Policy and enforcement should not be in the same agency). Agriculture also plays a major role in trade.

Treasury manages the international monetary policy through the CCEA, the SIG–IEP (replacing the IMG) and the NAC. In these bodies they coordinate policy for the IMF, G–10, G–5, international credit agreements and the multilateral development banks (MDBs). The credit arrangements and the MDBs, especially the IBRD, have both systemic as well as bilateral and regional impact.

State Department controls bilateral and regional foreign economic policy. The primary vehicle for coordination is the NSC (e.g. East/West economic policy) but we also use forums chaired by other agencies. Under State purview, for example, are AID, ESF, military assistance, EC and OECD relations as well as debt rescheduling. The bilateral and political nature of reschedulings make this an appropriate State Department responsibility. Probably most important for involving State in the broad economic policy function is our organizational role for the Economic Summits.

How Can the Department Increase its Leadership Role?

The key point to remember is that trade and services reflect the only flow of real resources internationally. They are the heart of foreign economic policy. All other issues, including international monetary policy, are part of this exchange process in that they enhance, inhibit or specify

⁵ Exhibit 2 is attached but not printed. Exhibit 1, "U.S. International Economic Programs and Policies, Organization and Process;" Exhibit 3, "The Cabinet Council Line-Up;" and Exhibit 4, "Sources of Power in Washington," are also attached but not printed.

the terms on which these flows will take place. State Department has three options to increasing its influence over the conduct of U.S. foreign economic policy: reasserting control over trade, taking over the umbrella policy coordination function or strengthening its position in the status quo.

The Trade Option

Over the last 20 years foreign economic policy has become increasingly more important in foreign policy, but the Department's role has declined. The policy function has been increasingly fragmented in the Executive Branch. Now Congress is pushing for further dilution by forming a Trade and Commerce Department designed to be parochial and responsive to domestic interests on trade issues. The fact that six U.S. cabinet officers participated in EC/US consultations indicates the attraction of other departments to the foreign policy function.

If trade lays at the heart of foreign economic policy, then the key issue in foreign economic policy is control of the trade policy function housed at USTR. Congressional sentiment to have this function returned to State is minimal and in fact the opposite. USTR is created by law and the head of USTR is designated by law to be of cabinet rank. The USTR staff have been very careful to write into legislation or legislative history their responsibilities and prerogatives.

The evolution of USTR has caused numerous problems:

- Overlap of responsibility with State and Commerce.
- Establishment of Ambassadors and a Mission abroad not under the authority of the Secretary of State (and with little desire to coordinate).
- Lack of adequate personnel—few of those they have are of superior caliber and they borrow heavily from State. A majority of USTR officers in Geneva (to include the DCM and the Ambassador, Mike Smith) are FSOs, seconded to USTR.
- Duplication of functions between the Trade Policy Committee (TPC) and the Cabinet Council on Commerce and Trade (CCCT).

These problems could be solved by integration of USTR into State. There is no possibility of turning the clock back to 1960. There might be a possibility (admittedly slim) that USTR could be taken out of the White House and constituted as a special agency under the Secretary of State. This would reassert the role of the Department and solve many of the overlapping jurisdictional problems with USTR. Under this scheme Commerce would retain trade enforcement. All agencies would coordinate through cabinet councils and Under Secretary-level SIGs. The TPC would become such a SIG.

The Institutional Option

The institutional option for returning influence to the Department in the formulation of foreign economic policy focuses on the control of

the coordinating function rather than control over a major substantive issue such as trade. At present there is no umbrella structure charged with coordinating foreign economic policy. The SIG–IEP handles some issues (mainly finance) while the TPC and the CCCT split the trade portfolio. Occasionally the NSC will deal with economic issues, especially in the area of East/West economic relations (pipeline, energy, credits, debt) or where our strategic/political interests are affected. Treasury does its best to discuss these economic issues in the SIG–IEP before they are discussed in the NSC.

The best solution would have been for the Secretary of State to have chaired the SIG–IEP under the NSC structure. This would have allowed the NSC to be the umbrella body. This option has now passed. There are five cabinet groups charged with foreign economic policy co-ordination: NSC, SIG–IEP, CCEA, TPC, and CCCT. Treasury chairs two of these groups but responsibility for others is spread over the other lead agencies. Coordination between groups takes place through the same cabinet members serving on almost all the groups or through more informal channels.

An attempt by State to pull these groups under the NSC or a new umbrella organ would be poorly received and not worth the political cost. What could be considered is expanding the State/Treasury breakfast to include other key cabinet members from time to time to get a policy consensus on important issues.

The Status Quo Option

Any general reorganization of foreign economic policy in the USG will take time and may not result in a solution satisfactory to State. However, State can work to solidify its lead in bilateral and regional policy and there is much that can be done in State to improve its own organization to deal with economic issues.

1. Continue to appoint knowledgeable and respected individuals to the key posts of E and EB.

2. Build effective liaison with Treasury and USTR. (Reactivating the State/Treasury lunches is an excellent start.) Ask that IMG and NAC begin to meet as subgroups of the SIG–IEP so there is more staff preparation of issues.

3. Carry out well, and don't give up present bilateral and regional responsibilities, to include debt rescheduling.

4. Consider reorganizing economics in the Department to reflect our functions.

- a. Establish a Deputy Assistant Secretary for economics in each regional bureau to assure well developed regional policies.

- b. Build support in EB for the economic summit role of E and its East/West economic coordinating function.

c. Consider moving the OECD function to EB but strengthening the EC function in EUR.

5. Assure high quality economic officers in the Foreign Service; assure they have a career and assure they work on economics, but understand the broader strategic and political considerations involved with economic issues.

I would like to expand on this last point. State competes against permanent bureaucracies at USTR and Treasury. Economics is a discipline that benefits by consistency and study. Present Departmental rules rotate all officers out of Washington every four years. You cannot build institutional expertise with this type of rotation. The economic career path must be designed to fit the needs of the Department in economics, not some arbitrary personnel management rules.

Second, officers in the economic cone must be allowed good slots abroad, when they go abroad. The system favors the political cone in senior officer positions. Many top economic officers leave the Service because they cannot be placed at the DCM or Ambassadorial level. Certain posts should be designated as economic posts (USEC, USOECD as well as key DCM posts with major trade partners and certain UN posts).

Third, the Economic Bureau should be allowed "stretch assignments" (placing officers in posts designated for individuals of higher rank) to put well qualified younger officers in positions of responsibility. Rank should not be the only consideration—again substantive need over personnel theory.

Fourth, the FSI courses on economics should be continued but with more emphasis on industrial organization, institutional economics and political economy rather than its present emphasis on quantitative methods.

Fifth, a strong research function should be built into EB using a mix of qualified FSO's, term contracts, and external consulting.

Sixth, efforts should be made to keep and hold a qualified critical mass of economic analysts in the Economic Bureau and in the Policy Planning Staff. A similar potential could be built over time in INR. The four year rule should not apply.

Seventh, the economic sections in specific designated embassies abroad should be strengthened and the economic talent in certain regions pooled (Caribbean, Central America, East Africa, Sahel region, etc.) to improve reporting capabilities. (The splitting off of the Commercial function to the Department of Commerce has reduced the manpower available for economic reporting and our talent training and recruiting base.)

Eighth, there should be a rotation in Washington between the regional bureaus and EB to get more qualified people on country desks.

Ninth, key country desks in the regional bureaus should have economic slots added. EB cannot follow all the countries that need attention.

Conclusion

The trade option and institutional option are not real alternatives at this time. The Department must concentrate on keeping, and improving on, its regional and bilateral foreign economic policy emphasis while contributing to the debate on broader systemic issues in trade and money and finance. This means rejecting Secretary Regan's request for the debt rescheduling portfolio and concentrating internally on building up the Department in the economics field.

Recommendations:

That you approve the following two initiatives:

1. That the responsible officers in the Department respond to the suggestions made in the paragraphs on strengthening State economic capabilities and add any ideas they may have. A report should come back to you under M guidance in two weeks or so.

2. That you sign the attached letter to Secretary Regan at Attachment 1.⁶

⁶ Shultz did not indicate his approval or disapproval of the recommendations. A line was drawn through the recommendations. At the bottom of the memorandum Eagleburger wrote: "We should talk before you decide anything. LSE." A line was drawn through this comment.

134. Memorandum From Norman Bailey of the National Security Council Staff to the President's Assistant for National Security Affairs (Clark)¹

Washington, March 31, 1983

SUBJECT

Debt Strategy

This memo is in response to your recent comments on my weekly reports. Roger and I are monitoring the debt crisis as closely as possible

¹ Source: Reagan Library, Executive Secretariat, NSC Subject Files, International Debt Situation (3/83–8/83). Secret. Sent for urgent information. A stamped notation on the memorandum reads: "WPC Has Seen." A copy was sent to Robinson.

given our numerous other responsibilities. As of now, our conclusions are as follows:

The international debt crisis is already entering its second phase, three months before even we expected. The second phase is characterized by the following features:

- Countries which signed painfully-wrought agreements with the IMF only two or three months ago are publicly or privately announcing their inability to adhere to the terms of these agreements.

- Many regional and foreign banks continue discreetly to try to reduce their exposure to the major debtors, especially by taking payments on maturing inter-bank deposit lines.

- Multi-billion dollar rescue efforts within weeks are seen to be inadequate over a sustained period of time, and the debtors are back for more.

- As this happens, further rescue packages become harder and harder to arrange. Roger and I managed to salvage the Yugoslav package through discreetly forging a compromise between the GOY and the New York banks, but major banks are reaching country risk limits, having in many cases long ago passed the limits of prudence.

- Gradually pressure is building for a multilateral debtor declaration of moratorium. This has been officially endorsed by Bolivia, Ecuador and Nicaragua. By the UNCTAD meeting in June, the pressure may be unbearable.²

- Right now Brazil is of acute concern. The maxi-devaluation hasn't worked, smuggling and capital flight have reached massive proportions, inflation is through the roof, President Figueiredo has threatened to resign and a secret meeting of 16 U.S. banks concluded that Brazil may declare a unilateral moratorium and nationalize the banks.

In other words, it is totally clear already that the debt crisis is a structural crisis requiring *restructuring* of the debt and not merely a liquidity-shortage crisis which can be handled by traditional rescheduling operations. Both CEA and CIA have prepared studies concluding the same thing. Commerce and USTR agree, as does DOD, which is very concerned about the national security implications. At this point, only Treasury and OMB still adhere to the view that there is no structural crisis while State is divided on the issue.

As a result, we will push very hard for a recognition of the structural basis of the crisis in the NSDD³ resulting from the NSSD

² The sixth session of UNCTAD took place June 6–30 in Belgrade.

³ See Document 143.

on international debt management,⁴ if necessary filing a dissent if Treasury tries to roll the issue. The NSDD should establish a debt office, not just another working group, to prepare the USG's response to the structural crisis we have, not the mere liquidity crisis that we *wish* we had.

The debt presentation to the President is virtually ready but is already OBE'd and is being updated and restructured.

⁴ See Document 132.

135. Memorandum From Secretary of the Treasury Regan to Multiple Recipients¹

Washington, April 11, 1983

SUBJECT

NSDD on Debt Strategy—Background for Our Breakfast Discussion Tomorrow²

The draft report for discussion by the SIG-IEP is being revised to incorporate agency comments received today and additional analytical work being prepared by OMB. A completed draft will be circulated shortly.³

The principal conclusions of the report are that:

— the present five-point strategy has so far successfully contained debt problems;

— its continued application in the short-term will be complicated (because of difficulties in meeting adjustment targets and political and social tensions associated with austerity), but has a reasonable chance for success;

— in the medium term, the prospects are quite good, given expected recovery in industrial countries;

¹ Source: Washington National Records Center, RG 56, Executive Secretariat, Congressional Files, 1987, 56–90–29, Box 46, National Security Study Directives (NSSD) '83. Secret. Sent to Shultz, Baldrige, Stockman, Feldstein, Harper, and Volcker. A stamped notation on the memorandum indicates that Regan initialed the original.

² April 12. No record of this meeting has been found.

³ The draft report, "U.S. Approach to the International Debt Situation: A Policy Overview," is attached but not printed.

— thus, there is no reason now to pursue alternative strategies such as generalized financing schemes, which in any event have for the most part fatal flaws (e.g., not country-specific, don't encourage adjustment, administratively and politically infeasible);

— however, several steps could be taken to strengthen the application of the present strategy:

— trade policy (maintain commitment to open markets while enforcing U.S. laws; encourage joint meetings of finance and trade officials);

— strengthen forum and mechanics for dealing with individual problems (e.g., give G-10 deputies role in monitoring, discussing problem cases, regularizing approach to debt rescheduling issues);

— improved data.

Reservations have been expressed on the following points:

(a) Whether growth in the industrial countries will be as strong as projected over the medium-term (4 percent annually during 1985-87) and whether a somewhat lower rate would substantially alter the LDC debt outlook. OMB is modeling an alternative 3 percent growth scenario.

(b) On the likelihood that the strategy will break down (e.g., because of failure of industrial recovery, a breakdown in the banking system, repudiation) and the intensity with which basically alternative strategies should be developed on a contingency basis. Language on this reservation, received today, has been circulated to the drafting group.

(c) Whether some of the suggested improvements in the present strategy—particularly the suggested G-10 role in regularizing the approach to debt rescheduling, taking control out of the French Treasury—should be pursued.

Attached as additional background are executive summaries of the four subgroup reports, dealing with political and security considerations; alternative growth scenarios; trade policy implications of the debt situation; and alternative approaches to the debt problem.⁴

I have asked Paul Volcker to join our breakfast discussion tomorrow.

⁴The executive summaries of the four subgroup reports are attached but not printed.

136. Minutes of a Summit Preparatory Meeting¹

Williamsburg, April 16, 1983

April 16 *Afternoon Session*

Trade, Debt, Finance

Henry Nau Presents outline; stress on relationship between domestic policy and international system, to link with previous item on economic policy and surveillance. LDCs figure prominently in the system. Want Summit to affirm central theme of growth as it is reflected in the components of the international system. Three major functional elements: macroeconomic policy, trade and finance rather than North-South etc.

Recapitulates interrelationships from Overview talking points 1–6.

Changes in revised outline:

- 1) incorporates development as a principal objective.
- 2) Time-phased approach (III, B, 3) short-term encompasses II, A, 1 & 2(b–d) & III, B, 1 and 2. Long-term focus on new trade negotiating process, and balance between trade and aid.

Message coming out of Williamsburg for use at UNCTAD VI.²

Steeg We are on track on linking recovery and rejection of protectionism. Use OECD Ministerial for strong language on using “room for maneuver” from recovery to halt and reverse the trend of protectionism. This will help prepare discussion at Williamsburg.

Next, put GATT work program into force.

Need give close attention to North-South relations. Have to say something because of UNCTAD. Agree it should be on debt and trade.

Re debt, need deal immediately with debt crisis but not in ways that compromise long-term system viability.

¹ Source: Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: 1983 Williamsburg Summit, Williamsburg Sherpa Meeting April 15–17, 1983. Confidential. The meeting took place in the afternoon in preparation for the Williamsburg Economic Summit. No drafting information appears on the minutes.

² For documentation covering UNCTAD VI, see the Global Negotiations compilation of this volume.

- Re trade, services is in GATT work program. Technology should be examined in GATT.
- Re joint trade/finance meetings: sympathy for informal getting together. Commission has competence for trade. Questions have been raised about whether idea is to establish new institutions.
- Should concentrate on putting impetus behind existing work programs.
- Durieux Re identification of linkages: Clearly there is link between openness of market and solution of debt. Also link between interest rates and debt solution; level and stability of commodity prices also important. Need be cautious about these.
- Re III, A, 1: Need avoid overambitious statement on avoiding protectionism; risks raising expectations. Need reword.
- III, A, 2: Goes beyond agreed GATT program.
- (a) Is increased trade necessary to long-term solution? (Steeg—Yes). Putting excessive importance on this? Development of LDC food and energy production also important. Also increasing concessional aid. (Canada: trade essential but not sufficient).
- What does ref to trade in services mean?
- Re III, B, 3, b: Too much expected from increased access by LDCs to DC markets. Need face realities and recognize that increase of export receipts will not significantly affect debt service ratios. This will do nothing to help meet debt obligations. There is lack of balance in your presentation.
- Beryl Sprinkel True other forces involved, but essential they get foreign exchange both to service debt and tap additional lending. Adjustment in LDCs essential. IMF programs typically encourage restructuring of foreign trade, control of macroelements, etc. to service debt and improve creditworthiness. Net export position is essential if they are to earn their way. We have to help them by improving trade arrangements.
- Camdessus Agree with Sprinkel re IMF programs. 17 countries have been examined by Paris Club. Almost all suffered from protectionism, but even more from lack of growth in DCs.
- Marchand Sympathize with Durieux's point re emphasis given to market openness. It is overdone. Need better balance between market access and other devices to improve LDC positions. Outline rejects master plan for debt

- restructuring “a bit lightly”. Is there really consensus on that?
- Re elements of debt policy (III, B, 2): Notes commercial banks very nervous. Need find ways to “alleviate” laws of market place to influence their behavior. Elements should bear more relationships to NAM recommendations by better reference to New Delhi language.³ Can’t have them be seen as two ships passing in night. Need relate our message to their expectations.
- Paye Re trade: Summit should renew commitment to resist protectionism, maintain and increase openness to reinforce recovery. Will be more credible if our own strategy for recovery is credible. Link between what we say on trade and what we do on economic policy.
- Williamsburg not place to reopen GATT Ministerial discussions and conclusions. Have decided to do some studies in GATT. Let them proceed.
- Re more meetings close to Steeg views. Need for these to be discreet, not publicized. Cannot permit that they threaten existing institutions.
- Re North-South: Attempt to treat problems in integrated way is interesting. However, approach in paper too limited. Doesn’t cover all facets of LDC problems. FM will want tackle these problems more comprehensively, referring to what has happened in Delhi. Have to say something about that, and to GNs (e.g. express regret at lack of success of what we tried at Versailles). South problems not just trade and debt. Should cite recession, oil shock, high interest rates which deprive LDCs of resources to deploy for their own development. This needs more cooperation between North and South.⁴ Thus need explicit item on North/South.
- Fisher Need take account of political dangers in South. Economic trouble breeds political instability. We see their willingness to talk with us in danger of being submerged by more radical elements. Moderates appealing to us (e.g. via Delhi declaration). Thus need more political answer than in outline. Kohl referred to need make contribution to North/South dialogue by promoting their independence and non-alignment.

³ See footnote 3, Document 104.

⁴ For documentation covering North-South issues, see the Global Negotiations compilation of this volume.

| | |
|------------------------------------|---|
| | Need also reply to New Delhi, e.g. by reference to interdependence as in NAM communique. We should show we ready to find solutions and cooperate to that end at UNCTAD VI (e.g. by taking up North/South dialogue). |
| Paolini (and other Italians) | <p>Three priorities:</p> <p>Recommend</p> <p>1) 7 refrain from measures inconsistent with GATT.</p> <p>2)⁵</p> <p>3) Discourage new protectionist measures.</p> <p>Re North/South dialogue: Agree entirely with French and Germans re importance of dialogue and need for response to Delhi declaration.</p> <p>Integrated approach carries implicit message, but need explicit as well. Unclear to what extent our recovery will be transmitted to Third World. Need constructive approach re UNCTAD. We encouraged by moderation and realism of Delhi and Buenos Aires.⁶ Should be reflected by Summit statement. Our leaders objectives will be political.</p> <p>Agree with Durieux views about need for more balance. Protectionist pressure strong, but crusade is not credible response. Question is how to proceed with negotiations; old style not sufficient. DCs must be open to LDC exports in order to permit LDCs to service their debt.</p> <p>Concern about commercial bank role. Problem of risk and loan portfolios. Thus need focus on need for financial flows from whatever service.</p> <p>Finally need avoid rigidity and dogmatism in IMF conditionality.</p> |
| Armstrong | Agree with Steeg's position. Understand view that not enough to focus on LDC export earnings, but it should be significant part of Summit conclusions. On occasion of this Summit, that is appropriate place for emphasis. |
| Evans | Approve functional as opposed to topical approach to structuring discussion. Agree that theme for message to UNCTAD should be interdependence. Right that DCs and LDCs look for measures which are positive sum. |

⁵ This line was blank in the original.

⁶ The G-77 Ministerial meeting to define its negotiating strategy and position for UNCTAD VI took place April 5-9 in Buenos Aires.

- Tietmeyer Need clear message to LDCs which also takes account of political dimension. Not enough to underline this and do nothing on economic relations. Need give them confidence that world economy is recovering. Must also demonstrate that it will be sustainable and non-inflationary. Otherwise benefit will be low.
- Trade questions need focus on recovery on both intra DC as well as between DCs and LDCs. Trade openness necessary for DC recovery too. Need anti-protection pledge, including both barriers and “subsidies for negative adjustment.”
- Re financial resources, agree Delhi and Buenos Aires language more moderate and we can refer to that in statement. However, clear we cannot undermine monetary system by accepting some of their special demands re IMF conditionality, SDR allocations. Thus, should welcome moderate language but avoid endorsement of measures that can undermine monetary system. Agree with Sprinkel re need for F/X, and with Camdessus about growth. But growth depends on openness of markets. Should also note importance of LDC domestic policies in attracting capital.
- Marchand Are we prepared to say that our recovery depends on growth in Third World as well? Not a rhetorical question.
- Beryl Sprinkel If banks have to write off LDC debt, will be devastating to banks’ net worth, thus posing threat to our own investment and recovery.
- Marchand Ref to Kissinger thesis about removing LDC threat of debt moratoria.
- Henry Nau Trying develop comprehensive view looking over longer term. Need combine steady approach to management in short term with how to proceed in longer run. Might begin a process of discussions among trade and finance ministers to look collectively at ways to improve trade and financial systems. Should distinguish between necessary short term actions to improve liquidity and maintain market access, and longer term possibilities such as reciprocal negotiations to enhance market access in both DCs and LDCs, as Italians intimated.
- Re politics, need not avoid substance. Can’t handle all aspects of interdependence in short term, but think of a process to address longer term aspects.

-
- Evans Real dialogue has been separate from formal dialogue, and latter interpreted as zero-sum game.
Real dialogue (e.g. in Banks, Lome, Paris Club, etc.) has prospered and been fruitful. Formal one (UN, UNCTAD) has been different, in which presentations made in one bear no relation to those in the other.
South thinks power flows from institutions. North has been too acquiescent in this view. Believe interdependence is good point of departure. Good if it stresses all areas where dialogue occurring. Must be ready to listen, to propose and not zero-sum. Attach importance to integrity of international financial institutions, both in our own interests and those of LDCs.
- Motono Noted Steeg's point that we should encourage South with message of our recovery. Needs to be credible. Continuation of open trade depends on open investment climate in LDCs. If South wants recovery, they need focus on their own means and will, as well as ours.
- Drabble Re 5 elements of debt strategy, any statement should be fairly short. Case-by-case approach requires we remain vigilant about future prospects. Questions about where resources will come from. Cannot afford to be complacent about any of these.
Problem also re poorest LDCs. So far, we are focusing mainly on big debtors, and trade with them, especially NICs. Re poorest, debt not problem but rather poor management and insufficient aid flows. Need make our awareness of difference clear, and need to channel concessional aid especially to poor and key role of IDA.
- Tietmeyer Agree with that point.
Also problem of short-term liquidity problem in IMF. All of us should find a way to bridge liquidity problem until quota increase and GAB come into effect. We said we're willing to help if others will do same. No reaction yet. Not a Summit question.
- Beryl Sprinkel Important we move process to success by year-end on IMF replenishment and GAB. Think there are devices that can help IMF get to that point if replenishment in place by year end.
- Allen Wallis Summit should make general reference to importance of IMF replenishment and give it a boost.

[Omitted here is discussion of environmental issues, energy, and East-West relations.]

137. Memorandum From the President's Assistant for National Security Affairs (Clark) to President Reagan¹

Washington, April 21, 1983

SUBJECT

Give-and-Take Session of Summit Issues—April 22, 1983—2:00 P.M., Cabinet Room²

Issue

This is the fourth of your in-depth discussion of Summit issues. This one concerns the debt and financial aspects of the world economy.

Discussion

Treasury has prepared the background paper at Tab A.³ It describes our broad-based program for dealing with immediate debt servicing problems through interrelated and balanced efforts by borrowing governments, lending governments, international institutions, and commercial banks. In many respects, this program illustrates one of the central points you will be trying to make at the Williamsburg Summit—that world economic recovery and improvements in international economic procedures and institutions must be pursued, not by a search for quick fixes or single-policy initiatives, but by acting steadily in several areas that reinforce one another, such as sound growth policies which strengthen the ability of Summit countries to reverse protectionist restrictions, thus permitting indebted LDCs to export more and thereby to maintain their imports which, in turn, are our exports and hence help to reinforce our recovery.

At the same time, as you know, we have called an initial joint meeting of the Trade and Finance Ministers of the Summit countries for May 10–11. This is an ad hoc, informal effort to address the relationship of trade and financial issues. If it succeeds, further meetings may be called to include other key industrial countries and also developing countries. This process could begin to focus on some longer-term improvements in the international trade and financial system, particularly means for

¹ Source: Reagan Library, Executive Secretariat, NSC Trip File, Williamsburg Summit 1983 [Too Late to File]; NLR-755-17-6-1-8. Confidential. Sent for action. Drafted by Henry Nau. A stamped notation at the top of the memorandum reads: "The President has seen."

² According to the President's Daily Diary, Reagan participated in a meeting to discuss the Williamsburg Economic Summit from 2:02 to 2:35 p.m. on April 22. (Reagan Library)

³ Tab A is not attached. A copy of the background paper is in the Reagan Library, Executive Secretariat, NSC Trip File, Letters [Williamsburg Summit] 1983; NLR-755-15-33-7-4.

dealing with the long-term aspects of the debt problem. It will also help to reinforce confidence in the short-term that our strategy is taking longer-term issues into account and not merely anticipating that renewed growth will solve all problems.

Recommendation

That you read the background paper at Tab A before our meeting on April 22 at 2:00 p.m.⁴

⁴ Reagan did not indicate his approval or disapproval of the recommendation.

138. Minutes of a Senior Interdepartmental Group–International Economic Policy Meeting¹

Washington, April 22, 1983, 4 p.m.

ATTENDEES:

| | |
|---------------------------------|------------------------------------|
| <i>Treasury</i> | <i>CIA</i> |
| Secretary Regan | Henry Rowen |
| Beryl Sprinkel | Maurice Ernst |
| Marc Leland | <i>OMB</i> |
| <i>Office of Vice President</i> | Alton Keel |
| G. Philip Hughes | <i>CEA</i> |
| <i>State</i> | Martin Feldstein |
| Kenneth Dam | <i>USTR</i> |
| Richard McCormack | Michael B. Smith |
| <i>Defense</i> | Harvey Bale |
| Fred C. Ikle | <i>OPD</i> |
| Donald Goldstein | Roger Porter |
| <i>Agriculture</i> | <i>NSC</i> |
| Alan Tracy | Paula Dobriansky |
| <i>Commerce</i> | William Martin |
| Secretary Baldrige | Norman Bailey, Executive Secretary |
| Michael Liikala | |

¹ Source: Reagan Library, Roger Robinson Files, Subject File, SIG–IEP Meetings 04/28/1983–05/12/1983; NLR–487–6–44–15–1. Confidential. The meeting took place in the Indian Treaty Room in the White House. No drafting information appears on the minutes. Another portion of the minutes is printed as Document 295.

NSSD-3: Approach to International Debt

The Chairman opened the meeting by noting that while everyone was probably not entirely happy with every part of the debt report, a consensus had been reached on most of it.² The discussion would focus on the two or three outstanding issues where there were still major differences of view. Before proceeding, the Chairman noted his unhappiness over the fact that a summary of this report had been leaked to the *New York Times*.³

Marc Leland introduced the paper, noting that the document would be transmitted to the NSC and the President, who would then issue an NSDD.⁴ Under Secretary Ikle noted that it is important that our debt strategy help support our overall security interests and that our adversaries should not benefit from the help we are giving our friends.

The Chairman then asked Henry Rowen to clarify the Agency's objections to the four percent real growth rate assumption. Mr. Rowen noted that four percent was overly optimistic and that even if such a rate was achieved, there would still be some countries who faced difficulties over the long term. Mr. Feldstein shared this view and noted that unless European recovery is more vigorous than presently predicted, the four percent will not be achieved. However, OMB pointed out that the economic fundamentals argue for a higher rate of growth: four percent seemed about right—it might even be low by historical recovery standards. The Chairman closed the discussion by suggesting that we agree to a range between three and four percent.

The Chairman then turned to the second major problem area—that of the institutional arrangements for managing the debt problem. The paper suggests the Group of Ten framework be considered as the focus for creditor consultations and decision on key debt issues. However, Chairman Volcker argued that such an approach would be rigid, slow and cumbersome. The Federal Reserve has no objection to the use of the existing G-10 framework as a means for review, but it would not be prudent to expect it to be operationally oriented. Mr. Volcker noted that

² Reference is to the draft interagency report, "Approach to the International Debt Situation: A Policy Overview," prepared in response to NSSD-3 for SIG-IEP consideration. A copy of the draft report was sent to members of the SIG-IEP under an April 20 memorandum from Leland and is in the Reagan Library, Douglas McMinin Files, Subject Files, Sugar Quotas.

³ Bailey forwarded the April 19 *New York Times* article on the leaked NSSD-3 to Clark under an April 19 covering memorandum. (National Security Council, NSC Institutional Files, Box SR-073, NSSD 3-83) See H. Erich Heinemann, "Hope Stirs for World Debt Relief," *New York Times*, April 19, 1983, p. D1.

⁴ See Document 143.

he would prefer using the IMF as the coordinating body. Dr. Sprinkel noted that he too would be more comfortable with an IMF framework, but said that this approach may be rejected by other nations. The Chairman concluded the discussion by saying that the use of the IMF should be explored with the G-5 at next week's meeting, after which our position can be modified as appropriate.

Secretary Baldrige, Norman Bailey and Fred Ikle all noted that the study might be too optimistic on the ability of the overall system to handle debt problems and that further steps should be explored in the follow-up work. Secretary Baldrige also noted that it is vitally important to monitor debtor country export progress. Secretary Regan noted the contribution of the Department of Commerce to further studies and said that these would help form the basis of future work.⁵ In addition, he agreed that further analytical work should be performed to test the sensitivity of the system to much higher (six percent) or lower (two percent) rates of real economic growth.

The Chairman instructed Marc Leland to make the appropriate changes in the paper and forward it as soon as possible to the President and the NSC for their review.

[Omitted here is discussion of the Long-Term Grain Agreement, the International Sugar Agreement, and the Polish debt situation.]

⁵ Under an April 22 memorandum to Regan, Baldrige forwarded an attachment which outlined a number of areas that he believed should be analyzed in order to be able to clarify the options and constraints faced in implementing the debt strategy. In the April 22 memorandum, Baldrige argued that the U.S. "should be prepared to adapt the current strategy to changing circumstances." (Washington National Records Center, RG 56, Executive Secretariat, Congressional Files, 1987, 56-90-29, Box 46, National Security Study Directives (NSSD) '83)

139. Memorandum From Roger Robinson of the National Security Council Staff to the President's Deputy Assistant for National Security Affairs (McFarlane)¹

Washington, April 28, 1983

SUBJECT

SIG-IEP Meeting, Thursday, April 28, 4:30 p.m. Main Treasury Building, Room 4426²

The agenda for the meeting is as follows:

1. Alaskan oil exports
2. East-West Issues (oral report by State)
3. Summit Preparations (oral report by State)
4. Debt Issues (oral report by Treasury)

[Omitted here is information not related to debt issues.]

Debt

Attached at Tab V is Treasury's latest update (April 26) which will be orally reported.³ The complete draft NSSD on the international debt situation was taken up at last week's SIG.⁴ NSC had reserved on language for the conclusions as we view the vulnerabilities of Treasury preset five-part strategy as more pronounced and support the need for, at minimum, contingency planning. We also did not agree with the assessment that medium-term prospects (2–3 years) for the major LDC debtors were as favorable as Treasury's view. We continue to receive intelligence indicating the Brazilians will announce a temporary moratorium on principal *and interest* payments in the next 60 days, which could create heightened anxiety among the world's commercial banks.⁵

¹ Source: Reagan Library, Robert McFarlane Files, Chronological File, Chron—April 1983 (McFarlane); NLR-362-5-31-6-4. Secret. Sent for action. McFarlane wrote in the right-hand corner of the memorandum: "Roger, I'm sorry not to have been there. We're making strides, particularly at IEA and NATO. You guys are fast becoming the enfants terribles of the Atlantic community. Bud." Copies were sent to Bailey, Martin, and Nau.

² See Document 140.

³ Tab V is not attached.

⁴ See Document 138.

⁵ McFarlane wrote in the left-hand margin next to this sentence: "I share your expectations."

140. Minutes of a Senior Interdepartmental Group–International Economic Policy Meeting¹

Washington, April 28, 1983, 4:30 p.m.

ATTENDEES (U)

Treasury

Secretary Regan

Beryl Sprinkel

Marc Leland

Office of Vice President

Admiral Daniel Murphy

G. Philip Hughes

State

W. Allen Wallis

Richard McCormack

Defense

Paul Thayer

James Blaker

Agriculture

Secretary Block

Commerce

Secretary Baldrige

William Archey

Energy

Martha Hesse

William J. Silvey

Transportation

Secretary Dole

Admiral Shear

Interior

Secretary Watt

CEA

William Niskanen

USTR

Michael B. Smith

John Ray

OPD

Edwin Harper

Roger Porter

OMB

Alton Keel

CIA

Henry Rowen

Maurice Ernst

NSC

Roger Robinson

William Martin

International Debt (U)

The Chairman opened the meeting by saying that there would be two items on the day's agenda: an update on the debt situation in a number of countries and the question of Alaskan oil exports. He asked Under Secretary Sprinkel to give an update on the debt situation and indication that the overall situation still remains difficult, but it is being managed. Some highlights of his presentation included: (C)

Argentina. We are trying to assist in an effort to find a solution to the problem of blocked payments of profits and dividends to U.K. firms, but we are not optimistic about a solution. GOA officials have advised us that they have finally received the draft loan agreement

¹ Source: Reagan Library, Roger Robinson Files, Subject File, SIG–IEP Meetings 05/13/1983–06/30/1983; NLR–487–7–1–2–1. Confidential. Sent under a May 13 covering memorandum from Pickford to multiple recipients. The meeting took place at the Department of the Treasury.

from the commercial banks for the \$1.5 billion syndicated loan originally planned for completion by the end of March. (C)

Brazil. Brazil's cash flow situation will continue to deteriorate through July or August before improving later in the year. They have once again sought our financial assistance, but we believe that official support at this time would undercut efforts to restore financing from commercial banks. We are in close contact and will continue to monitor the situation. (C)

Chile. We hope that Chile will be back in compliance with its IMF stand-by program by the end of September, due to the emergency economic program announced in late March. These talks with the 12-bank advisory committee are well advanced. Chile and the BIS are currently discussing the possibility of a \$300 million arrangement. (C)

Mexico. Secretaries Shultz, Regan and Baldrige held a series of meetings with key members of the Mexican economic team while in Mexico on April 18 and 19. We are encouraged by the talks and plan to continue working with our Mexican counterparts to encourage change in economic policy which we believe to be in their interest. The Mexicans said they needed no additional official assistance at this time and do not expect to need any unless there is a sharp drop in oil prices. They mentioned to us their interest in a rescheduling of official direct and guaranteed credits to the private Mexican sector. We are discussing this informally with USG agencies and other creditor countries. (C)

Venezuela. Venezuela will probably use its SDR holdings and IMF reserve tranche shortly. Finance Minister Sosa told us that the GOV would like to arrange an IMF stand-by for end-1983 or early 1984. It appears that banks have continuing concerns about the GOV's numbers for the size of total external debt and Venezuela's medium-term economic prospects. The GOV is working to address these concerns. (C)

Peru. Finance Minister Rodriguez-Pastor will be in Washington on April 28 and 29 for the Development Committee and will meet with Treasury officials. Peru may request a Paris Club rescheduling in the near future. (C)

Nigeria. Nigeria is being forced to negotiate with the IMF by its inability to obtain sufficient funds from other creditors in the absence of a Fund agreement. Finance Minister Masi is here for the Development Committee and will indicate to the Fund whether or not serious negotiations can begin. The SIG-IEP working group that was established in response to Under Secretary Wallis' presentation on the need for financial support from the U.S. Government has met and will be preparing some options for consideration by the SIG in the next several weeks. (C)

[Omitted here is discussion of the Alaskan oil exports.]

141. Minutes of a Meeting¹

Williamsburg, Virginia, undated

MONDAY MORNING PLENARY SESSION

[Omitted here is discussion not focused on debt.]

DEBT

Debt—*Secretary Regan*—Report on Finance Ministers' discussions. System is handling. May be more problems, but those too manageable. 5-point strategy.

_____ (?)—Situation dangerous and difficult²

Secretary Regan—Agrees. Worried about banks withdrawing. Governments should urge the banks to put up more money.

Thorn—After communique, now that drafting over can consider this serious problem. It is *very* serious. Banking concerns. Depresses trade. Another trade round would not help the LDCs. It would help the DCs. IDA 7 important. Without it, recovery may flounder economically and politically. E.G. India 10⁹ people (?). Africa—extremely bad. Catastrophe possible next decade.

Italy (Colombo)—Debt problem of primary importance. Large countries must be handled one-by-one. Fourth world countries—poorest. Third world countries—can't go case by case, must find solutions.

Howe—Endorses Secretary Regan report. Favors case-by-case approach. IDA enlargement important—helps poorest countries by well-managed programs.³

Delors—Volcker did a good job on Mexico. Need better and prompter data. UNCTAD wants to extend its role and functions. Interest rates exceed real rates of growth.

[Omitted here is discussion of East-West issues.]

¹ Source: Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: 1983 Williamsburg Summit—Notes for Meetings; drafts of declarations; memo on final session. No classification marking. No drafting information appears on the minutes. The meeting took place at the May 30 morning plenary session of the Williamsburg Economic Summit.

² Omission is in the original.

³ In the "Williamsburg Economic Summit Conference Declaration on Economic Recovery," issued May 30, the leaders agreed to a debt strategy "based on: effective adjustment and development policies by debtor nations; adequate private and official financing; more open markets; and world-wide economic recovery." They also sought "early ratification of the increases in resources for the International Monetary Fund and the General Arrangements to Borrow." For the text of the Declaration, see *Public Papers: Reagan*, 1983, Book 1, pp. 796–799.

142. Memorandum From the President's Assistant for National Security Affairs (Clark) to President Reagan¹

Washington, undated

SUBJECT

NSSD-3-83 on US Approach to the International Debt Problem

Issue

The study ordered by you in NSSD-3-83 on the international debt problem has been completed² and the accompanying NSDD awaits your signature.³ As the debt problem is continuing to gain momentum and become increasingly unpredictable, you are presently scheduled to receive an NSC staff briefing on June 16 covering the dimensions of the problem, how it developed, why the US should be concerned and what we are doing about it.⁴ There remain substantially different views among the agencies concerning the gravity of the problem and the adequacy of our response and contingency planning. This memo outlines some of the fundamentals in the way of background.

Facts

The amount of debt overhanging the LDC debtor countries is enormous. The combined medium and long-term debt of the LDC's and East European countries grew from only \$55 billion in 1970 to \$625 billion last year. In addition to this longer-term debt, these countries have about \$150 billion in short-term debt. The aggregate annual debt service requirements for these countries increased correspondingly from \$9 billion in 1970 to an estimated \$140 billion in 1982. While the size of annual debt service was rapidly rising, the foreign exchange earning ability of many of these countries was deteriorating. For example, the drop in prices of industrial raw materials became particularly sharp beginning in 1980. At the same time, oil prices surged upward once again adding to LDCs' import bills. Finally, a crisis of confidence among international lenders began to result in a cut-back in debtor's

¹ Source: National Security Council, NSC Institutional Files, Box SR-073, NSSD 3-83. Confidential. Prepared by Robinson. A stamped notation reads: "The President Has Seen."

² See footnote 3, Document 131.

³ See Document 143.

⁴ According to the President's Daily Diary, Reagan participated in an NSC meeting on June 16 from 11:01 to 11:48 a.m. (Reagan Library) Minutes of this meeting have not been found. Briefing papers for the June 16 NSC meeting on international debt, including the staff presentation on the international debt problem, are in the National Security Council, NSC Institutional Files, Box SR-103, [Untitled folder].

ability to attract new funds for debt service purposes. These facts taken together have resulted in situations like Argentina, where the equivalent of 100% of its export earnings are dedicated merely to the servicing of debt. Traditionally, a debt service to export ratio of more than 20% was viewed as worrisome.

In 1975 only 15 countries were listed by the IMF as being behind in payments amounting to \$1 billion. This figure jumped to 34 countries in 1982 with arrearages amounting to \$19 billion. Some 46 countries presently are operating under or negotiating IMF adjustment programs. This is one-third of the fund's membership with total debt of over \$375 billion (60% of total LDC and East European medium and long-term debt).

The crux of the problem for the US is to enable these troubled countries to *adjust* to the reality that they can no longer finance deficits by borrowing as they did in the past. This adjustment must be gradual. A sudden cut-off of funds which severely erodes living standards without allowing progress on resolving underlying economic difficulties could cause a backlash against western governments and financial institutions. The debt problem could also slow the pace of economic recovery in the US and other industrialized countries due to the adverse impact on trade. It could also increase the already substantial risk of political instability in a number of key countries particularly in Latin America.

Discussion

Agencies are divided concerning whether the debt situation described represents a temporary liquidity problem which can be adequately dealt with by the present ad hoc, case by case approach *or* represents an emerging structural problem potentially requiring a more systematic response including detailed contingency planning. Treasury, State, and OMB view it as the former (liquidity), whereas NSC, CIA, DOD, Commerce, and CEA generally view it as the latter (structural).

Norman Bailey recently returned from the annual International Monetary Conference in Brussels and reported that European banks have already created reserves against 25% of total LDC and East European loans.⁵ If accurate, this is a very large set-off. In contrast, Japanese banks are estimated to have reserved against only 2–4% with a similar amount by US banks. Therefore, were a major debtor(s) to suspend all payments for an extended period, (which, according to some European bankers, could take place this summer) the European banks would be in a relatively good position to absorb the crisis *and ours*

⁵ In a May 20 memorandum to Clark, Bailey reported on his attendance at the International Monetary Conference in Brussels. (Reagan Library, Roger Robinson Files, Subject File, International Finance: 05/01/1983–06/30/1983)

would not. According to this European scenario, they expect the Federal Reserve to step in and prevent the failure of some large US bank(s) by floating the problem away by a massive injection of liquidity into the system (potentially creating a new inflationary spiral in the US). In the meantime, several European banks continue to withdraw funds from the interbank market and increase loan loss provisions. If the European banks are genuinely acting on the basis of this unrealistic set of assumptions, it could be very dangerous and result in a self-fulfilling prophecy. Our banks are, for the most part, maintaining their foreign loan portfolios at full value rather than sacrificing some part of their liquidity and profits to adequately shore up their provisions for loan losses should the worst occur. To illustrate this problem, by 1982 the nine largest US banks had lent 140% of their total capital and reserves to the four major Latin American debtors alone and over three times their capital and reserves to all LDC borrowers.

In collaboration with other governments, central banks, commercial banks, and international agencies, especially the IMF and Bank for International Settlements, we are presently dealing with the debt problem on a case-by-case basis involving the following five elements: economic adjustment by the debtor countries; strengthening the IMF by increases in quotas and the General Arrangements to Borrow (GAB); readiness of monetary authorities to provide short-term liquidity support when necessary; encouragement to commercial banks to roll-over maturing loans, maintain credit lines, and provide new money; and general non-inflationary economic recovery and continued access to markets. The NSSD concludes that *thus far*, this five-part strategy has worked. Nevertheless, no quick solutions are possible, and many questions remain.

For example, we estimate \$5–15 billion in additional funds will be required this year for the same debtors. The sources of these new funds are not entirely clear at this time. In addition, there are at least five medium to large debtor countries that the CIA predicts will fail to comply with their original IMF performance targets in 1983. Brazil is already in this delicate situation and will not be eligible for further IMF or commercial bank disbursements for about 30 days. Finally, nine debtor countries have already taken various kinds of unilateral actions on debt repayments (suspension of payments, declaration of limited moratoriums, etc.) and the temptation or necessity for the LDC debtors to take further such destabilizing actions is, in our view, increasing.

143. National Security Decision Directive 96¹

Washington, June 9, 1983

*U.S. APPROACH TO THE INTERNATIONAL
DEBT PROBLEM (C)*

The Senior Interdepartmental Group on International Economic Policy has conducted a review of the U.S. approach to the international debt problem and has reported the results of its review in a memorandum, *Approach to the International Debt Problem Overview*, dated April 25, 1983.² This directive approves the approach outlined in that memorandum and provides implementing instructions. (C)

Orderly resolution of the international debt situation is of major importance to U.S. economic, financial, foreign policy and security interests. Successful management of the debt problem will require flexible responses, tailored to the circumstances of the individual cases that comprise the problem at an international level, in the framework of a comprehensive strategy having the following principal elements: (C)

- Economic adjustment by borrowing countries designed to stabilize their economies and restore sustainable external positions. (C)

- An International Monetary Fund adequately equipped to help borrowers design adjustment programs and provide balance of payments financing on a temporary basis while adjustment programs take effect. (C)

- Readiness of monetary authorities in creditor countries to provide short-term liquidity support, when essential to assist selected borrowers that are formulating adjustment programs with the IMF. (C)

- Encouragement to private markets to provide prudent levels of financing to borrowing countries in the process of implementing IMF-supported adjustment programs. (C)

- Resumption of sustainable, non-inflationary economic expansion and maintenance of open markets, both in the industrial countries and in developing countries facing debt problems. (C)

In this framework, the United States will give priority attention to:

- Securing prompt Congressional approval of proposed U.S. participation in the agreed expansion of IMF resources. (C)

- Securing international agreement on the importance of avoiding recourse to protectionist measures and of laying the groundwork for

¹ Source: National Security Council, NSC Institutional Files, Box SR-084, NSDD 96. Confidential. Sent under a June 9 covering memorandum from Clark to multiple recipients.

² See footnote 3, Document 131.

future trade liberalization. In this connection, the United States should pursue its efforts to bring trade and finance officials together to consider the linkages between their areas of responsibility; should use the forthcoming high-level meetings to discourage protectionist action and encourage trade liberalization; and should pursue its efforts to improve coordination among the International Monetary Fund, the World Bank and the General Agreement on Tariffs and Trade. (C)

- Exploring with other creditor countries possible steps to: improve the information base in the debt area; facilitate consultations on developments in the bank regulatory and supervisory area, including problems of consistency of regulatory treatment; and strengthen coordination on the management and individual debt problems. (C)

An Interagency Group (IG) under the direction of the SIG–IEP will be established to monitor the international debt situation and coordinate specific U.S. policies relating to debt. Under Treasury chairmanship, the IG will prepare for the SIG–IEP reports on individual problem countries, developments in the overall debt situation and U.S. policies in the debt area, in order to assure that senior levels of the Executive Branch are kept fully aware of significant developments and problems that may arise. (C)

The IG will review, on a continuing basis, the prospects for world economic recovery; and assess the implications for the debt situation of both substantially weaker and substantially stronger world economic performance than now anticipated over the medium-term. (C)

Among the questions that will be explored by the IG are the following:

- The adequacy of U.S. resources for short-term “bridge” financing and the extent to which multilateral efforts can be expected; and the appropriate use of Exchange Stabilization Fund, Export-Import Bank and Commodity Credit Corporation funds in providing financing to countries of varying importance to U.S. interests. (C)

- The availability of private lending and the adequacy of trade finance facilities—particularly developments in supplier credits, bank cover and trade receivables; whether improvements can be made in secondary markets for trade paper (i.e., discounting of trade receivables); and whether Export-Import Bank, FCIA and private insurers can play a greater role in facilitating short-term trade transactions. (C)

- The availability of IMF resources, particularly pending implementation of the proposed increases; and the possible implications, for U.S. views on such questions as IMF borrowing, access to IMF resources, and SDR allocations. (C)

The IG will monitor the adjustment efforts of LDC borrowers to determine:

- The degree to which domestic political pressures hamper the adoption of prudent economic policies and compliance adjustment in the short- or medium-term. (C)

◦ Whether trade adjustment is taking place on a market-oriented basis and whether import contractions are reaching a point where export-led adjustment becomes less likely. (C)

◦ Appropriate U.S. responses to debtor country policies on countertrade, clearing arrangements, and other nonmarket-oriented trade policies. (C)

In pursuing this strategy, it is important that all elements of the Executive Branch recognize its medium-term nature and the fact some turbulence, both in markets and in countries facing debt problems, must be anticipated in the nearer-term. (C)

Continuing assessment and flexible adaptation of policies within the established framework will be necessary. An outcome satisfactory to United States interests will depend on determined commitment to implementation, over the medium-term, of the strategy that has been adopted. (C)

Ronald Reagan

144. Memorandum From the Under Secretary of Defense for Policy (Ikle) to Secretary of Defense Weinberger¹

Washington, June 15, 1983

SUBJECT

NSC Meeting Chaired by the President on International Debt—ACTION
MEMORANDUM (U)

(C) You have been invited to an NSC meeting chaired by the President on the International Debt Problem on 16 June 1983 at 1100.² Other invitees are: Secretaries Regan, Shultz, and Baldrige; Ambassador Brock; Judge Clark; and, Messrs. Feldstein, Casey, Meese, and Baker. This meeting will be principals only—no substitutes.

(C) The purpose of the meeting will be to brief the President on the causes of the current international debt crisis and to outline current policy. Judge Clark wants to keep the meeting factual. His staff hopes

¹ Source: Reagan Library, Roger Robinson Files, Subject File, International Finance: 05/01/1983–06/30/1983; NLR–487–3–23–12–0. Confidential. Robinson initialed in the top right-hand corner of the memorandum.

² See footnote 4, Document 137.

that the President will conclude that current policy is insufficient to deal with the debt problem.

(C) *BACKGROUND*: Following the Mexican debt crisis in August, 1982, the Administration began an intensive review of policy regarding the international debt problem. This review culminated with the signing of National Security Decision Directive 96 on June 9, 1983.³ NSDD-96 provides that the management of the debt problem will require flexible responses on a case-by-case basis within the framework of a comprehensive strategy.

(C) Basically, the strategy is to rely on worldwide economic recovery to boost economic growth in borrowing countries while they assume the responsibility to adjust their economic policies to live within their means. Any “temporary” liquidity problems would be bridged through the International Monetary Fund and creditor country financial support. However, old debt restructuring/rescheduling and any new debt requirements will be the principal responsibility of the private sector.

(C) This strategy assumes: (1) that the current problem is really only one of short-run liquidity and (2) that private financial markets with IMF encouragement can carry the burden of assuring solvency for the future. This is mainly the view of Treasury, State, and others. However, during the course of the study leading to NSDD-96, DoD, CIA, NSC, and Commerce argued that the debt problem has the potential for getting much worse in a second round of debt crises later this year. Instead of merely a short-run liquidity problem, the situation could very well turn into a solvency problem for several key friends and allies.

(C) While not disagreeing with some of the basic elements of the strategy, we feel that more needs to be done to understand and deal with the security and economic implications of a second round of debt problems.⁴

Implications for DoD

(C) Some of the implications of the continuing debt problem for Defense are:

◦ Debt difficulties are not uniformly distributed among our friends and adversaries. From a national security standpoint, we need to direct our efforts toward: (a) maintaining the economic and political viability of our allies and friends, (b) encouraging allies and non-aligned friends to be more helpful to the achievement of our foreign policy objectives (e.g. Mexico) and (c) avoiding arrangements that help or subsidize our adversaries. We must assure that U.S. Government

³ See Document 143.

⁴ An unknown hand underlined “security.”

direct and indirect assistance helps our allies and potential friends and not our adversaries.⁵

You should stress this point during the discussion and suggest that we develop mechanisms and techniques for accomplishing these goals more effectively. DoD will be pleased to participate in this effort.⁶

◦ Large infusions of new funds will be necessary this year (\$5–\$15B). It is not clear where these funds will come from. The IMF is depleting its resources with little prospect for a quota increase before the end of the year. Private markets could provide funds but this would create additional upward pressures on interest rates with negative effects on economic recovery. It is likely that government financial assistance will be required, creating further pressure on a severely constrained budget.

◦ Many of the debtor nations are FMS recipients.⁷ As their problems become worse, significant arrearages could develop on their accounts. In addition, these countries will require larger amounts of economic assistance to bridge balance of payments problems. At the same time, this could lead to the need for increasing amounts of FMS grants versus loans.

◦ The domestic costs of economic adjustment in debtor countries are high and will increase, leading to potential political and social instability as standards of living decline.

Major commercial banks have large concentrated exposure in areas where problems are acute (i.e., Latin America). If problems develop quickly, some banks may seek special provisions from the government.

Fred C. Ikle⁸

⁵ An unknown hand underlined “not” and highlighted this sentence in the right-hand margin.

⁶ An unknown hand highlighted this paragraph in the right-hand margin.

⁷ An unknown hand underlined “FMS recipients.”

⁸ Ikle signed “Fred” above his typed signature. The options “Will Attend” and “Will Not Attend” were crossed out at the bottom of the memorandum.

145. Memorandum From the National Intelligence Officer for Economics (Ernst) to Director of Central Intelligence Casey¹

NIC 5440–83

Washington, July 27, 1983

SUBJECT

Policy on the LDC Debt Problem

REFERENCE

NSDD #96, 9 June 1983²

1. During the preparation of the NSDD on the international debt problem, a split developed between Treasury and the NSC Staff on how to handle strategic planning of policy options that might require substantial modification of the current ad hoc approach. In order to accommodate Treasury's legitimate concern that information on formal contingency planning would leak, and consequently would scare financial markets, it was agreed that a small group with representatives from the most concerned agencies would be established under the general sponsorship of the SIG–IEP, but without formal status or agenda. After a good deal of foot-dragging on Treasury's part, the group is finally going to meet next Monday, 1 August. Representation apparently will be at about the Assistant Secretary level. Harry Rowen will receive the invitation as your representative. No formal memoranda apparently will be circulated.

2. My impression is that the group is to examine the debt problem in a broad, relatively long-term framework so that the Administration can consider how various programs (financing, trade, etc.) may need to be modified, or if necessary new programs created, to deal with major contingencies as they arise. Specific policy recommendations will continue to develop through the IG and SIG–IEP.

3. CIA clearly has an important role to play in support of this effort. The NIE on the medium term political implications of the debt crisis, which is now in train, will address some of the most critical issues which have so far been untreated in the interagency work on the debt problem.³ DDI monthly assessments on the debt problem and building

¹ Source: Central Intelligence Agency, National Intelligence Council, Job 85–01156R: Policy, Planning, and History Records (1981–1984), Box 2, Folder 29: International Debt/Finance—1983. Confidential.

² See Document 143.

³ National Intelligence Estimate (NIE) 3–84, *The Political Repercussions of the Debt Crisis in Major LDC's, Volume I—Key Judgments*, and *Volume II—The Estimate*, both dated November 7, 1984, are in Central Intelligence Agency, History Staff Files.

block analysis of major trends affecting the debt problem, such as the response of LDC exports to OECD economic recovery, also will be useful.

Maurice C. Ernst

146. Memorandum From the Special Assistant to the Deputy Secretary of State (Edson) and the Executive Assistant to the Deputy Secretary of State (Walker) to the Deputy Secretary of State (Dam)¹

Washington, August 26, 1983

SUBJECT

Taking Stock

The current popular perception is that this Administration lacks a foreign policy "success." In the public mind, "success" may be synonymous with results in the three major issue areas—Central America, the Middle East, and arms control. Tangible "success" in those areas, however, will probably take time and patience—which, as the Secretary has said, should not be confused with indecision.

Obviously, we should not permit our policy to be railroaded by the public clamor for "success." Nevertheless, policy isn't made in a vacuum, and the Administration needs public support for its policies. Moreover, the criticism about our lack of success is demoralizing: Jimmy Carter's "malaise" may not exist in the country at large, but we sense that it pervades Foggy Bottom. Finally, while the current spate of criticism can be attributed to the White House's traditional pre-election year need for results, it could also represent a more fundamental loss of confidence in the seventh floor's ability to run the building (rather than vice versa). For all these reasons, we must stoke the fires in the building, capture peoples' imagination, and move our policy forward wherever practicable.

This means, generally speaking, that we must stop paying obeisance to the folkways of the building. Indeed, several calculated

¹ Source: Department of State, Executive Secretariat, S/S-I Records: Deputy Secretary Dam's Official Files, Lot 85D308: Memos To/From S 1983. Confidential. Edson initialed for Walker.

moves—be they process-oriented, or personnel-oriented—that run *contrary* to the folkways of the building may be just what the doctor ordered for malaise.

For the Secretary, the task of moving our policy forward translates into a question of identifying a few areas on which to focus his resources over the next 18 months, and in which he can make a significant contribution. The first step in this process is to recognize that the Secretary's discretionary time is limited. Whether we like it or not, the inertia of foreign policy is such that the bulk of the Secretary's time must be devoted to the major issue areas—arms control, Central America and the Middle East. Accordingly, this paper first examines those three areas in an effort to identify possible openings for constructive action, and then identifies some other issues wherein the Secretary would get the biggest return for his investment of time and influence. Finally, the paper notes how we might better present our track record.

[Omitted here is information on arms control, Central America, and the Middle East.]

OTHER ISSUES

There are a variety of issues—other than arms control, Central America, and the Middle East—that could yield results were the Secretary to commit himself to them. In choosing among them, we believe the Secretary should play to his strengths—economics and mediation.

(1) International Economic Affairs.

The Secretary has been criticized for the lack of a success in arms control and the Middle East. However, he has yet to receive what is potentially the most damning criticism of all: a failure to show progress in his own area of expertise—international economics. That alone might be a compelling reason for making a push in the economic area. In addition, there are increasing signs that the debt situation is deteriorating, particularly in key strategic countries such as Venezuela and the Philippines. Moreover, economic development is quickly becoming a cornerstone of our Central America and Africa policies. Finally, the idea of a debt moratorium is gaining adherents, especially in Latin America. All of these points argue in favor of some initiative in the economic area.

Arguing against an economic initiative is the bureaucratic pitfall of potentially cutting across Treasury's bow. And from a substantive perspective, doing nothing (except promoting our own non-inflationary recovery) may be a better solution to current global economic problems than doing something (although proposing an acceptable alternative now to the status quo may preempt more radical alternatives later).

On balance, we believe the pros outweigh the cons and that the time is ripe for an international economic initiative led by the Secretary. Such an initiative could involve any one of the following:

- *Endorse Hugh Corbett's Ministerial Group.* The advantage of this idea is that it is already on the drawing board and the Secretary has already been asked to chair it or kick it off. Moreover, if at least the *nominal* country representatives were to be foreign ministers, then the Secretary would not seem to be usurping Don Regan's role. (Certainly, some kind of acceptable division of labor could be worked out with Treasury.) The downside risk, of course, is that foreign ministers are notorious for proposing economically unsound solutions.

- *Initiate a Latin American Debt Conference.* The advantage of this idea is that we would be attacking the heart of the problem, since the bulk of the debt burden is in Latin America. Moreover, a conference—on our terms and under our aegis—might head off the current clamor for a debt moratorium. Our objective would not be to create new institutions, but to develop new mechanisms (such as Feldstein's proposal utilizing the Exim Bank) for alleviating the LDC debt burden. The downside risk of a Latin Debt Conference is that, unless it were properly coordinated, it is sure to ruffle feathers at Treasury.

- *Launch a Pacific Basin Economic Initiative.* This idea would create fewer bureaucratic problems with Treasury. We should consider, however, whether there is a sufficient rationale—be it economic or political—for such an initiative. The Pacific Basin is economically better off than most areas of the world. More importantly, such an initiative would tend to lump together a group of politically diverse countries, thus undercutting the need to treat China differently in view of the role of the "China card" in U.S.-Soviet relations. Nevertheless, a Pacific Basin Initiative, if properly structured, could complement the President's upcoming trip² and serve as a vehicle for practicing what we preach regarding free trade, open markets, etc.

In addition to these initiatives, we would argue that consideration should be given to an even bolder idea—namely, the articulation, by the Secretary, of a global economic strategy (call it an International Economic Compact). This would build on the President's Cancun speech, the Secretary's North-South speech, and our UNCTAD address.³ Its purpose would be to articulate a policy superstructure that coherently links the CBI, the African economic initiative, GSP renewal, and any or all of the above suggestions. In effect, we propose that George Shultz issue his own "14 Points" speech, outlining how the economic relationship between North and South should develop over the next 20 years. Granted, this is grandiose-sounding. But the international economic area presents the Secretary with his best opportunity for making a lasting contribution to U.S. foreign policy. Moreover, many of the

² Reagan visited Tokyo November 9–12 and Seoul November 12–14.

³ For documentation on the 1981 Cancun Summit and UNCTAD, see the Global Negotiations compilation of this volume.

elements of a global economic program already exist, or can be practically implemented. What remains is for someone to be tasked with drawing them together into a comprehensive program.

[Omitted here are information on mediation and the authors' concluding thoughts.]

147. Memorandum From the Deputy to the Under Secretary of State for Economic Affairs (Morris) to the Under Secretary of State for Economic Affairs (Wallis)¹

Washington, September 2, 1983

SUBJECT

Future Issues

1. Issues Related to Summit Strategy

Our strategy paper has anticipated most of the major issues with which the London Summit will have to deal.² Following is a summary:

[Omitted here is information on trade and monetary issues.]

f) *Debt*. The existing consensus on handling debt problems risks unravelling if any or a sufficient combination of several possible developments occur: A unilateral moratorium by a large borrower or a few by countries like Venezuela; continued evidence that net new lending is drying up (as we saw earlier this year); continued high interest rates; excessively onerous conditions attached to the IMF/GAB authorization or appropriation in Congress which either limit our ability to use the money or force the banks to withdraw or raise their charges even higher than now; failure to maintain a unified creditors' position on a key country (e.g., Poland, but there may well be others); pressure from other governments or the private sector for radical new schemes; etc. This area is fraught with uncertainty over the next several months.

¹ Source: Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: London Summit—August–December 1984. Confidential. Drafted by Morris on September 1. Printed from an uninitialed copy.

² Wallis forwarded a copy of the proposed strategy paper for the 1984 London Economic Summit to Clark under an August 30 covering memorandum. The covering memorandum and strategy paper are in the Reagan Library, Douglas McMinn Files, Economic Summit File, London—Preparatory.

In some countries (Mexico), the trend is definitely good; in others (Venezuela, Philippines, Brazil?), it is bad or doubtful.³

There is no practical prospect of getting money from Congress to finance any new debt relief schemes even if we thought they were desirable. The key, I believe, remains in getting more new lending from commercial banks (including a reflow of repatriated deposits). Use of guaranteed trade credit is neither sufficient nor right (i.e., it is provided whether a country has a sensible adjustment program or not). I would like to think that we could come up with some new ways to use GAB resources (once in place) to leverage more new lending from the banks, but I confess I don't have any brilliant ideas. Still, I think it ought to be studied as a contingency against unravelling, should it threaten.

[Omitted here is information on other issues.]

³ In an October 4 memorandum to Shultz, Bosworth provided a status report on high debt LDCs, including Mexico, Brazil, Venezuela, and the Philippines, among others. (Department of State, Executive Secretariat, S/P Records, Memoranda/Correspondence From the Director of the Policy Planning Staff to the Secretary and Other Seventh Floor Principals, Lot 89D149: October 1–15, 1983)

148. Action Memorandum From the Assistant Secretary of State for Economic and Business Affairs (McCormack) to Secretary of State Shultz¹

Washington, October 14, 1983

SUBJECT

Commodity Credit Corporation (CCC) Lending as a Debt Management Tool

ISSUE FOR DECISION

Whether to write to David Stockman in support of USDA's request for a \$5.4 billion increase in CCC's FY 1984 guarantee authority.

¹ Source: Reagan Library, George Shultz Papers, Official Memoranda (10/14/1983). Confidential. Drafted by Paul McGonagle (EB/IFD/OMA) on October 13; cleared in EB/OPF, EB/IFD, ODF, EA/EP, EUR/EEY, ARA/ECP, EB/IFD, EB, and in substance in T. Sent through Wallis and Eagleburger, neither of whom initialed the memorandum. An unknown hand initialed for McCormack. McKinley's stamped initials appear at the top of the memorandum.

ESSENTIAL FACTORS

The USG strategy for managing the debt crisis would benefit substantially from increased use of our trade finance facilities, particularly CCC guarantees. The strategy recognizes that while adjustment on the part of debtor countries is necessary, the adjustment process requires adequate financial lubrication to proceed with a minimum of economic, social and political disruption.

In this context, an interagency group (IG) has reached general agreement that USG trade finance facilities (primarily EXIM and CCC) should be used more actively to support the adjustment process in selected debtor countries. EXIM is financially prepared to meet such “extraordinary” financing requirements, but CCC is not. The existing budget gives CCC guarantee authority of \$3 billion in FY 1984, a level established before the onset of the debt crisis (two years ago). It is a budget for a different time.

USDA has requested from OMB (no Congressional action is necessary) an additional \$5.4 billion in guarantee authority for FY 1984 to cover “extraordinary” financing requirements. OMB is stalling. Meanwhile, the IG proposal for use of trade financing facilities as a debt management tool has not been brought to the SIG-IEP for final blessing due, in large part, to the budgetary constraint on USDA.

We have an important foreign policy interest in developing the trade finance facilities to the maximum extent. A few examples will suffice to make the point:

— It is virtually certain that Brazil will need additional financing beyond the \$10 billion-plus package currently planned. Food shortages in Brazil are a real possibility and have the potential for short-circuiting adjustment. From a commercial standpoint, the market development prospects are attractive. CCC guarantees have been a major component of the official assistance package for Mexico.

— The Yugoslav assistance/refinancing package for 1984 will depend importantly on a substantial CCC program to lever the Europeans/Japanese into a full measure of participation. A CCC program in Yugoslavia next year may not be possible absent an increase in CCC’s budgetary authority.

— We need to develop further our capability to respond to emerging problems—the Philippines is a case in point.

It would be irresponsible to extend CCC guarantees indiscriminately, and the use of the CCC program should be conditioned on countries pursuing adequate adjustment programs and on the participation of banks and other governments (IG guidelines cover these issues). It would be equally damaging to our effort to manage the debt crisis to hamstringing an important financing tool.

RECOMMENDATION

That you sign the attached letter to David Stockman supporting USDA's request to OMB for an increase in CCC's FY 1984 guarantee authority.

Attachment**Letter From Secretary of State Shultz to the Director of the Office of Management and Budget (Stockman)²**

Washington, October 26, 1983

Dear David:

Our response to debt crises in individual countries and efforts to alleviate strains on the international financial system have, I believe, been a qualified success. We have overcome the initial crisis, but we need staying power, and it is not clear that we have it in adequate measure. The U.S. must use to the maximum extent all the tools at its disposal to support the adjustment process in key debtor countries, help maintain U.S. exports in a recessionary world and to pursue objectives central to our strategic interests.

Active use of U.S. trade financing facilities is important in the pursuit of these goals. While EXIM appears financially capable of playing such a role, CCC does not. I understand that CCC has requested that OMB increase substantially CCC's guarantee authority to meet extraordinary financing requirements in FY 1984.

My strong view is that the CCC should have the financial resources to help contain adverse political and financial pressures. Your approval of USDA's request for increased budgetary authority would contribute materially to the attainment of our central objective—to preserve an international political and economic environment conducive to the attainment of U.S. interests.

Sincerely yours,

George P. Shultz³

² Confidential.

³ Shultz signed "George" above his typed signature.

149. Paper Prepared in the Department of the Treasury¹

Washington, undated

**RESPONSE TO NSC “PROGRAM” TO DEAL WITH
THE INTERNATIONAL DEBT PROBLEM**

The following are paragraph-by-paragraph comments on the NSC “program” to deal with the international debt problem, hereinafter called the “program”:²

1. What are the “increasing number of indications” (since NSDD–96 was issued in June 1983)³ that the debt problem is “becoming a systemic structural financial crisis?”

The statement that “countries are going out of compliance with IMF programs” is incorrect. There are 45 IMF programs and only three countries technically out of compliance. Even if two or three more which are working to stay within compliance are included, it is safe to say that there are *more* countries with IMF programs, as well as a *higher percentage* of countries with programs that are in compliance, than in the past few years. For example, in December 1982 there were only 33 programs—12 less than today—while 6 of those programs were technically out of compliance, with a few others, as now, experiencing difficulties.

The statement that additional funds are being required within months of an additional rescue package is untrue. The only “packages” were for Mexico and Brazil. The Mexican program appears to be proceeding, if anything, better than expected and it was envisioned that Brazil would need another massive package at the time the last package (projects 1–4) was put together. Project 4, the interbank deposits, was known to be the most difficult one to achieve but there is nothing in the Brazilian situation to indicate that the problem is incrementally larger than what was expected. Likewise, it has always been known that the belt tightening economic adjustment process would create problems in the LDCs, but it was also recognized that there was no alternative to such adjustments.

The statement (less than six months after NSDD–96) that the present case-by-case approach will not suffice is unsubstantiated. We do not know what the effect of a major OECD recovery will be as it has not

¹ Source: Reagan Library, Roger Robinson Files, Chronological File, Robinson Chron 1983; NLR–487–10–4–23–1. Secret. The paper was forwarded under an unsigned October 14 covering memorandum from Robinson to Feldstein.

² A copy of the program proposed by the NSC is in the Reagan Library, Norman Bailey Files, International Economics File, International Debt (09/17/1983–09/30/1983).

³ See Document 143.

yet occurred. There is no analysis in the program of the impact on the world banking system if it were required at this moment to grant more drastic debt relief than that being undertaken. In addition, the program ignores that for the big debtor countries almost the entire debt is *commercial* bank debt and that what governments do with official debt will have little, if any, impact.

As to the points for systematic program of action, our reply would be as follows:

1. There are mechanisms in existence for the coordination of creditor government actions.

2. The IMF is at the center—setting out a basic adjustment program for the countries and trying to identify additional sources of financing if needed.

3. In addition, the G-5 finance ministers or their deputies are meeting approximately every other month and a group of special debt deputies of the G-5 has been set up to meet periodically and to deal with the problem by phone on a day-to-day basis.

4. The Paris Club has proven adequate for the rescheduling of official debt. There is no justification given for a multi-year rescheduling for official creditors. Rescheduling can be done with the expression of intention to reschedule in future years but the extent of rescheduling needed would depend on outside factors, such as adjustment or world growth. In addition, it is hard to see how official creditors can deal with their debt differently from the private creditors without it being justifiably claimed that the official creditors are bailing out the banks. Any multi-year action by official and private creditors will take pressure off the debtor countries to make the necessary adjustments so that when the debt does come due they will be unprepared to deal with it.

5. The same is true of interest rate adjustment or forgiveness, as one cannot expect the banks to turn into charitable institutions. It is true that they need to look at reducing the spreads over LIBOR and are in fact doing so, but at the same time they have to consider whether this will deter lending by the medium size banks.

Proposal 1C, forgiveness of the debt of the poorest countries, which may be a virtuous proposal, has nothing to do with the debt problem, as the debt of the poorest countries is almost entirely debt to official creditors.

Proposal 1D: There is coordination of provision of additional funds as was done for Brazil before the recent IMF meeting:⁴ First, through

⁴ Presumably a reference to the Annual Meeting of the Board of Governors of the World Bank Group and International Monetary Fund, which took place in Washington September 27–30. See Document 298.

the debt deputies, then the G–5, and then the G–10. There is no indication that any of the governments are willing to provide funds to the large debtor countries, other than in the form of export credits, and even export credits are only reluctantly agreed to by several nations.

Again, with a net flow of funds to the Banks (under the Brazilian program, for example, more than \$5 billion to the banks through the end of FY 1984), it is hard to see how the governments would come up with new money while the banks are receiving interest payments. The banks would be asked to stop receiving interest, but then it is hard to see how they would continue to provide financing for a country or why they would then refrain from trying to take legal action to get whatever legal repayments they could get.

Proposal 2 is very much what the multilateral development banks (MDBs) do. There is, however, a limitation on the absorptive capacity of countries for projects. Those that might have the greatest capacity, such as India and China, are not part of the debt problem and they still have the availability of commercial financing for their projects. It is difficult to see how the MDBs could justify doing a less economically justifiable project in a high debtor country just because it is a high debtor country.

As to Proposal 3, we have encouraged co-financing and syndications of bank financing and the MDBs are not being limited by restrictions but more by the fact that countries having to cut enormous budget deficits are having to cut back on some of the development projects.

As to Proposal 4, Eximbank does provide financing in almost all the LDCs. Ex-Im has stated that where there are valid requests for financing, Eximbank financing remains available. Where there is a valid IMF program, such as in Mexico, the U.S. Government, with Eximbank, is developing methods to advertise the availability of Ex-Im financing.

As to Proposal 5, it is unclear why these particular forms of U.S. Government subsidies should be promoted over any other subsidies to U.S. business. Again, however, if it looks as if there is a serious problem for countries who are making the effort to adjust with IMF programs, the suggestion could be examined, but experience so far shows where there is an IMF program, banks will finance and without one the financing would be throwing good money after bad.

As to Proposal 6, other creditor governments are even reluctant to provide export credits and they are certainly not prepared to increase their own deficits by providing the sorts of funding suggested. Basically, they see the situation as a problem for the countries that need to adjust for the private banks.

As to Proposal 7, all of 7 seems to run totally counter to U.S. philosophy and certainly to the Reagan Administration's philosophy. We do not tell our banks what to do. When we start doing that, we will have to guarantee the results and essentially end up having the government

run the banks. How private banks' debt is rescheduled is a matter for the private banks, not the government, to determine. The kind of loans banks make is a decision for the banks. It is not for the government to insist on short-term trade credits. Medium and long-term loans might be more essential.

The amortization of front-end fees is dealt with in the IMF Bill. Question of front-end fees is largely an accounting question that matters to regulatory authorities but is of little interest to LDCs, who are mainly concerned with effective rate, not with whether it derives from contractual interest or from fees. A reduction of fee, however, would not necessarily mean reduction of overall interest.

As to Proposal 7D, the grace periods and the financial maturities are being extended and if at the end of the period more time is needed, a further extension can be agreed to at that time.

As to Proposal 7E, at a point where several of the packages, such as Brazil and Argentina, are completed, the bank may want to explore ways of developing a secondary market on international debt instruments. But no reason is given why we must immediately start doing so now.

As to Proposal 8, the regulators are working on establishing rules for loan loss reserves, but it must be remembered that while banks should be encouraged in general terms to strengthen capital positions, including through loan loss reserves, regulators need to avoid steps which would unduly impede flow of appropriate amounts of new lending.

As to Proposal 9, there is no particular magic as to the percent of debt service requirement. Much depends on each country's ability to take further steps to adjust. It is hard to see how a method could be devised to reward those which over-borrowed and punish those countries which have acted more prudently.

Conclusion

We fail to see what has happened of a systemic nature in the four month period since June that merits vitiating the U.S. international debt strategy that NSC staff themselves helped formulate. The agreed strategy in general is operating as foreseen, with particularly favorable developments on the element dealing with economic growth. Specifically:

(1) Borrowing countries are taking domestic adjustment measures to stabilize their economies. This remains at the heart of any international program. With varying degrees of success, the process has started.

(2) A major effort is underway to increase IMF resources; that institution's lending (and lending of other international organizations) is tailored to specific national circumstances.

(3) Emergency situations are being dealt with.

(4) Private lenders are continuing to lend. As expected, this is occurring at lower rates of increase, and reluctantly in many but not all cases. IMF programs are geared to increased bank lending. The situation, country-by-country, is much better appreciated than a year ago. The full magnitude of the problems are very serious and all participants appear aware of them. This can be an element of strength.

(5) An upturn in world growth is beginning to take hold, led by the United States. Commodity prices are turning up. If world growth does not resume, the debt problem could become systemic, but this is not yet the case.

Debtor countries are recognizing the need for adjustment and the futility of seeking radical solutions. Maturities are being lengthened on a case-by-case basis. While major sovereign borrowers are seeking debt restructuring appropriate to their needs, they are not seeking a debt repudiation or long-term moratorium; the Caracas Debt Conference illustrated their determination to “work out” problems individually and to reject global or systemic type solutions.⁵

The priority actions identified in NSDD-96—prompt approval of IMF resources, international agreement to avoid protectionism, and exploring other possible steps with creditor countries (to improve data, improve the bank regulatory and supervisory environment, and better manage individual debt problems)—are all underway. Progress will not be easy or fast, but the processes are activated.

An interagency group has prepared a study for SIG consideration on the Government Role in Trade Finance;⁶ subject to conditions, the Export-Import Bank has increased resources for Brazil and Mexico. The G-5 itself and through deputies and debt deputies is more actively coordinating on individual country debt problems; U.S. and other bank regulators are attending meetings of the private banks’ coordinating groups on individual debt reschedulings.

All the above points respond to NSDD-96. The bank regulatory agencies’ proposals in connection with the IMF legislation also mean that increased guidance and prudential concern will be a factor in future commercial lending without directly interfering with decisions of the market place.

⁵ A reference to the OAS Specialized Conference on External Financing, which took place September 5–9 in Caracas. Telegram 267204 to all OECD capitals and all American Republic diplomatic posts, September 20, reported on the conference. (Department of State, Central Foreign Policy File, Electronic Telegrams, D830542–0594)

⁶ See footnote 2, Document 152.

NSDD-96 correctly foresaw that in pursuing the U.S. strategy, all elements of the Executive Branch should “recognize its medium-term nature and the fact that some turbulence, both in markets and in countries facing debt problems, must be anticipated in the near term.”

Many of the points included in the NSC memorandum are encompassed in the existing strategy and steps currently underway, but a non-selective “systemic program” to deal with an alleged “systemic structural crisis” goes beyond the NSDD findings and the actual facts of the current situation. It overlooks the progress and increase in confidence achieved since the Toronto IMF meeting in 1982 (when Mexico was the problem, and Brazil had not even surfaced).

The NSC program would tend to interpose the U.S. Government directly into the individual operations, decisions, and profits of U.S. commercial banks. Many of them are already undertaking actions similar to those proposed, but on a country-by-country basis, as circumstances warrant.

A rational appreciation of varying degrees of “turbulence” is necessary; the debt problem will be with us for some years to come. The strategy needs time to work. It may need some changing, but nothing indicates a need for that change now.

150. Memorandum From Norman Bailey and Roger Robinson of the National Security Council Staff to the President’s Assistant for National Security Affairs (McFarlane)¹

Washington, October 20, 1983

SUBJECT

International Debt Crisis

On September 14, Marty Feldstein and I accompanied Judge Clark to see the President. Roger was in attendance as he went up on a separate subject. The President agreed that the seriousness of the international debt situation from the financial, economic and security standpoints justified the establishment of a small, Cabinet-level group

¹ Source: Reagan Library, Executive Secretariat, NSC National Security Decision Directives (NSDD), NSDD 84 [Safeguarding National Security Information]; NLR-751-5-32-1-6. Secret. Sent for urgent information. A stamped notation on the memorandum reads: “RCM Has Seen.” Another stamped notation on the memorandum reads: “Noted.”

to monitor the situation and formulate contingency plans. I formulated an NSDD to this effect, coordinated with Marty (Tab I).²

About two weeks later, Judge Clark met with Don Regan who basically said that no such group was necessary. The Judge withdrew the proposal.

On October 7, the Judge called Norm into his office and showed him the message from the chief of Figueiredo's civil household sent through Henry Kissinger (we do not have a copy of the sensitive document) predicting imminent social and political chaos and pleading for immediate help.³ We were tasked to prepare an emergency action plan for Brazil and a contingency plan for a debt crisis in general by noon, October 8. (You have these papers.)⁴ We were specifically instructed not to discuss this matter with anyone in preparing the package.

When the papers were completed, they were sent to Treasury. Unfortunately, there may have been some confusion at Treasury concerning why this emergency package was generated, and our papers were sent back with detailed criticisms of both efforts as being unnecessary, alarmist and unworkable. (You have copies of Treasury's replies.) In the meantime, Regan sent a memo to the President on the IMF/IBRD meetings in Washington September 27–30 in which he said that the Brazilian situation had improved greatly (you have seen this).⁵

In subsequent discussions with Marty Feldstein and relevant CIA analysts, they disputed Treasury's critique of our work and basically supported the viability of our proposed approach had this been an actual emergency which required immediate confidence-building measures. That is where we stand now. For your reference we have attached the following reports and papers:

Tabs II, III and IV: Recent CIA reports on the debt crisis.⁶

Tabs V and VI: Recent speeches by both of us. Norman's is an excerpt from a speech given at the European Forum Conference in Alpbach, Austria, August 31, 1983; Roger's was a classified presentation before 300 CIA analysts at Langley.⁷

² Tab I is not attached. A copy of the draft NSDD establishing an oversight group on international debt is in the Reagan Library, Norman Bailey Files, Chronological File, Chron 09/15/1983–09/19/1983.

³ An unknown hand wrote "Attached Tab A" in the right-hand margin. Tab A is not attached.

⁴ An unknown hand drew a line from the word "papers" to the margin below the paragraph and wrote "Tab B." Tab B is not attached.

⁵ See Document 300.

⁶ Tabs II, III, and IV are not attached.

⁷ Tabs V and VI are not attached.

Tab VII: For general background, the debt presentation given to the President on June 16.⁸

We continue to believe the NSDD represents the President's wishes and should have been sent to him for signature whether Don Regan objected or not. We believe that the debt crisis is a clear and present threat to the national security, and we believe it is not being properly addressed. Further, it is our view that it will not be managed properly until there are personnel changes at Treasury.

⁸ Tab VII is not attached.

151. Information Memorandum From the Chairman of the Policy Planning Council (Bosworth) to Secretary of State Shultz¹

Washington, November 14, 1983

SUBJECT

Regional Crises and Tensions—Interrelationships, Opportunities, and Risks

Objective

To examine the recent increase in regional instability, violence, and terrorism, in order to assess (1) whether there is any pattern or relationship which helps to explain these developments, and (2) what are the implications for U.S. policy.

I. Analysis of the Problem

The current period, on the face of it, would seem to be one of exceptional tension and stress in the world. Recent events—such as the KAL shootdown, the Rangoon murders, the assaults on the U.S. Marines and French forces in Beirut, the Iran-Iraq war, the Syrian assault on the PLO, the Grenada crisis, the continuing conflict in Central America, etc.—would seem to suggest a world of heightened danger and instability. Some of these events are examined in detail in the Annex at Tab A.² But

¹ Source: Department of State, Executive Secretariat, S/P Records, Memoranda/Correspondence From the Director of the Policy Planning Staff to the Secretary and Other Seventh Floor Principals, Lot 89D149: Nov.'83 Global Project. Secret; Sensitive. Sent under a November 14 covering memorandum from Bosworth to Hill.

² Tab A, an undated "Review of Selected 1983 Incidents," is attached but not printed.

a broader analysis would have to look at three basic forces at work: a long-term structural weakening of the international system; the most severe global economic crisis in forty years; and the deliberate efforts of the Soviet Union and its proxies to destabilize the international order.

A. In historical perspective, the mounting problems of recent years reflect, first of all, a *long-term structural fragmentation* of the world political order. We are still living with the structural consequences of World War I and II and the breakup of several great colonial empires into scores of new and often unstable nation states. Just as the world wars resulted in part from the weakening or collapse of the European political order, so today the Middle East crisis, for example, represents the absence of a new system of order in an area formerly governed by the Turks, British, and French.

Major powers, including the two superpowers, are less and less able to control the behavior of regional states, even those with which they have so-called client relationships. Neither we nor the Soviets are able, for example, to exercise any effective constraints on either Iran or Iraq—and Syrian behavior is clearly determined by Syria's desires as much as if not more so than by Soviet ambitions. The oil crisis of the 1970s created new centers of economic power, including some (Libya and Iran) which have devoted their new-found resources to the explicit goal of destabilizing the existing order.

This erosion of structural restraints allows all centrifugal forces to operate more freely—whether racial hatreds, national rivalries, religious differences, or ideological assaults. Instant communications and mass media make it much harder to dampen, settle, or isolate local quarrels.

In a world which UN Secretary-General Perez de Cuellar last year characterized as one of growing anarchy, the threshold at which states resort to violence and conflict declines. While terrorism in some quarters is brought under control (Italy, Turkey, Argentina), we are beginning to see its even more blatant use as an instrument of policy, by dissident groups and, even more alarmingly, by national regimes. Beyond this erosion of the code of international conduct and diffusion of power lies the spectre of nuclear proliferation.

All this provides fertile ground for a major power—the Soviet Union—that is driven by revolutionary ideology and national ambition to foment instability in order to weaken the western world. At the same time, we should recognize that even if we are able to change Soviet behavior, we would still face a turbulent, dangerous world and would still have to contend with violence, conflict, and acute threats to our interests.

B. Compounding this structural weakness of the international system is the most *severe world economic crisis* of at least the past forty years. World trade—the primary engine of world economic growth since World War II—has declined in real terms in each of the past two years. And, while our own economic expansion is strong, a renewal of growth in the rest of the world still remains more a forecast than a reality. Overlaying the immediate crisis is a slow, but probably inexorable, shift in the balance of global economic power with Western Europe in descendancy and the relative role of Japan and much of Asia on the rise.

The economic crisis is not a primary cause of most of the events which currently concern us, although it is a major contributing factor to regional turmoil in many places such as in Central America. But the economic crisis does make it much more difficult to control the repercussions of destabilizing events such as, for example, the assassination of Aquino. Moreover, as we look ahead, continued economic decline would almost certainly bring more political instability and tempting targets of opportunity for the Soviets in the Third World.

The immediate economic situation in most of the Third World is grave. Many LDCs, particularly the large middle income countries burdened by heavy debt, are now experiencing negative economic growth for the first time since the great depression. The social and political pressure of rising expectations in these societies has been replaced by the trauma of abruptly frustrated expectations. In the newly independent countries of Africa and Asia, this economic crisis has further weakened fragile national institutions. In some countries nationhood may actually be at risk. In other countries (e.g., the Philippines, Brazil), the so-called debt/growth dilemma so weakens political authority that it gravely jeopardizes any efforts to move peacefully to more broadly based rule and poses a risk of serious political instability.

Economic crisis can also bring ethnic tension, religious ferment and other societal problems to a flashpoint. Economic deterioration broadens the appeal of Islamic Fundamentalists and others who attack modernization and call for a return to traditional—and allegedly more comfortable—values.

Notwithstanding the seriousness of the current situation, mid-term economic prospects for most of the world are considerably better now than a year ago. The decline in oil prices over the past year has been a boon to stable growth, and further price declines seem possible in 1984—barring a disruption of Persian Gulf oil supplies.

Also, notwithstanding the immediate economic crisis of the larger developing countries, we need to remember that it is to these countries that we will look to provide a major share of global economic growth

in the second-half of the 1980s and the 1990s. These countries, in contrast to the mature industrialized economies, have potential for the sort of productivity increases which are key to rapid growth. This gives a longer-term importance to our efforts to help them overcome their current problems.

[Omitted here is analysis of the Soviet Union and other issues.]

C. Response to Third World Economic Crisis

Action here falls in the category of preventing future instabilities as much as coping with those already underway. We see no need for a radically different approach—nor is a radically different approach likely to be available in any event. But some modification and strengthening of key elements in our current policy are needed, as well as some contingency planning:

1. *LDC Debt/Growth Crisis*—More financing from official sources and softer terms for adjustment programs are needed to lower the risk that political instability will overwhelm some key LDCs. The Philippines and Brazil are two immediate cases, but others are likely to follow (Venezuela, Peru, Costa Rica, Indonesia) before global economic recovery pulls the LDCs out of danger. Most immediately, the President could draw on this background of precarious Third-World stability to make a strong national security case for passage of the IMF quota increase. Given the heavy demand on IMF resources from countries of significant security interest to us, the President can also argue that the alternative to multilateral sharing of the burden through the IMF is likely to be more U.S. bail-outs, at higher cost to us.

With new resources, the IMF could address the exceptionally difficult cases (Brazil in particular) with a longer-term adjustment strategy, that might reduce the exceptional political strains in the next 12–18 months. A longer-term IMF program could be used to bring commercial banks into a multi-year rescheduling which would provide a more stable framework for Brazil's recovery.

[Omitted here is analysis of the oil market and other issues.]

152. Minutes of a Senior Interdepartmental Group–International Economic Policy Meeting¹

Washington, November 23, 1983, 11 a.m.

PARTICIPANTS

Treasury

Secretary Regan, Chairman
Marc Leland

State

W. Allen Wallis
Dennis Lamb

Defense

David Shilling
Dave Tarbell

Agriculture

Richard Lyng
Daniel Amstutz

Commerce

Lionel H. Olmer

OMB

David Stockman
Alton G. Keel

CIA

Maurice Ernst
[name not declassified]

USTR

Ambassador Brock
Harvey Bale

Cabinet Affairs

Larry Herbolsheimer

OPD

Roger Porter

CEA

Martin Feldstein

AID

M. Peter McPherson
Richard Derham

Ex-Im Bank

William Draper
Raymond Albright

NSC

William Martin

Export Credits and International Debt

The Chairman introduced the first agenda item on export credits and international debt. Marc Leland reviewed the highlights of an IG report on the role U.S. Government trade finance programs might play in responding to countries experiencing extraordinary liquidity problems.² In particular, the report examines existing programs of the Export-Import Bank, Commodity Credit Corporation (CCC), the

¹ Source: Central Intelligence Agency, National Intelligence Council, Job 85–01156R: Policy, Planning, and History Records (1981–1984), Box 2, Folder 24: (SIG–IEP Meetings 1983). Secret. The meeting took place in the Indian Treaty Room of the Old Executive Office Building. Sent under a December 20 covering memorandum from Christopher Hicks to multiple recipients.

² A copy of the IG report, “Role of U.S. Government Guarantee and Trade Finance Programs in Responding to International Debt Issues,” is in the Washington National Records Center, RG 56, Records of the Office of the Assistant Secretary for International Affairs, 1950–1985, Meeting and Policy Files, 1979–1992, 56–10–60, Box 3, SIG File—November 1983.

Economic Support Fund (ESF), and the Foreign Military Sales program (FMS) to determine how they can be adapted to support efforts to address extraordinary individual LDC debt problems. The paper concludes these programs should continue to be used in extending extraordinary financing to respond to the LDC debt crisis. The paper also notes that we should take precautions to ensure that Eximbank and CCC programs are reasonably assured of repayment before approving a transaction.

Marc Leland asked that the SIG–IEP bless the paper and that a budget review meeting be called promptly to review the budget levels for CCC and Eximbank. David Stockman took strong exception to the paper and the procedure outlined. He noted that these programs were generally out of control and that there was no reasonable rationale for funding even more credits and at the same time argue so strenuously for further domestic spending cuts. He noted that an extraordinary budget meeting was not necessary. This matter could be handled within the normal review process meeting with the President now scheduled for December. Furthermore, he emphasized that we did not have adequate means to assess the ability of the debtor nations to repay loans. Ambassador Brock also noted the problems with the Hill with extending more credits. Considerable political capital had been used to fund the Administration's request for higher levels of support for the IMF.

The Chairman noted that there are important national security concerns for providing credits for strategically valuable allies. He noted that the NSC had requested tailor made financing packages to assist Mexico, Brazil, the Philippines and Jamaica. He agreed with OMB that the IG should further consider the issue of repayment.

During the discussion, the State Department, AID, Agriculture and NSC representatives noted their support for the general conclusions of the paper.

[Omitted here is discussion of IDA VII; see Document 301.]

153. Memorandum From Charles Tyson, Roger Robinson, and William Martin of the National Security Council Staff to the President's Assistant for National Security Affairs (McFarlane)¹

Washington, December 8, 1983

SUBJECT

Priority Issues for International Economics Directorate and Special Projects

[Omitted here are issues unrelated to debt.]

International Debt Crisis

Issue: To effectively monitor forty-seven IMF adjustment programs and manage US coordination and participation in short and medium term funding packages designed to meet the critical funding gaps of these developing countries during their various adjustment periods and to preserve political stability.

Discussion: The debt crisis represents one of the principal areas of vulnerability for the President. Its dimensions are huge, involving approximately 47 countries and \$350 billion in loan obligations which cannot be met according to their original repayment schedules (about one-third of IMF member countries). As the debt crisis has prompted the implementation of economic austerity programs in virtually all of these countries, a delicate balance must be struck between economic discipline and political stability. Major US foreign policy and security interests are at stake as well as important US export markets, jobs, and the overall solvency of our banking system. For the past two years, we have pressed for greater recognition by Treasury of the severity of this crisis and argued for more systematic creative thinking about the problem (as opposed to ad hoc, stop-gap measures). Although it is understood that each of these countries requires a "tailor made" approach, there are common features which lend themselves to policy guidelines.

Process: Subsequent to a meeting with Marty Feldstein and the President on September 14, the President mandated the establishment of an Oversight Group for the debt crisis composed of relevant Cabinet members, you and Paul Volcker.² More than one attempt to implement the formation of such a group was frustrated by Treasury. As a result, there is no senior level contingency planning going on today that addresses the foreign policy and security dimensions of the crisis. The

¹ Source: Reagan Library, William Martin Files, NSC Chron File, NSC Chron 12/02/1983-12/11/1983; NLR-348-9-44-3-5. Secret. Sent for information.

² See Document 150.

debt problem is frequently raised in the SIG–IEP but this involves primarily reporting. We recommend you meet with Secretary Regan and make a “fresh start” concerning the formation of such a group which will, in turn, stimulate this needed creative thinking and planning.

[Omitted here are issues unrelated to debt.]

154. Minutes of a Senior Interdepartmental Group–International Economic Policy Meeting¹

Washington, December 14, 1983, 2 p.m.

ATTENDEES

Treasury

Secretary Regan, Chairman
Beryl Sprinkel
Marc Leland

Office of the Vice President

G. Philip Hughes

State

Kenneth W. Dam
Thomas M. T. Niles
Elinor Constable

Defense

Dov Zakheim
William J. Weida

Agriculture

Secretary Block
Alan Tracy

Commerce

Olin Wethington

OMB

Joseph Wright

CIA

David Low
[*name not declassified*]

USTR

Ambassador Brock
Robert Lighthizer

AID

M. Peter McPherson
Bradshaw Langmaid

CEA

Martin Feldstein
Robert Thompson

Cabinet Affairs

Larry Herbolsheimer

OPD

Roger Porter

NSC

Roger Robinson
David Wigg

[Omitted here is discussion of the U.S.–EC Ministerial Report and food aid to Egypt.]

¹ Source: Central Intelligence Agency, National Intelligence Council, Job 85–01156R: Policy, Planning, and History Records (1981–1984), Box 2, Folder 24: (SIG–IEP Meetings 1983). Confidential. The meeting took place in the Roosevelt Room at the White House. Sent under a January 10, 1984, covering memorandum from Hicks to multiple recipients.

International Debt Update

Treasury representatives reported on the status of Brazil's credit package:

- \$6.2 billion of the \$6.5 billion target has been raised.

- Brazil had not been successful previously in the Middle East, but Delfim Netto had partially succeeded the previous week in raising OPEC participation.

Initial impressions of Argentine Economics Minister Grinspun were favorable. Announced economic policy changes appear to be for the good. Commercial banks dispersed \$500 million on November 30, part of which was used to pay up some interest arrearages, leaving U.S. banks with no write-down problems vis-a-vis Argentina for 1983.

Jamaica is still negotiating with the IMF, and the Jamaicans express confidence they will sign a letter of intent by late December.

It was noted that the Mexican Government has requested of the Bank Advisory Committee that past loan spreads be renegotiated and that new spreads be cut. The initial creditor-bank reaction was one of concern, but apparently the Mexicans do not intend to press too hard on renegotiations.

The Chairman noted that Mexico has made substantial progress in rationalizing economic activity, but the inflation rate is still too high.

Regarding a Mexican request for \$1.5 billion in CCC credits, the Chairman suggested that the staffs at Treasury and Agriculture meet to work out a response. It was agreed that the Mexican Government should be told immediately that they will not be getting the full amount requested.

The Chairman noted that \$50 million in credit guarantees for the Philippines had just been released, and the Philippine Government was advised to move faster to meet IMF austerity requirements. The Chairman noted that an ESF bridging loan required an IMF program in place in order to have something to bridge to. It was agreed that the Philippine economic situation was deteriorating and that Manila was moving too slowly to reverse the situation.

Ambassador Brock suggested that a study be initiated:

- To examine available U.S. means of providing credit and to determine which best serve U.S. interests, and

- To look at U.S. credit resources and determine if they will meet ultimate demands.

Ambassador Brock noted that U.S. exports to LDC's were down by 46 percent—a development that must be reversed.

155. Memorandum From the Under Secretary of the Treasury for Monetary Policy (Sprinkel) to Secretary of the Treasury Regan¹

Washington, December 22, 1983

SUBJECT

Trade and Finance Policy Proposal

I. Summary

This proposal arises from an attempt to rethink our trade/finance link initiative. We have looked at both the substance and the process of our efforts to push the trade and financial policy communities toward an effective approach to protectionism and the international debt problem. The result of our efforts is a proposal that aims to:

a) ease and promote the medium term adjustment of the high debt LDCs while spurring private sector development in these countries by increasing direct investment flows into the LDC's;

b) attack protectionism and barriers to investment, especially in the most protected countries (the LDC debtors);

c) help resolve the LDC debt problem in the medium and long term by reducing the need for "extraordinary" financing of debtor countries and accelerating progress towards a return to more stable trade and financial relationships;

d) enlarge markets for industrial country exports, including service exports.

The proposal would create a series of trade agreements between each of the major LDC debtors and their principal creditors. These negotiations will focus on mutual *trade concessions*, but will also—for the first time—try to remove *barriers to direct investment in LDC's*, and include *export credits* from participating developed countries (to be used only when needed to balance the trade and investment concession packages.) The agreements would be structured to increase debt service capacity and to open overprotected LDC markets whose import growth is now blocked by balance of-payments constraints and inefficient resource allocation.

¹ Source: National Archives, RG 56, Records of the Office of the Under Secretary for Monetary Affairs, Subject Files relating to Meetings, Working Groups, Trips, Summits, and Currency Talks, 1/1/1981–12/31/1985, UD–13W105, 56–89–45, Box 4, BWS Chron: Dec 15–31, 1983. Confidential. A handwritten note on the memorandum reads: "Orig. del 12/28." Sprinkel wrote at the top of the memorandum: "Another excellent response to your request for new ideas, I like it! It puts 'meat' on our trade finance initiative. However—many problems."

All this would happen in a two-step process. After an adjustment program is worked out with the IMF and debt rescheduling and/or new credits are agreed on to fill the financing gap, a second negotiation (not necessarily involving the same developed country participants) would begin, with the objective of finding trade and investment concessions of interest that would be extended preferentially for a limited period. These concessions would subsequently be made multilateral, so that all countries would share in them. To carry out this proposal we would need:

- a) legislation to obtain new trade negotiating authority;
- b) sufficient export credit commitment authority; and
- c) a minimum number of developed country partners sufficient to give the concept "critical mass".

If you approve of the approach as outlined in detail in the rest of this memo, we will need not only to do further work on the many remaining questions that have been flagged but also to begin immediately to seek an interagency consensus. Ultimately, this will be an issue for the SIG-IEP, but it makes no sense to proceed in that direction until Ambassador Brock has accepted the basic idea. This will be largely a Treasury/USTR operation if it gets underway, and our two agencies must be in full accord on it. Hence, with your approval, we would like next to approach Bill Brock and his key people for their reactions.

Approve; see Brock and report results _____

Disapprove _____

Other _____²

[Omitted here is a more detailed description of the proposal.]

² Regan initialed the "Approve" option on December 23.

156. Action Memorandum From the Chairman of the Policy Planning Council (Bosworth) to Secretary of State Shultz¹

Washington, March 2, 1984

SUBJECT

The Next Round of Debt Problems

This memo 1) analyzes the effectiveness of the USG policy on LDC debt and 2) seeks your approval to develop specific options for enhancing medium-term official flows—mainly for a group of second-tier countries such as Peru, the Philippines, Nigeria and Morocco. These countries are not as serious a threat to the world financial system as Mexico and Brazil, but their fragile societies are more likely to crack under the pressure of sustained adjustment, threatening our foreign policy interests.

Potential Problems in the Debt Strategy—1984–1986

The USG debt strategy approved last April has so far provided an adequate framework for dealing with the problem.² The two major Latin American debtors which were considered a threat to the world financial system—Mexico and Brazil—have begun to stabilize their economies; Argentina and Venezuela have had successful elections; and the crisis atmosphere which prevailed in early 1983 has abated.

Despite the relative calm, we believe some key elements of our five-pronged approach are falling short of expectations. Specifically, we are concerned about slippages in both actual and potential performance in the following areas covered in the policy:

— Lending by commercial banks to many LDCs is barely adequate. Morgan Guaranty estimates gross new lending (bank credits and bonds) to the LDCs for all 1983 at \$35 billion, down 24 percent from \$47 billion in 1982. OECD estimates indicate a similar trend with net lending falling from \$35 to \$22 billion between 1982 and 1983. These estimates are broadly consistent with the \$20–\$25 billion in annual net flows of new money many observers believe is necessary over the medium term.

¹ Source: Department of State, Executive Secretariat, S/P Records, Memoranda/Correspondence From the Director of the Policy Planning Staff to the Secretary and Other Seventh Floor Principals, Lot 89D149: March 1–15, 1984. Confidential. Drafted by Barbara Griffiths (S/P); cleared in S/P. A stamped notation reading “GPS” appears on the memorandum, indicating Shultz saw it. Hill initialed and wrote the dates “3/5, 3/21, 3/22” on the memorandum. An unknown hand wrote “SB noted on a cy to PB that it looked like we had go ahead. 3/26/84” and a line was drawn through this note.

² See Document 138.

Nonetheless, we seem to be at the low end of the viable range and much of the 1983 lending was "extracted" from the banks by the IMF and creditor governments for the benefit of the major Latin American debtors.

Despite the fall, it appears that almost all the LDCs involved in IMF programs were able to find sufficient resources to close their IMF-estimated financial gaps in the balance of payments sense. It is clear, however, that in many cases the lack of available financing often made the gap smaller than desirable and forced additional import compression with its subsequent effect on economic growth. Projected trade-weighted average GDP growth for the seven largest Latin American countries is -3.9 percent in 1983 following a .9 percent fall in 1982. The prospects for 1984 are not much better.

— The industrial countries are facing increasing difficulty in providing levels of official finance to support the adjustment process. For the U.S. this represents a combination of Congressional resistance and the Administration's reluctance to increase significantly the levels of IDA financing and guarantee authority for the CCC and EXIM. For example, our CCC allocation is small, and there is only \$77 million in reserves to plug any emerging debt problem or to fulfill the expectations of such politically important countries as Portugal. Our ability to help next year will be even more limited with the recent Presidential decision not to use CCC guarantees for balance of payments financing in FY 85.³ In the case of EXIM guarantees, there are doubts that these are an effective source of funds for the LDCs. For example, the low level of Mexican growth and investment has left a large portion of EXIM credit lines underutilized. Thus there is a problem with the current level of official finance as well as its effectiveness.

— The strength of the OECD recovery has thus far improved LDC export revenues only modestly. And despite recovery, there has been a very weak cyclical response in commodity prices, stalling efforts to increase revenues by countries dependent on commodity exports. For exporters of metals and tropical agricultural products in particular (Peru, Philippines, Chile, Morocco), prices remain extremely depressed.

A more general question regarding OECD growth trends is whether average annual growth will be in the 3% range over the medium term.

³ A December 13, 1983, memorandum from Darman and Fuller to Block and Stockman and copied to Meese and Baker forwarded Reagan's handwritten approval of "Option 4" on the Agriculture/CCC budget decision. In the memorandum, Darman and Fuller explained that after 1984, Reagan "directed that the CCC budget be set at \$3 billion. Balance of payments assistance should be sought separately as part of our foreign assistance program." (Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies: Memos to the Files; White House Correspondence, 1987-1987, Lot 89D378: Memoranda to the Secretary 1984 #1, Jan-June)

This level is assumed necessary by most scenarios, including those by Cline, Morgan Guaranty and the SIG–IEP assessment which underpins the U.S. policy, to allow a reduction in debt service ratios and the resumption of moderate growth in the LDCs. OECD growth for 1983 is expected to be 2¼% and 3½% in 1984, with the strongest performance in the second half of 1983 (4¾%) and the first half of 1984 (3¼%). Beginning with the second half of 1984 and through mid-1985, the OECD forecasts a 2½% annual rate of growth with considerable uncertainty for the period beyond. Treasury and Wharton estimates of OECD growth for 1984 are a little more optimistic, but still leave little margin for error. Even with recovery, unemployment is expected to remain a problem, particularly in Western Europe. This, combined with the over-valued dollar, will encourage the growth of protectionism in Europe and the U.S., complicating an export-led recovery in the LDCs and our domestic political situation.

— We are also concerned about the nature of LDC adjustment. In most high-debt countries the structural reforms necessary to break the link between public sector deficit spending and growth have not made much headway. Thus far domestic adjustment has taken place almost exclusively in external accounts, resulting in nearly all cases from sharply curtailed imports due to a mix of official controls, devaluations and currency controls, and lower demand from negative or weak levels of domestic output.

Longer-Term Effects on Development Strategy

By focusing on the short-term needs of individual countries, the current U.S. policy does not address the impact of sharply reduced levels of commercial bank financing on LDC development strategy and growth prospects. Our concern about the lack of resources is not directed primarily at the major debtors or even at the majority of debt-burdened LDCs. Mexico and Brazil probably have enough economic leverage to extract greater concessions from the IMF and banks if the adjustment path is too tough. Except for the Philippines, nearly all of South East Asia as well as Turkey have weathered the debt storm and should be able to manage their medium-term futures. And the poorest of the LDCs face different barriers to growth and development.

However, several second-tier countries, including Peru, Chile, Morocco, and Nigeria do not have the same leverage with the banks as do Mexico and Brazil, although their relative needs are as great and they are dealing with volatile political situations. Alternative sources of funds will be required for these countries until prospects for borrowing development capital on private markets improve—which will likely be many years. Until then, increasing medium- and long-term official credits and assistance in tapping credit markets on appropriate terms can improve their mid-term economic and political outlooks. One option

is to expand temporarily the role of existing multilateral institutions, principally the World Bank, as a means of addressing the burden sharing issue among developed countries and of enhancing official flows for the structural adjustment required in LDCs. Your attention to these issues may be required to underscore the foreign policy risks of failing to address the capital needs of the second-tier LDCs while they adjust their economies.

If you agree that there are weak areas in our current policy, we and EB would like to examine the options for improving medium- to long-term official flows to the LDCs and to focus on the needs of the second-tier countries.⁴

⁴Shultz initialed the "Approve" option on March 24.

157. Memorandum From Roger Robinson of the National Security Council Staff to the President's Assistant for National Security Affairs (McFarlane)¹

Washington, March 6, 1984

SUBJECT

LDC Debt Update

Dave Wigg and I have put together the following update on the status of key debtors.

Overview

During the past year and a half, rescue packages coordinated by the IMF have forestalled default or open-ended moratoria by debt-troubled LDCs and have averted a major disruption of the international financial and banking systems. The IMF, commercial banks, industrialized countries and LDC debtor governments are currently negotiating 1984 debt relief packages. Again the strategy depends heavily on the cooperation and burden-sharing of all players and confidence that the ability of LDCs to service debt is improving. Interest rates, bankers fees, and

¹Source: Reagan Library, Executive Secretariat, NSC Subject File, International Debt Situation (October 1983–January 1985); NLR-753-42-2-7-6. Secret. Sent for information. David Wigg initialed for Robinson. McFarlane wrote in the top right-hand corner of the memorandum: "Many thanks. Pls update periodically (quarterly)."

IMF conditionality are the major issues in the current negotiations. An increasing number of debtor countries are seeking easier terms on new and restructured loans from banks. The IMF must establish revised economic targets, if it is to avoid the loss of cooperation of those debtors which already judge IMF conditionality as too harsh and likely to spur unrest.

While most observers believe that 1984 LDC financing packages will be completed, the longer-term and more difficult aspects of the debt crisis remain (including changes in LDC development policies and ensuring world economic recovery). For some debtors, only a fundamental restructuring of domestic markets can ensure long-term growth and financial viability, but such a restructuring will involve very difficult social and political decisions.

Major Latin American debtors are in the early stages of a coordinated effort to test creditors for signs of softening that could lead to debt renegotiations on substantially easier terms (i.e. lower spreads and fees as well as longer maturities and grace periods).

— According to press reports, on February 5, Presidents Betancur of Colombia and Alfonsín of Argentina jointly stressed the need for a frank dialogue with creditors to work out affordable debt repayment terms. Both leaders indicated that the current loan terms are detrimental to prospects for development and political stability in Latin America.

— According to an Embassy report, Alfonsín—while in Caracas attending the inauguration of President Lusinchi—called for common financial policies among Latin American countries to strengthen their international position.² Alfonsín and Lusinchi stated jointly that the necessary austerity and rationalization measures must not significantly affect economic development plans.

There is as yet no reason to believe that these countries will seek to jointly renegotiate their debts, but several of them may band together in proposing that creditors ease loan terms, substantially beyond those recently provided to Mexico, Brazil, Peru, and Ecuador.

[Omitted here are updates on specific countries.]

² In telegram 1047 from Caracas, February 3, the Embassy reported on a February 1 press conference given by Alfonsín, in which he called for "Latin American integration, a common financial policy and increased trade, using the area's buying power to strengthen its international position." (Department of State, Central Foreign Policy File, Electronic Telegrams, D840077–0340)

158. Briefing Memorandum from the Acting Assistant Secretary of State for Economic and Business Affairs (Constable) to Secretary of State Shultz¹

Washington, March 29, 1984

SUBJECT

Your Breakfast with National Security Advisor McFarlane and Treasury Secretary Regan on International Debt Management, Monday, April 2

We understand the meeting will focus on the substance of the US debt strategy and on how we are organized to formulate policy in this area. In particular, there is a growing concern among the NSC staff that the debt strategy as presently structured does not give adequate attention to the medium-term dimension of the debt problem or to the political and foreign policy problems associated with economic adjustment over the medium term. From a bureaucratic standpoint, form is substance in the NSC view. They believe the Treasury-led process gives insufficient relative weight to foreign policy considerations in developing debt management policy. The NSC staff has expressed these concerns to McFarlane in writing; McFarlane has apparently decided that the matter deserves further high level consideration.

It has been nearly a year since the SIG/IEP produced the 5-point strategy which continues to guide our actions on debt.² While the strategy appears fundamentally sound, a stock-taking is in order. In particular it would be appropriate to review the actual evolution of industrialized country growth (including near-term forecasts), trade policy/protectionism, and commercial and official lending, as compared to the assumptions which underpin the strategy. At present, lending to the LDCs and growth in the OECD area appear to be adequate to validate the present strategy, but with virtually no room for error. Further analytic work here would be appropriate. More important, more attention to the medium term aspects of the debt management would highly desirable. We need to reassure ourselves that we will not be trying to manage tomorrow's problems with yesterday's strategy.

On process, the organizational structures for developing overall debt policy, together with the informal channels of communication,

¹ Source: Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987–1987, Lot 89D378: Chron File—March 15–April 30, 1984. Confidential. Drafted by McGonagle; cleared in E. Sent through Wallis. Hill initialed the memorandum on March 29.

² See footnote 3, Document 131.

probably give us adequate scope to advance our foreign policy concerns as they relate to debt management. In addition, State has the leading role in negotiating official debt reschedulings in the Paris Club. However, there are serious problems on the implementation side where Treasury has institutional dominance. With the important exceptions of Poland and Yugoslavia where the State Department has the lead, Treasury has usually managed to run one agency shows in mounting the assistance efforts. Sometimes this has worked out well (Mexico); at other times Treasury has lurched from one mistake to another (Argentina), with adverse foreign policy consequences. Moreover, our foreign policy considerations rarely penetrate more byzantine finance ministry clubs such as the G-5 in the newly emergent Debt Deputies group. Better, more effective coordination is essential across the board.

A fact sheet on the organization and substance of US debt management strategy is attached at Tab A. Talking Points are at Tab B.³

³ Tab A, "Debt Management Fact Sheet," and Tab B, "Talking Points," are attached but not printed.

159. Memorandum From Roger Robinson and David Wigg of the National Security Council Staff to the President's Assistant for National Security Affairs (McFarlane)¹

Washington, March 30, 1984

SUBJECT

Your Monday² Breakfast Meeting with Secretaries Regan and Shultz on Debt Crisis Management

Attached (Tab I) are talking points for your Monday breakfast meeting with Secretaries Regan and Shultz.³ At this writing, Secretary Regan will be accompanied by David Mulford (a positive sign), and Allen Wallis will accompany Secretary Shultz. The points are crafted for the purpose of gaining Treasury's concurrence for shared management

¹ Source: Reagan Library, Roger Robinson Files, Chronological File, Robinson Chron March 1984; NLR-487-10-32-14-0. Secret. Sent for action. Copies were sent to Fortier, Martin, and Beal. A stamped notation on the memorandum reads: "RCM Has Seen."

² April 2.

³ Tab I, "Talking Points for Breakfast Meeting," is attached but not printed.

of the debt crisis and establishing an enduring State/Treasury/NSC consensus on a national plan of action (including contingencies). Attached (Tab II) are talking points for your phone call in advance of the Monday meeting to Secretary Shultz, bringing him on board with our strategy and requesting his intervention regarding potential political/military quids to extract for our increasingly intense funding efforts on behalf of LDC debtors.⁴ The focus of this meeting is therefore to establish a process by which we can manage the debt crisis effectively and which takes into account the need for secrecy, responsiveness and the attention of our best talent. Basically, the argument for sharing responsibility for this problem centers around the expanded zone of potential damage flowing from the debt crisis which now extends beyond Treasury's portfolio as well as the crucial need to maintain control over a situation which, left to its own devices, could catalyze a global economic debacle. The recommended changes in process focus upon:

- Creation of a small and discreet Cabinet-level group chaired by you, to deal with the debt crisis, which would include Treasury, State, Commerce, and CIA (with others including Paul Volcker engaged as warranted).
- Creation of a sub-Cabinet group under the auspices of the SIG-IEP to be co-chaired by Dave Mulford and myself. Mulford and I have already discussed the need to work as "partners" on this issue.

We believe it would be counterproductive to go into substance regarding "solutions" in this first session as it could blur the focus on critical changes in process. Nevertheless, we are looking to include the following elements in the plan we are presently formulating:

- Extended grace periods
- Lowering of interest rates
- Some shift of the focus in debtor-creditor negotiations to the debtor country ability to pay (foreign exchange earnings)
- Regulatory adjustments, including more flexibility concerning commercial bank loan loss provisions
- Negotiation of LDC political/military quids
- Multilateral trading activities and countertrade to offset some LDC arrearages and the insulation of self-liquidating trade credits from future rescheduling activities
- Considerably closer coordination of U.S.-European-Japanese financial policies with regard to the debt crisis
- Accelerated flow of Government and international agency credits to debtor nations as an increasingly necessary element in their funding packages (due to more rigid commercial bank constraints)

In addition, we have initiated preparation of a presentation on the present dimensions of the debt crisis to bring other key Administration players up to speed (eventually involving a video if deemed useful by

⁴ Tab II, "Talking Points for Telephone Call," is attached but not printed.

you). This approach would be similar to our successful strategy on Iran-Iraq energy/economics, and would incorporate the key elements of a national plan of action (including contingencies). If you concur with the talking points and are able to successfully implement these recommendations, you will have taken the first major step in coordinating Cabinet and sub-Cabinet involvement under a “national security” umbrella. You will recall that our proposal for a small Cabinet-level body has been introduced approximately three or four times in the past (including preparation of a draft NSDD after a meeting with the President) but each time was derailed by Secretary Regan.⁵ We also intend to immediately intensify our coordination on this side of the street—with Don on the political/military component; Bob Sims, Karna Small and Steve Steiner on the public affairs side; Rich Beal and Bill Martin on strategy process, and crisis management; and our various regional Directorates as deemed necessary. These are preliminary thoughts concerning our internal NSC process, but we think they represent a solid start in gearing up to meet this worsening situation.

As you know, we carefully tracked and offered recommendations concerning the Argentine situation (per my presentation to the President this morning)⁶ and have already implemented strict press and public announcement coordination between State, Treasury, NSC and Eximbank. We may well narrowly avert a serious erosion of the Argentine situation with its damaging spillover, but we must keep in mind that this latest flare-up is merely a symptom of where we are headed.

RECOMMENDATIONS:

1. That you approve the strategy and objectives for the breakfast meeting.⁷
2. That you approve “in principle” our internal NSC strategy involving a division of responsibilities and the engagement of our crisis management facility (to be refined as it evolves).⁸

⁵ See footnote 2, Document 150.

⁶ A March 23 memorandum from Robinson and Wigg to McFarlane bore the subject: “The Argentine Arrearage Problem: Symptom of a Growing National Security Threat Requiring a New Policy Approach.” Robinson and Wigg outlined their concerns with the Argentine arrearage situation which they argued demonstrated the need for a new U.S. policy approach to the international debt problem. (Reagan Library, Roger Robinson Files, Subject File, International Finance: 04/24/1984–08/14/1984) According to the President’s Daily Diary, Reagan met with Bush, McFarlane, Poindexter, Robinson, Baker, and Deaver on March 30 from 9:20 to 9:50 a.m. for a national security briefing. (Reagan Library)

⁷ McFarlane initialed the “Approve” option.

⁸ McFarlane wrote “quietly” at the end of the sentence and initialed the “Approve” option.

3. That you agree with a plan to send out action notices from you to the bureaucracy (in the same or different memos) as a follow-on to the breakfast meeting that will encompass:

- formation of a small Cabinet-level group⁹
- formation of a SIG-IEP working group (Mulford/Robinson co-chair) to support the Cabinet group and Room 208¹⁰
- guidance to the Cabinet concerning all future press announcements and any other late breaking developments requiring prior clearance with the NSC or Cabinet-level group (if time permits) so we are able to coordinate in advance of their being made public.¹¹

4. That you meet briefly with Dave and me (time permitting) to discuss this memo prior to the breakfast meeting.¹²

⁹ McFarlane wrote in the right-hand margin “informal at first” next to this point.

¹⁰ McFarlane wrote in the right-hand margin “quietly” next to this point.

¹¹ McFarlane did not indicate his approval or disapproval of the recommendation.

¹² McFarlane did not indicate his approval or disapproval of the recommendation.

160. Briefing Memorandum From the Chairman of the Policy Planning Council (Bosworth) to Secretary of State Shultz¹

Washington, March 31, 1984

SUBJECT

Your Breakfast With Bud McFarlane and Don Regan on International Debt Management, Monday, April 2

I agree with EB's main point: that Treasury-State collaboration on debt problems is an adequate bureaucratic approach and a new coordination process through the NSC is not necessary.² It would also be useful to have a Treasury-State assessment of what adjustments in our debt strategy may be needed in the medium term.

In terms of actual operation of Treasury-State cooperation on debt we do need more consideration from Don Regan and Treasury on three points.

¹ Source: Department of State, Executive Secretariat, S/P Records, Memoranda/Correspondence From the Director of the Policy Planning Staff to the Secretary and Other Seventh Floor Principals. Lot 89D149: March 16–31, 1984. Confidential; Super Sensitive. Drafted by Paul Boeker (S/P) on March 30. A stamped notation reading “GPS” appears on the memorandum, indicating Shultz saw it.

² See Document 158.

1. We are, with reason, more worried than Treasury about some of the second-tier LDCs (Peru, Chile, the Philippines, Nigeria, Morocco), whose collapse would not threaten the international financial system—Regan’s main concern—but would cause major foreign policy problems.

2. We believe that some increase in World Bank non-project lending to these countries offers the best chance of avoiding serious problems. (S/P and EB are working on a specific proposal for you, which involves Bank policy decisions, not new appropriations: Regan will be skeptical.)

3. As EB points out, Treasury has not shared much information on what happens in the meetings of the G-5’s “debt deputies.”

All of these problems can be fixed with Regan and Treasury giving more recognition to our legitimate special concerns within the existing structure of Treasury-State collaboration.

In addition, I think we have an internal communication problem that sometimes weakens our role vis a vis Treasury. E, EB and the Regional Assistant Secretaries all have an interest in any specific debt case. Treasury tends to go to whichever might give the desired response in any specific case.

Therefore, if all three do not coordinate quickly or have a common understanding of your views, we are going to undercut ourselves. I am not in the best position to judge our performance here, but I sense that our working effectively internally is at present at least as important as our liaison with Treasury.

161. Electronic Message From the President’s Assistant for National Security Affairs (McFarlane) to Robert Kimmitt of the National Security Council Staff¹

Washington, April 2, 1984

SUBJECT

Follow Up to Debt Breakfast

Please pass to Roger Robinson the following:

Please get together with Mulford and Wallis in the next day or so to draw up a work program to include the short and long term issues

¹ Source: Reagan Library, Robert McFarlane Files, Chronological File, Chron (Official) April 1984; NLR-362-6-29-1-1. Secret. Copies were sent to Poindexter and Martin. Printed from an email that was forwarded from Martin to George Van Eron on April 2 at 9:12 a.m. with the request “please pass to roger. thanks.”

raised at this morning's breakfast.² Specifically we should lay out our collective view of the near term crises which loom (e.g. Nigeria, Costa Rica and others). We should define the apparent risks of excessive internal conditionality and the possible approaches to meeting the short term arrearages. Then we should also define the agenda for long term policy elements such as the regulatory reform possibilities and notion of a conference.

I think it is important that we put this together subtly but deliberately. You obviously have brought Mulford along in a careful way and he has had an influence on Don. That's good. We should move as fast as the traffic will bear but I think that end is facilitated by quiet work without a lot of interagency paper at the outset. Work informally for the moment and accelerate your efforts as we gain the confidence of Regan that we aren't making a raid on Treasury's domain. In that context I don't think we need a formal interagency memo setting up the Cabinet body at this time. As long as it is working let's let it be invisible (in a paper sense) but effective. As an organ for accountability let's schedule another breakfast or meeting within two weeks so that we can review what you prepare at the working level and take another step. Many thanks.

² Monday, April 2. Shultz, Regan, and McFarlane met on April 2 to discuss international debt management. See Documents 158, 159, and 160.

162. Paper Prepared in the Department of State¹

Washington, undated

REPORT OF SECOND PREPARATORY
SESSION FOR LONDON ECONOMIC SUMMIT

[Omitted here is discussion not focused on international debt issues.]

The discussion of the international debt situation was the other important theme and went well. The basic strategy on debt outlined at Williamsburg was confirmed.² In addition, there was general agreement to urge Finance Ministers, international institutions and the debtor countries themselves to seek and develop arrangements which could foster renewed economic progress by debtor countries. These included:

- encouragement of private direct investment;
- closer cooperation and compatibility between the IMF (focusing on shorter-term financial and economic adjustment) and the World Bank (focusing on structural and longer-term development needs); and
- the probability that the World Bank could be a catalyst for long-term capital investment. All delegations emphasized the importance of continued world economic recovery and further trade liberalization to the successful resolution of debt problems. The importance of reduced interest rates was also highlighted by most of the other Summit representatives.

[Omitted here is discussion not focused on international debt issues.]

¹ Source: Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: London Summit—Deaver—Clark 1984. Confidential. Sent under an April 9 covering memorandum from Wallis to McFarlane and Deaver. Copies were sent to Sprinkel, McMinn, Smith, and McManus.

² See footnote 4, Document 131 and footnote 3, Document 141.

163. Information Memorandum From the Acting Assistant Secretary of State for Economic and Business Affairs (Constable) to Acting Secretary of State Dam¹

Washington, April 27, 1984

SUBJECT

LDC Debt Problem: Analytical Framework; Issues for Discussion

Introduction

The economic and political pressures accompanying LDC adjustment to the burden of external debt remain strong, despite our large measure of success in dealing with the "debt crisis". LDC debt will for the foreseeable future retain its prominence among US foreign policy concerns. This memo attempts to develop a common understanding of the nature and origins of the debt problem. It does not offer specific recommendations on debt management. Rather it provides an analytical framework for further consideration of LDC debt by a task force and in discussions [with] a panel of outside economists (S/P has sent you a memo on this).² Finally, we suggest approaches to issues which should be addressed in evaluating our debt management options.

The Problem

The debt problem is this: a number of developing countries have accumulated a level of external debt which exceeds their servicing capacity. The evolution of those factors critical to the orderly resolution of the debt problem (e.g. OECD growth, interest rates, availability of financing) has been such that for some countries the necessary economic adjustment has occurred more sharply than expected and has therefore become difficult to manage politically. The risks are (1) that the adjustment process will abort in these countries, blocking fundamental economic reform without tempering austerity for more than the very short run, (2) the political fallout will adversely affect US foreign policy interests, including our bilateral relationship with important debtors and (3) the probability of a destabilizing financial event, such as repudiation, will rise. The problem is not universal, and the

¹ Source: Department of State, Executive Secretariat, S/P Records, Memoranda/Correspondence From the Director of the Policy Planning Staff to the Secretary and Other Seventh Floor Principals, Lot 89D149: May 1-15, 1984. Confidential. Drafted by McGonagle on April 25; cleared in EB/IFD. Sent, along with a May 2 memorandum from Rodman to Dam, under a May 4 covering memorandum from Dam to Shultz. A stamped notation on the memorandum reads: "Mr. Dam Has Seen Apr 30 1984." McKinley initiated the memorandum on April 28. Shultz accompanied Reagan on a State visit to Beijing, Xian, and Shanghai from April 26 to May 1.

² Reference is to the May 2 Rodman memorandum. See footnote 1, above.

economic pressure on many debtor countries should abate this year as their growth rates improve. Nonetheless, the stress is sufficiently widespread to warrant careful consideration of several key issues relevant to our debt strategy.

How We Got Here

Today's debt problem is unique in its breadth and severity. It results importantly from the policy decision to blunt the recessionary impact of the income transfer to OPEC resulting from the oil shocks of the 1970's. Monetary policies in the reserve currency countries were accommodating; real interest rates turned negative. Internationally, such accommodation created the conditions leading to excessive lending to the non-oil LDCs. Total LDC debt thus climbed sharply. In addition, the bulk of the recycling effort was left to the private sector. As the private share of external debt rose, shorter maturities and floating interest rates became more prevalent; debtors became increasingly vulnerable to changes in lender confidence and less creditworthy.

The incentives for rapid accumulation of debt were powerful. On the supply side, there was competitive pressure to move surplus funds, reducing the weight attached to prudential concerns. International lending was profitable, and the loan-loss track record internationally compared favorably with banks' domestic scorecards. On the demand side, borrowing at negative real interest rates seemed preferable to trimming consumption to fit reduced real incomes. LDC economic policies (bloated public sectors, subsidies to consumption, over valued exchange rates) not only boosted consumption and imports. They also discouraged production of tradeable goods, (exports, import substitutes), thereby reducing the capacity to service debt.

Governments encouraged the process. Moreover, with negative real interest rates and buoyant LDC export growth expected to continue, the accommodation/recycling strategy appeared successful. When the disinflation—which in retrospect seems inevitable—occurred, and bank lending virtually dried up, the accumulated debt became unsustainable. One can conclude that countries, banks and governments guessed wrong about the future and failed to prudently hedge their bets. But bad forecasting and misguided policies are not necessarily the same as irresponsible behavior. Thus, assignment of "blame" for the crisis is a pointless and unhelpful exercise.

Debt Management Strategy

The present strategy rests on the premise that all parties, OECD governments, banks, debtor countries—must participate in resolving the debt problem. The five point approach is as follows (per NSDD #96):

— Economic adjustment by borrowing countries designed to stabilize their economies and restore sustainable external positions.

— An International Monetary Fund adequately equipped to help borrowers design adjustment programs and provide balance of payments financing on a temporary basis while adjustment programs take effect.

— Readiness of monetary authorities in creditor countries to provide short-term liquidity support, when essential to assist selected borrowers that are formulating adjustment programs with the IMF.

— Encouragement to private markets (e.g. commercial banks) to provide prudent levels of financing to borrowing countries in the process of implementing IMF-supported adjustment programs.

— Resumption of sustainable, non-inflationary economic expansion and maintenance of open markets, both in the industrial countries and in developing countries facing debt problems.

Several comments on the above strategy are in order: (1) many elements of the strategy (e.g. growth, bank lending) are not directly within USG control. Accordingly, the approach is a set of assumptions under which the adjustment process should be manageable in political and economic terms, not a set of levers we can manipulate to obtain optimal results; (2) the strategy recognizes that the solution will probably require several years, that the objectives of economic development and adjustment are complementary rather than antithetical, and that for the reform to succeed in the medium term, the effort must begin in the short run—thus, the strategy has an important medium-term as well as short run dimension; (3) Adjustment and austerity are not synonymous. While excess demand is part of the problem and its elimination is necessary, many adjustment measures (devaluation, restoration of market-related producer prices) are designed to stimulate production in export and import-substitution industries. Such redeployment of productive resources increases the debtor countries' ability to support external debt and thus increases both actual and potential growth over the medium term; (4) The medium-term, adjustment-oriented aspect of the strategy could be strengthened with measures to improve economic efficiency and stimulate trade (e.g. reciprocal trade liberalization), to encourage increased flows of equity investment to the LDCs, and to improve IMF/IBRD coordination.

Problem Areas; Issues for Further Study

The evolution of important elements—OECD growth, private financing, interest rates—has been such as to put the strategy within, but near the edge of the viable range. As a result, countries with “weaker-than-average” economic and social structures are experiencing increased difficulty in managing the adjustment process politically. This syndrome has been most evident in the so-called “second-tier”

countries of Latin America, but has also shown up elsewhere (Morocco, Tunisia). It also means that all the non-OPEC LDC's have somewhat less flexibility at this stage than we had assumed would exist. While most of them can operate within the narrower margins, there are important downside risks: (1) premature termination of the adjustment process; (2) political instability in some countries; (3) destabilizing financial events.

Further adjustment in the external positions of the debtor countries is necessary. The political sustainability of the process and our economic and foreign policy interests require that such adjustment, beyond the very short run, take place in an expansive environment of rising imports and positive GDP growth in the non-oil LDCs. Consequently, LDC exports will need to rise more rapidly than their imports (including interest payments). OECD-area economic policies and performance will therefore remain central to the debt management effort. The IMF and OECD see things working out this way. Nonetheless, uncertainties on growth and in other assumptions which underpin our approach suggest the issues for further consideration:

Adjustment. As noted earlier, adjustment and austerity are not the same thing. However, austerity is often a necessary (if not sufficient) response to external problems, and IMF programs generally feature substantial (some say excessive) doses. As IMF programs are driven by external financing constraints, the appropriate degree of IMF austerity cannot be considered separately from the level of external financing. The adjustment/finance tradeoff notwithstanding, most Fund programs contain measures to spur production as well as to cut consumption. Accordingly, we might also consider further whether IMF programs could be designed to produce more growth and less austerity within given financing limitations. In general, however, less "conditionality" means that more financing will be required.³

Finally, we may not have considered adequately the institutional implications of the fact that the adjustment process is a medium term endeavor, and as such, is partly outside of the financial reach and mandate of the IMF. Thus, it may well be that a modified and possibly enlarged World Bank should figure more importantly in the debt managerial process. We are preparing a separate memo on this subject.⁴

³ Dam placed a brace in the right-hand margin next to this and the previous sentence.

⁴ Dam placed two parallel, vertical lines in the right-hand margin next to this and the previous sentence.

Financing. The issues include the following: (1) Is private bank lending presently adequate to allow adjustment to proceed at a politically acceptable rate? If so, are sufficient flows likely to continue? Are the terms of private lending (maturity, interest rates spreads) consistent with the objective of resolving the debt problem? (2) If not, should we change the relationship between governments and banks so as to obtain more influence over the level, terms and allocation of bank lending internationally? How would this affect banks' domestic operations? How would we handle foreign banks? How sensitive to interest rate spreads is the level of private lending? Would more active "jawboning" of the banks without fundamental changes in the public sector role be appropriate? Or, would this be an undesirable half-way house where governments influence private lending decisions without accepting financial responsibility for the outcome? (3) Do we have the appropriate "mix" of official and private participation? It has been argued that the recent instability of private flows and their harsher terms (relative to public lending) call for an enhanced public sector role. The main possibilities would be to ease the burden of existing debt by acquiring from the banks a portion of their LDC assets (and then rescheduling on concessional terms); and/or to increase the level of official lending. A large public sector role might also include an expanded IMF (which could obtain funds in private markets, sell gold or emit SDRs) and World Bank.

— *Political Dimension.* As expected, political friction has accompanied the adjustment process. (The Dominican Republic is a recent example) The issue is whether such friction is likely to reach the point where serious damage to our international political or economic interests indicate a necessity to relieve the pressure across the board. Of course, the political aspects of debt are inseparable from the financing/adjustment issue, since easing the pressure implies (absent faster OECD growth, lower interest rates) more generous debt rescheduling, more official lending, and in general, an enhanced role for the public sector relative to private sector. For the reasons cited above, a relaxation of IMF "conditionality" does not solve the political problem. Finally, we need to consider whether delaying adjustment for short run political motives exacerbates longer run economic and political problems or creates dependency relationships we could not support over time. Would our political strategy therefore be too short run?

It could also be argued that our bilateral financial resources, while adequate to safeguard the financial system, are not sufficiently large or flexible to protect our foreign policy interests. Options for correcting

such a deficiency could include a one-time (but multi-year) expansion of the Economic Support Fund, or creation of a temporary Economic Adjustment Fund. Country allocations would be determined on the basis of balance of payments need, willingness to pursue economic reform and foreign policy considerations.

The budgetary costs and other domestic political implications of many of the above actions (compared with the potential gains to the LDCs) would obviously require extensive consideration.

Two further political aspects of the problem deserve mention. One is whether and under what conditions LDC (especially Latin) governments would see it in their interest to continue to play by the economic rules. Another is how the LDCs could improve their own ability to manage the politics of adjustment. The Overseas Development Council has done some interesting work in this area which could be used and/or expanded.

— *Growth/Protectionism*. A key issue is where our economic and foreign policy interests fit the larger scale of US priorities. It is clear that lower (or not rising) interest rates, continued strong growth and open markets are critical to successful debt management. The central policy question is the degree to which such considerations should influence domestic monetary/fiscal policies and the Administration's response to protectionist pressures. These interrelationships are crucial: higher interest rates, "yes" to protectionism, slower growth would imply that we either provide more finance to the LDCs (preferably on concessional terms) or push austerity harder with the resultant risks to US foreign policy interests.

We are ready to supplement this conceptual discussion with a quantitative analysis of important debt management issues and relationships.

164. Memorandum From Secretary of State Shultz and Secretary of the Treasury Regan to President Reagan¹

Washington, May 11, 1984

SUBJECT

London Summit: Scope Paper

I. YOUR OBJECTIVES

You have *three main objectives* at the London Economic Summit:

- *To send a message to the rest of the world that, under U.S. leadership, world economic recovery has taken hold;*
- *To strengthen the emerging consensus among Summit countries on policies which will assure that non-inflationary recovery endures and spreads to other countries; and*
- *To forge new partnerships and broaden the basis for future cooperation with our Summit partners in such areas as space, East-West relations and combating terrorism.*

[Omitted here is information on the setting of the London Summit.]

III. ECONOMIC AND POLITICAL ISSUES FOR LONDON

A. ECONOMIC

Economic Outlook and World Recovery

All Summit countries are agreed that the major theme of this Summit should be to stress our confidence that economic recovery has taken hold and is developing into a sustainable economic expansion. The task is to pursue policies that assure that recovery endures and spreads to the rest of the world. There is broad, but nuanced, agreement that those policies must embrace more openness of trade and capital markets, and that national economic policies (especially in Europe) should be designed to keep (or bring) inflation down.

The Europeans and Canadians in particular are likely to concentrate discussion on the *need to promote structural adjustment*. (In fact, the Canadians introduced a specific proposal on this into the Summit

¹ Source: Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: London Economic Summit—1984. Confidential. Drafted by Robert Morris (E) on May 7; cleared in draft in John Holmes (EUR/RPE), Arnold Croddy, Jr., (EAP/J), Ruth Gold (EB), McMinn, and Sprinkel. Morris initialed for all clearing officials. A typed notation in the left hand corner of the memorandum reads: “Advance LDX’ed to WH per S/S on 5/11. CB.” An unknown hand wrote “done 5/15 cy MC for [illegible] 84 Summit” on the top right-hand corner of the memorandum. The full text of the memorandum is printed in *Foreign Relations*, 1981–1988, vol. I, Foundations of Foreign Policy, Document 194.

preparatory process.) This will play directly to your strong suit and give you the opportunity to:

- Underline the need to remove obstacles to change in our individual economies in order to provide opportunities for growth and new job creation;

- Stress our desire to cooperate with others in advancing our collective understanding of the potential of market-oriented adjustment; and

- Emphasize the need to manage better our international economic policies (trade, finance, monetary) in ways that reinforce domestic strategies to enhance flexibility and growth.

Concerns will be expressed about high U.S. budget deficits and the fear that they will produce higher interest rates that could choke off recovery and reignite inflation. We suggest that rather than dwelling on our differences over the effect of budget deficits on interest rates, you should stress our agreement on objectives (i.e., to reduce structural deficits by reducing government spending and bring interest rates down), while emphasizing that progress on the first depends on agreement with Congress, and on the second, on convincing markets that we (and others) are serious in our commitment to keep inflation under control.

Debt, Finance, Monetary

We expect discussion to center on the interrelated issues of debt and finance (with the usual reminder from the French on the need for monetary reform). *Our objective in the discussions on debt is to confirm that our strategy for managing LDC debt problems on the flexible, case-by-case basis is working and requires no fundamental change.*

The strategy has been criticized for lacking a medium-term dimension. This is not true (both adjustment and more open markets are essentially medium-term objectives). However, *this Summit offers an opportunity to expand and clarify these aspects of the strategy by stressing four major elements:*

- *The need for continued adjustment efforts by debtor countries with the support of the IMF and increased lending by commercial banks;*

- *The need to expand trade between developed and developing countries to promote growth in both and to assure that heavy debtors will be able to earn foreign exchange sufficient to service their debts and validate increased commercial bank lending;*

- *The need for developing countries to stimulate increased foreign direct investment to earn foreign exchange to service their debts, without further increasing indebtedness, while enhancing growth potential (and the desirability of strengthened IBRD role in acting as a catalyst for such new investment); and*

- *The need for closer coordination between the IMF and IBRD in order to make the role of the Bank more consistent with that of the IMF in promoting adjustment in LDCs, and in strengthening the IBRD's contribution to longer-term development.*

While these elements have received general support from our Summit partners, *it is likely that France and others will want to put heavier emphasis than we on the need to increase resources available to the World Bank, IDA and other institutions*; perhaps attacking us for our positions on IDA VII funding and the World Bank's Selective Capital Increase. We should emphasize that we are supporting appropriate levels of funding for these institutions, that these resources are limited, that the proposed increases are adequate if properly used and distributed among those in most need and willing to follow effective policies. An increase in official flows alone will not solve the long-range problem if we and the LDCs do not take the actions we have stressed to make the market work more effectively.

You can also expect that concerns will be raised in this connection about the adverse effects of high U.S. interest rates on debtor developing countries' ability to service their debts.

[Omitted here is information on monetary, trade, and other issues.]

165. Minutes of a Senior Interdepartmental Group–International Economic Policy Meeting¹

Washington, May 14, 1984, 2 p.m.

ATTENDEES:

Treasury

Secretary Regan, Chairman
David C. Mulford
Ronald E. Myers

State

W. Allen Wallis
Richard McCormack

Defense

Dov Zakheim
Mark Shwartz

Agriculture

Richard E. Lyng

NSC

Roger Robinson
David Wigg

Cabinet Affairs

Larry Herbolsheimer

CEA

Geoffrey Carliner
Jeff Frankel

AID

Peter McPherson
Richard Derham

¹ Source: Central Intelligence Agency, National Intelligence Council, Job 85–01156R: Policy, Planning, and History Records (1981–1984), Box 2, Folder 25: (SIG–IEP Meetings 1984). Confidential. The meeting took place in the Roosevelt Room at the White House. Sent under a June 22 covering memorandum from Hicks to multiple recipients.

Commerce

Lionel Olmer

Olin Wethington

CIA

Maurice Ernst

*[name not declassified]**OVP*

Lt. Col. Eckert

USTR

Robert Lighthizer

Harvey Bale

Status Report on the International Debt Strategy

Chairman Regan indicated he called the meeting because of several developments over the last few weeks which have focused increased attention on the international debt situation. These included the current visit of the Mexican President,² upcoming meetings of the OECD, G-10, Summit, a recent conference of bankers hosted by the New York Fed, and statements attributed by the press to some Administration officials raising questions about the debt strategy. These, plus the recent increases in interest rates, which have upset debtors, have fueled speculation the Administration may change its debt strategy.

Secretary Regan thought it was important to ensure that the United States position should not be misrepresented and that we should support the strategy in the run-up to the Summit.³ After hearing from our Allies at the Summit, a Working Group could look into the strategy and report to the SIG by the fall.

Secretary Regan personally doubted that there was a magic solution to the varied problems facing the many debtors and believed that the IMF centered strategy is a wise course. In any case, the IMF would not change its approach without U.S. prompting and probably international agreement. Secretary Regan noted that the G-77 effort to hold a monetary conference under the aegis of UNCTAD could serve as a vehicle for such agreement, if the independence of specialized agencies are guaranteed.⁴ Secretary Regan then turned to Assistant Secretary Mulford, noting that Mulford had only just returned from a difficult negotiating session in Japan.

Dr. Mulford said that it was not a good time to change the debt strategy. He elaborated on the progress achieved in each of the five elements comprising the strategy and noted there were a number of important points that must be kept in mind in judging results thus far.

First, given the size of the problem and the difficulties in its resolution, there is a natural human tendency to seek universal and

² President de la Madrid visited on a State visit May 14–17.

³ A reference to the London Economic Summit, which took place June 7–9.

⁴ See Document 119.

simple solutions. However, those close to the issue recognize this is not possible.

Second, the debt strategy always anticipated that resolution would take time. This reflects the incredible diversity among debtors, including the size of their problems, stage of adjustment, relations with the IMF, and whether adjustment is perceived as imposed or stemming from internal decisions.

He noted the different stages of adjustment of the four major Latin debtors—Mexico, well down the road; Brazil, clearly committed; Argentina, beginning to recognize the need for adjustment and searching for necessary internal political agreement; and Venezuela, apparently unwilling to come to the IMF but having reserves and making some of the necessary adjustment decisions. Dr. Mulford indicated it was not realistic to look at across-the-board solutions such as interest rate caps or general changes in loan maturities to address such different cases. Consequently, we must utilize the strategy despite its frustrations, exceptions, and long time horizon.

Dr. Mulford believes the process of adjustment will take time and will involve continuous probing of limits—countries experimenting with the acceptable pace of adjustment and the IMF defining the degree of flexibility that still permits attainment of its basic objectives. Commercial banks must also deal with the large number of participants, and difficult decisions to provide new money, particularly from smaller, more conservative banks. In the midst of these difficult ongoing processes, alternatives floated in the press by officials can have a tremendous effect on countries desperate for alternatives, with a negative impact on implementation of IMF programs.

Mr. Ernst agreed that the problems were diverse and that there is no easy solution, even as recovery spreads. An increasing problem will be that countries are becoming tired of austerity. In some cases, the foreign exchange constraint has been mitigated but domestic demand is not rebounding. The weakened private sector is not responding and this could stimulate overwhelming political pressure for increased government spending. Cites Brazil as possible example.

AID Administrator McPherson believed that while IMF programs are critical and that many necessary actions are being undertaken, the hard ones involving basic structural adjustment through the selling of parastatals to reduce the role of the public sector are not taking place. He believes that the Summit should discuss the need for increased Bank/Fund coordination to encourage such structural change. Secondly, McPherson urged focus not only on the debt problems threatening the system, but also politically-important countries such as Costa Rica, Sudan and Egypt. Secretary Regan noted that small countries continually ask the United States to lean on the IMF. Treasury has refused and

believes that the IMF is aware of political/social realities and adapts its programs appropriately. Moreover, we do not want the Bank to replace the IMF but come in behind it.

Under Secretary Wallis agreed that the strategy should not be changed but reported many at State were “nervous as hell” because of rising interest rates, the slow recovery in LDCs, and the fact that many adjustment reforms were not being implemented. He expressed concern about press stories on purported shifts in the U.S. strategy.

Assistant Secretary McCormack asked Secretary Regan his best guess on where interest rates would go in the next six months and how high they would have to go before a change was necessary in the strategy. Secretary Regan, quoting from a St. Louis Fed article, noted that the rise in rates during this recovery has been atypically high. He also noted that a majority of blue chip forecasters expect interest rates to peak by end 1985 between 12 and 14 percent. Dr. Mulford noted that a significant amount of debt was in non-U.S. currencies and that interest rates on dollar debt often moved with a lag, so the press may be overstating the actual impact on many countries of higher U.S. interest rates.

Under Secretary Olmer agreed on need to differentiate among borrowers and remains committed to strategy, but expressed view many thought five-point strategy was not a long-term solution. A Commerce Department analysis of trade and investment in Latin America had yielded very disturbing results. It suggested that recovery will not take place on the basis of export growth, that current account improvements resulted largely from import contraction, and that growth in exports is taking place in industries vulnerable to protection. He was struck, in recent meetings with the private sector in Brazil, that new jobs being created are a fraction of the increase in the labor force. He remains very worried about the impact on U.S. import and export industries.

Given the seriousness of the issue, he believes it reasonable to accelerate consideration of the strategy prior to the Summit. Mr. Olmer suggested that Dr. Mulford chair an interagency group to look at individual countries to reach judgments on the sustainability of their recovery. Secretary Regan indicated that Treasury officials would be traveling between now and the Summit, but would be happy to see Commerce's papers in the meantime.

Secretary Regan noted that some countries would only be saved by commodity price rises and asked Agriculture's view. Mr. Lyng said that a boom was not in store but that a commodity price rise was more important for the smaller countries. He agreed on need to stick to the strategy. In an aside, Secretary Regan marveled that we provide assistance to countries which can export more oil.

Roger Robinson noted that we must remember that the debt strategy is not just ours. He believes the Summit should reiterate support for the five-point strategy and express cautious optimism about the future. However, given the attention in the press, velocity of discussion, and interest rate rises, he wondered whether we are ready should the debt strategy become a major topic at the Summit.

The CEA representative said they still support the strategy although they note the risks and believe the Administration should look at various trade finance, interest rate cap proposals. He strongly supported an IG review.

Secretary Regan indicated we should differentiate between debtors which have, and have not, gone to the IMF. Perhaps caps would apply only to those who are in the adjustment process. He emphasized that any study must not be reported publicly, but should be done quietly after the Summit, within the SIG agencies. Dr. Mulford agreed that a follow-up IG study after the Summit would be a useful exercise, but that we should not discourage the banks from their own discussion of these issues.

166. Memorandum From the National Intelligence Officer for Economics (Ernst) to Director of Central Intelligence Casey and the Deputy Director of Central Intelligence (McMahon)¹

NIC 02873-84

Washington, May 15, 1984

SUBJECT

International Debt Problem²

1. The attached memorandum summarizes the discussion at the Monday SIG-IEP meeting on the international debt problem.³ There is a broad consensus that aspects of the US strategy will have to be reexamined after the Economic Summit. As I indicated in my memo of 26 April 1984, I believe it will be essential to find ways of easing the pressure on

¹ Source: Central Intelligence Agency, National Intelligence Council, Job 85-01156R: Policy, Planning, and History Records (1981-1984), Box 2, Folder 25: (SIG-IEP Meetings 1984). Secret. Sent through the Chairman of the National Intelligence Council.

² The subject line was highlighted.

³ The May 14 memorandum prepared by [name not declassified] of the CIA is attached but not printed. For a different account of the meeting, see Document 165.

the IMF, through supplementary financing mechanisms and probably also by easing some of the current conditionality requirements.⁴

2. In some ways the LDC debt problem is in a stage of transition from helping LDC debtors make ends meet to finding politically acceptable ways of enabling them to resume economic growth. Some of the debtors, notably Mexico, have all but eliminated payments arrears and improved their foreign exchange position, mostly through import cuts, to the point that they could begin to finance a moderate rate of increase in imports, and consequently in economic growth. Yet these economies, including the Mexican economy, are apparently continuing to decline well below what their governments and the IMF had anticipated. The reason appears to be that the public sector is continuing to contract, largely to meet IMF-imposed conditions, while the private sector is not making up the slack, so that effective demand is continuing to decline. This situation may become characteristic of more and more countries in the course of 1984. If it continues for long, political pressure to stimulate economic recovery by once again increasing government expenditures may become irresistible in the debtor countries. Public sector lending growth in turn would quickly come in conflict with IMF guidelines and with US Government objectives. It would require some difficult policy choices.

3. These changing problems have implications for CIA and Intelligence Community analysis. Although there will be a continuing heavy demand for detailed analysis of LDC debt and balance of payments conditions and prospects, it will become increasingly important to address the following questions:

- What are the political pressures and requirements for economic recovery in the major debt-ridden LDCs?
- By what means could such recoveries be achieved?
- What economic policy trade-offs might be necessary in the debtor countries?

4. Addressing these questions will require an even closer examination of the factors that drive domestic income, expenditures, and production in the debtor countries, as well as imports and exports, and at the evolving politics of the debt problem in each country.

Maurice C. Ernst

⁴ Ernst sent a memorandum, entitled "The Debt Problem Revisited," to Casey and McMahon under the April 26 memorandum. (Central Intelligence Agency, National Intelligence Council, Job 85–01156R: Policy, Planning, and History Records (1981–1984), Box 2, Folder 25: (SIG–IEP Meetings 1984))

167. Information Memorandum From the Assistant Secretary of State for Economic and Business Affairs (McCormack) and the Chairman of the Policy Planning Council (Rodman) to Secretary of State Shultz¹

Washington, May 22, 1984

SUBJECT

Assessment of Debt Strategy

The attached paper provides our conclusions on how our debt strategy should be extended in the next phase. It parallels Rimmer de Vries' paper in many respects but argues, unlike Rimmer's, that no government or IMF money is needed to deal with escalated interest rates on floating rate debt—although regulatory changes may be.²

We need your reactions before a version of this and Rimmer's paper go to Treasury. We recommend a discussion of both papers with you, Ken Dam, Allen Wallis, Mike Armacost and ourselves.

Attachment

Paper Prepared in the Department of State³

Washington, undated

**BUILDING ON THE DEBT STRATEGY:
AN AUGMENTED ADJUSTMENT FRAMEWORK**

Overview

This paper recaps the debt strategy, reviews in detail the assumptions which determine its viability and suggests areas where the basic

¹ Source: Department of State, Executive Secretariat, S/P Records, Memoranda/Correspondence From the Director of the Policy Planning Staff to the Secretary and Other Seventh Floor Principals, Lot 89D149: May 16–31, 1984. Confidential. Drafted by McGonagle on May 17; cleared in EB/IFD and EB. Sent under a May 22 covering memorandum from Rodman to Shultz. A stamped notation reading "GPS" appears on the memorandum, indicating Shultz saw it. McCormack wrote on the memorandum: "Mr. Secretary, SS asked that I forward this draft to you. It is a good, but incomplete treatment of the subject. It does not weigh all your options. This will be done later this week. Dick McCormack."

² Rimmer de Vries' paper has not been found. De Vries was senior vice president of the Morgan Guaranty Trust Company of New York City and a member of Reagan's Commission on Industrial Competitiveness.

³ Confidential. Drafted by McGonagle on May 21.

approach could productively be supplemented to strengthen the adjustment process in the medium term. In particular, we recommend a strengthening and modification of the World Bank role, closer coordination between the Bank and the IMF in a medium-term context and a proposal on interest capitalization designed primarily to improve the politics of debt management.

The Strategy

The debt strategy consists of the following main elements: (a) adjustment by debtor countries; (b) Recovery, sustained expansion and open markets in the industrialized countries; (c) Adequate amounts of commercial bank financing; (d) Support of the IMF, the key institution for encouraging and in lubricating the adjustment process; (e) Readiness of creditor governments to provide emergency liquidity when essential to give debtors time to implement adjustment programs.

As pointed out in our earlier paper,⁴ many elements of the strategy are not directly under the control of governments. The strategy is therefore primarily a set of assumptions which define the conditions under which the debt management process should be viable. We define viability as a state in which debtor countries are able to achieve current account positions consistent with available public/private financing over the medium term and simultaneously maintain politically acceptable rates of GDP growth, again in a medium term time horizon.

A Strategic Checklist

Since the strategy rests on a set of assumptions, its viability can be assessed by comparing the actual evolution of events with initial expectations.

LDC Adjustment. The aggregate current account deficit of the non-oil LDCs shrank from \$76 billion in 1981 to \$43 billion last year. This was largely the result of a sharp drop in imports in this period, reflecting the implementation of austerity measures and the paucity of finance. Excess demand was a critical part of the problem and its suppression must figure importantly in the solution. Eighty-five IMF adjustment programs were implemented in this period. Net IMF disbursements in 1981–83 totalled 9.5% of current account financing, compared with 2% in the 1978–1980 period. These programs included austerity, but also stressed measures which stimulated production and redirected resources toward the external sector.

⁴ See Document 163.

The politics of adjustment have been mixed. Implementation of IMF programs has occasionally sparked violence (Morocco, Dominican Republic), but in most cases has met with grudging acceptance (including tough cases such as Peru). Among the major debtors: Mexico and Brazil are adjusting relatively smoothly; Argentina and Venezuela and Nigeria are wild cards. Most of the rest of the world is either struggling feebly against the weight of enormous development problems of which debt is only one aspect (much of Africa), or is managing well (most of South East Asia, East Asia, and yesterday's basket case, Turkey).

OECD Growth and Open Markets. The USG debt strategy assumed that the OECD countries would grow at an average annual rate of 3–4% over the next five years. Other analysts (IMF, Morgan Guaranty, the Institute for International Economic Policy) set a 3% growth rate as an essential structural support for an orderly debt work-out. The most recent OECD forecasts put OECD real GNP growth at 4.1% in 1984, following a 2.4% expansion last year. Growth should decelerate, on OECD estimates, to about 2.8% in early 1985. IMF forecasts are consistent with the OECD's.

The growth assumptions are critical—a 1% percentage point decline in real GNP growth in the OECD would slash LDC exports by at least \$4 billion annually. Thus, uncertainties in the growth outlook are cause for concern. Moreover, interest rates are rising as the strengthening US private credit demand presses against the budget deficit and inflation expectations stir. Higher interest rates inject a new and difficult factor into both the economics and the politics of debt management. Each one percentage point increase in rates increases the LDC debt service burden by \$1.9 billion (net). Politically, the LDC perception is that the hard won fruits of the adjustment effort may go up in interest rate smoke. This could affect negatively their resolve to stay the economic policy course and their willingness to play by the rules.

Open markets among the industrialized countries are equally critical. Increased protectionism reduces LDC shares in our markets and is thus equivalent to a shortfall in OECD growth. Preserving relatively open markets will continue to be difficult. The future course of events depends on the balance between domestic political pressure and the Administration's resolve to fight it, which in turn depends on where our policy priorities lie.

Commercial Bank Finance. The USG strategy, as originally formulated, exhorted banks to hang in there, but did not specify "adequate" amounts. A consensus has developed among analysts that \$20–25 billion per year in net new private financing is necessary to provide adequate financial support for adjustment. The IMF and OECD estimate that net new private lending to [LDCs?] reached about \$20 billion in 1983. While much of this lending has been characterized as "involuntary" because it was encouraged by governments and by the IMF, "voluntary" lending to protect existing bank exposure was probably of equal importance.

The IMF expects bank lending to continue at just over \$20 billion per year over the next few years. However, commercial bank financing is likely to reflect a balance of considerations (reluctant regionals, defensive lending, improved LDC creditworthiness, public pressure). While the net result of such conflicting forces is uncertain, there is little reason to expect an early return to market determined relations between LDCs and their creditor banks.

Support of the IMF. Some say that this job was accomplished with the quota increase and expansion of the GAB. Other are less sanguine and point out that the constraint on IMF's role is no longer the quota limits, but the funds available to fill them. The issue of IMF financing is inseparable from that of the role of the Fund in the adjustment process. This is discussed below.

Official Bridge Financing. Bilaterally and with other OECD countries through the BIS, the US has reacted quickly to provide very short term liquidity support to countries in dire need. Some targets were of systemic importance (Mexico, Brazil); others were not, but mattered politically (Yugoslavia, Jamaica, the Philippines where we have a commitment, but no expenditure as yet). Judicious use of bridge financing, using primarily the Treasury's ESF, is just as important politically (we are there in time of great need) as it is economically. Accordingly, this aspect of the strategy is going well, although there is a tendency to use the ESP facility more sparingly.

Augmenting the Basic Approach

While fundamentally sound, the debt strategy could be usefully augmented through:

— A moderate expansion of conditional finance to support the adjustment process. Because we are operating at the low end of the viable range, the LDCs have less flexibility than earlier assumed. The tough cases will probably continue to experience substantial strain. Thus, the probability of political instability is higher than expected.

— Giving more concrete institutional recognition to the fact that the adjustment process must (1) unfold over several years and (2) extend well beyond austerity in order to attack the roots of deep-seated structural imbalances and to effect the redirection of LDC productive resources toward the external sector. Such a shift in productive effort is necessary to support existing levels of debt as well as expected future increases in indebtedness. (There is no question of the LDCs "paying-off" their debt. The development process requires a continuing net inflow of capital. This implies that the LDCs should continue to run current account deficits, which further implies an increase in net indebtedness over time.)

— Voicing official support for measures, such as certain forms of interest capitalization, which could improve the politics of debt management. A paper outlining a capitalization mechanism we could support together with a brief sketch of the costs and benefits of such a mechanism

is attached at Tab A.⁵ (Such a limited proposal would capitalize the difference between initial lending rates and higher rates resulting from expectations of increased inflation.) We would only stress here that floating interest rates are a private sector phenomenon and should be managed without the direct involvement of the public sector, including of the IMF (the Venezuelans strongly support a Compensatory Financing Facility for interest rate changes). The USG role should be confined to supporting economically sound capitalization proposals.

The above conclusions concerning the sustainability of the debt strategy and the desirability of strengthening its medium term aspects and adjustment focus point toward an expanded role for the World Bank and the IMF, and for closer coordination between the Bank and the Fund in promoting economic adjustment over the next several years. Concerning the World Bank *per se*, its effectiveness in supporting adjustment would require an increased emphasis on program (balance of payment support through Structural Adjustment Loans or sector loans) as opposed to project lending, more active use of IBRD/Commercial bank cofinancing and an enhanced role in promoting equity investment. Specific proposals and a more detailed analytical rationale for them are at Tab B.⁶

More intensive coordination between the Bank and the Fund should underpin medium term adjustment. The IMF has neither the resources nor the mandate to support adjustment in a multi-year frame. The IBRD has both, but has a predominant focus on project lending and lacks expertise in the stabilization area. Thus, there is a need for programs with a multi-year time span to be designed jointly by the Fund and the Bank. Such programs would emphasize a large stabilization component and a heavy IMF role in the early phase of the programs. In the latter phases the relative emphasis would shift toward structural change and IBRD finance as the program proceeded. Overall consistency would be provided by an investment program agreed between the IBRD, IMF and financing countries to help ensure that the Bank's project lending would "fit". This approach should feature maximum IMF funding early in the program to support vigorous adjustment—a cold bath with a commitment to medium term financial support. This would require scrapping the present policy of "catalytic" Fund programs (skimpy IMF financing—50% of quota) in countries where the necessary profound changes are likely to require several years. We doubt that such an attenuated process is likely to succeed and strongly favor a relatively short but financially important IMF role to be backed over time by the IBRD. Again a larger, more program-oriented, World Bank would be necessary to mesh with the Fund in such an effort.

⁵ Tab A is attached but not printed.

⁶ Tab B is attached but not printed.

168. Letter From Roger Robinson and David Wigg of the National Security Council Staff to the President's Assistant for National Security Affairs (McFarlane)¹

Washington, May 24, 1984

Bud—

This briefing book is designed to provide a comprehensive game plan for the handling of the international debt crisis at the Summit² with the President encouraging private sector initiatives concerning (1) the formulation of a mechanism to place a ceiling (cap) on debt service payments by debtor nations, and (2) some revision of the traditional IMF austerity programs to permit greater economic growth and increased exports. The book takes you through: an Executive Summary; a comprehensive non-paper (the internal “next steps” section of which can be detached for distribution purposes); a separate analysis of the concept of an interest rate cap; proposed talking points for the President; draft language on international debt for the London Communique; and draft press guidance.³

As I will be meeting with you on Saturday⁴ at 11:00 a.m. on the “Look Ahead” paper, perhaps we can discuss this package briefly at that time. Books identical to this one will be distributed to John Poindexter and Don Fortier. No one else, with the exception of Bill Martin, is aware of this Summit strategy on the debt crisis, and we intend to keep it that way. Moreover, we have sufficient time prior to departure for London to incorporate your ideas and those of others you designate as well as any late breaking developments.

Finally, we believe this is a very exciting set of initiatives for the President that, if approved, would once again demonstrate his leadership (ahead of the power curve) on a highly complex and critical international economic issue (arguably more important than Gulf energy preparedness and certainly longer term). As these developments strike us as increasingly inevitable, the President alone should reap the worldwide benefits.

Roger W. Robinson
David G. Wigg⁵

¹ Source: Reagan Library, David Wigg Files, Subject File, International Debt Crisis (Binder). Top Secret.

² A reference to the London Economic Summit, which took place June 7–9.

³ Attached but not printed are Meislin, Richard J., “New Latin Debt Plan Reported”, *New York Times*, May 25, 1984, p. D1; the analysis of an interest rate cap; proposed talking points for the President; draft language on international debt for the London communique; and draft Public Affairs press guidance.

⁴ Saturday, May 26.

⁵ Robinson and Wigg initialed above their typed signatures.

Attachment

Paper Prepared in the National Security Council⁶

Washington, undated

EXECUTIVE SUMMARY

The international debt crisis continues to evolve in the direction of an increasingly dangerous sequence of events. Indeed, our country's ninth-largest commercial bank was forced into reorganization last week in part due to depositor concerns over the threat of third world default. Arguably, the major U.S. banks are presently the weakest links among the key players in the debt crisis because of their inordinately large exposure in Latin America. Past Treasury successes in stemming debtor default run the risk of being overtaken by a combination of factors that could soon force changes in creditor positions in the direction of accommodation. Among these factors are:

- Rising U.S. interest rates
- Potential radicalization of LDC leaders over increasingly unpopular economic austerity measures.
- Increasing pressures on U.S. banks to write-down losses due in large part to unpaid interest on third world loans

We believe many of the key players in the debt crisis agree that we confront two near-term problems—rising interest rates and excessively rigid IMF programs—that should, and will, be addressed to defuse irresponsible unilateral or collective actions by beleaguered debtor nations.

We believe the President should take immediate steps to encourage private sector efforts to put into place a mechanism (i.e. interest rate cap) which places a ceiling on debt service payments by debtor countries in order to forestall a further decline in the incentives for these countries to maintain positive working relationships with the banks and the IMF. In addition, the IMF adjustment programs need to be gradually altered to provide more flexible measures to promote greater economic growth and increased exports.

In our view, it is essential that the President benefit by advancing these positive initiatives which are inevitably going to be implemented in the post-Summit period.

The London Summit offers an extraordinary and appropriate opportunity for the President to capture the high ground on these two key issues concerning the debt crisis and provide leadership at a crucial juncture in relations with the developing world.

⁶Top Secret.

Interest Rate Cap

We envision the President encouraging “in principle” the concept of a ceiling on debt service payments by debtor countries. The President’s reference to a potential interest rate “cap” would be couched in very general terms. He would make clear that he is not endorsing any specific proposal, but merely encouraging an important and useful concept to be explored in the private sector dialogue between creditors and debtor countries with possible participation of the IMF and World Bank. Any criticism from farmers or home mortgage organizations can be potentially defused by pointing out the similarities between this concept and that of variable rate mortgage schemes in use domestically.

Revised IMF Programs

The primary focus of “encouragement” directed at the IMF concerns tendency to rely on draconian across-the-board cuts in LDC fiscal spending and money supply, which tend to disrupt economic and social stability. A potential alternative is to ease off on (or at least stretch out) fiscal austerity targets and to insist on larger devaluations. We would envision the President using carefully crafted language to roundly applaud the Fund’s successful efforts to date, but at the same time identifying himself and the U.S. as encouraging more growth-oriented programs after nearly three years of serious belt-tightening.

It would be our intention to shape the discussion at the Summit in such a way as to ensure that the President is not upstaged and to secure a consensus among the Summit partners on these two broad points for inclusion in the London Economic Communique. This development would, in turn, protect the President from being in any way isolated on these issues. Secrecy will be a central component in the success of these initiatives by the President.

After the President’s intervention in the first session, we would immediately activate a number of key players connected with the international debt problem (Feldstein, Volcker, Isaacs, Connover, Solomon, de Larosiere, Rockefeller, U.S. bank chairmen, European bankers, the Chancellor of the Exchequer, and hopefully even some LDC spokesmen) to publicly applaud the President’s vision and compassion in encouraging these measures to be taken in private sector negotiations. We are informed that a strenuous effort will be made at the Philadelphia Commercial Bankers Conference on June 4 to forge a consensus on an interest cap which may be announced a day or two prior to the Summit. Even should this dramatic development occur, it would not materially alter our game plan for the President as he will be the first world leader to endorse and support what in his view is a positive development in private sector deliberations concerning the debt crisis.

Attachment

Briefing Paper Prepared in the National Security Council⁷

Washington, May 24, 1984

The LDC debt burden today totals nearly \$800 billion, involving more than fifty countries in debt relief efforts (one third of total IMF membership). Latin American debtors alone now owe creditors over \$350 billion, with an inordinate share of the exposure held by U.S. money-center banks. Argentina, Brazil, Mexico, and Venezuela alone owe the nine largest U.S. banks over \$40 billion—greatly exceeding these banks' total capital and reserves. The vulnerability of the large U.S. banks to the debt problem is reflected in the sharp decline in their stock prices relative to market averages. Investor anxieties were heightened recently with the collapse of the ninth largest U.S. bank—Continental Illinois Trust—whose reorganization has served to underscore a phenomenon that has receded from memory somewhat in recent decades, namely, the vulnerability of bank solvency to depositor and investor confidence. Although the international debt crisis tends to capture the headlines, we should bear in mind that the major banks are also under domestic portfolio pressures. Bankruptcies have reached all time post-depression highs thus contributing to the likelihood that certain large U.S. banks may well be the weakest links among the key players in the debt crisis—a factor presumably not lost on the debtor governments.

While Treasury has been successful to date in its policy of supporting tough IMF austerity measures emphasizing fiscal and monetary discipline, there are political pressures building in the debtor countries that will—one way or another—force changes in creditor positions in the direction of accommodation. Some factors underlying this assessment are as follows:

- Rising U.S. interest rates are evoking particularly harsh criticism of U.S. policy toward the debtors. An increase of only 50 basis points (half percentage point) in the prime rate (or LIBOR) results in a \$2 billion increase in the annual payments burden of the major debtors, partially undermining hard fought LDC austerity efforts.

- The leadership of LDC's are increasingly of the view that present IMF programs, with their emphasis on import contraction and fiscal discipline, are becoming untenable and upsetting the already delicate balance between economic austerity and political/social stability. Three years of declining GNP and sharply reduced trade is beginning to damage the infrastructure and export capability of certain economies and is leading to increased pressure for collective action by debtors toward

⁷ Top Secret.

their creditors. For example, leaders of four Latin American countries (Mexico, Colombia, Brazil and Argentina) recently laid down a new marker in the intensifying war of words over debt by issuing a joint statement demanding an easing of repayment terms.

- Slippage in scheduled interest payments by major Latin American debtors has led to the problem of an increasing amount of over 90-day arrearages for the U.S. money-center banks each quarter, adding to pressures on both banks and regulators to avert a crisis of confidence in the U.S. banking system. (The end March financial package for Argentina was in large part structured to avoid such a problem.)

- Although creditor terms on new money are becoming more favorable for responsible debtors such as Mexico (lower spread over prime, lower fees, longer grace period and maturity), rising interest rates tend to offset these gains and thus undermine the discipline/reward mechanisms of the financial markets.

We are, therefore, at a crossroads in the management of the debt crisis, with two basic near term problems—rising interest rates and excessively rigid IMF programs—that if permitted to continue unabated could potentially translate into a number of serious developments, but if altered in time could provide a measure of breathing space to defuse a potential debtors' revolt.

Initiatives

We should take immediate steps to encourage private sector efforts to put in place a mechanism (i.e. interest rate cap) which places a ceiling on debt service payments by debtor countries in order to forestall a further decline in the incentives for these countries to maintain positive relationships with the banks and the IMF. Between the Summit and the IMF/World Bank meetings in September (where the President has traditionally made the opening address), interest rates will probably be an explosive topic generating increased hostility directed against the U.S. and the IMF if we do not preempt this process. In addition, the IMF adjustment programs need to be altered to provide more flexible measures to promote economic growth and increased exports.

In our view, it is essential that the President benefit by advancing these positive initiatives which are inevitably going to be implemented in the post-Summit period.

The London Summit offers an extraordinary and appropriate opportunity for the President to capture the high ground on the two key issues of the debt crisis and provide leadership at a crucial juncture. If properly structured and qualified, the President's encouragement of these initiatives at the Summit would be greeted with applause by all of the relevant participants—the banks, the IMF, and debtor countries and his Summit counterparts. It could also provide an important boost to the President's (and the U.S.) image concerning the North-South dialogue

in general, including the potential for increased Latin American cooperation on U.S. policy initiatives in Central America.

Proposed Plan of Action

Interest Rate Cap

We envision the President encouraging "in principle" the concept of a ceiling on debt service payments by debtor countries because of the shared sensitivity of the industrialized countries to the plight of those beleaguered nations who have courageously "bit the bullet" in implementing tough and unpopular austerity measures (i.e. coming to terms with the IMF). In addition:

- The President would cite the "wind being knocked out of the sails of responsible debtor nations" concerning the impact of rising interest rates on the positive results of economic contraction and discipline.

- The President's references to a potential interest rate "cap" would be couched in very general terms and he would make clear that he is not endorsing any specific proposal, but merely encouraging an important and useful concept to be explored by private sector creditors and the debtor countries with possible participation of the IMF and World Bank.

- In a Summit discussion, the President would make clear that any proposed mechanisms to put a ceiling on payments (a "cap" or extended maturities) is essentially a private sector initiative between creditors and debtors. It is therefore *not a Presidential or U.S. initiative* nor does it alter our basic five-point debt strategy agreed to by the Heads at Williamsburg.

- The President would also state that he looks to Secretary Regan to monitor this private sector process as well as to maintain a dialogue with the IMF and other relevant parties concerning appropriate means of implementation.

Revised IMF Programs

This is a somewhat more sensitive initiative because of the fine line between the necessary discipline of rigorous adjustment measures and the pressing political need for economic growth if leaders of debtor countries are to maintain popular support for these measures. The primary focus of criticism directed at IMF programs is on its "excessive reliance" on draconian across-the-board cuts in LDC fiscal spending and money supply, which tend to disrupt economic/social stability. A potential alternative is to ease off on (or at least stretch out) fiscal austerity targets and to insist on larger devaluations. The net effect would be keeping more people employed and benefitting from social welfare programs in the short term while shifting resources into new and more competitive export-oriented industries which, in turn, eventually permits a larger volume of imports. We envision the President using carefully crafted language to roundly applaud the Fund's successful efforts, but at the same time

identifying himself and the U.S. as encouraging more growth-oriented programs after nearly three years of serious belt-tightening.

It would be our intention to shape the discussion at the Summit in such a way as to make sure that the President is not upstaged (these initiatives should ideally be incorporated into his summary presentation in the first session the morning of June 8). Securing a consensus among the Summit partners on these two broad points in the subsequent discussion for inclusion in the London Economic Communique which would, in turn, protect the President from being in any way isolated on these issues. The French and others may well seek to take credit for this “high ground” approach to the debt crisis themselves.

Next Steps

Secrecy will be a central component in the success of these initiatives by the President. Although we believe Treasury is now basically on board concerning the inevitability of these developments, Treasury’s fundamental conflict as the responsible agency argues for holding off on discussing this game plan with Secretary Regan until just before the President’s intervention. Treasury may argue that the Argentina/IMF negotiations should be concluded prior to U.S. encouragement of the concept of an interest cap. The counter-argument to this point is that implementation of a ceiling on debt service payments would be restricted to those countries fully engaged in an IMF program and thus represents a strong incentive for Argentina to proceed expeditiously with the Fund. There is always the possibility that Argentina and other debtor countries will not view the type of ceiling envisioned as adequate, but we will have to live with this kind of initial criticism in order to preserve the integrity of our measured step by step approach to the debt crisis.

The President should be given the proposed talking points, the executive summary and this non-paper as soon as possible to ensure that he is comfortable with this approach. We should then hold another McFarlane-Shultz-Regan breakfast prior to the Summit after which Bud should consider the merits of discussing this game plan in strict secrecy with Secretary Shultz for his informal review and concurrence. Together, they could bring Secretary Regan on board prior to the beginning of the Summit. Treasury can then work with NSC and State on finalizing press guidance immediately following the first session in which the President makes this intervention. Backgrounders should be pre-arranged to ensure that the President’s comments are properly qualified and correctly interpreted. We would then immediately activate a number of key players connected with the international debt problem—Feldstein, Volcker, Isaacs, Connover, Solomon, de Larosiére,

Rockefeller, U.S. bank chairmen, European bankers, the Chancellor of the Exchequer, etc. and hopefully even some LDC spokesmen—to publicly applaud the President's vision and compassion in encouraging these measures to be taken in private sector negotiations.

We could take charge of discussions with as many relevant parties as possible to cover remaining risks to the extent possible. Drafts of the President's talking points and the proposed language for inclusion in the Summit Communique are included in this package. We will provide an update to this non-paper as we track late breaking developments leading up to the Summit.

One such development which we will attempt to closely monitor will be the Philadelphia Commercial Bankers Conference where we are told a strenuous effort will be made to forge a multi-year rescheduling proposal for Mexico and possibly a consensus on an interest cap could be announced a day or two prior to the Summit. (Walter Wriston is reportedly still the principal hold-out to achieving such a consensus.) Nevertheless, even should this dramatic development take place, it would not materially alter our game plan for the President as he would be the first world leader to endorse and support what in his view is a very positive development in the private sector deliberations concerning the debt crisis.

169. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Mulford) to Secretary of the Treasury Regan¹

Washington, May 24, 1984

SUBJECT

Debt Rescheduling Negotiations

The importance of successfully managing the various debt problems facing major LDC debtors is obvious. One serious weak point in our handling of these problems is the division of labor between State and Treasury in connection with official (Paris Club) debt-rescheduling

¹ Source: National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Executive Secretariat Official Files, 1984, UD-05W13, 56-86-65, Box 47, Memo to the Sec May 84. Limited Official Use. Sent through Sprinkel.

negotiations. Treasury does all the substantive work, but State represents the USG at the negotiating table.

State's current negotiator, Elinor Constable (the senior DAS in the Economic Bureau) is a skillful negotiator. However, she is not supported by a staff which deals with the debtor countries on a day-to-day basis. Furthermore, State is not in close touch with the other players (IMF, commercial banks, G-5 finance ministries).

It now appears that Elinor may be taking an overseas assignment this summer. Thus we are presented with another opportunity to press for having the negotiating responsibility shifted to Treasury.

To ensure that we are successful this time, I am prepared to designate a senior OASIA official, and as needed, a deputy assistant secretary, as the USG negotiator, and to provide the necessary support to back up this work. In addition, I have concluded that we must be prepared to seek White House support for this shift if Secretary Shultz continues to fight it.

RECOMMENDATION: that you seek Secretary Shultz's concurrence to shift to Treasury responsibility for negotiating all debt-rescheduling arrangements involving USG direct and guaranteed credits. (Talking points attached.)²

² The talking points are attached but not printed. Regan did not indicate his approval or disapproval of the recommendation. In a May 29 memorandum to Mulford, Hicks wrote: "Secretary Regan reviewed your May 24 memo regarding debt rescheduling negotiations, and while he agrees that the negotiating responsibility properly belongs in Treasury, he does not want to personally raise the issue with Secretary Shultz at this time. Instead, he suggests that you, Beryl Sprinkel, and Tim McNamar discuss how to approach State and/or NSC at a lower level." (National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Executive Secretariat Official Files, 1984, UD-05W13, 56-86-65, Box 47, Memo to the Sec May 84)

170. Memorandum of Conversation¹

Washington, May 25, 1984, 7:30–8:50 a.m.

SUBJECT

Breakfast Meeting on International Debt Crisis

PARTICIPANTS:

Robert C. McFarlane, Assistant to the President for National Security Affairs
 Jacques de Larosiere, Executive Director of the International Monetary Fund
 Martin Feldstein, Chairman, Council of Economic Affairs
 Roger W. Robinson, Senior Director of International Economic Affairs, NSC

Mr. de Larosiere initiated the discussion with a rather lengthy review of progress to date concerning the IMF's management of the international debt problem and where he sees the process going. He made the following points:

- Things in general are going better than they were one year ago, but the debtor nations have not yet "worked through the process."

- The debtor countries are understandably fed up with negative growth. Mexico, Chile, and Peru are all demanding more growth.

- The IMF projects a \$25–26 billion increase in imports by the debtor nations between 1985–86.

- One year ago, the international financial system was near collapse. Now the system is better equipped (IMF reinforced), more resilient and better organized. Very complicated packages (i.e. \$6.5 billion for Brazil late last year) have been successfully concluded.

- Important to note that it was the countries themselves that recognized the need to maintain "negative" austerity measures and that the days of living off of borrowed resources were over.

- Currently the problem is the lag in the general perception that things are going better (tested debt strategy, improved economic environment, better debtor understanding). This perceptual lag is shared by many in the banking community.

- In addition, "lines of demarcation" have been drawn between the commercial banks. The European banks have made better provisions for loan losses than the U.S. banks which have "insufficient

¹Source: Reagan Library, Roger Robinson Files, Chronological File, Robinson Chron May 1984; NLR-487-11-6-17-5. Top Secret. The meeting took place at Feldstein's residence. Drafted by Robinson. Sent under a May 31 covering memorandum to McFarlane, in which Robinson wrote: "As per your request, attached is the memcon on our breakfast meeting at Marty Feldstein's. This represents as detailed an account of the proceedings as I could muster from hastily scribbled notes under the table. If anything, I erred on the side of detail, as this was a very important session that will help guide us through the troubled months ahead. I hope it is useful in dealing with this issue in London."

provisions.” This is largely attributed to their (U.S. banks) “short term concept of their profit positions.”

Mr. de Larosiere went on to describe the aspects of the debt problem which he is “worried about.” These concerns include:

— Interest rates—“The U.S. economy is booming and causing tension on money markets due to your high deficits.” He stated “so far interest rates are digestible.” The Fund projects higher exports from the debtor countries in spite of the recent increase in rates.

— An interest rate cap “is not that overwhelming a problem.” Fund cannot, however, become “paralyzed” by interest rates even if they should become indigestible.

— The *Argentina* situation is serious—“the one big uncertainty—all others have come in.”

— The Fund has been holding discussions with Argentina since the start of the year. Their excuses for not coming to terms with the Fund “no longer wash.” Finance Minister Grinspun is the major player, but he cannot forge a consensus. “Technically (Argentina and the Fund) are very close.”

— There is uncertainty concerning whether Argentina has the political will to “play the game”. Many in Argentina take an irresponsible attitude and argue, for example, that Argentina should unilaterally declare that x percent of their export earnings will be used to service debt. Argentina is therefore “not lost but questionable”.

IMF Strategy for Mexico and Brazil

— Turning to Mexico, de Larosiere termed it “the one country performing very well”. The Fund’s objective is to move ahead now and get Mexico back on the credit market “under their own strength”.

— Mexico has no new money needs for 1985 but will encounter a debt amortization problem in the area of \$10–12 billion annually in 1985 through 1987. Therefore, de Larosiere will propose a multiyear rescheduling for Mexico to permit them “to regain access to the market”. He will use a prestigious banking conference in Philadelphia on June 4 to go public with this proposal. He talked very recently with President de la Madrid about this scheme (a 4–5 year multiyear rescheduling). President de la Madrid responded “absolutely—we must work together”. Silva Herzog (Mexican Finance Minister) will work with Mr. de Larosiere in getting this done.

— Brazil—Mr. de Larosiere went through the background of Brazil’s problem and concluded by quoting Delfim Netto (Minister of Planning) as stating “we have a booming economy”. Inflation remains a problem. Helinked Brazil to the Mexico strategy stating that if Brazil stays on track until autumn, it would be the second candidate for a multiyear rescheduling. The broad objective is “to get Mexico and Brazil under control—that doesn’t make everything better but it’s like

isolating sectors in fighting a fire. You limit the damage and avoid a catastrophe." He stated that the Fund may need to isolate Argentina.

— *Argentina*—de Larosiere stated, "the IMF cannot accept a weak program—its credibility is at stake." Argentina will encounter a "credibility" problem in trying to form a debtors cartel. At the same time, "we cannot let a nervous situation develop into a cartel—by all means we must avoid that."

Mr. de Larosiere briefly mentioned the financial conditions of other countries:

— *Chile*—agreed to comply with the Fund program—"things are not too bad."

— *Brazil*—in autumn a new money package for 1985 must be raised but it will be "nothing like the \$6.5 billion of last year—it should have the effect of containing things."

— *Venezuela*—has not yet approached the Fund. Problem is that the restructuring of its debt was too short-term. He stated "banks would be more comfortable if Venezuela was doing the right things." The Fund may seek a "very discreet way to help the banks successfully restructure Venezuela's debt."

On the interest rate cap, Mr. de Larosiere continued:

— He stated concern over the "polarization" caused by interest rates. "We have no offer on an interest rate cap yet on the table."

— He remarked, "If there were to be a further hike pushing interest rates substantially higher, we would have to reconsider the chemistry and fabric of the programs and that would be very difficult."

Mr. de Larosiere cited four types of caps:

— One approach would be "to put more money in the (financial) packages to cope with the excess interest cost above a certain level—we were on the verge of that last year with Brazil." This may be the easiest approach as it can be implemented at a time when countries negotiate a new package and would require no change in the system—"only increase the envelope." The con argument is that the countries incur more debt to be serviced in the future.

— The second approach "is the more ambitious pure cap." This would entail a fixed interest rate at a certain reference point with the understanding that if rates go higher the debtor countries pay that amount and no more. De Larosiere termed this approach the "most radical" and indicated he does not believe "there is any chance banks will swallow that." He referenced having talked to the banks and there having been a consensus that this would be a destructive approach for the banking community.

— The third approach involves a fixed maximum interest rate, with a view toward placing a ceiling on cash payments by the debtor

countries. The excess interest would be converted into capital and added on to principal at the end of the loan. He stated, “that is workable—it is not unlike the first approach but may have more appeal politically”.

— Finally, the fourth variety of “cap” would be for international or government institutions to provide a guarantee against moves in the interest rates to keep rates low. He stated “this would be politically difficult as it would be bailing out banks.” The Fund has no compensatory fund to finance this approach.

A discussion followed Marty Feldstein’s explanation of the third approach to the interest “cap”:

— Feldstein stated that Mr. Preston (Chairman of Morgan) was prepared to endorse this third approach.²

— de Larosiere questioned if Preston would do it for one year or on a multiyear basis. When Feldstein responded it would be acceptable on a multiyear basis and the U.S. regulators could live with this development, de Larosiere stated “this is very interesting”. He stated he would talk to Preston.

— de Larosiere stated that the Fund could deal with a further 1% increase in interest rates. Robinson responded that even a ½% move in this highly charged environment could be very serious and result in just the kind of irresponsible unilateral or collective action by debtor countries that we all seek to avoid.

— de Larosiere agreed that this was indeed possible and that perhaps the Fund was not accurately assessing the political environment. Mr. McFarlane inquired about an IMF move toward more growth-oriented programs. Mr. de Larosiere responded that “two-thirds of the Fund’s thirty-six clients were now expected to grow in 1984–85”.

— Going back to our preferred approach to a cap, de Larosiere stated “Citibank doesn’t like it”. He believes Citi’s principal concern is that this concept could eventually spread to the capitalization of new money. This would be appealing to European banks which would prefer a shift toward capitalization “even for new money”. Countries would then be tempted to try to fix unilaterally the amounts of new money to be capitalized and the amounts they would agree to service.

— de Larosiere seemed to initially share Citibank’s concern that the process of fixing a cap and capitalizing the remainder was rather arbitrary and debtor countries would be tempted to make their own rules. Mr. Feldstein corrected this view by stating that there would be sufficient discipline imposed by U.S. bank regulators so that this would not represent a problem.

² Reference is to Lewis Preston, Chairman of J.P. Morgan and Company.

— Finally, Mr. de Larosiere stated that some bankers favor such a cap because they prefer not to have to go back to their Boards to justify new money for some of the countries. In addition, he cited Citibank's other concern that a cap may be a recipe to move countries even further from restoring market conditions. Mr. Feldstein also addressed this issue by stating that the type of cap under consideration would be market-oriented and compatible with a return to the market when appropriate.

171. Memorandum of Conversation¹

London, June 7, 1984, 6–6:35 p.m.

SUBJECT

Meeting with French President Francois Mitterrand

PARTICIPANTS

The President
 Secretary of State George P. Shultz
 Secretary of the Treasury Donald T. Regan
 Edwin Meese III
 Robert C. McFarlane, Assistant to the President for National Security Affairs
 Ambassador Van Galbraith
 Under Secretary of State Allen Wallis
 Assistant Secretary of State Richard R. Burt
 Richard G. Darman
 Tyrus W. Cobb, NSC
 Alec Toumayan (Interpreter)

President Francois Mitterrand
 Foreign Minister Claude Cheysson
 Finance Minister Jacques Delors
 Spec. Asst. to the President Jacques Attali
 Presidential Spokesman Michel Vauzelle
 Advisor/Office of the President Pierre Morel
 Advisor/Office of the President Hubert Vedrine
 Advisor/Office of the President Madam Guigou

[Omitted here is discussion not focused on international debt.]

President Mitterrand then turned to the question of global indebtedness. He indicated that France felt the situation facing many of

¹ Source: Reagan Library, Executive Secretariat, NSC Trip File, [London] Summit—May–June 1984; NLR-755-19-9-5-9. Confidential. No drafting information appears on the memorandum.

the underdeveloped and developing countries was nearing the crisis point, particularly in Latin America, Africa and Asia. *President Reagan* responded that indeed we needed to be concerned about the problem of LDC debt, but that we felt that the proper approach was to address each country's problem on a case-by-case basis. He asked Secretary Regan to further elaborate on this point.

Secretary Regan observed that considerable progress had been achieved since 1982. The Paris Club has handled over 60 billion dollars in debt rescheduling. On the horizon, he felt that the Philippines, Venezuela and Argentina needed particular attention. Again, however, we felt the best approach was to treat these countries on a case-by-case basis. No one formula, *Secretary Regan* pointed out, would be applicable to all countries facing debt problems. The London Summit should, above all, not make promises in declarations that cannot be fulfilled.

President Mitterrand agreed that we should avoid issuing promises that cannot be kept. There were two general problems associated with LDC indebtedness. First, there is a common basis for all of their problems. The underlying basic debt situation is the same even though the solution must be individualized in each case. We must apply common sense as we search for a solution. We have the reverse of the normal situation where the creditor approaches his debtor—here, the debtor approaches his creditor. It is the easy way out to use your indebtedness as a way to finance your needs. It is usually the first thing that comes into many people's minds; that is, to have someone else's money solve your financial problems. If you are a small debtor, you are crushed; if you are a major one, you are respected.

Secretary Regan agreed, noting that the larger countries have worked out their debt problems better than the smaller ones. Mexico is addressing its indebtedness problem quite properly and we are prepared to move to the next stage with the Mexicans. *President Mitterrand* said that LDC indebtedness was a difficult issue, but at any rate we would discuss it this week. Further, our Finance Ministers, meeting separately, will have to come to grips with this important issue. *Secretary Shultz* added, "be grateful that the Foreign Ministers are not discussing it!"

President Mitterrand pointed out that the second major issue of importance was that of the North-South relationship. We must not allow a situation to develop where the North-South relationship becomes antagonistic. We must avoid the emergence of two hostile blocs of countries, or even the appearance of this.

Secretary Shultz mentioned a recent speech given by the head of the International Monetary Fund (IMF), Jacques de Larosiere, from France. His address on Third World indebtedness received much attention and we felt that much of what he said in that speech needed saying,

particularly the comment that, as a first order of business, these nations needed to help themselves.

President Mitterrand agreed that assistance must begin at home. He was particularly concerned about the situation in Tunisia and Morocco where the IMF terms required that the government increase food prices. A lot of political structures may be swept away because of such stringent procedures. (This was an apparent reference to recent rioting in Tunisia and Morocco in January when food prices were increased.) *Shultz* said that the way nations could help themselves best was to attract equity capital. The most pressing requirement these countries faced was a need to attract capital. *President Mitterrand* pointed out that, while this was true, the problem was that capital was flowing toward the United States. *Secretary Regan* interjected that this was not the case, that the capital apparently flowing toward the United States was only being "repatriated." *Shultz* added that nations must balance their debt and debt service ratios.

The President observed that our recent trip to China was quite a spectacular visit. We were particularly impressed by the manner in which the Chinese were encouraging foreign investment and attempting to attract foreign capital. This is an example of how nations should act. *President Mitterrand* interjected that the Chinese example is not entirely applicable since it is a country that is both poor and powerful; thus, it is a country that meets the classic definition of a nation that was able to develop. *The President* agreed, but said that although the problems facing the Chinese were large, their efforts to address their debts were equally impressive. For example, they have 1 billion people, but only one third of the arable land that the United States possesses. This practically condemns them forever to be a food importing country.

The President thanked *President Mitterrand* for coming to Winfield House.

The meeting closed at 6:35 p.m.

172. Minutes of a Meeting¹

London, June 8, 1984, 3:12–5:38 p.m.

RESUMPTION—AFTERNOON SESSION

[Omitted here is discussion not focused on international debt issues.]

3:52:33

Lawson: Of discussion of Finance Ministers last night and this AM

1. Interest

2. Debts

3. World economy

4. Trade

(Reading rapidly)

Agree that to keep interest down, inflation must be controlled.

Welcome US downpayment.

Regan does not want mention of US in Communique

Debt—Rise of interest adds to debt service costs. Idea of global discussions or inflationary actions not sound.

Need long-term private investment. Cooperation between IMF and World Bank. Should open markets to LDC exports. Where debtors put their houses in order, should reschedule.

Trade: Reduce subsidies, trade barriers. Can learn much from US on flexibilization.

G-10. Multilateral surveillance.

Study is not complete. Further report by deputies.

Meeting of Interim Committee first half of 85.

Thatcher: Relates to AM discussion of Heads, especially on trade liberalization.²

Any discussion of debt? Case by case basis, etc. Anything else?

Trudeau: This will not satisfy debtors. Suggests we aim to divide and conquer, prevent cartel. Dozens of debtors affected.

¹ Source: Reagan Library, Executive Secretariat, NSC Trip File, [London] Summit—Economic Declaration; NLR-755-19-15-1-6. No classification marking. The session took place at the London Economic Summit. An unknown hand wrote in the top right-hand corner of the minutes: "WAW notes on session." A different unknown hand wrote at the top of the minutes: "Je 8. Fri. pm."

² Minutes of the morning plenary session, which took place on June 8 from 9:54 a.m. to 12:55 p.m. are in the Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975-1991, Lot 93D490: London Summit—Economic Declaration Mtg Book.

Thatcher: Any comments on protectionism? *Each* summit has opposed it.

Should we recommend starting preparation of a new round while continuing current GATT work.

Mitterrand: Causes of protectionism are the same in all countries. Accepts preparing for a new round. Finish what started in 82, do not set any dates.

Thatcher: We could only recommend.

MacEachen: Refers to Williamsburg statement.³ Through OECD we are monitoring protectionist actions.

OECD are accelerating Tokyo round.⁴

Canada prepared to consider committing to having 85 preparations and start negotiating in 86.

GATT work program in the fall of 82 had deadlines in the fall of 85. Badly behind. If to have credibility, should get on with GATT work program. Summit should at least urge them to get on with it. Will influence view of LDCs on a new round.

Secretary Shultz: Supports MacEachen descriptively, appropriateness of GATT. Welcome intensified discussions leading to a Ministerial in 85 that would make decisions. There has been a lot of standing up to protectionism. Best defense a strong offense.

Secretary Shultz (continues): Nature of trade has changed. Give GATT a push. Something strong in the Communique.

Thorn: Agreed on essentials. Must act as Shultz said and as MacEachen said. Finish work in progress. Embark on preparatory work. But can't prejudge and set a date. Next Summit can see if circumstances are right.

Stoltenberg: Must proceed on a case-by-case method and develop criteria. (He's talking about banks, credits; not GATT.) Reschedule when debtors make progress. Take account in our budgets.

Have strengthened IMF. Important. Must recognize that IMF will have liquidity problems in a year or two. Must think in long term. Recent rise in interest rates upsets IMF scenarios. How can we lower interest rates? IMF, World Bank _____ arrive at joint decision accepted by all industrialized countries.⁵

Abe: Re the new round, we should prepare in 85 and start negotiations in 86. Go further than OECD. Will help with debt problems.

³ For the text of the "Williamsburg Economic Summit Conference Declaration on Economic Recovery," May 30, 1983, see *Public Papers: Reagan, 1983*, Book I, pp. 796–799.

⁴ Reference is to the multilateral trade agreements that were negotiated at the 1973–1979 Tokyo Round of GATT negotiations. See *Foreign Relations, 1977–1980*, vol. III, Foreign Economic Policy, Document 209.

⁵ Omission is in the original.

Mitterrand: Can we release statement on Democratic Values.⁶
Agreed 4:30:45

Kohl: Political effects in debtor countries, especially Latin America. More at stake than economics—basic solidarity of Western countries. Important for churches—WCC, The Pope, Overwhelming importance for the world—youth, etc.

Secretary Regan: Why case-by-case basis? Debts from syndicates [syndicates?] of varying composition. Lists about a dozen countries. No single solution for all causes—overborrowing. If they would open their borders, equity capital would come in. Communique should emphasize equity.

Thatcher says we will.⁷

Craxi: Countries even if they can repay debt are burdened—cannot borrow.

IS problem. How can we avoid saying something on all these problems—debt, trade, ODA. Refers to Gandhi proposal⁸ and says we should draft a reply *reflecting* the principles of *Dec on DV*.⁹

The President: Caribbean initiative—trade opened, financial aid. Encouraged private investment. Persuaded them to eliminate laws and rules and regulations that obstruct investment. Have sent agricultural teams. Provide practical aid ____.¹⁰ Now have a five-year program before Congress that would do same for Central America.

Nakasone: Diversity among LDCs. ODA in Africa, private elsewhere, 50/50 Philippines. Non-aligned countries important. Some close to Soviet Union, some to the West, some shifting from the Soviet Union to the West.

Lalonde: Gandhi, President of Mexico. Must be a response that will encourage them. Should not set up a new institution. Interim Committee alone not answer to concerns—it is concerned with monetary issues and we don't want IMF spreading into other activities—movement of capital long-term issues role of World Bank. Should have a more dynamic use of the Development Committee. Financial issues versus development issues—Interim Committee deals only with finance not development.

[Omitted here is discussion of deficits, interest rates, and other issues.]

⁶ For the text of the "Declaration on Democratic Values," issued June 8 at the London Economic Summit, see Department of State *Bulletin*, August 1984, pp. 1–2.

⁷ An unknown hand underlined this sentence and placed a checkmark in the left-hand margin.

⁸ See Document 119.

⁹ An unknown hand wrote: "(Declaration on Dem. Values)." at the end of the sentence.

¹⁰ Omission is in the original. An unknown hand wrote an illegible word in the blank after "aid."

173. Memorandum From Roger Robinson and David Wigg of the National Security Council Staff to the President's Assistant for National Security Affairs (McFarlane)¹

Washington, June 18, 1984

SUBJECT

Breakfast Meeting with Secretaries Shultz and Regan: Financial Conditionality As An Element of US Foreign Policy

Over the past two months, the NSC has been forced to fill an institutional vacuum and intercede over the objection of much of the bureaucracy, in arranging emergency financial packages for three democratic governments caught in severe economic crises. These countries together constitute a critical element of support for U.S. policies in the Western Hemisphere—the Dominican Republic, Jamaica and Honduras.

In each case, OMB and Treasury, together with various bureaus from State/AID, strongly opposed, (and even attempted to block) these packages in order to maintain strict adherence to the conditionality timetables embodied in IMF adjustment programs or adjustment criteria.

After detailed consultations with the relevant agencies, the NSC effort prevailed in each case, but not without a cost both in terms of executive time taken from other national security matters (micromanagement), and incurring the unhappiness of some senior officials in Cabinet agencies. After having worked long and hard to cultivate positive working relationships with the agencies over the past six months, this was not a welcome development. We now have an opportunity to identify a process to structure this new phenomena of emergency packages and to ensure that all concerned agencies have their "day in court."

U.S. Support for Conditionality

The IMF in fulfilling its mandate, is primarily concerned with helping to reverse LDC economic imbalances which largely grew out of the dramatic shift in world economic and financial circumstances in the 1970's.

Few, if any U.S. officials would argue against the concept that carefully crafted economic adjustment programs are a vitally important element in helping beleaguered LDC's (particularly those with excessive

¹ Source: Reagan Library, David Wigg Files, Chronological File, May-June 1984. Confidential. Sent for action.

reliance on traditional raw material, food and semi-manufactured exports) to adjust to today's international economic environment characterized by reduced inflation, lower commodity prices, financial retrenchment, sharpened export competitiveness and pressures for increased protectionism in certain markets. U.S. support for IMF adjustment programs—both those already in place and those still under negotiation—has been a central component of our Five-Point Strategy to manage the debt crisis.

For the past two years, Treasury and OMB have properly linked U.S. financial aid disbursements (State ESF, Treasury ESF, PL-480, CCC, etc.) to specified milestones in IMF-debtor country negotiations. This approach is consistent with OMB's broader mandate to encourage U.S. fiscal stringency and budgetary cutbacks. The key arguments supporting this approach, (now firmly entrenched in the U.S. bureaucracy), are as follows:

- Uniform treatment of LDC's by the U.S. disciplines them to accept IMF or State-AID conditionality and prevents an erosion of political will which could result from U.S. differentiation among the debtor countries.

- The most direct path to long term LDC economic and political stability is rapid implementation of IMF adjustment measures.

- U.S. policies which strictly enforce IMF conditionality are the best approach to dealing with LDC financing requests because it reduces slippage in economic adjustment and hence out-year costs of economic support to U.S. aid recipients.

Correcting the Conditionality/National Security Balance

Economics and finance are becoming ever more important tools of U.S. foreign policy, particularly in dealing with strategically important LDC's whose economic policies are often constrained by hard currency shortages and the vagaries of international commodities markets. In the case of those strategic countries with new and/or weak governments and economies (such as the Dominican Republic, Jamaica and Honduras), the sensitivity and sophistication of U.S. economic policies could spell the difference between stability and chaos—of U.S. foreign policy success or the sacrifice of vital U.S. regional interests with negative national security consequences.

Blanket acceptance of IMF conditionality (or U.S.-generated conditionality) is a blunt instrument that may not always serve U.S. interests. The following observations were reported in a recent study by Princeton's Woodrow Wilson School of Public and International Affairs:²

- If a regime is already vulnerable to an economic downturn and if this vulnerability is compounded by opposition based on civil

² Not further identified.

liberties issues or ethnic and personal conflicts, agreements with the IMF can increase vulnerability and call into question the regime's stability.

- If economic problems are widely perceived as deriving from poor past policies rather than external causes, adoption of an IMF package can easily mean explicit acknowledgement of responsibility for problems and the risk of instability will be increased.

- An IMF label on policies may provoke a nationalist reaction as a government is seen as being subservient to Western and especially U.S. interests.

Recent Presidential Decisions

The successful formulation of emergency financial packages for the Dominican Republic, Jamaica, and Honduras, approved by the President sent a clear signal to the bureaucracy that an apolitical IMF and an arbitrary conditionality timetable cannot be permitted to supersede vital U.S. national security interests. Clearly, wholesale slippage of U.S. support for IMF conditionality requirements would tend to undermine U.S. national interests over time. Nevertheless, certain countries who play important roles in U.S. foreign policy appear to be approaching the limits of politically viable economic adjustment as evidenced by social unrest, strikes and violence in the streets. This is the sole category of countries we are focusing on—those running low on time and hope, yet who know that compliance with the IMF, State-AID or Treasury adjustment requirements are realistically months away.

Proposed Solution

We have given careful consideration to options for creating a proper interagency mechanism to fill the institutional void created by this new policy requirement (structuring emergency financial packages for strategically important countries).

For example, at first glance, it might seem logical to form an IG under the SIG–IEP to perform this function. It can be correctly argued that the SIG–IEP was originally established to better balance international economic policies against our foreign policy/national security interests, and to ensure that the bureaucracy does not work at cross purposes. Unfortunately, the track-record of the SIG is not promising in terms of providing genuinely balanced recommendations. Furthermore, unless special arrangements were made, an IG of this type would be chaired by David Mulford who has an extremely orthodox view of conditionality and little sympathy for national security considerations.

Another option is to have an IG under the SIG–IEP that is chaired by NSC or State which reports its recommendations directly to the NSC

(through the Executive Secretary). A third alternative might be establishing a new IG outside the SIG–IEP framework. The key objective is to ensure balanced representation and hence the adequate vetting of foreign policy and national security concerns.

In sum, we believe that possibly the only way to prevent the erosion of our hard fought gains for the President in correcting the imbalance between conditionality and national security is to establish a relatively small IG task force chaired by Bill Schneider at State (outside the SIG–IEP) composed of the following “core group” of agencies: State, Treasury, OMB, CIA, NSC, Defense, and the VP’s office (Commerce, STR, Agriculture, CEA and OPD have not participated in past exercises). The rationale for this preferred approach is basically three-fold:

- Schneider already chairs the integrated foreign assistance budgetary process which is responsible for balancing foreign policy considerations against available resource mechanisms (altering of planned rate of disbursement, the reprogramming of funds, and the need to raise new funds not currently appropriated).

- The State Department is the appropriate agency to chair such a task force as it would deal solely with “foreign policy cases” that may potentially demand exceptional financial treatment (i.e. waiving conditionality, accelerated disbursement, etc.)

- The NSC could return to a low profile overall management role and call on our good relations with Schneider and Secretary Shultz to assist in special cases that demand forward-leaning U.S. action.

The function of this task force would be to deal with any “out of cycle” budgetary items and identify appropriate financial measures by the U.S., if any, to address specific country circumstances. We would envision the development of a range of options for emergency financial packages to be generated with the listing of agency positions under each option. *Like the SIG–IEP this would be a recommending body not a decision-making body* that would report to the NSC for decision by you or movement to the President. One caution—should the NSC for any reason lose control of this new process and represent only a vote at the table, the return to our previous policy dilemma with these strategic LDC’s is virtually assured. I have informally discussed this approach with Schneider who believes it is logical, defensible, and consistent with his recent conversation with Secretary Shultz concerning the appropriate process for handling these issues.

Finally, we have provided a talking point for your breakfast meeting which addresses the delicate situation concerning Argentina. Undoubtedly there will be a need for secret demarches to President Alfonsín, Economic Minister Grinspun, and other debtor country leaderships in an effort to bring Argentina around to the Fund, or increase

the pressure and/or isolation of this potentially destabilizing country. As the debt crisis has long ago crossed the threshold of strictly a Treasury concern, we would urge that you approach Secretary Regan with a request that NSC have an option to be represented in future unpublicized missions to Latin America. Our participation would not only provide important insights for you and the President but would subtly demonstrate to the countries involved that the White House has a strong interest in developments on the debt crisis from this point forward.

Don Fortier, Constantine Menges, Fred Wettering, Gaston Sigur, Geoff Kemp, and Ty Cobb concur.

RECOMMENDATIONS

1. That you approve of the recommendation outlined above that Bill Schneider chair a newly established IG Task Force to develop emergency financial packages for strategic LDC's.³

2. That you agree to use the talking points (attached Tab I)⁴ for the breakfast meeting tomorrow with Secretaries Shultz and Regan.⁵

3. That you approve NSC representation in future high level meetings with the leaderships of debtor nations particularly Argentina.⁶

³ McFarlane did not indicate his approval or disapproval of the recommendation. In an undated memorandum to Bush, Shultz, Regan, Weinberger, Block, Stockman, Casey, and McPherson, McFarlane described the establishment of a new "ad hoc group chaired by the Under Secretary of State for Security Assistance, Science and Technology (T)," tasked with handling special requests for changes in foreign assistance. (Reagan Library, Roger Robinson Files, Chronological File, Robinson Chron July 1984–August 1984)

⁴ Tab I is attached but not printed.

⁵ McFarlane did not indicate his approval or disapproval of the recommendation.

⁶ McFarlane did not indicate his approval or disapproval of the recommendation.

174. Telegram From the Department of State to the Mission to the United Nations¹

Washington, July 14, 1984, 2119Z

207658. Subject: President's Letter to UN Secretary General.

1. Entire text Confidential

2. Mission is requested to deliver following letter dated July 13 from President Reagan to Secretary General Perez de Cuellar soonest. Signed original will follow. White House does not plan to release text of letter but has no objection if SYG wishes to do so.

3. Begin text:

Dear Mr. Secretary General:

I appreciate your thoughtful letter on the economic problems which concern all the nations of the world.² Those of us who participated in the London Summit are conscious of the importance of our deliberations both for ourselves and for the world economy.

Foremost in our minds is the need to maintain prudent fiscal and monetary policies. We believe such policies have been crucial to sparking our own economic recovery as well as a broad-based economic expansion with stable prices. Appropriate domestic policies are essential in all countries if we are to establish the conditions for lasting growth in the world economy for the benefit of developing and industrial nations alike.

My Summit colleagues and I also recognize the importance of assuring that developing countries can share in the benefits of world growth. To this end, we have committed ourselves to resist protectionist pressures and to renew efforts to liberalize and expand world trade. We have also endorsed the special action program for Africa by the World Bank and pledged to maintain and wherever possible increase flows of resources to developing countries, particularly the poorer ones.

International financial issues are of special concern to us. We have reconfirmed the strategy we adopted last year on management of the debt issue and agreed that it should continue to be implemented on a case-by-case basis. Taking into consideration the courageous measures adopted by many debtor countries, and in the spirit of cooperation

¹ Source: Reagan Library, Executive Secretariat, NSC Trip File, [London] Summit—May–June 1984; NLR-755-19-11-3-8. Confidential; Immediate. Drafted in the White House; cleared by Charles Hall (S/S) and James Covey (S/S); approved by Edward Dillery (IO/UNP).

² Not found.

with the developing world, we have also reached agreement on various measures to strengthen that strategy.³

Accordingly, we are reiterating our support for the IMF in its important work of helping debtor countries in their adjustment efforts. We are calling for closer cooperation between the IMF and the World Bank and for strengthening the role of the World Bank in fostering development over the longer term. Finally, for those countries which are making successful efforts to improve their positions, we are encouraging more extended multi-year rescheduling of commercial debt and are ready where appropriate to negotiate similarly in respect of debts to governments and government agencies.

On a broader scale, my Summit colleagues and I have asked our Finance Ministers to consider the scope for intensified discussion of international financial issues of particular concern to developing countries in the IBRD Development Committee. We have also called upon our Finance Ministers to continue their work on ways to improve the operation of the international monetary system.

I am confident that we are on the right course in reaching our common goal of a sustainable economic recovery which extends to all the nations of the world. We will continue to cooperate with the existing international institutions which have been most effective instruments for the achievement of that objective.

Sincerely,

Ronald Reagan /s/

His Excellency

Dr. Javier Perez de Cuellar

Secretary General of the United Nations

New York

End text.

Dam

³Telegram 175066 to all diplomatic posts, June 14, transmitted an assessment of the economic aspects of the London Summit, which included the reconfirmation of the debt strategy agreed to in 1983. (Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: London Summit—May–June 1984) The confirmation of the debt strategy and its case-by-case implementation was also explicated in the Declaration of the London Economic Summit, issued June 9, and transmitted in telegram 171463 to all diplomatic and consular posts, June 11. (Ibid.)

175. Paper Prepared in the Department of State¹

Washington, undated

NEXT STEPS ON DEBT

Most would agree that the initial battle in the debt crisis has been won (e.g., Mexico, Brazil), but the war goes on. While our debt strategy has served us well so far, we need now to consider what additions to the strategy are needed for the next stage. The objective of our debt policy should be to identify and do what we can to support the right mix of financing and adjustment in developing countries which will enable them over time to put their external financial relations back on a normal footing and to achieve an acceptable level of growth and development. The debt crisis is both a liquidity and, over the medium to longer term, a growth problem.

We are at a point in the process where we must give greater attention to the implications of the continuing crisis on the political stability of affected debtor countries and on the U.S. banking system. Debtor countries cannot avoid adjustment and should not be encouraged to do so, but we should seek to manage the crisis in ways that minimize the risks to the stability of fragile democratic regimes in a number of debtor countries. Further, although the threat of a massive default which could undermine the international financial system has receded, the U.S. banking system has undergone some unsettling shocks recently and remains vulnerable to lesser calamities.

Proposals for next steps can be put into two categories: (1) refinancing/rescheduling and (2) new financing/World Bank role.

Refinancing/Rescheduling.

(1) *Interest-capping.* We should be prepared to support any reasonable plan the private lenders may come up with for capitalizing interest when rates rise over some pre-determined level. While the initiative must be with the bankers, we should provide a regulatory context which would give them confidence that such a move would not lead to a risk of such loans being deemed “non-performing”.

¹ Source: Department of State, Executive Secretariat, S/S–I Records, The Executive Secretariat’s Special Caption Documents, Lot 92D630: Not for the System—August 1984. No classification marking. Sent under an August 16 covering note from Constable to James Covey. Covey forwarded the paper to Hill under an August 16 covering note, writing: “CH, This is DEBT discussion paper, for the Secretary’s next talk with Regan. JC.” (Ibid.) Shultz wrote in an August 20 note to Constable: “Thanks for letting me see this memo on your current thinking, which seems most sensible to me, re the debt crisis.” (Ibid.)

The IMF could, as some bankers recommend, pick up the tab for an interest cap through a system similar to the compensatory financing facility. This or other official financing options are not recommended for two reasons: (1) they would be seen as a direct bank bailout which would threaten already tenuous support for the IMF and (2) they would provide the potential for substantial new and unconditional flows of IMF resources, thus reducing its leverage in the adjustment process.

(2) *Repackaging of Debt.* A number of proposals are circulating which would consolidate, discount, and reissue existing debt in the form of bonds or other longer term instruments. The common element is that someone, i.e., taxpayers or lenders, have to absorb substantial up-front losses. Aside from the questionable wisdom of setting such a precedent, there is simply no prospect that governments could persuade taxpayers to play this game. Private lenders are of course free to set up a discount market which could restructure LDC debt should they choose to do so. However, any advantages to such a development could be affected by the loss of control that would be entailed in having LDC debt shifted to secondary holders. Those who bought the debt paper at a discount might well be harder to organize and less tractable in their dealings with the LDCs concerned than are the banks.

We should not encourage debtors or creditors to think that governments might consider this approach. At the same time, we could quietly follow the development of these ideas in the private sector and consider whether it might be in our interest to be supportive of such schemes—short of paying the bill.

(3) *Multi-year Reschedulings.* This is a limited but potentially significant technique. The typical Paris Club rescheduling of official debt currently incorporates a “good-will” clause that assures the debtor country that it can return for a subsequent rescheduling if needed. To go beyond the one-year consolidation period places a great strain on the debtor and creditor countries’ ability to project the key economic variables accurately enough to design an appropriate rescheduling package for the longer term. Nevertheless, it may be appropriate in selected cases to reward successful adjusters (e.g., Mexico, Brazil) with a multi-year rescheduling. The Paris Club is now actively engaged in working out guidelines for such reschedulings.

Bankers are also moving towards multi-year reschedulings, and it is anticipated that the current negotiations with Mexico will result in such an arrangement. We should support the banks in their prudent use of this technique.

New Financing/World Bank.

In order to sustain the painful and extended adjustment period which will be required, high-debt LDCs must be able to look forward to

the resumption of new financing flows adequate to their development needs. The prospects for the resumption of substantial flows of voluntary bank lending to the developing countries are uncertain at best. The rebuilding of investor confidence necessary to once again attract substantial flows of private investment will be a long and difficult process. In this context, the role of the development banks, particularly the World Bank, is critical.

(1) We could consider a *modest* new SDR allocation. While the direct contribution this would make to the ability of debtor countries to service debt would be extremely small, it could be helpful politically. Also, the larger amounts of SDRs that go to creditor countries could be made available under various schemes to selected debtor countries if this seemed advantageous at some point down the road.

(2) *World Bank Program Lending*. Under the Special Action Program (SAP) instituted in 1982 as a response to the debt crisis, the World Bank has a mandate to lend up to 10% of its portfolio in the form of structural adjustment loans (SALs) which are tied to commitments in the debtor country to undertake broad structural adjustment measures. Under the program, the Bank has also placed more emphasis on sectoral loans conditional on performance criteria as well as co-financing measures designed to encourage more participation by private lenders in the LDCs. The Bank's experience with these programs has been spotty and somewhat disappointing thus far, although they have had important positive effects in certain situations, e.g., a series of SALs to Turkey played an important part in that country's recovery.

We should recognize the importance of these programs to the continuing successful management of the debt crisis. The Bank should be encouraged in its review of activities in this area and urged to expand and perfect its techniques in this regard. There are risks, emphasized by the Treasury Department, that the Bank could move too far from its traditional project-lending role and thus undermine its standing as a borrower and/or generate pressures for an unduly large general capital increase (GCI). However, they are currently operating well below their sustainable lending level and the immediate need is to get them more broadly and effectively engaged in contributing to the longer range resolution of the debt crisis. Treasury's misgivings should not stand in the way of achieving that important goal.

(3) *World Bank/IMF Coordination*. It is important that in working on different aspects of the debt problem in a particular country the Bank and the Fund coordinate closely and avoid inconsistent actions. Both institutions are aware that this coordination has not always been as close as it should be and are working to improve it. They should be encouraged in this effort. The management of the debt problem leaves plenty of room for full participation of both the Bank and Fund, each

operating well within its particular mandate, and would benefit greatly from active coordinated joint participation.

Conclusion.

We need an evolutionary approach which builds on the successes of our debt strategy. The power of the adjustment process has been demonstrated. While seeking to ease the disruptions involved and make the process more sustainable, we must avoid undermining the incentives to adjust. More radical approaches, such as the various proposals for repackaging and restructuring, should be followed closely but treated with caution at this stage. In summary, the following next steps seem to make sense:

- Support any reasonable interest-capping scheme private lenders may come up with and encourage regulators to be accommodating.
- Move forward on multi-year reschedulings of official debt for selected successful adjusters and support move by private lenders toward such multi-year arrangements.
- Encourage expanding World Bank program lending and co-financing aimed at assisting recovery in high-debt LDCs.
- Support closer World Bank/IMF coordination in providing conditional resources to LDC debtors.
- Consider supporting a modest new SDR allocation as a potentially helpful contribution to debt management.

176. Paper Prepared in the Department of the Treasury¹

Washington, August 14, 1984

THE INTERNATIONAL DEBT STRATEGY

Introduction

Our approach to the international debt problem is of necessity a pragmatic one in which countries are treated on a case by case basis. No comprehensive solution or formula could be applied indiscriminately

¹ Source: Washington National Records Center, RG 56, Records of the Office of the Assistant Secretary for International Affairs, 1950–1985, Meeting and Policy Files, 1979–1992, 56–10–60, Box 2, SIG–IG File—1984. No classification marking. Sent under an August 15 covering memorandum to multiple recipients, in which Hicks wrote that the paper was for discussion at the IG–IEP meeting scheduled for August 17. Minutes of an August 17 IG–IEP meeting have not been found. Instead, the issue of international debt was discussed at an August 21 meeting of the IG–IEP, and minutes of this meeting are in the Reagan Library, Douglas McMinn Files, Subject Files, LCD Debt.

to countries which are very different with respect to their stages of development, their adaption to global economic trends and their respective relationships to the international private and public credit system. Debtors also vary by need, capacity for adjustment, and potential for sustainable long-term growth. Creditors operate under varying constraints, with differing obligations and limits to their ability to adapt to debtor problems and demands. This diversity is the principal obstacle to a comprehensive solution to the debt problem.

For this reason, our debt strategy is a set of related conditions, which, if fulfilled over the medium-term, can lead to a basic improvement in the creditworthiness of many of the heavily indebted countries. Success would be defined by those countries developing an improved capacity to service their debt while allowing imports to grow sufficiently to support sound economic growth.

The strategy was first enunciated in the fall of 1982 in the wake of the Mexican debt crisis. It was endorsed by the seven Heads of State at the Williamsburg Summit in 1983, and has wide support throughout the international financial community. It was reaffirmed at the London Summit in early June.²

The Five-Point Strategy

In its original formulation, our international debt strategy consisted of five elements:

The *first*, and indeed central, element of the strategy is that debtor countries in financial difficulty adopt comprehensive, credible and effective programs for strengthening their balance of payments and stabilizing their economies.

The *second* element is that the industrial countries follow policies leading to sustainable, non-inflationary economic growth and keep their markets open to exports from developing countries.

The *third* element in our strategy has been a strengthening of the IMF. Its resources have been increased and it plays a major supporting role in helping debtor countries to formulate needed adjustment programs so that creditors are encouraged to provide financial support.

The *fourth* element is continued commercial bank lending for countries making determined adjustment efforts including, in most cases, the provision of net new finance.

The *fifth* element is the readiness of creditor governments to provide bridge financing on a selective basis when appropriate. This financing generally fills the gap between the time when a program has

² See footnote 3, Document 174.

been worked out with the IMF but before its resources and those of the commercial banks are disbursed.

At the London Summit in early June the debt situation was reviewed within the framework of our agreed debt strategy. The Summit Communique on this issue:

a) Reaffirmed the central role of the IMF, its cooperative relation with the World Bank and called for the strengthening of the latter's function in the area of medium- and long-term development,

b) Encouraged private banks to make more extended multi-year rescheduling of their credits and expressed the willingness of governments to consider doing the same for countries who are adjusting well, and

c) Emphasized the potential importance of direct investment.

Alternative Strategies

Numerous proposals have been presented during the past two years "to do something" about the debt crisis. Many of the more dramatic ones are quite comprehensive in scope and include sweeping transfers of private credits to creditor governments, substantial relaxation of IMF-supported adjustment programs, and increases of official credits, both for the MDBs and bilateral programs.

These proposals fail to take into account differences in the development environment and debtor/creditor relationships. Many are politically unrealistic in that they assume a public intrusion into the market place as well as a commitment of budgetary resources that neither the Executive Branch nor the Congress believe is desirable.

Resolving the debt problem will take both time and patience. All the players—debtor country governments, commercial banks, creditor governments and international institutions—need time to assess their experience and their ability to innovate. Prolonged negotiations, conducted patiently and with restraint, will be needed if the principal actors are to deepen their understanding of the dimensions of their problems and the nature of the solutions that may realistically be applied.

The Outlook

Rapid and sustained OECD recovery is critical to the process and access to industrial country markets must be maintained in the face of increasing protectionist pressures. The U.S. expansion has already had a dramatic effect on Latin American sales to us and in general, we can expect widespread LDC export gains this year and next. On the other hand, interest rates have risen and although the extent and duration of these increases is uncertain, it is likely that average interest rates paid by LDC borrowers will be higher this year and next than in 1983. Nevertheless, compared to the crisis period of 1980–82, world economic and debtor country performance is much better. This suggests that the general principles of our debt strategy remain realistic.

We are now entering another phase in which various nations are at different distances along the road to adjustment. In Latin America, for example, Mexico is the most advanced and Argentina and Bolivia the furthest back. The London Summit Communique recognized this new reality by endorsing the concept of multiyear rescheduling for countries such as Mexico that have made the best adjustment, look as if they will continue to follow sensible policies but continue to have very heavy debt service obligations. We are in the process of working out with other governments how this approach might be applied in the Paris Club for government and guaranteed private credits and the relationship of government rescheduling to private bank rescheduling.

Another important next step is increasing the awareness that, as countries strive to cope with their debt burdens, they need to re-examine their policies towards direct foreign investment. Such investments provide not only needed capital and technology, but also stabilize capital flows and improve the management of external debt. The major debtors need to become less dependent on credit.

In this evolving situation we must be alert to new problems and seek to adapt the application of our basic strategy to new problems as they arise. But whatever changes that prove to be necessary should be made in a manner which strengthens the international capital market.

177. Memorandum From the President's Assistant for National Security Affairs (McFarlane) to President Reagan¹

Washington, August 30, 1984

SUBJECT

IMF/World Bank Annual Meetings, September 24–27, 1984

Issue

Whether or not you should make a brief welcoming address to the IMF/World Bank annual meetings in Washington, D.C. September 24–27.

¹ Source: Reagan Library, Roger Robinson Files, Chronological File, Robinson Chron July 1984–August 1984; NLR-487-11-16-4-8. Confidential. Sent for action. Prepared by Robinson. Copies were sent to Bush, Meese, Baker, Deaver, and Ryan.

Facts

Attached (Tab A) is a memorandum to you from Secretaries Shultz and Regan strongly recommending that you deliver brief welcoming remarks to the opening session of these prestigious meetings of the world's Finance Ministers, Governors of Central Banks, senior financial officials and leading commercial bankers.² You delivered such remarks in 1981 and 1983 which were very well received.³ U.S. Presidents have an almost forty-year tradition of making the welcoming address to these annual meetings (e.g., 17 of the last 22 years that these meetings have been held). The IMF/World Bank annual meetings are the single most important event of the year for the international financial community and focus world attention on a broad range of key multilateral economic and financial concerns. Statements at these sessions receive extensive press coverage. The IMF and World Bank exist, in large part, due to U.S. efforts and have been the cornerstone of our international monetary and economic policy since World War II. More recently, the IMF has been the centerpiece of our strategy for managing the international debt crisis. Last year, your address was key to obtaining Congressional approval of the much needed IMF quota increase.⁴

Discussion

A welcoming address would provide an excellent opportunity to highlight your substantial international economic policy successes including the crucial role of a strong U.S. economic recovery in advancing global economic growth and stability. In addition, it is an appropriate occasion to chart the enormous progress made in the economic summit process and the benchmarks for the future that have been established with our key allies. Your appearance would also demonstrate the sensitivity of the U.S. and other industrialized nations to the wrenching economic adjustment measures adopted by many developing countries, particularly in our Hemisphere, in managing their debt burdens. Finally, you could applaud the recent unprecedented multi-year rescheduling agreement between the commercial banks and Mexico which holds promise for responsible debtor countries such as Brazil and others. Unfortunately, your absence could be mistakenly interpreted as disinterest in the economic and financial hardships faced by these

² Tab A, dated August 17, is attached but not printed. In a September 20 memorandum to Reagan, Regan again stressed the importance of the President's scheduled address to the annual meeting of the Board of Governors of the International Monetary Fund and World Bank Group. (Reagan Library, Roger Robinson Files, Chronological File, Robinson Chron September 1984–October 1984; NLR-487-11-18-10-9)

³ See footnote 3, Document 267 and footnote 5, Document 298.

⁴ See footnote 5, Document 302.

developing countries and could potentially set back Administration efforts to secure legislation providing additional resources to the World Bank group which may well be awaiting floor action at the time of the annual meetings.

Recommendation

That you agree to make a brief welcoming address to the annual IMF/World Bank meetings in Washington, D.C. either the afternoon of September 24 (some time between 3 and 4 p.m.) or alternatively, at approximately 9:30 a.m. Tuesday, September 25.⁵

⁵ Reagan checked and initialed the "OK" option and underlined "Tuesday, September 25." For the text of Reagan's remarks at the annual meeting of the Board of Governors of the International Monetary Fund and World Bank Group on September 25, see *Public Papers: Reagan, 1984*, Book II, pp. 1365–1370.

178. Letter From President Reagan to French President Mitterrand¹

Washington, September 21, 1984

Dear Francois:

Thank you for your recent letter concerning the question of a possible allocation of Special Drawing Rights (SDR's) by the International Monetary Fund.² I understand that Don Regan, George Shultz and Bud McFarlane discussed this and other international financial issues with your Special Counselor, Jacques Attali, during his recent visit here.³ Mr. Attali's thoughtful presentation of your views was much appreciated.

The United States shares your concerns regarding the economic hardships which many less developed countries have recently experienced. We also agree that those countries which are implementing difficult economic adjustment programs merit our support. However,

¹ Source: Reagan Library, Roger Robinson Files, Chronological File, Robinson Chron September 1984–October 1984; NLR-487-11-18-4-6. No classification marking.

² A copy of the September 6 letter from Mitterrand to Reagan is in the Reagan Library, Roger Robinson Files, Chronological File, Robinson Chron September 1984–October 1984; NLR-487-11-18-5-5.

³ No record of this meeting has been found.

we do not believe that an SDR allocation would be an appropriate or effective means of providing support or helping those countries deal with their economic difficulties.⁴

Clearly, a number of developing countries have experienced severe financial constraints and reduced access to private credit. In our view, this does not reflect a long-term global need for international reserves, which is the requirement for an SDR allocation. Rather, there has been a loss of private market creditworthiness, due in part to a lack of confidence in their past policies. Indeed, international reserves as a whole have increased substantially since the onset of the debt problem in 1982, and a further global increase is projected for next year.

As you know, the cooperative debt strategy which all of us endorsed at Williamsburg in 1983 includes as one of its principal elements the need for debtor countries to adopt effective economic adjustment measures. Recent developments indicate that this approach is bearing fruit and is the key to rebuilding the reserves of developing countries. Many countries are implementing sound economic policies, with the support of the International Monetary Fund, and are gradually regaining their access to private credit markets and official assistance, thus improving their prospects for growth and development.

Rather than supporting and encouraging these efforts, an SDR allocation could actually undermine the adjustment process since SDR's would go to all members of the IMF, not just those implementing comprehensive economic programs. Additionally, despite considerable progress in the industrial countries, inflation remains a serious problem in many LDC's, and we are concerned that an allocation could erode their willingness to face up to this problem.

Because the bulk of any SDR allocation would go to the industrial and oil-exporting countries, we would also question whether an allocation would significantly benefit either the major debtors or the poorest developing countries. For example, from an allocation of SDR 10 billion, Brazil would receive SDR 160 million while Chad would receive only SDR 3 million. I understand that your proposal for SDR lending by financially strong countries is designed to address this particular drawback to an SDR allocation. However, for us, conceptual and legislative problems would remain. First, the recent increase in IMF resources—an increase I strongly supported—provides the IMF with adequate funds to meet official balance of payments financing

⁴ In a September 18 memorandum to McFarlane, Robinson explained that he brokered the interagency response to Mitterrand's September 6 letter, which was accepted by both the Departments of State and the Treasury, and that Reagan's letter in response thus represented the U.S. position on an SDR allocation "going into the IMF/World Bank meetings." (Reagan Library, Roger Robinson Files, Chronological File, Robinson Chron September 1984–October 1984; NLR-487-11-18-2-8)

for the foreseeable future.⁵ Supplementing these funds is, in my view, unnecessary and inconsistent with the 1983 agreement to increase the IMF's resources. Moreover, we would be unlikely to obtain the legally necessary Congressional support for such lending, following the \$8.5 billion provided recently to the IMF in the face of severe budget constraints.

We are making significant strides in resolving the debt problem through a combination of strong economic recovery in many industrial countries, effective economic adjustment by the debtors, and appropriate official and private financing. I am confident that the approach we have adopted, and which was endorsed at the London Summit, will succeed. You may be sure that the United States will continue to work closely with France in this effort.

Sincerely,

Ron

⁵ See footnote 5, Document 302.

179. Minutes of an Interagency Group–International Economic Policy on International Debt Meeting¹

Washington, January 24, 1985

Minutes of the IG–Debt Meeting of January 24, 1985

1. *Treasury* opened the meeting by summarizing the points made in the background papers for each agenda topic.² With respect to the first subject, “A Review of the Overall Debt Situation,” Treasury’s impression was that we had reached a watershed in the evolution of the debt

¹ Source: Reagan Library, Roger Robinson Files, Subject File, SIG–IEP 01/23/1985—02/14/1985; NLR–487–6–19–10–4. Limited Official Use. The meeting took place at the Department of the Treasury. No drafting information appears on the minutes. Sent under a February 6 covering memorandum from Edward Stucky to multiple recipients.

² Copies of the background papers for the agenda items for the meeting are in the National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Official Files of the Executive Secretariat, 1985, UD–11W, 56–88–79, Box 62, SIG–IEP, Jan–Jun ‘85. The three agenda items were: “1) A review of the overall LDC debt situation; 2) Objectives for the Interim and Development Committee meetings in April; and 3) Coordination of export credit and debt policy.” (Memorandum from Christopher Hicks to multiple recipients, January 22; *ibid.*)

problem with all the major debtors having made progress toward adjustment or at least having committed themselves to the IMF programs that would have that effect if implemented properly. The exception was Nigeria. The problem with major debtors would now be one of whether or not they could remain in compliance with the programs. The outlook for continued growth in the industrial countries, the level of interest rates and inflation was also favorable. Nevertheless, progress was uneven and we might have problems in the future with medium-size debtors like Chile, Peru and Colombia.

2. *STR* wondered whether there would be sufficient net new bank credit to the debtor countries in view of banks' attitudes. Should we be updating the study made a year ago in which credit availability was projected? In response, the *FRB* referred to a study in the October issue of the *FRB Review* which indicated that credit could grow six percent per annum and still be compatible with a reduction in LDC exposure relative to bank capital.³ As to the general situation, Mexico and Brazil had done better than expected but still faced problems of internal adjustment.

3. On the second agenda item, *Treasury* said that we had achieved some of our objectives of obtaining a more flexible format which would favor dialogue but there was still resistance to our idea of a simple bare-bones communique that would not have to be laboriously negotiated in advance. *Commerce* asked whether we were doing the necessary analytical work for the April Interim and Development Committee meetings.⁴ Should not we be planning now what we are prepared to do under various scenarios. *State* felt it would be difficult to plan ahead but we must keep an open mind. *FRB* thought the principal issue at those meetings was medium term adjustment of the LDCs. We ought also to take a more liberal view on international trade and he referred to the multi-lateral trade initiative that is being studied by several agencies. *NSC* pointed out that in their deliberations issues were always considered from the point of view of their effect on the debt strategy.

4. *State* asked if anything fundamental had changed in our position and whether we ought to consider some minor concessions. *Treasury* replied that we ought to maintain our present position which contemplated no concessions. *Treasury* saw this meeting as having no necessary sequel. Naturally, since we were serious about the need to have a dialogue, discussion could not be pre-cooked. There was always a risk inherent in that situation that something would come out that would have to be considered subsequently.

³ Not found.

⁴ The IMF and World Bank Interim and Development Committees were scheduled to have a dialogue at their April 17–19 meetings on the prospects and policies for adjustment, growth, and balance of payments sustainability over the medium term.

5. With respect to the third agenda item “Coordination of Export Credit and Debt Policy”, *Treasury* said that a number of discussions in recent months continue to reveal differences in the willingness of other export credit agencies to cut off credit as debt crises appear or resume cover when countries were taking appropriate adjustment measures. We were seeking practical ways to further our objectives of closer coordination between the debt strategy and export credit policies.

EXIM pointed out that most export credit agencies had traditional operating rules as exemplified in the meetings of the Bern Union. They wanted to avoid criticism and pursued a somewhat narrow definition of self-interest. *Treasury* wondered whether this was not a topic for the spring meetings,⁵ something which would show U.S. policy in a more favorable light. Others noted that it might be useful to talk to other countries extending credit before we decided what to do.

⁵ Presumable reference to the spring meetings of the IMF and World Bank Group.

180. Letter From the Administrator of the United States Agency for International Development (McPherson) to the Under Secretary of the Treasury for Monetary Affairs (Sprinkel)¹

Washington, February 11, 1985

Dear Beryl:

As you know, the Agency for International Development is administering a large and growing volume of balance of payments assistance. When such assistance is provided as cash grants or in the form of commodity import programs, this funding often involves macroeconomic and other conditionality designed to maximize prospects that stabilization and adjustment objectives will be achieved. In other cases, ESF

¹ Source: Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987–1987, Lot 89D378: Memos—to other Agencies. No classification marking. Copies were sent to Wallis, McCormack, and Mulford. A stamped notation at the top of the memorandum reads: “WAW HAS SEEN.” A different stamped notation at the top of the memorandum reads: “Received Under Secretary’s Office February 12, 1985.”

conditionality concentrates on sectoral objectives; but, in these instances as well, achievement of sectoral aims is usually connected with macro-economic policy considerations.

Until recently, A.I.D. agreements providing for balance of payments financing often cited the need for the country to come to agreement with the IMF or to adhere to the provisions of an existing agreement. The U.S. will still decide to impose policy conditions such as the IMF might require in appropriate circumstances, but passage of the Kemp-Kasten amendment has altered the situation in some respects.² We in the Agency feel that it is more important than ever to coordinate closely with the IMF to make certain that we understand the reasoning behind the provisions in their objectives and to work jointly with the Fund, the Bank, and other donors towards achieving the best possible results. We are concerned with short term stabilization and are also anxious that policy reforms and other measures be designed to promote sound economic growth over the medium and longer term. Since Fund programs increasingly take the medium and long term into consideration, there is a growing need for coordination with the Bank and major donors.

All of this raises two issues that have troubled us for some time and that now have become more acute; namely, A.I.D.'s restricted access to the IMF and our limited role in U.S.G. deliberations regarding IMF programs.

In the field, our Mission personnel often have excellent relations with IMF representatives, but Fund teams are by no means always prepared to make contact. Here in Washington, my people feel that there are unnecessary barriers placed in the way of their contacts with IMF counterparts.

Given our responsibilities in designing conditions and in administering balance of payments programs, I feel strongly that our relationship with the Fund needs to be further strengthened and regularized. This should be helpful to the Fund and to other U.S.G. agencies as well as to us. If nothing else, a more systematic and timely exchange of information would be of value. I consider it essential to the improvement of coordination between A.I.D. and the Fund that key members of my

² The FY 1984 foreign assistance supplemental and the Foreign Operations Appropriation for FY 1985 included an amendment specifying that assistance could not be withheld "solely" on the basis of the policies of international financial institutions. The amendment was known as the Kemp-Kasten amendment for Representative Jack Kemp (R-NY) and Senator Robert Kasten (R-WI). In a September 26, 1984, letter to Shultz, Kemp and Kasten explained that the amendment was "aimed at preventing appropriated economic assistance from being denied because a nation has not reached an agreement with the International Monetary Fund." (Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Lot 89D378: State-Treasury Lunches)

staff be permitted informal access to their technical counterparts in the Fund. I will make certain that this privilege is used with discretion and will not result in any pressure or interference with the work of the Fund staff.

It is also true that A.I.D. has often had little more than a perfunctory role to perform in U.S.G. deliberations on IMF programs here in Washington, even in the case of countries where there are significant A.I.D. programs. The principal difficulty in this respect is that A.I.D. representatives gain access to relevant deliberations too late to be able to make the useful contributions their experience would sometimes make possible.

I think it would be worthwhile for all concerned to involve A.I.D. more systematically in U.S.G. consideration of IMF programs for certain countries. This would contribute to A.I.D.'s ability to determine the optimal amounts of BOP assistance and to design appropriate conditionality for our programs. It also would improve our ability to judge the relationship and compatibility of A.I.D., other U.S.G., and IMF programs with respect to resource transfers and conditionality packages. Further, I believe that given greater opportunity we can make suggestions that will result in improvements in IMF agreements.

Perhaps we could add this to our list of topics for discussion the next time we get together. Meanwhile, Dick Derham will be sending a copy to Dave Mulford and may follow up with preliminary talks since their offices would have the principal action on coordination.

Sincerely,

M. Peter McPherson³

³ McPherson signed "MP McPherson" above his typed signature.

181. Memorandum From Secretary of State Shultz to Secretary of the Treasury Baker¹

Washington, February 15, 1985

Here are some comments on our Tuesday Breakfast subject matter. As I said, I think the real value of those breakfasts is their informal, bull-session nature but, at the same time, they could benefit from a little more structure.

Long-term issues that might get some attention at breakfast and then be followed by more directed work are:

1. The reasons for the strength of the dollar, the prospects ahead, and potential actions that might be taken to do something about it. Perhaps the study you now have under way in this area needs to address what the implications are for the structure of U.S. industry if changes are not made.

2. The strategy for handling the international debt problem has worked well, but it seems to me that this is the time to reexamine it. In particular, I think we need to explore ways to alleviate strictly "austerity" programs with measures that will encourage expansion.

3. The objectives, the prospects and the way of handling the new trade round, as we discussed with Bill Brock and others yesterday, is a matter worth periodic discussion. There are all sorts of angles to this, as our discussion brought out. I think it is worth recognizing that most of our trade discussions over the past four years, and they have been extensive, have been on a bilateral or a U.S.-to-a-region basis.

4. The problem of relating together foreign policy objectives in our economic programs, including U.S. foreign assistance, U.S. Government credit programs, and our votes in the multilateral development banks.

An issue of immediate importance that needs attention is the management of the "debt crisis" discussions to be held in April at the Interim/Development Committees.² We need to ensure constructive dialogue without catering to unrealistic debtor country expectations. We also need to project to the other countries a feeling for the breadth within the U.S. Government of how we approach these issues.

¹ Source: Department of State, Bureau of Economic and Business Affairs, Files of the Planning and Economic Analysis Staff, Lot 87D73: PR 2-2 Secretary's Breakfast Items 1985. Confidential; Nodis.

² See footnote 4, Document 179.

182. Telegram From the Department of State to the Embassy in Uruguay¹

Washington, June 25, 1985, 1947Z

194069. Subject: President Reagan's Response to Cartagena Group.
Ref: Montevideo 02390.²

1. Following is the text of President Reagan's response to the Cartagena Group message. Please deliver as appropriate. Original to follow.

2. Dear Mr. President:

Thank you for your letter of April 26 in which you conveyed the concerns and suggestions of the Presidents of eleven Latin American and Caribbean countries on debt and other economic issues on the eve of the Bonn Summit. I can assure you that the views expressed in your letter were taken into account of our conversations and deliberations at the Summit itself.

I wish to congratulate you and those Presidents of other Latin American countries who are taking courageous steps in dealing with Latin America's economic problems. These efforts bore fruit as the American and Caribbean region returned to positive, although modest, growth in 1984. In the United States, after our own efforts at adjustment, we experienced strong growth in 1983 and 1984. This growth and

¹ Source: Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: Bonn Economic Summit—1985 May. Limited Official Use; Immediate. Drafted from text by the White House; cleared by Joann Alba (S/SS) and Stephanie Kinney (ARA/SC); approved by Michael Durkee (ARA/SC). Sent for information Priority to Bonn, Brasilia, Buenos Aires, Bogota, Caracas, La Paz, Lima, London, Mexico City, Paris, Quito, Ottawa, Rome, Santiago, Santo Domingo, and Tokyo.

² Telegram 2390 from Montevideo, April 26, transmitted the text of an April 26 letter from Sanguinetti to Reagan and other leaders attending the Bonn Economic Summit, which took place May 2–4. The letter expressed the concerns of the Cartagena Group members regarding Latin American countries' struggling economies and particularly concerns over debt. (Department of State, Central Foreign Policy File, Electronic Telegrams, D850293–0469) In June 1984, the leaders of eleven Latin American countries met in Cartagena to discuss the economic problems facing Latin American nations. According to a June 24, 1984, Treasury paper, "Outcome and Implications of Latin Debtors' Conference in Cartagena on June 21–22," the meeting resulted in the "Consensus of Cartagena" issued on June 22, 1984, which, among other results, "established a mechanism for continued intraregional consultation, expressed willingness to meet with creditor governments and institutions, and proposed creation of a 'Working Group' within the World Bank Development Committee." (Reagan Library, Executive Secretariat, NSC Trip File, Bonn Summit 1985—Africa/Food; NLR-755–21–11–2–6) The Treasury paper included as an attachment 17 points in a "Summary of Proposals" of the Cartagena meeting.

our open economy allowed for an exceptional increase in exports to the United States from Latin America and the Caribbean.

Because expanded trade within a framework of reduced barriers is the best hope we have for a sustained period of worldwide growth, I regret that the Bonn Summit did not yield unanimous agreement to set an early 1986 target date for beginning a new round of multilateral trade negotiations. Nonetheless, all agreed that a new trade round was needed soon and agreed as well to a high level meeting this summer in GATT to begin formal preparations. I hope that we can count on our friends and neighbors in Latin America and the Caribbean to support this call for negotiations to develop an improved environment for international trade.

The Bonn Declaration reflects the discussion of debt and other economic problems of developing countries.³ We saw many positive developments on these fronts, but no room for complacency. It rests with us, the leaders of the developed and developing countries alike, to follow sound principles in the management of our economies and to continue our dialogue on the major issues of mutual concern.

I hope that you will convey the essence of my comments to the other heads of government for whom you have acted as spokesman on these issues of common concern.

Sincerely, Ronald Reagan.

HIS Excellency
Julio Maria Sanguinetti
President of the Republic
of Uruguay
Montevideo
End text.

Shultz

³ Telegram 138171 to Brasilia, May 7, repeated the text of telegram 13243 from Bonn, May 4, which transmitted the text of the Bonn Economic Summit Declaration on Sustained Growth and Higher Employment, issued May 4. (Department of State, Central Foreign Policy File, Electronic Telegrams, D850316-0529) Telegram 62887 to multiple diplomatic posts, March 2, communicated the official U.S. position on debt strategy for the Bonn Economic Summit, reflected in a paper prepared by Wallis and representing the recommendations of the U.S. Sherpa team, which included welcoming progress achieved and reaffirming the "continued validity" of the debt strategy as outlined at the Williamsburg and London Summits. (Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975-1991, Lot 93D490: Bonn Economic Summit—1985 May)

183. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Mulford) to Secretary of the Treasury Baker¹

Washington, August 1, 1985

SUBJECT

Treasury proposal for Use of IMF Trust Fund Reflows in Conjunction with World Bank Financing

You may recall that in your Tokyo G–10 statement, you stated that the United States would be developing some ideas on the use of repayments to the IMF Trust Fund in the context of increased cooperation between the IMF and World Bank. This issue will be discussed at the Seoul Interim Committee meeting.²

Attached is a summary of the proposal which my staff have developed.³ It would involve an innovative program combining \$2 to \$2.7 billion in Trust Fund repayments with a roughly equivalent amount of World Bank resources to assist low income developing countries with protracted balance of payments problems.

The concept could provide the basis for a major U.S. initiative at the October annual meetings,⁴ but it will involve some difficult elements, with both economic and political implications, if it is to have a fair chance of succeeding:

(1) It will require an early—and firm—commitment on your part to support, both within the Cabinet and in Congress, an increased annual U.S. contribution to IDA VIII for FY '88-90 of about \$260 million above current levels. (This would imply annual U.S. contributions of \$1010 million⁵ and a total IDA VIII of \$12.1 billion. We would need to make sure that our other MDB requests aren't adversely affected.) It also requires a decision to allocate about \$500 million of net World Bank profits and increased IBRD lending of about \$600 million to this use over the 6-year period.

(2) It would limit eligibility for use of the Trust Fund reflows to fewer countries than received assistance under the original Trust Fund

¹ Source: National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Official Files of the Executive Secretariat, 1985, UD-11W, 56-88-79, Box 66, Memo to the Secretary, August '85. Confidential.

² See Document 190.

³ Attached but not printed is the undated paper entitled "Outline of Proposal for the Use of Trust Fund and World Bank Resources for the Poorest Countries."

⁴ See Document 192.

⁵ As in the original.

in order to expand available resources for those most in need. Those which would be excluded could resist, in particular China and India.

(3) We would have to overcome significant legal and bureaucratic difficulties in both institutions.

(4) We would have to find a way of balancing the need to obtain an 85% majority vote for the proposal in the IMF with the need to assure effective conditionality on Trust Fund loans. This could prove to be a difficult trade-off.

If we are prepared to seek actively additional funding for the World Bank and to support a partial use of World Bank profits over the next few years, these difficulties may not be insurmountable. But they will require a high-level political commitment to address the basic structural adjustment and protracted balance of payments problems of countries which otherwise may be unable to meet significant repayment obligations to the IMF, the World Bank, and other creditors within the next few years. A comprehensive, coordinated approach by the IMF and World Bank is needed to help these countries meet their international obligations and to restore sustainable growth.

I am convinced that we have an outline for a meaningful program of Bank/Fund cooperation over the medium term which can help deal with the difficult economic problems of Sub-Saharan Africa as well as addressing the problems of prolonged use of IMF resources. However, this proposal does not purport to fully resolve the IMF repayments problem, since there is no guarantee that the new World Bank funds would be used solely to repay the IMF.

The key elements of our draft proposal are summarized in the attached paper. We would like to discuss them with you. If you agree with the approach, we would plan to discuss its general outlines with the management of both institutions and the G-5 (and possibly G-10) Directors at the Fund and Bank in order to help pave the way for broader support at the October meetings in Seoul.

184. Memorandum From Secretary of State Shultz to President Reagan¹

Washington, August 5, 1985

[Omitted here is information not related to debt.]

2. *Lunch with IMF Managing Director.* Jacques de Larosiere and I had a wide-ranging discussion today on debt issues and the role of the IMF. He said our management of the debt problem in the first half of 1985 was successful, but noted that developments during the second half of the year could create problems. De Larosiere cited lower US growth, softness in oil prices, and the protectionist threat as the most worrisome. He was particularly concerned that protectionist actions in sectors of importance to developing countries, such as textiles and footwear, could adversely affect the debt strategy. He cautioned that by early 1987 the IMF will not be able to make new net disbursements, and that additional sources of external financing for developing countries will be needed, citing the role of the World Bank as crucial in this regard. I agreed with his basic analysis, and said it is time to concentrate more on ways of achieving growth in developing countries. (S)

[Omitted here is information not related to debt.]

¹ Source: Reagan Library, George Shultz Papers, President's Evening Reading July–December 1985; NLR–775–33–25–1–7. Secret; Sensitive.

185. Paper Prepared in the Department of the Treasury¹

Washington, August 30, 1985

THE INTERNATIONAL DEBT STRATEGY:
APPRAISAL, KEY PROBLEMS, AND POSSIBLE
MEASURES TO STRENGTHEN THE STRATEGY²*Introduction*

The international debt strategy adopted in 1982 has provided a flexible framework for dealing with LDC debt problems on a case by case basis. The strategy has generally been successful in coping with the initial strains and providing a basis for the resumption of growth. In spite of the progress, however, the strategy is under increasing pressure:

— A growing resistance in debtor countries to the short-run economic and social hardships of adjustment has led to increased attention to “political” solutions, either generalized or unilaterally determined;

— Industrial country growth is slowing and there is a danger that interest rates may increase; and

— The deterioration in the U.S. trade position has fueled protectionist pressures which threaten LDC access to export markets.

Unless these pressures are reduced, the potential exists for a serious political and financial confrontation that would have a major impact on U.S. economic and security interests. The key to dealing successfully with these pressures is restoration and maintenance of a growing world economy in which all nations participate in greater global prosperity.

This paper provides an appraisal of the major elements of the debt strategy, outlines key problems which exist, and suggests possible steps to strengthen the strategy and provide a basis for increased world economic growth.

Appraisal of the Debt Strategy

The basic debt strategy involves a mixture of adjustment and financing, determined on a case by case basis, designed to strengthen debtor countries’ ability to service their debt and to provide for the

¹ Source: National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Official Files of the Executive Secretariat, 1985, UD-11W, 56-88-79, Box 66, Memo to the Secretary, August ’85. Confidential. Sent under an August 30 covering memorandum to Baker, in which Conrow explained that the paper would be for distribution at a September 3 meeting on international debt strategy. No record of the September 3 meeting has been found.

² A draft of this paper, which was sent under an August 13 covering memorandum from Mulford to Baker and includes Baker’s handwritten comments, is *ibid*.

resumption of growth and sustainable balance of payments positions. Progress under each element of the strategy is outlined below:

LDC Adjustment

- A number of large debtor countries have successfully adjusted in the past four years and are no longer considered troubled debtor countries for the purpose of this paper (e.g., Korea, Turkey, Hungary, Indonesia).

- Virtually all currently troubled major debtors are implementing adjustment efforts, usually supported by the IMF. Of eleven major debtors, seven have IMF programs, and two are participating in IMF enhanced surveillance arrangements.

- Aggregate LDC current account deficits have fallen sharply, from \$100 billion in 1982 to \$44 billion in 1985.

- The initial decline in LDC economic growth (to 1.9 percent in 1983), including negative growth of 3.1 percent in Latin America, has largely been halted and, in some cases, reversed. LDCs are expected to grow at an annual rate of 4.2 percent in 1985, with Latin America growing at 3.2 percent.

- But adjustment appears to be approaching its politically acceptable limits in some countries, and pressures are mounting for more expansionary policies. This reflects political fatigue after three years of adjustment effort, an effort which has produced dramatic improvements in balance of payments but not in resolving domestic economic problems, particularly inflation. This has led to a lack of confidence that current growth rates can be improved, or even sustained.

Industrial Country Growth/Open Markets

- From the 1982 recession low of –0.8 percent growth, OECD countries grew at an annual rate of 4.9 percent in 1984.

- OECD import growth in 1984 was 12 percent, up from 4.1 percent in 1983.

- Inflation has fallen to an average of 5 percent in 1984, while interest rates have fallen from 16.7 percent in 1981 to 8.5 percent currently (6 mos. LIBOR).

- However, the stimulus from the U.S. expansion is declining, with no indication that growth in other industrial countries will pick up the slack. Germany, for example, is only expected to grow 2.5–3.0 percent this year.

- Protectionist steps have limited the rate of increase in LDC exports. Rising protectionist pressures could reduce access further and curb the ability of LDCs to realize their full export and growth potential.

- U.S. trade losses due to LDC adjustment efforts, especially in Latin America, have contributed importantly to our trade deficit and protectionist problems.

Commercial Bank Lending

- The banks have agreed to reschedule and rollover \$210 billion in debt and increased their exposure by about \$35 billion in 1983 and 1984.

- The private banks have not, however, resumed voluntary lending to many countries that are adjusting, and in some cases are retrenching. The annual increase in bank claims in LDCs is declining (e.g., from \$31 billion in 1982 to an estimated \$5–10 billion in 1985).

◦ It is becoming increasingly difficult to obtain even this amount of increased exposure, with growing resistance by banks to participation in new money and debt rescheduling packages for adjusting countries (Chile and Colombia are two recent cases in point).

IMF

◦ The 1983 increase in resources of \$40 billion contributed to a sharp expansion in IMF lending, with outstanding Fund credit totalling about \$35 billion at end-1984 compared to \$19 billion at end-1982.

◦ The IMF-supported programs have generally succeeded in promoting balance of payments adjustment and reducing financing needs, but in a number of countries have not led to comparable improvements domestically.

◦ Moreover, the World Bank has not been adequately integrated into the debt strategy in a manner that would facilitate structural adjustment.

◦ Consequently, many LDCs are making "prolonged use" of IMF resources, and some are falling into arrears on their IMF obligations.

◦ Unless corrected, this situation threatens to damage severely the IMF's financial integrity and credibility, undermining the IMF's ability to deal with the Latin debt problem and play a central role in the international monetary system.

Bridge Financing in Selected Cases

◦ The major industrial countries responded flexibly to immediate liquidity crises by providing short term bridge financing until IMF or other financing arrangements were put in place.

◦ Bridge financing has been provided to 6 countries totalling about \$7 billion.

◦ However, requests for bridge financing are growing from countries which do not have assured means of repayment and/or do not pose a threat to the system. It is also becoming more difficult to get other industrial countries to participate in bridge financing arrangements.

The Policy Dilemma

The appraisal of the debt strategy indicates that we are faced with a pressing policy dilemma:

Given commercial banks' unwillingness to increase exposure and our budget constraints, how to ease the current economic pressures on developing countries and thereby enable greater growth to be realized in their economies, while still encouraging adjustment, protecting the soundness of our commercial banking system and the IMF, and preserving broad U.S. political and strategic interests.

The successful resolution of this dilemma will be critical to achieving the increased economic growth needed to restore LDC creditworthiness and preserve a stable world financial system.

The magnitude of the problem is illustrated by the difficulty in reconciling projected lending with politically acceptable growth rates (i.e., 5 percent). Our analysis indicates that even under an optimistic scenario, it will be very difficult for several major Latin American debtors

(Mexico, Venezuela) to raise the necessary financing in the period 1986–1988. Under a pessimistic scenario, financing requirements rise so sharply that under current financing techniques the available financing would fall far short of what is required.

- The optimistic scenario assumes:

- a 3% average OECD growth,
- LIBOR declining gradually to 7.5% in 1988,
- good external adjustment by the debtors, and
- a decline in nominal oil prices to the level of approximately \$26 per barrel by the end of 1986, and stable thereafter.

- Under this scenario, the increase in bank exposure required for the period 1986–1988 for the major Latin debtors would be about \$12 billion. This would represent a 1.6% rise in bank exposure each year to these countries. While this may appear to be financeable in the aggregate, Mexico and Venezuela would find it extremely difficult to raise sufficient capital from banks.

- The pessimistic scenario assumes:

- average OECD growth of 2%,
- an increase in LIBOR to 13% in 1986, declining to 9% in 1988,
- mediocre adjustment by debtors,
- a decline in nominal oil prices to \$22 per barrel by the end of 1986, and stable thereafter.

- Under this scenario, politically acceptable growth is unattainable. It would require financing on the order of \$46 billion, an approximate 6% increase per year. This is clearly impossible for banks to accept under current policies and practices. We estimate that in the case of Mexico, banks will be unwilling to provide more than \$3 billion per annum even with comprehensive economic adjustment. The market for new Venezuelan exposure is probably no more than \$1 billion per year in this time frame.

Measures Aimed at Promoting Growth in the Major Debtors

Below are two areas of possible measures which we believe warrant consideration.

- We focus initially, and primarily, on ways to increase commercial bank lending, for we believe it is that element of the debt strategy that has fallen shortest of fulfilling its part.

- Many of the measures are interrelated, suggesting the need for a “package approach.” A more active role for the MDBs could, along with regulatory changes, help induce greater commercial bank lending.

I. Increasing Commercial Bank Lending to Latin America

Claims of BIS area banks to Latin America increased by 10 percent (\$16.3 billion) in 1982, by only 2.7 percent (\$5.7 billion) in 1984; claims of U.S. banks to Latin America increased 12 percent (\$7.3 billion) in 1982, by 4 percent (\$2.5 billion) in 1984. In 1984, the increase was to Brazil

and Mexico; claims on the rest of Latin America actually declined. Most of the recent lending is involuntary and "lumpy," made in connection with IMF programs.

Some decline in bank lending was to be expected with falls in inflation and interest rates and adoption of adjustment programs. Current lending levels, however, are clearly inadequate to meet the needs of the major debtors and inappropriate given the banks' financial stake in Latin America. The decline in their lending to LDCs has enabled them (in keeping with legislative and regulatory guidance) to strengthen their financial condition, thus possibly putting them in a better (although far from optimal) position to increase LDC exposure at this time.

Tailoring Regulatory Criteria to Reflect More Accurately Potential Economic Performance and Risk

There are several possible measures that might be used in some form or combination to promote increased commercial bank lending (additionality) and/or ease the immediate LDC debt service burden. Apart from moral suasion, these measures include:

A) *Capitalization of Interest Payments*

- Banks would be permitted to add a certain amount of uncollected interest to unpaid principal in selected cases and to include in income the interest that is capitalized.

- Regulators would expand existing guidelines, add new ones as necessary, permitting limited capitalization where additional lending strengthened existing assets.

- Regulators would also adopt/seek changes in 90/180 day rules governing non-accrual of interest and "bad debt" if necessary to facilitate agreements.

- Used only for major debtors with demonstrated adjustment records.

- Need to overcome objections that measure would weaken prudential standards or violate accounting/disclosure requirements, and to forestall demands from domestic sectors for similar treatment.

B) *Banks to Make New Loans to Improve the Quality of Outstanding Credit or Be Required to Write-off Some Exposure*

- Banks which failed to achieve specified lending targets under new money packages for major debtors would have existing loans classified as value impaired and be required to take write-offs and/or increase reserves.

- Targets (in terms of percentage increase of outstanding claims as of, say, end-1984) determined in conjunction with IMF and other major creditor countries.

- Need to persuade other creditor countries to impose similar targets and sanctions in order to avoid risk that U.S. bank lending enables others to get out.

- Might need to adapt regulatory, accounting and disclosure rules. Also deal with demands from other LDCs and domestic sectors for similar treatment.

C) *Lower fees and charges*

- Banks required to reduce fees and interest rate spreads in conjunction with IBRD guarantee schemes (see below).

D) *Encouragement of Debt-Equity Swaps to Reduce Debt Service*

- Banks and debtor countries would be encouraged to negotiate swap of bank claims for equity in either nationalized or private firms that might be attractive to foreign investors.

- Scheme need not involve sales of major firms in sensitive sectors; could be designed so that equity sold in small and medium sized companies which could benefit from injection of foreign capital, management, technology.

- Difficult to induce significant volumes, but could encourage by introducing concept in IBRD Structural Adjustment Loans and by adapting present accounting/regulatory practices and legal provisions of loan contracts that might discourage such swaps. (Recent Mexican rescheduling agreement explicitly provides for such swaps.)

II. *The Multilateral Development Banks*

As indicated above, we believe the primary focus of our overall strategy should be on techniques to increase commercial bank lending to debtor countries in order to support higher growth and a restoration of creditworthiness. We seek a strengthened MDB role in the strategy which would:

- maximize flows to major Latin debtors,
- support policy changes that would promote long-term growth and development, and
- (in the case of the World Bank) catalyze commercial bank lending.

The World Bank

Is well positioned to accomplish these objectives; measures would also benefit other IBRD members.

For each option, we would:

- seek to increase Latin America's share of overall IBRD lending from 30.4 percent to 37.5 percent; about 50 percent of Latin lending would go to Brazil, Mexico and Argentina. (Venezuela is not an IBRD borrower.)

- increase share of fast disbursing structural/sector lending in Latin American program from 20 to 30 percent,

- relax the individual country portfolio guideline from 10 percent to 12–12.5 percent to remove constraint on lending to Brazil, and

- encourage greater use of IBRD guarantees of commercial bank financing.

LOW OPTION:

- IBRD commitments rise from \$11.5 billion (FY 83–85 average) to \$16.5 billion in FY 90.

- annual commitments to Latin America would rise from \$3.4 billion to \$6.2 billion in FY 90.

- fast disbursing structural/sector lending to Latin America would rise from \$560 million to \$1.6 billion in FY 88.

- require a GCI of \$31 billion.

— U.S. share \$6.2 billion. Four annual U.S. subscriptions of \$1,550 million requiring annual budget authority of \$38.8 million assuming 2.5 percent paid-in capital.

HIGH OPTION:

- IBRD commitments rise from \$11.5 billion (FY 83–85) to \$20 billion in FY 90.

- annual commitments to Latin America would rise from \$3.4 billion to \$7.5 billion in FY 90.

- fast disbursing structural/sector lending to Latin America would rise from \$560 million to \$1.9 billion in FY 88.

- require a GCI of \$53 billion.

— U.S. share \$10.6 billion. Four annual U.S. subscriptions of \$2,650 million requiring annual budget authority of \$66.3 million assuming 2.5 percent paid-in capital.

APPRAISAL:

- U.S. objectives regarding Latin America would be easiest to achieve (vis-a-vis other donors and the LDCs) within the framework of a \$53 billion GCI.

- While there will be significant Congressional opposition to any GCI, a \$53 billion GCI is “doable” with a concerted Administration effort. The fact that we are extending the timeframe of a GCI to cover IBRD lending through FY 91, and thus reducing annual U.S. budgetary costs, will be a plus.

- A \$53 billion GCI would provide the flexibility for a major increase in lending to Latin America, as well as in the region’s lending share, while also allowing for meaningful increases in lending to other borrowers.

- In a \$31 billion GCI, it would not be realistic to expect the desirable increase in Latin America’s share of total lending.

The Inter-American Development Bank

The next replenishment of the Inter-American Development Bank (IDB) will cover lending for the four calendar years of 1987–1990. Negotiations are to begin in early 1986. Our objectives are to achieve fundamental changes in IDB operations and policies, including:

- strengthening policy conditionality;
- increasing control over project quality;
- developing policy coordination with other donors; and
- encouraging private sector development.

At the same time, the IDB is well situated to aid in increasing resource flows to major Latin debtors through well-targeted non-project loans. The dilemma is that the dual objectives of achieving significant

reform and maximizing flows to major Latin debtors may well be contradictory and cause significant difficulties in negotiations.

LOW OPTION:

- IDB combined annual lending to Argentina, Brazil, Mexico, and Venezuela of \$1.25 billion for CY 87–90 (a 25% increase). Lending to other IDB members would increase a total of 15%.

- Requires a capital increase of \$26.4 billion and FSO (soft window) replenishment of \$350 million. FSO lending would be focused on Central America and the Caribbean.

- U.S. share of \$9.2 billion in the capital increase and \$144.5 million in the FSO. Assuming 2.5% paid-in capital, combined capital and FSO replenishments require total budget authority of \$93.5 million per year as compared to \$130.5 million under current replenishment.

HIGH OPTION:

- IDB combined annual lending to Argentina, Brazil, Mexico, and Venezuela of \$2.0 billion for CY 87–90 (a 100% increase). Lending to other IDB members would increase a total of 25%.

- Requires a capital increase of \$34.3 billion and FSO (soft window) replenishment of \$500 million.

- U.S. share of \$11.9 billion in the capital increase and \$206 million in the FSO. Assuming 2.5% paid-in capital, combined capital and FSO replenishments require total budget authority of \$126.1 million per year as compared to \$130.5 million under current replenishment.

APPRAISAL:

- Range of options is realistic, outcome would depend on final weighting of objectives to be sought.

- High option would require concerted effort to gain Congressional approval and funding given substantial increases in total U.S. contributions.

- There will be substantial international political pressure on us to agree to a high IDB replenishment level, given Latin America's current economic problems.

Purchases of Discounted Commercial Bank Loans

- The World Bank or a new affiliate would purchase at a discount commercial bank claims on a particular debtor country. The discount could reflect in part existing secondary market valuation of the debt.

- The World Bank would then restructure the purchased loans to debtor countries to lower the interest rate and lengthen the terms.

- The commercial banks would have to agree to make new loans (after allowing for the discounted portion) to restore previous exposure levels and possibly to increase them to the same debtor; as a quid pro quo, the commercial bank would be given access to the World Bank's guarantee program.

- Proposal would stretch out LDC debts and cause banks to take a "hit" but costs to governments in terms of capital would be very large.

- In order to avoid a need for banks to revalue downward other claims on the debtor, revisions in current accounting treatment might be necessary.

186. Briefing Memorandum From the Acting Assistant Secretary of State for Economic and Business Affairs (Constable) to Secretary of State Shultz¹

Washington, August 30, 1985

SUBJECT

Thoughts on Treasury's Debt Strategy Paper

This paper gives you our general thoughts on the debt strategy and specific comments on the Treasury paper.² We have focused particularly on how growth fits into the overall strategy.

We need to devise ways both to *present* our strategy as being more growth oriented, and to *make* it so. The first objective is as important as the second in that most observers don't accept the idea that properly-designed adjustment programs (whether IMF prescribed or otherwise) are meant to encourage the diversion of resources out of non-productive activity and into productive enterprise. When done right, that process does not cause austerity but adjustment to permit sustainable growth, and we need to find the right rhetorical keys to make this point.

Indeed, if the process is to work, growth and adjustment must come together. At the outset adjustment is painful, but if strong measures are implemented rapidly then longer-term structural adjustment can take place in an environment of sustained growth rather than recession. Simply easing external financial constraints can lead to a temporary uptick in economic activity, but growth can be sustained only where countries are willing to open up sheltered markets and overhaul mechanisms of production. While that type of adjustment usually involves serious political costs, it can proceed more readily in growing economies. Resources can be shifted more easily when there is alternative employment, and political opposition is more manageable in an environment that promises rising standards of living in the foreseeable future.

¹ Source: Department of State, Executive Secretariat, S/S-I Records, The Executive Secretariat's Special Caption Documents, Lot 92D630: Not For The System: August 1985. Secret; Sensitive. Not For the System. Quinn initialed the memorandum and wrote "8/30."

² A draft of the Treasury paper, entitled "The International Debt Strategy: Appraisal, Key Problems, and Possible Measures to Strengthen the Strategy," is attached but not printed. An updated version of the paper is printed as Document 185.

We make these points not because they are new, but because Treasury's paper seems to proceed from a very different premise—that the name of the game is simply to find new sources of financing in order to avoid political fallout. It would be counterproductive to abandon the focus on economic adjustment. Treasury's paper cites "growing resistance" to adjustment—yet over the past year many previously recalcitrant debtors have in fact begun to come around. Looking outside Latin America, we have the spectacle of a Nigerian coup replacing a corrupt, economically incompetent leader with one who calls publicly for devaluation and an IMF program.

To the extent that important debtors do face "growing political opposition" or "inadequate growth" after years of IMF and US-assisted stabilization programs, the problem is primarily traceable to the excessively slow pace of structural adjustment. Halting and uneven programs have to be continually tightened, while countries which take aggressive measures early can get the worst behind them quickly.

Rapid adjustment is not only optimal, but without it Latin America will be unable to cope with any future turn for the worse in the global environment. Treasury's paper cites the danger of future interest rate increases as a reason to rethink an adjustment-oriented strategy—but the fact is that interest rates this year have been lower than anyone really expected. What strikes us as significant is that some key debtors have been so badly-positioned to take advantage of this, because they have left so much undone. What we need are not new ways to finance slower adjustment, but new "rewards" for good performers which will provide incentives for rapid adjustment and then permit long-term structural adjustments to continue in the context of growth rather than recession.

There are a number of the specific ideas in the Treasury paper that parallel our own thinking, but others that seem counterproductive. It is important to agree at the outset that no measures requiring significant USG appropriations are feasible unless we actually enter a violent, destabilizing crisis. The probability that Congress would fund a "bail-out" was always small and it has diminished over time. We also believe that any new ideas should be capable of being targeted specifically on countries willing to take strong steps to help themselves; we should be wary of setting in motion a dynamic that favors "least common denominator" programs. On specifics:

Banks and regulation: We're not sure it's factually correct that new lending is "increasingly difficult." It always was; and the Chilean and Colombian packages, while we spent a lot of time on them, had *lesser* elements of pressure and official financing than early, large packages. There has been recently a troubling tendency of banks to seek "every nickel" from other sources, creating some potential problems for the IMF, Paris Club and our bilateral assistance while at the same time

hiding behind regulators—but this is a much smaller problem, largely tactical in nature.

It is probably a good idea to work with a regulatory group toward possible changes, but with the following caveats:

- We like the idea of “tailoring regulatory criteria to more accurately reflect potential economic performance and risk” and particularly the ideas in section A of the Treasury paper.

- While the notion of increasing incentives for new bank lending addressed in Section C is intriguing, we doubt the legality of selective write-offs since creditworthiness inheres in the borrower not the lender.

- We have grave reservations about capitalization of interest payments because it is such an uncontrollable precedent. Unless somehow compartmentalized as part of an interest-capping arrangement, interest capitalization essentially turns exposure to junk.

- We believe an even more important substantive step might be to improve means of communication in order to force banks to make decisions on their own merits rather than hiding speciously behind the regulators.

The World Bank: We believe the Bank should be the primary focus of changes in our overall strategy (although not the primary focus of the strategy itself). We need to be clear, though, why we are turning to it. We have urged expansion of the IBRD role for some time because it’s a more politically acceptable stalking horse for strong conditionality, because it has substantial untapped resources, and because we are dubious about the utility of “traditional” IBRD loans in the medium-term future. We are not, however, interested in weakening the structure of the organization (i.e. looting it so we have to later either abandon or rebuild the shell). That attitude leads to the following specific comments:

- Exposure purchase makes no sense to us as IBRD operations depend on its credit rating. Having banks take a hit immediately so IBRD can assume the risk of future repayment is not appealing.

- Similarly an expansion of IBRD guarantees makes sense, but only if we can keep them reasonably project-related. Since, as the paper hints, there is little way to assure additionality we shouldn’t have IBRD assuming enormous risk.

- We *should*, however, be looking quickly for ways to present a clear set of signals to the Bank that we want to see increased policy related lending, are prepared to look at temporary expansions of lending authority on the way to a GCI, and are prepared to look at expanded country loan limits. A separate memo from EB and S/P provides some additional ideas.³

³ Not found.

187. Memorandum From the Under Secretary of State for Economic Affairs (Wallis) to Secretary of State Shultz¹

Washington, September 10, 1985

SUBJECT

Treasury Proposal for Special African Facility

I believe your realistic choices are starker than the attached memorandum would suggest. The option favored by AF and EB proposes in part seeking a supplemental appropriation for a direct contribution to the proposed facility. Knowing your concern about the federal budget deficit and the constraints we are likely to face in FY-86 and FY-87, you should consider what we would do in the likely event that additional resources are unavailable.

The primary objective of the Treasury proposal is to find a way to deal with the inability of poor LDC's (especially in Africa) to meet their IMF repayment obligations in coming years. Of lesser concern to them, but central to us, is the impact which prolonged debt and adjustment problems are having in strategically-important countries. While the proposal would help Treasury "bail out" the IMF by giving it a way to recycle its money and that of other donors, it would also unblock significant amounts of bilateral and multilateral assistance that these countries otherwise stand to lose. It would not increase the overall amount of financing available, but it *would* permit targetting it in a way that more nearly meets our goals (and would also increase Africa's share).

To make this work, we would need: (a) to convince the Congress to approve either the AEPRP transfer or new appropriations; and (b) to get the support of 85 percent of the IMF membership. The attached memo suggests some of the Congressional problems; another one is the Kemp/Kasten concern about IMF conditionality.² A Congressional relations strategy designed to overcome such problems would have to focus on the additional resources which this initiative would make available to low-income countries, primarily in Africa—the flip side of which is that these additional resources come primarily at the expense of India and China.

A commitment of U.S. resources would greatly increase our negotiating leverage to obtain the required 85 percent majority in the IMF

¹ Source: Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987–1987, Lot 89D378: Chron—September 1–15, 1985. Secret; Sensitive.

² See footnote 2, Document 180.

Executive Board. "Parallel use" of the AEPRP funds without new appropriations for a direct U.S. contribution would not be credible, for reasons pointed out in the attached memo. Thus, realistically the alternative to Treasury's proposal is to see the IMF Trust Fund repayments allocated to all IDA-eligible countries with little or no conditionality. We could still take our best shot at targetting the funds more effectively, but with little hope of success.

Allen Wallis³

Attachment

Action Memorandum From the Assistant Secretary of State for African Affairs (Crocker) and the Assistant Secretary of State for Economic and Business Affairs (McMinn) to Secretary of State Shultz⁴

Washington, undated

SUBJECT

Treasury Proposal for Special African Facility

ISSUE FOR DECISION

Dave Mulford came over to see Chet Crocker on Friday, September 6, to make another try on the Treasury proposal (Tab A) for a U.S. initiative to establish a joint IMF/World Bank Facility for Comprehensive Economic Reform.⁵ Treasury seeks both our support for the concept and agreement to allocate our bilateral African Economic Policy Reform Program (AEPRP) funds to the new facility. Mulford would like a speedy response since discussion of the IMF Trust Fund is scheduled for later this week and our initiative could be discussed there and at the Bank/Fund meeting in Seoul in October.⁶

ESSENTIAL FACTORS

Trust Fund reflows over the next five years may reach \$2.7 billion. In the absence of a decision to the contrary, they are likely to be allocated

³ Wallis initialed "AW" above his typed signature.

⁴ Secret; Sensitive. Drafted by Peter Lande (AF/EPS); cleared EB/IFD and AF. Sent through Whitehead, who did not initial the memorandum. McKinley initialed the memorandum on September 9.

⁵ Tab A is attached but not printed. See footnote 3, Document 183.

⁶ See Document 192.

to a mixed bag of countries, with virtually no conditionality or relationship to financial need. Treasury proposes to establish a new Fund/Bank facility which would utilize Trust Fund reflows supplemented by Bank funds (\$1.8 billion) and additional bilateral contributions (\$1.1–1.3 billion) for a total of \$5–6 billion. (The total is somewhat exaggerated since it involves considerable resources which would have come available to these countries in any case.) These funds would be lent at highly concessional rates to low per capita income countries which have protracted balance of payments problems and have shown a willingness to undertake comprehensive economic policy reforms. The criteria have been crafted so as to exclude China and India but cover roughly 50 mostly but not exclusively African countries (see hypothetical country list attached to Treasury paper).⁷ Treasury has discussed the facility with the Chinese and was told that China was unlikely to oppose so long as the facility is structurally non-discriminatory (i.e., would not exclude any country which met the criteria in the future); Treasury assumes that India would find it difficult to oppose special assistance for the poorest countries.

Treasury believes that our ability to secure international support for this proposal will depend heavily on a U.S. bilateral contribution. Given the difficulties of securing Congressional approval of any new funds, particularly for a multilateral institution, Treasury proposes we allot our AEPRP funds for the next four years (\$425 million) to the facility.

The Treasury proposal is a response to your initiative with Jim Baker and the work of the Whitehead group. The concept deserves our strong support. It is sound economically and politically, linking policy reform and a special effort to secure resources for the poorest countries. It would produce practical Bank/Fund cooperation on policy reform which has proven to be an elusive U.S. policy goal for years.

We agree with Treasury that a U.S. bilateral contribution is needed. However, direct contribution of AEPRP funds raises domestic difficulties. Direct transfer of funds to the facility would require legislation and, while House Democrats favor such an approach, the Administration has, in the past, opposed it. We don't know whether the Senate would go along. It would also in effect take a bilateral initiative of the Reagan Administration and turn it over to a multilateral agency which lists Vietnam, Kampuchea, and Afghanistan among potential non-African recipients.

An alternative approach would be to announce our intention to use our AEPRP funds in close parallel with the facility, much as is being

⁷ The undated "Joint IMF/World Bank Facility Hypothetical List of Countries" is attached but not printed.

done now by several major countries with the Bank's African facility. This would not require legislation and would retain our bilateral flexibility to choose among recipients. By itself, however, such an announcement is not likely to carry much weight, as we have already said we would work with the Bank's African facility in using AEPRP funds. Thus we probably need some real money which the U.S. could pledge to request from Congress in the FY-86 supplemental or the FY-87 request.

Treasury has asked that knowledge of this proposal be very restricted until we decide whether we want to go ahead with it.⁸ If we do so decide, we should give some thought as to how to obtain maximum possible international recognition of the importance of the initiative, including possibly involving the President personally.

RECOMMENDATIONS

That you concur in Treasury's proposal, including transfer of AEPRP funds to the international facility.

Alternatively, that you concur in the basic thrust of Treasury's proposal but instruct us to work out a modification for parallel use of AEPRP funds and an initiative with the Congress in the FY-86 supplemental or FY-87 regular direct contribution to the facility (AF and EB favor—EB believes the new money is vital; without it EB favors the first option).

Alternatively, that you concur in the basic thrust of the Treasury's proposal but instruct us to work out a modification limited to the parallel use of AEPRP's funds.

Alternatively, that you wish to discuss the Treasury proposal further with us.⁹

⁸ Regarding White House frustration over not knowing of the development of this proposal, see Document 191. Documentation is also scheduled for publication in *Foreign Relations*, 1981-1988, vol. XXXVII, Trade; Monetary Policy; Industrialized Country Cooperation, 1985-1988.

⁹ Shultz did not indicate his approval or disapproval of any of the recommendations.

188. Letter From the Deputy Secretary of the Treasury (Darman) to the Deputy Secretary of State (Whitehead)¹

Washington, September 25, 1985

Dear Mr. Whitehead:²

Pursuant to our meeting last week,³ enclosed is a revised proposal for an IMF/World Bank Joint Facility.⁴ It includes a program description, discussion of funding and a game plan for selling the proposal to other donors and the Congress. The plan incorporates points made in our earlier discussions, including our last meeting.

With regard to funding, the approach would involve U.S. demonstration of support for the Facility by providing \$75 million in bilateral assistance in close cooperation with the Facility's operations in FY 1986, and direct contributions in FY 1987–91 (\$75 million annually), provided other donors contribute an equitable share.

As regards the balance required for FY 1987–91, we have agreed that it would not be possible to obtain congressional support for a specific budget request for additional U.S. resources for the Facility. Therefore, if we are to proceed with a credible plan, U.S. participation would have to be funded by reallocating bilateral assistance for this purpose in FY 1987–91, and making clear to Congress that funding for the new Joint Facility does not mean an increase in what would otherwise be our total requests for foreign assistance during this period.

I know that you appreciate the potential of this plan to catalyze other sources of financing for Africa. In return for the United States' \$450 million, we believe this could generate a total Facility of perhaps \$5 billion. As you know, if we are to lay the groundwork for a favorable reception to our proposal in Seoul and to consult with the Hill, we will have to move quickly. Before doing so, however, we must agree on an understanding for Administration funding of the Facility for FY 1987–91. If you find the above plan acceptable, we must consult immediately with the White House, before beginning our broader consultations.

I look forward to hearing from you at your earliest convenience.

Sincerely,

Richard G. Darman⁵

¹ Source: Department of State, Executive Secretariat, S/S–I Records, The Executive Secretariat's Special Caption Documents, Lot 92D630: Not For The System: September 1985. No classification marking.

² Darman crossed out "Mr. Whitehead" and wrote "John" above it.

³ No record of the meeting has been found.

⁴ The proposal, entitled "U.S. Proposal for a Joint IMF/World Bank Facility for Comprehensive Economic Reform," is attached but not printed.

⁵ Darman signed "Dick" above his typed signature.

189. Memorandum From the Deputy Secretary of State (Whitehead) to the Deputy Secretary of the Treasury (Darman)¹

Washington, September 30, 1985

Dear Dick:

We share your view that capturing Trust Fund reflows and other new monies for a Fund/Bank joint facility for the poorest developing countries is an opportunity we can't let pass. Such a facility, which would establish a formal institutional basis for Fund/Bank cooperation, would be a major step forward in meeting the evolving needs of the world economic and financial situation, and also in providing the means for these countries to undertake structural adjustment and provide the basis for long-term growth and development.

As to the proposal in your letter of September 25,² we agree that, for FY 1986, the monies allocated to the African Economic Policy Initiative from ESF funds will be closely associated with the operations of the new Fund/Bank facility. For FY 1987 and the out years, State/AID agree that an appropriate U.S. contribution is necessary. However, the FY 1987 budget is far from final approval, and the out year budgets are still in planning stages. Thus, it is too early to specify as to how this necessary contribution will be funded, but together I am confident that we can seek and find the necessary funds for an appropriate contribution to the new facility. This is, of course, contingent on other donors contributing, and the character and level of their contributions.

I would like to hear back from you on the language that Secretary Baker would use at Seoul regarding this initiative.³ We believe he should announce and define a U.S. proposal and say the U.S. will contribute if other donors do. I believe our principals should approach the White House on this before Seoul.

We are pleased to work closely with you and your Treasury associates in establishing this exciting new facility. We look forward to working with Treasury in establishing the U.S. Government positions and guidance for its future operations.

Sincerely,

John C. Whitehead⁴

¹ Source: National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Official Files of the Executive Secretariat, 1985, UD-11W, 56-88-79, Box 65, Classified Document Receipt, Sept '85. Confidential.

² See Document 188.

³ See Document 190.

⁴ Whitehead signed "John" above his typed signature.

190. Letter From the Deputy Secretary of the Treasury (Darman) to the Deputy Secretary of State (Whitehead)¹

Washington, October 3, 1985

Dear John:

Thank you for your letter of September 25th.² I am pleased that we agree on the importance of an IMF/World Bank Joint Facility to address the economic and financial needs of the lowest income countries. As you point out, such a facility will allow these countries to undertake necessary policy changes to provide the basis for long-term growth and development.

Regarding funding of U.S. participation, we are in agreement on the approach for FY 1986, whereby the monies allocated to the African Economic Policy Initiative from ESF funds will be closely associated with the operations of the new facility. In order to seek funding for direct U.S. contributions for fiscal years 1987–91, we are prepared to join you in seeking the necessary budget authority in the ESF account from OMB.³ If, however, it does not prove possible to secure Administration agreement on the need for additional funding authority, we understand that you would be prepared to reallocate other ESF funds as necessary in order to finance U.S. contributions to the facility. As you know, Treasury is not in a position to include a separate request in its own budgetary submissions for this purpose.⁴

On the basis of these understandings, Secretary Baker will be prepared to move this proposal forward using the following language in his Interim Committee statement. (A draft of the complete statement is attached.)⁵

The United States is convinced that such a facility could make a real contribution in addressing the severe economic problems of the poorest countries. We are prepared to seek to use \$75 million in bilateral assistance in close cooperation with the operations of the facility in fiscal 1986, and to seek to assure roughly equivalent amounts in direct

¹ Source: Department of State, Executive Secretariat, S/S-I Records, Official Correspondence of Deputy Secretary John C. Whitehead, July 1982–Jan 1989, Lot 89D139: JCW—Memos To/From other agencies 85. No classification marking. The initials “MS” along with an arrow were circled at the top of the memorandum.

² Date is in error. Presumably a reference to Whitehead’s letter dated September 30. See Document 189.

³ Whitehead placed a star in the right-hand margin next to this sentence.

⁴ Whitehead highlighted “the need for additional funding authority, we understand that you would be prepared to reallocate other ESF funds as necessary in order to finance U.S. contributions to the facility” and the subsequent sentence in the right margin.

⁵ Baker’s draft statement, dated October 6, is attached but not printed.

contributions to the facility in fiscal 1987–91,⁶ provided other donors also make equitable contributions. In our view, an effective response by all major donors could result in direct new donor contributions for the full period in excess of \$1 billion, which could be supplemented by other World Bank funding sources.

If you do not concur in this understanding of our agreed position, please advise me by close of business today, as Secretary Baker leaves for Seoul early in the morning. He has indicated that if we do not have an understanding on this basis, he will be unable to table the proposal in Seoul.⁷

Sincerely,

Richard G. Darman⁸

⁶ Whitehead placed a star in the right-hand margin next to this sentence and underlined "and to seek to assure roughly equivalent amounts in direct contributions to the facility in fiscal 1987–91."

⁷ Whitehead replied in an October 3 letter, delivered to Darman by special courier on October 3 at 6:50 p.m., in which Whitehead wrote: "Per our phone conversation, your understanding is essentially the same as ours, and we therefore concur in the overall approach." (Department of State, Executive Secretariat, S/S-I Records, The Executive Secretariat's Special Caption Documents, Lot 92D630: [no folder title])

⁸ Darman signed "Thanks, Dick" above his typed signature.

191. Memorandum From Stephen Danzansky and Helen Soos of the National Security Council Staff to the President's Assistant for National Security Affairs (McFarlane)¹

Washington, October 4, 1985

SUBJECT

African Economic Initiative

Treasury plans to announce a major African Economic Initiative which, like the recent G–5 meeting, has not been cleared by the NSC or with the President.² Treasury has been discussing this initiative with

¹ Source: Reagan Library, Stephen Danzansky Files, Chronological File, Danzansky Chron October 1985; NLR-733–20–2–5–8. Unclassified. Sent for information. A copy was sent to Poindexter.

² In a September 23 memorandum to McFarlane, Danzansky and Wigg stated that NSC staff had not been "privy" to interagency discussions regarding two major economic developments, both of which were reported in the press that weekend: "the G–5 Conference and new initiatives on international debt." The memorandum is scheduled for publication in *Foreign Relations*, 1981–1988, vol. XXXVII, Trade; Monetary Policy; Industrialized Country Cooperation, 1985–1988.

State and AID for several months. There was a *Wall Street Journal* article on it a week ago (Tab A),³ and State sent Helen a copy of a proposal (Tab B).⁴ Helen called Treasury and was told they could not provide a copy. Treasury advised OMB that they would not provide them a copy unless instructed by Baker who is on an airplane. Steve called Darman directly and was supplied a copy at 7:00 PM this evening.

The proposal involves a joint IMF/World Bank Facility for Economic Reform which is designed to reschedule IMF and other debt for up to 50 years on a low-interest basis. Eligible countries would be those with 1) low per capita income and reliance on concessional aid; 2) protracted balance of payments problems, and 3) willingness to undertake comprehensive economic policy reform. The funds would come from the IMF Trust Fund (\$2.7 billion); existing World Bank funds (\$1.8 billion); the Sub-Saharan African Facility (\$1.3 billion) and donors. From the U.S. they would like to absorb the Economic Policy Initiative which the President announced 18 months ago, or scarce ESF funds.⁵ We think that would be a mistake, since the program has resulted in significant policy reform, directed in large part at reforms promoting private sector development. State, however, has agreed to the change.

While not exclusively directed at Africa, all but 6 African countries would qualify for the program, in terms of income levels. Not all African countries need the program, however.

The idea has many merits and some weak areas which should be strengthened. Encouraging the IMF and the World Bank to work together is a big plus. The IMF has dealt with stabilization without regard to growth criteria, which it considers to be outside its domain. However, how a country implements stabilization factors such as credit ceilings and imports can impact heavily on growth. This deficiency has led to a great deal of economic stagnation, whereby countries simply cannot generate growth while achieving stabilization, thereby falling to lower income levels which have led to political instability. The World Bank could focus on these issues and improve the stabilization process.

³ Tab A, Art Pine, "U.S. to Propose Lending Pool to Aid Africa," *Wall Street Journal*, September 20, 1985, is attached but not printed.

⁴ Tab B, "Proposal for a Joint IMF/World Bank Facility for Comprehensive Economic Reform," is attached but not printed.

⁵ In January 1984, Reagan submitted legislation to Congress called the Economic Policy Initiative for Africa, which called for \$500 million in U.S. aid to African countries over 5 years. He outlined the initiative in his remarks at the annual meeting of the Board of Governors of the International Monetary Fund and World Bank Group on September 25, 1984. For the text of Reagan's remarks, see *Public Papers: Reagan, 1984*, Book II, pp. 1365–1370. See also *Foreign Relations, 1981–1988*, vol. XLI, Global Issues II, Documents 236, 244, and 251.

One weakness of the proposal is that reform is limited to 2-year programs, with the option to follow up. For a 50-year loan, 2 years of reform, which always turns out to be gradual, is insufficient. Another potential weakness is that the nature of reforms is not specified. Until we focus on private sector growth, we are unlikely to see any growth. Neither the IMF nor the World Bank seem to understand this, and this program could provide a major impetus to this type of policy reform. These points are details which could be worked out later. Helen has discussed some of them with one contact at Treasury, and he seemed to be interested. But it is important that NSC play a role to ensure this happens.

State is pleased with the proposal, but fears that the IMF and World Bank staff may sabotage the plan because it would force them to change the way they do business.

Early this week Steve and Dave Wigg sought your approval to request a briefing of the debt issue from Treasury. Deputy Secretary Darman casually mentioned the matter to Steve yesterday, expressing uncertainty as to whether it would take place because of "problems at State". Steve spoke with Darman again this afternoon and was told State had signed off on a proposal. When asked what proposal Darman responded that it was incorporated in a paper which he would send over. Darman continued that the paper proposal was not what would be announced in Seoul since there was some negotiating to be done and the extent of U.S. commitment wasn't to be revealed. When asked what was to be announced in Seoul, Darman responded, "I don't know, they are working on that on the plane."

The "final" proposal that Darman sent this evening from Treasury, contains a copy of a statement supposedly to be delivered by the Secretary of the Treasury in Seoul on October 6, 1985 (Tab C).⁶ The statement indicates that the USG will use \$75 million in bilateral assistance in FY86 and "seek to assure roughly equivalent amounts in direct contributions to the facility in FY 87-91, provided other donors also make equitable contributions."

While we expect this to be discussed as a U.S. proposal in Seoul, we are unclear whether that means there will be a major announcement by Baker, or merely a statement read to the interim committee. Perhaps the form and content of the announcement are being massaged on the airplane. If you and Don Regan agree that the announcement should be made by the President, some contact will have to be made with the delegation on the plane to clarify what it is that can be announced and

⁶ Tab C, Baker's statement to the IMF Interim Committee dated October 6, is attached but not printed.

to stop any pre-conference “leaks” by Treasury here or in Seoul. Your decision.

Clearly, the NSC and the President have been left out of the process. We understand Treasury has been discussing a proposal for Latin American and other middle income countries as well, and we should insist upon participation in that process immediately.

Phil Ringdahl concurs.

192. Information Memorandum From the Acting Assistant Secretary of State for Economic and Business Affairs (Lamb) to Secretary of State Shultz¹

Washington, October 8, 1985

SUBJECT

Secretary Baker’s Speech to IMF/IBRD Annual Meeting

Summary

In his much-awaited address to the Board of Governors this morning, Secretary Baker outlined “phase 2” of our debt strategy with its increased emphasis on growth-oriented policies designed to promote structural adjustment in debtor countries (copy attached).² The main points of his remarks are recapped below. Preliminary reaction to the speech has been cautious but positive. Baker’s proposal has focused attention on the need to foster growth through increased emphasis on market-oriented policies. His address also served to send a clear signal that the United States is prepared to play a more active role in resolving global debt problems.

The major points made by Secretary Baker in his keynote address to the joint IMF/IBRD Board of Governors are as follows:

— The international debt strategy pursued since 1982 has worked remarkably well, but recent setbacks in key debtor countries indicate a need to *build upon the existing case-by-case strategy* in order to improve

¹ Source: Department of State, Bureau of Economic and Business Affairs, Files of the Planning and Economic Analysis Staff, Lot 87D73: ORG 12–1 Taskers 1985. Confidential. Drafted by Michael Glover (EB/EFD/OMA); cleared in EB/IFD/OMA and EB/EFD.

² A copy of Baker’s speech, printed on “Treasury News” letterhead, is attached but not printed.

the prospects for growth. The underlying theme of his remarks is the need to place increased emphasis on achieving renewed and sustainable growth in debtor countries through adoption of market-oriented policies and increased financial flows.

— The USG “Program for Sustained Growth” was described as consisting of *three mutually reinforcing elements*:

(1) adoption of appropriate macroeconomic and structural policies by the debtor countries;

(2) a continued central role for the IMF, in conjunction with increased structural adjustment lending by MDBs, in support of market-oriented policies for growth; and

(3) increased commercial bank lending in support of adjustment programs. To this end, Baker called upon the banking community to publicly pledge some \$20 billion of net new lending over the next 3 years.

— To bolster the effectiveness of the IFIs, he called on the Fund to give higher priority to tax reform, market-oriented pricing, and the reduction of labor-market rigidities and barriers to foreign trade and investment. For its part, the World Bank should expand its fast-disbursing lending and, as a result, act as a catalyst for commercial bank lending. Baker did not, as some expected, recommend World Bank guarantees for commercial bank lending.

— Baker sought support for establishment of the recently negotiated MIGA as an effective means to attract non-debt capital flows as well as technological and managerial resources.³

— Turning to the poorest countries, Baker urged further consideration of his proposal to use the Trust Fund reflows in a larger joint Fund/Bank facility.⁴

³ For documentation on MIGA, see the Foreign Assistance; International Financial Institutions; Commodity Policy compilation of this volume.

⁴ See Documents 183, 188, 189, 190, and 191.

193. Memorandum from Secretary of the Treasury Baker to President Reagan¹

Washington, October 29, 1985

SUBJECT

U.S. Initiative on LDC Debt Problem

This memorandum summarizes the status of our initiative regarding LDC debt.

Background

In preparing for the IMF/World Bank annual meetings, it was apparent that we faced a deteriorating international economic and political climate, particularly in Latin America, which could have led to radical proposals to deal with the LDC debt problem and severe criticism of the United States. Garcia of Peru and Fidel Castro were visibly trying to recreate interest in some form of “debtors’ cartel.” While their proposals were generally viewed as extreme, responsible LDC leaders were nonetheless showing a declining interest in resisting the politicization of the debt issue.

As I discussed with you and Don Regan, it was essential that the U.S. present constructive proposals at the meetings which would respond to LDC concerns and defuse a potentially explosive situation. Accordingly, we worked closely with George Shultz and Paul Volcker to develop the proposals which the U.S. presented at the Seoul meetings.² The “Program for Sustained Growth” which I outlined builds on the case-by-case approach of the global debt strategy adopted in 1982/83 and initiates the next phase by focusing on the fundamental economic reforms necessary to achieve long-term, non-inflationary growth in the principal debtor countries.

The Program

The Program for Sustained Growth incorporates three essential and mutually reinforcing elements:

◦ *First and foremost*, adoption by the principal debtor countries of comprehensive short and long-term economic and structural policies to promote non-inflationary growth and financial stability. The focus

¹ Source: National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Official Files of the Executive Secretariat, 1985, UD-11W, 56-88-79, Box 62, Memo/Ltr for the President, Jan-Dec '85. Confidential. “FYI” was typed at the top of the memorandum.

² See Document 192.

is on strengthening the economic foundation essential for preserving democracy in the key Latin countries which are having difficulty in obtaining financing from private markets. These countries are being asked to implement growth-oriented economic policies that will enhance reliance on market forces and the private sector. In this next phase, they would be expected not only to bring inflation and their balance of payments under control (as in the first phase); but also to adopt "supply-side" policies for longer term growth—policies that would re-attract flight capital and foreign investment, reduce the relative share of public investment, and provide market-incentives for long-term growth.

◦ *Second*, a continued central role for the IMF, complemented by increased and more effective lending by the multilateral development banks (MDBs). We are seeking reforms by the World Bank and Inter-American Development Bank (IDB) which would permit a 50 percent increase in disbursements by the institutions to the principal troubled debtors over the next three years—*conditioned upon* the adoption by these countries of market-oriented policies for growth.

◦ *Third*, increased lending by the commercial banks (both U.S. and foreign) in support of sound economic programs by the roughly 2½ to 3 percent annually or about \$20 billion over the next three years, would reduce the risks to the banks by encouraging the sound policies by the borrowers necessary to improve the quality of outstanding loans. The banks have not been asked to write a blank check. The increase in lending is itself to be conditional—it would only take place in a context where conditions one and two above had been met.

Initial Reactions

The initial reaction to the U.S. proposals has been quite positive. We have avoided the politicization of the debt issue. And there is broad recognition among the countries, commercial banks and international institutions that there is no real alternative to a cooperative approach in which each must do its part for all to reap the benefits from increased growth. We are moving ahead quickly to build on the momentum that has been achieved by obtaining commitments by each participant.

Next Steps

In this context, we are seeking implementation of specific measures that provide a clear signal that each participant is willing to meet its responsibilities.³

◦ *Principal debtors*. Our initial contacts will be with Argentina to determine their willingness to adopt a comprehensive program for growth that could be supported by the international community. Mexico has

³ Treasury staff developed a paper, "Program for Sustained Growth: Next Steps," which provided more detail on the next steps for the international debt strategy outlined by Baker at Seoul. Conrow forwarded the paper and its annexes to Baker under an October 25 covering memorandum. (National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Official Files of the Executive Secretariat, 1985, UD-11W, 56-88-79, Box 66, Memo to the Secretary, October '85)

already begun negotiations on a new IMF program which will require courageous action by the government. We will follow the negotiations closely in order to be in a position to be as helpful as possible.

◦ *Commercial banks.* Paul Volcker and I have been in contact with the banks regarding their participation. We anticipate a general statement of support in the near future although our plan leaves to the banks the means to implement the commitments to provide additional financing.⁴

◦ *International institutions.* The World Bank and IDB have been told that U.S. support for capital increases is contingent upon adoption of reforms that improve the efficiency and quality of their operations. The IDB replenishment negotiations are scheduled to begin in January and provide a first test of the willingness of Latin countries to implement fundamental reforms in the institutions and their economies.

At this stage, the U.S. proposals do not require increased budget commitments—and we have made none. However, if all participants do their part and an increase in quality lending materializes, a capital increase for the IDB and World Bank will be necessary in due course. The timing and scope of the capital increases will depend on negotiations and Congressional action on the budget deficit. It is our intention that replenishments for the institutions should result in budget outlays which are lower than current U.S. commitments. Any costs to the U.S. would be substantially less than the consequences of dealing with a threat to the stability of the banking system.

In Sum

The U.S. proposals have served to strengthen our leadership role in the world economy and provide a positive approach to achieving sustained global growth. The successful implementation of the program should serve to ameliorate the political and social pressures in Latin America arising from the perception that the only solution to the debt problem was prolonged austerity and reduced living standards.

I am encouraged by the initial reactions. But, as of course you know, we are still a long way from having “solved” the third-world debt problem.

⁴ In an October 18 memorandum to Baker, Mulford summarized discussions held with bankers on October 17 on the U.S. international debt strategy rolled out at Seoul. Mulford attached an October 18 covering note to the memorandum for Baker detailing that after the meeting, two bankers criticized the OCC, “claiming its actions and attitudes are a major impediment to the success of your program.” (Ibid.) In an October 23 memorandum to Baker, Mulford summarized reactions of the banking community to the Baker debt proposal voiced at the Annual Convention of the American Bankers Association held in New Orleans October 21. (National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Official Files of the Executive Secretariat, 1985, UD–11W, 56–88–79, Box 57, [illegible] ’85)

194. Memorandum From David Wigg of the National Security Council Staff to the President's Assistant for National Security Affairs (McFarlane)¹

Washington, November 5, 1985

SUBJECT

Trip Report: IMF/World Bank Meetings, Seoul, Korea, October 7, 1985

In spite of the fact that Baker and company made no effort to include me in any activities and generally minimized contact throughout the trip, I was able to get a fairly good picture of events and reactions, most of which I have put into an appendix (Tab I).² I will limit this cover paper to summary form.

The Treasury Proposal and Approach to the Debt Problem

My impression of the Mulford formula to "next steps" on debt is that it is an effort to squeeze existing participants (primarily the banks and IBRD) to generate enough additional funds to ward off more radical approaches to debt relief (keep the "wolf away from the door"). If you read the fine print, *the emphasis on strict conditionality has actually been increased*. If Treasury has secret plans unknown to NSC to ease bank regulatory requirements and improve on the "carrots" for debtors, then these initial comments are perhaps sound strategy. If what we see is what we get, then I am inclined to think the debtor-creditor environment will gradually deteriorate and lead to *further polarization and hardening of positions in the near future*. Elements of Treasury's plan that increase cash flowing to LDCs are as follows:

- Increase disbursements of World Bank loans over the next three years by three billion dollars/year (authorizations are running about \$13 billion per year and the idea is to speed up the disbursement process). Total: \$9 billion. (Adjustments in existing mechanisms).
- Convince the banks that to protect their assets (outstanding loans) in LDCs they should put up 6–7 billion dollars in new money

¹ Source: Reagan Library, David Wigg Files, Chronological File, November 1985. Secret. Sent for information. Copies were sent to Danzansky, McDaniel, Burghardt, Tillman, Hughes, and Stark.

² Tab I, a November 5 memorandum of conversation between Wigg and representatives from Chile, Brazil, Argentina, Uruguay, and Colombia, dated October 7–9, is attached but not printed.

balance of payment support annually over the next three years. Total: \$20 billion. (Not resolved).³

- Form some sort of “super bank” mechanism, into which the smaller banks would put their outstanding loans, with the banks being tapped for new money periodically in the future according to their pro-rata exposure, as reschedulings take place. (The incentives for these banks to participate are not apparent). (Note attached internal report of major New York bank on Treasury’s presentation at the IIF last week at Tab II).⁴

- Start up the Multilateral Investment Guarantee Agency (MIGA) under the IDB to provide up to \$1.6 billion in initial guarantees of foreign investment in Latin America. (Long-term and uncertain benefits).

- Put up \$2.7 billion in matching World Bank funds to add to upcoming IMF Trust Fund repayments to channel to Africa—but tie the money to conditionality and structural adjustment. (Resistance from other OECD countries).

Conservative/Belt-tightening Elements of Treasury’s Plans are as follows:

- Strict opposition to increase in global allocation of SDRs as a means of raising global liquidity.

- Phase out enlarged access program of IMF to strengthen its financial underpinnings.

- Not prepared to support a World Bank capital increase at this time but will study the alternatives.

- Opposes World Bank plan to liberalize repayment terms (Treasury wants a more “rational” lending structure to stretch resources further).

- Resists World Bank suggestion that it raise more interest-sensitive debt as a way to increase resources. Treasury wants increased borrowing done “very carefully”.

- Wants InterAmerican Development Bank (IADB) to better justify its lending decisions, to implant more conditionality into loan approvals and to better coordinate with IBRD/IMF.

Treasury’s package from a financial micro-management standpoint appears sensible but is a very conservative outward movement from the original “5-point strategy”. It does not appear to match up well with the magnitude and nature of the problem.

As for the debtors, they uniformly grabbed the bone tossed in their direction. But the delegates I talked with (see attached memcons) have

³ In an October 31 memorandum to Shultz, Whitehead, and Wallis, McMinn provided updates on Treasury and Federal Reserve discussions with the banking community since the Seoul meetings. McMinn detailed the banks’ support of as well as their concerns with the Baker plan proposal to channel \$20 billion in new lending to key financially-troubled developing countries over the next 3 years. (Department of State, Executive Secretariat, S/S–I Records, The Executive Secretariat’s Special Caption Documents, Lot 92D630: [no folder title])

⁴ Tab II, an undated “interoffice memorandum” with the subject line “IIF Meeting to Discuss the Baker Plan,” is attached but not printed.

no illusions about the gravity of their internal situations and hope the Treasury plan is but a first step in what they hope will be the gradual “politicization” and “multilateralization” of the continuing “crisis”. Ironically, Baker’s remarks are seen as legitimizing the Cartegena efforts and will spur them on to keep perceived momentum (they choose to ignore the fine print).⁵ There were common threads running through their comments:

- They have undergone a “depression” over the last three years, with absolute declines in all major indicators, including income, output, investment, public services, employment, terms of international trade (export prices over import prices), etc.

- The longer things remain so bad, the greater likelihood for aberrant, radical solutions and the breakdown of the social order/structure and democratic gains of recent years.

- They are far from unified on the debt issue, with nationalism, access to new money/better terms/U.S. bilateral help and differing economic circumstances all contributing to divergence of views and strategies.

- They expect not to have to repay principal anytime soon and believe they cannot grow or develop without a significant break on interest payments and substantial infusions of new money (unrealistic at this time).

- They have not come to accept the importance of foreign investment as a means of development (this change must happen as a precondition of their future development).

In short, in spite of destabilizing tendencies throughout the region, the forces for positive change are blocked to various degrees by a mix of long-standing cultural and ideological attitudes, the interests of existing power structures, political circumstances (democracy is a negative factor in the short run), unimaginative and unenlightened leadership and corruption. The Brazilian situation is particularly disturbing. I suspect that with public sector debt making up the bulk of the total “overhang” in the region (roughly \$250 billion of a total of \$350 billion), and with private sector growth leading the way out of their predicament (if there is one), the “will” to repay the public sector debt (either through higher taxes or printing money) will wither over time. This tendency will be reinforced by U.S. efforts to privatize the means of production.

Conclusions

We are entering a new phase in the debt crisis—and arguably a dangerous one, as debtors cope with the cumulative effects of several years of severe austerity and declining GNP, and if the glimmer of hope

⁵ See footnote 2, Document 182.

spawned by Baker's plan leads to (as I suspect it will) Third World expectations that go unfulfilled.

- As I have argued for the past two years, we need a proactive approach to U.S. foreign policy vis-a-vis the debtor countries. The Security Community must more actively monitor debtor economic conditions and behavior and be prepared to intervene at the margin with sensible and affordable supportive actions (not merely cash) where signs of instability reach levels of concern.

- We should consider forming a National Security Monitoring Group (NSC, State/political, CIA and Defense) chaired jointly by our Directorate, Rod's office and various regional staff. This group would monitor the political economy of strategic LDCs and provide periodic assessments of trends and their implications. The political instability monitoring systems of CMC [*1½ lines not declassified*] could serve as the basis for preventative actions by appropriate agencies, and under extreme circumstances, could form the basis for quick-turnaround Presidential decisions (NSDDs) should they be required.

195. Memorandum From David Wigg of the National Security Council Staff to the President's Deputy Assistant for National Security Affairs (Poindexter)¹

Washington, November 25, 1985

SUBJECT

Your Request for Ideas Regarding Third World Support

Per your request for a red tag response, this memo lays out some ideas that would help to fill the void between creditors and debtors to reduce the potential for destabilization and collapse on both sides.² Treasury's efforts as the "front line" in dealing with the crisis aspects of these problems is commendable. But their principal mandate is to protect U.S. financial interests, and only secondarily to assist debtor governments to overcome their problems. I assume that it is State's

¹ Source: Reagan Library, David Wigg Files, Chronological File, November 1985. Secret; Sensitive. Sent for information. "Noted" is stamped in the top right-hand corner of the memorandum.

² No record of Poindexter's request has been found.

job to preserve Third World Democratization while strengthening U.S. ties with key LDCs to serve our strategic interests. Unfortunately, this Administration does not seem to allow for the kind of Cabinet cooperation and balance in this area that would be required if we were to be effective. Sooner or later the President is going to have to take a more active role in delegating responsibility on our debt strategy or the problem will simply overwhelm existing international relationships and financial and trading systems and "solve itself". I bring this up because I find that having to walk on "eggshells" in this area greatly hampers our effectiveness. Most of the following suggestions are relatively inexpensive but they do require policy-deftness, discretion and an awareness and sophistication not seen much in this town. Many also require expertise that is in short supply in the bureaucracy:

New approaches to the old problems.

- I have been working since last summer to launch a pilot program of analysis that can only be done by private sector talent. The attached memo (Tab I), working its way to Bud through you, represents our first crack at this approach.³ I believe that the *most serious problems* confronting debtor-LDC's lie in their long-term inability to properly convert internal resources (capital, labor, natural resources and domestic savings) into the investment, production and trade engines of growth and development that are essential. Thus, slow or no growth, trade deficits, domestic capital shortages, capital flight and high debt levels are *symptoms* of LDC inability to deal effectively (and competitively) with the changing global business and financial environment. Lazard Freres can hopefully help the Egyptians "get smarter" and also tell the USG frankly, how serious a problem Egypt represents. If successful, this study should be duplicated in other "strategic" LDC's who will cooperate. If insights are gleaned, it's cheap for the price.

- When the Yugoslav Deputy Minister for Trade came here in December to negotiate textile and steel trade agreements, State asked me to meet with him and propose some new ideas that could help attract foreign investment and stimulate exports. As indicated in the attached cable (Tab A), this initial contact has matured into a State-proposed presentation to the Yugoslav Leadership by Frank Zarb and me scheduled for late January.⁴ The Yugoslavs have been told that the proposals will be practical offers and suggestions requiring straightforward answers and that we are not interested in merely exchanging ideas.

³ Tab I, a memorandum from Fortier, McDaniel, Stark, and Wigg to McFarlane dated November 22, is attached but not printed.

⁴ Tab A, a draft telegram to Belgrade and Zagreb drafted on November 21, is attached but not printed.

◦ I have asked AID to consider hiring an investment banking firm to develop a means of clearing up the blocked trade accounts in Central America so regional trade can resume. This will probably involve the issuing of Central American government-guaranteed promissory notes to be sold at a large discount and the structuring of barter transactions with Asians and other markets to clear up the inter-country imbalances. The new Assistant Administrator for Latin America (Dwight Ink) has asked his staff to work with me to develop a proposal.

◦ I heard the President once say that he thought there was too much reliance on expansion of LDC exports to developed country markets as the answer to their economic ills. I agree with him. The resulting pressures on U.S. and EC production, jobs and our trade balance cannot be sustained in our cyclical economies. If Latin American countries do not fully develop their regional trade potential, their economies will be unnecessarily stunted, distorted and less stable. In addition, the development of regional ties in trade and services is an important force for political stability. I tasked the CIA to examine the potential for Latin American regional trade (they anticipated that request [*1½ lines not declassified*]). I also asked them to come up with a list of potential projects that would benefit from direct foreign investment, but again to further develop regional trade exchanges as well as increasing exports to hard currency markets. We might consider developing a mechanism to forgive or restructure some of the debt “over-hang” owed by Latin American countries in exchange for expanded regional trade and supporting foreign investment. The EC and Japan would probably be strong supporters of such an initiative as their economies are also under pressure from Third World exports. The *principal* portion of this debt is almost certainly never going to be repaid, and we should use it as leverage while we still can.

◦ The President should capitalize on the Baker initiative to announce that in response to the vital need for innovative business activity in Latin America and other regions, he intends to work with Congress to place one-quarter of AID’s Developmental Assistance (DA) pot (\$500 million) at the disposal of a new entity patterned after the UK’s Commonwealth Development Corporation (CDC). This new organization could stimulate the kind of business and investment activity that would contribute to solving the Third World malaise. An important emergency (and thus temporary) mandate of this body would be to encourage and facilitate barter transactions with U.S. private and public entities where the proceeds from such transactions would help alleviate pressures on debtor economies (we would have to temporarily suspend official USG position against barter in international trade). Soviet willingness to engage in large barter transactions with Latin American governments is enabling them to gain a better foothold in the region. The latest is an offer to take Bolivian tin (the

tin agreement just collapsed) in exchange for Soviet machinery and equipment.

- If State were given a diplomatic mandate on debt equivalent to Treasury's financial responsibilities, they should assemble small teams of special envoys/experts to travel regularly to their areas/countries of specialization to work quietly with the debtor governments to help solve debt-related procedural and technical problems. State could contract out for some of this talent that could work at arms length from U.S. policy makers. (Treasury would have a conflict of interest so they cannot do this). They could also regularly brief the various governments on financial developments in the U.S. to avoid potentially dangerous misunderstandings. They could help local governments to educate their public (public diplomacy) on the need for austerity and other related matters. State should have been doing this kind of thing from the moment the debt crisis started. We do it in other parts of the world on other topics and problems.

- We should send teams to the Hill periodically to educate Congress on the potential dangers and possible needs in the event of a Third World financial crisis.

- We should establish emergency mechanisms to help key allies (Seaga, for instance) remain in power in the event of a domestic financial collapse that threatens stability (list of critical calls, role of the President, and other actions to be taken to avert panic).

- Assemble a "Pacific Basin Economic Recovery Committee" made up of distinguished Newly Industrialized Country officials (Finance and Trade Ministers) to tour Latin American-Caribbean countries and educate on the need for foreign direct investment to achieve competitiveness in world markets.

196. Information Memorandum From the Assistant Secretary of State for Inter-American Affairs (Abrams) and the Acting Assistant Secretary of State for Economic and Business Affairs (Constable) to Secretary of State Shultz and the Deputy Secretary of State (Whitehead)¹

Washington, November 29, 1985

SUBJECT

Secretary Baker's Program for Sustained Growth: State Department Observations and Next Steps

Summary: We applaud Treasury's enthusiasm in attempting to implement the Baker "Program for Sustained Growth." Mulford's status report is valuable background for your participation in the OAS General Assembly. Nonetheless, we disagree with portions of Mulford's appraisal, and we think that State should be fully consulted as this process continues or we will put at risk some of our foreign policy objectives and interests.

The Mulford Status Report

David Mulford's November 22 status report (attachment), provides background relevant to your participation in the OAS General Assembly in Cartagena.² His characterization of the reaction thus far to the Baker initiative is generally on target, although there are a few areas where we would place developments in a different perspective.

¹ Source: Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987–1987, Lot 89D378: Chron—December 1–23 1985. Confidential. Sent through Wallis, who did not initial the memorandum. Drafted by Robert Glass (EB/EFD/OMA) on November 27; cleared in EB/IFD/OMA, EB/IFD, ARA/ECP, ARA, and E. A stamped notation reading "GPS" appears on the memorandum, indicating Shultz saw it. "Treat as original" is written in an unknown hand at the top of the memorandum. An unknown hand also wrote in the top right-hand corner of the memorandum: "GPS: I agree. Would a short letter from me to Baker help? If so please draft' per SECTO 27011." Sent to Shultz and Whitehead under an undated covering memorandum, in which McMinn responded to this request: "We do not believe a letter to Secretary Baker is the best vehicle for conveying our concerns. As a preferable alternative, we suggest you raise your concerns at the December 6 IEPR Breakfast with Treasury."

² An incomplete copy of Mulford's November 22 memorandum to Whitehead is attached. A complete copy of the memorandum is in the Department of State, Executive Secretariat, S/S-I Records, Official Correspondence of Deputy Secretary John C. Whitehead, July 1982–Jan 1989, Lot 89D139: JCW—To/From P, T, E, M, C 85. Shultz delivered a speech on Latin American debt problems on December 2 at the OAS meeting in Cartagena. Telegram 15119 from Bogota, December 3, covered the media reaction to Shultz's participation in the meeting. (Department of State, Central Foreign Policy File, Electronic Telegrams, D850864–0379)

We are uneasy about his suggestion that Argentina appears to be in the best position to move ahead. There is little doubt that the drastic economic stabilization program announced by Alfonsín in mid-June has recorded some early successes. However, we share the Embassy's assessment that it remains to be seen whether the GOA has the political will to move forward with the type of far-reaching structural adjustment measures and macroeconomic policy reforms that are the cornerstone of the Baker initiative and the justifiable prerequisite for new net lending. The GOA's recent unsupportive attitude toward the prompt initiation of a new trade round in the GATT that would deal with, *inter alia*, services and agriculture, is an example. We wonder, also, how much confidence can be placed in Alfonsín's reported willingness to have Argentina serve as "test case" for the initiative. Even with Alfonsín's full support, early and full participation in the Baker initiative would require the broad involvement of Argentine policymakers—a commitment we see as unlikely in the short-term.

Mulford's willingness to consider either Structural Adjustment Loans (SAL) or sectoral loans is a positive step. By their nature, however, SALs require cabinet-wide consensus and implementation—a practical difficulty in countries ruled by coalitions or governments not enjoying wide popular support. Further, unless the World Bank streamlines its procedures, the negotiation of a SAL could take 16-months or more. For these and other reasons, Colombia and Ecuador have not until now been interested in a SAL. Colombia, however, is actively pursuing a series of sectoral loans which include policy conditions. The Ecuadorean government has formally asked to be a candidate for the Baker Plan, probably because of the prospect of additional onward lending and the implied "seal of approval" for its policies.

Mulford's upbeat readout of the degree of support for the Baker initiative among commercial banks is generally accurate. There remains broad skepticism among many banks about the ability and willingness of most major financially-troubled countries to undertake the type of reforms the Baker initiative identifies as the prerequisite for new net lending. It is for this reason that Treasury has been so anxious to produce "test cases." A few banks may still look to the MDBs or industrialized countries to guarantee a large portion of their new net lending.

We have been working with Treasury staff to reorient two major mistakes in approach which will impede our ability to claim "successes" for the initiative. First is the unfortunate use, in commercial bank discussions, of a list of 15 eligible countries. This has allowed bankers to raise numerous irrelevant issues, and has also provoked diplomatic protests when the list became widely known. One banker

told us that, since no Caribbean Basin countries were on Baker's "list of 15," he assumed that USG assistance to such countries would take the place of new net lending by the banks. Another banker asked, seriously, whether his bank should be considering new net lending to any non-"list of 15" countries.

We have encouraged Treasury and others to back away from any "list of 15." We developed guidance which noted that the list is illustrative and served only to define an order of magnitude estimate of the external capital needs of major market borrowers. We emphasized that countries not on the list can and should expect new net lending by commercial banks and the MDBs provided they pursue sound economic policies. The Dominican Republic could be a case in point. Conversely, "list of 15" countries that have not made their peace with the international financial community, such as Peru and Nigeria, should have little or no expectation of new net lending within the framework of the Baker initiative.

Second, we are concerned that taking a high profile approach in soliciting "test cases" for the Baker initiative entails considerable risk. We are encouraging Treasury and the Fed to offer an "open door" policy to prospective participants—explaining the benefits as well as the *quid pro quos* of participation and inviting interested countries to take the next step. We understand that the ad hoc Group of 16 commercial banks charged with developing a public pledge of support for the Baker initiative has pressed Treasury for assurances that there will be takers should the banks, as expected, make a conditional mid-December pledge of support. However, it should be already apparent to these and other banks that countries such as Argentina, Colombia, Ecuador, Uruguay, the Dominican Republic, and others are serious in examining the initiative. Some have already moved toward adoption of appropriate structural and macroeconomic policies, a trend that could accelerate should assurances of commercial bank and other support be forthcoming.

Next Steps

While we understand that you have been fully consulted in the development and implementation of the Baker initiative, coordination among State, Treasury, and the Fed at the staff level has not always been the best. We believe that this incomplete coordination has impeded our diplomatic efforts to explain and seek support for the "Program for Sustained Growth" and other recent USG economic initiatives.

Now that the overall strategy is set, we will want to work closely with other agencies in the implementation of these initiatives to assure that foreign policy objectives and interests are fully taken into account. The early-1986 visits of Ecuadorean President Febres-Cordero and

Uruguayan President Sanguinetti are two important upcoming events.³ Both these countries, because of their expressed willingness to adopt the type of structural reforms called for in the Baker initiative, are logical candidates for participation. How we approach the question of the Baker initiative in the context of these official visits will be among our concerns in the weeks ahead. In the same vein, we have already begun interagency discussions of how our effort to gain support for and implement the Baker initiative can be furthered by the upcoming Presidential visit to Mexico.⁴

³ Febres-Cordero visited the United States from January 12 to 16, 1986, and Sanguinetti visited the United States from June 16 to 19, 1986.

⁴ Reagan met with de la Madrid in Mexico twice on January 3, 1986. The memoranda of conversation of these two meetings are scheduled for publication in *Foreign Relations*, 1981–1988, vol. XVII, pt. 1, Mexico; Western Caribbean.

197. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Mulford) to the Deputy Secretary of the Treasury (Darman)¹

Washington, December 31, 1985

SUBJECT

Interagency Agreement on the Trust Fund Proposal

Agreement has been reached among Treasury, State and AID staff on a revised formulation of the U.S. proposal for assisting the poorest countries with protracted balance of payments problems.² If approved by you and Deputy Secretary Whitehead, it will be used as the basis for the final round of consultations on the U.S. proposal, prior to IMF Board discussion of use of Trust Fund reflows on January 22.

The revised formulation builds on the basic elements of the proposal put forward in Seoul. It involves development by the Fund, Bank and recipient country of an overall "policy framework". This

¹ Source: National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Official Files of the Executive Secretariat, 1985, UD-11W, 56-88-79, Box 57, [no folder title]. No classification marking. Sent for action.

² The December 20 revised proposal, entitled "An Approach to Assistance to Low Income Countries with Protracted Balance of Payments Problems," is attached but not printed.

framework would set medium-term economic policy goals and priorities and general financing targets, within which the Bank and Fund would then develop programs.

Eligibility would be limited to the poorest countries (below \$550 GDP per capita) with protracted balance of payments problems and willing to undertake comprehensive economic programs. Funding sources would include Trust Fund reflows, World Bank resources (including IDA non-project lending, modest additional IBRD lending, and transfers of IBRD net income) and contributions by bilateral donors.

While the basic concepts and elements of our original formulation are retained, this new version addresses the key concerns raised in our consultations in Europe and Africa related to the specific modalities of Bank/Fund programming.

A number of countries are worried that our plan, rather than simply making Bank and Fund programs more consistent and supportive, would “blur” the distinctive missions of the Bank and Fund and/or lead to “ganging up” on recipients through cross-conditioning of performance by the two institutions. This formulation preserves the distinctness of the missions and programs of the two institutions by focusing joint action on the design, approval and review of an overall “policy framework”, rather than formal linkage of Bank and Fund financing programs. In so doing, this formulation would not change the fundamental roles or relationships between the institutions, or with their clients. Design and implementation of Fund and Bank programs under the framework would be left to the institutions, but each institution would take into account developments relating to the other’s program, albeit without any rigid links or cross-conditioning.

More difficult to address at this time are concerns over funding. Many countries believe that additional funding for the poorest countries, including funds to be matched with the Trust Fund reflows for the policy framework, should come primarily from a larger IDA VIII rather than bilateral funds. While we are confident that matching funds can be assembled (possibly as much as \$1.3 billion of IDA VII and VIII resources, \$500 million of IBRD net income, \$250 million of IBRD lending and bilateral resources), it is impossible to better define the sources and levels of funding until the summer when the IDA VIII negotiations are advanced, and we can get a better fix on the availability of our own and others’ bilateral resources.³

³ See Document 352.

We have expressed willingness to have part of IDA VIII dedicated to this program and have restated our willingness to seek bilateral funds if others do likewise. In addition, you should be aware that the Congress, in the Continuing Resolution, provided \$75 million for the World Bank's Special Facility for Sub-Saharan Africa for 1986. This action could be seen as improving our position with the Europeans who were unwilling to commit bilateral resources to the Trust Fund proposal on the grounds they had participated in the Special Facility and we had not. We do not believe that this Congressional action fundamentally alters our overall strategy or approach on the Trust Fund. However, we may be able to use our \$75 million contribution to the Special Facility to raise anew the possibility of associating the uncommitted funds in the Special Facility with or obtaining additional bilateral funds for the Trust Fund proposal.

The funding issue cannot be resolved quickly, and it is inevitable that other questions and details will remain unresolved when the IMF Board takes up the Trust Fund in January. However, this reformulation addresses the major procedural concerns with the U.S. proposal raised by other governments. State and AID staff support it as a basis for further consultations and eventual agreement on coordinated IMF/World Bank programming.

Recommendation. That you approve the reformulated proposal for distribution at the Fund and Bank, and further consultations with the institutions and other governments.⁴

⁴ Darman initialed the "Approve" option on January 2, 1986. In a February 12, 1986, memorandum to Baker, Mulford reported that "the modified U.S. proposal regarding the use of Trust Fund reflows received broad support from the IMF Executive Board at its meeting on Tuesday, February 11, 1986." He continued: "The board discussion was an important step in the direction toward final acceptance of the U.S. approach." (National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Correspondence Files, 1986, UD-13W, 56-89-13, Box 30, Memos to the Secretary, International Affairs, Jan-Feb '86)

198. Memorandum of Conversation¹

Washington, January 16, 1986

PARTICIPANTS:

| | |
|------------------------|---|
| Development Committee: | Chairman Ghulam Ishaq Khan Fritz Fischer, Executive Secretary Development Committee Moiuddin Baqui, Adviser to Chairman Khan D. R. Clarke, Development Committee Staff |
| Treasury: | Secretary Baker Assistant Secretary Mulford Deputy Assistant Secretary Conrow Rhonda Bresnick, notetaker |

CHAIRMAN KHAN opened the meeting with the subject of arrangements for the Development and the Interim Committee meetings in April 1986. He told the Secretary that, after discussions with Chairman Ruding, it was decided that the three day meetings will be split equally between the two Committees, with the Interim Committee meeting on April 9th at 9:00 a.m. and ending with a press conference on April 10th just prior to a joint luncheon. The Development Committee will begin at 3:00 p.m. on that day, with formal statements. He and Chairman Ruding agreed there would be only limited discussion in the Development Committee on the world economic situation, since that subject will be discussed in detail in the Interim Committee. On April 11th, there will be a restricted session in which the draft communique is discussed, and following lunch there will be final consideration of the communique.

SECRETARY BAKER said that while these plans are acceptable, he hoped in the future the meetings could be held to two full days instead of three. In addition, he said that he found last year's informal discussions very functional and if the polemics are held to a minimum two days of meetings would seem sufficient for the business at hand. CHAIRMAN KHAN agreed the polemics should be held down and assured the Secretary the meetings will be conducted in a businesslike way. He agreed the meetings could be shorter but said it was not possible to change the plans for the April meeting.

CHAIRMAN KHAN outlined the items on the agenda as:
(1) achievement of sustained growth in developing countries (including

¹ Source: National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Correspondence Files, 1986, UD-13W, 56-89-13, Box 38, Memcons '86. No classification marking. The meeting took place in the Secretary's conference room at the Department of the Treasury. Prepared by Rhonda Bresnick on January 22. Conrow signed the memorandum.

a discussion of the Baker debt strategy); (2) the resource problems of Sub-Saharan Africa; (3) reports to the Committee. CHAIRMAN KHAN said the question of a General Capital Increase (GCI) for the World Bank had been in the last five Development Committee communiques and he is concerned there will be some criticism that, due to the lack of progress on this issue, the World Bank has not complied with the directives in the communique. He would like to preempt any embarrassment on this issue during the meetings. In addition, he said, there is doubt whether the U.S. is willing to provide the necessary resources to the Bank while at the same time the Baker debt initiative is calling for a more active role for the Bank. SECRETARY BAKER pointed out that currently the Bank has underutilized capacity. He noted that if the debt initiative were in fact embraced by everyone we would then have to look at the question of a GCI. He also said at a time of draconian budget cuts in the United States, that he could not breathe a word on a GCI if we were also talking about an IDA replenishment, particularly until we can prove the need. CHAIRMAN KHAN raised the subject of the wording of agenda item one and proposed language which would not draw attention to the question of a GCI. The proposed language is as follows: "achievement of sustained growth in the middle income countries encountering debt service difficulties and its impact on the World Bank's overall lending program and its future resource requirements." SECRETARY BAKER agreed with the proposed language.

MR. FISCHER pointed out that one result of the Development Committee meeting should be to give a signal to the commercial banks that the IBRD is in a position to provide additional financing. CHAIRMAN KHAN noted he had met with Mr. Stern and the commercial banks are looking for the IBRD to come up with their share of what is expected. SECRETARY BAKER responded by saying there is a need to get into detailed discussions about changing the lending procedures of the World Bank. Long time delays are inconsistent with our debt initiative which calls for more fast disbursing loans. He said that he had met with Mr. Clausen on this subject. MR. CONROW said it may be a subject to raise with the new President of the Bank and then perhaps at the fall meeting of the Development Committee. CHAIRMAN KHAN offered to mention this in his statement at the April meeting and to suggest that it be put on the agenda for the meeting in the fall.

SECRETARY BAKER said he wanted to take the opportunity while talking about our debt strategy, to stress that our initiative contemplates a continued central role for the IMF as well as a central role and opportunity for the IBRD. There is some sensitivity, he noted, on the part of the IMF that their continuing role is not recognized. SECRETARY BAKER noted that an example of the roles of the two institutions can be seen in the case of Ecuador where the type of policy reforms we have

been supporting have been made and the results have been successful. Recently, Ecuador signed a sector loan agreement with the IBRD. They are also in the process of negotiating a new stand-by agreement with the IMF. In combination with these agreements, they have received a rescheduling of their commercial bank loans and a new financing package.

CHAIRMAN KHAN noted that optics are very important with respect to the debt initiative and the United States must be seen to be doing something. SECRETARY BAKER said that in our presentation at the Development Committee we will be outlining what has been accomplished thus far. This includes: a joint statement by the Bank and Fund on the debt initiative, written support and pledges of participation from virtually every quarter, and an increase in sector loans.

CHAIRMAN KHAN said that while the debt strategy is seen to be addressing the problems of the middle income debtors and the African countries, there is one group—Asian countries—which appear to be left out. The Asian countries will be looking to IDA VIII and in this regard, he noted, they would be watching carefully the replenishment negotiations for the Inter-American Development Bank. MR. CONROW noted that there are different budget issues to be addressed in the IDA replenishment and the IDB replenishment. The IDB replenishment is callable capital while in the case of IDA there is a budget outlay. Thus, countries should not be looking at the two replenishments in the same light.

CHAIRMAN KHAN raised the matter of the G-10 and G-24 reports, saying he believes that the major themes in these reports should be given more serious consideration than they can be given at the Interim Committee meeting. The Fund staff should do more work on such subjects as the future role of the SDR, surveillance and the creation of a compensatory financing facility and the IMF Board should discuss these issues in detail. This would show that the Fund is taking these reports seriously and not simply noting them for the record. SECRETARY BAKER said that it is up to those people in the Interim Committee sponsoring the reports to make this suggestion, however the idea seemed acceptable to him. It was agreed that the issues in the G-10 and G-24 reports should not be discussed in great detail in the Interim Committee. On the subject of a compensatory financing facility, he noted that while we agree that there is a problem for developing countries whose adjustment efforts have been frustrated by the decline in commodity prices, we do not agree with the proposed solution to create a facility. He said the biggest drop in commodity prices has been in oil and that has been because of the existence of a cartel. We are philosophically opposed to cartels and believe that a creation of a

compensatory facility would just be creating another cartel. MR.² noted the answer in the longer run is export diversification not subsidies.

MR. FISCHER said that it was very helpful last year for the Chairman to have met with Secretary Baker prior to the start of the meetings. It was agreed that Secretary Baker would meet with Chairman Khan before the start of the meetings in April.

²Omission is in the original.

199. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Mulford) to the Deputy Secretary of the Treasury (Darman)¹

Washington, undated

SUBJECT

White House Office Of Policy Development's International Debt Proposal²

I. SUMMARY

The proposal ignores the existence of the current U.S. debt initiative which emphasizes helping debtors work their way out of their debt problems and reestablish their creditworthiness. It presumes the need to protect U.S. banks (and depositors) from the serious and "immediate" threat of default on foreign loans and proposes to solve that by having banks swap their LDC debt for equity in a new privately owned intermediary institution—a Bank of Settlements. The proposal is naive,

¹ Source: National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Correspondence Files, 1986, UD-13W, 56-89-13, Box 30, Memos to the Secretary, International Affairs, Jan-Feb '86. No classification marking. Sent for information. Printed from an uninitialed copy. The date 02/27/86 is handwritten at the top of the page.

² Under a March 3 covering memorandum, Patrick Buchanan sent Shultz a copy of a February 10 memorandum from James Warner to Charles Hobbs. Buchanan explained that the Warner paper "recommending a Bank of Settlements as the answer to the recurring foreign debt crisis—is circulating through the White House and Treasury; and I thought you might want to peruse this copy." (Reagan Library, George Shultz Papers, Executive Secretariat Super Sensitive (03/03/1986); NLR-775-4-19-3-4) Whitehead wrote on another copy of Buchanan's March 3 covering memorandum: "GPS: This is an absolutely *terrible* idea! John." (Reagan Library, George Shultz Papers, Executive Secretariat Super Sensitive (03/05/1986-03/10/1986); NLR-775-4-21-9-5)

confused and unlikely to achieve its proposed objectives. We should sharply oppose it.

II. DISCUSSION

The paper in its tone seems slightly hysterical. Most LDCs want to be responsible and service their debts. Provided they are making adjustments, commercial bankers have been willing to roll over debt, at least thus far. What we have seen is a series of reschedulings and partial moratoria in individual countries whose situations differ and change. The paper seems to lump all LDCs together and fails to take into account that their situations will change in the future.

U.S. commercial banks would exchange problem debt for the common shares of the Bank of Settlements with par value equal to the current *undiscounted* value of the loans. The proposal wishes to avoid having write-offs and write-downs impact commercial bank balance sheets; it assumes the exchange of assets can avoid this.

The Bank would then renegotiate the loans, trading loan concessions (including denominating the loans in local currency, extended terms, and reduced interest) for Baker plan proposed economic reforms. Such measures would greatly ease any incentive on the part of the LDCs to adjust, but it is unclear how the Bank of Settlements would generate hard currency to pay dividends.

It is unrealistic to assume that regulators, accountants, the Securities and Exchange Commission or the stock market would fail to look through to the underlying value of the assets behind the “common shares”; share values in the market place would fairly quickly be established at a substantial discount and the banks holding the shares would almost certainly be required to mark them to market. At this point, the Bank of Settlements would have failed in its objective, which is to maintain the value of the banks’ assets.

The proposal also ignores the importance of economic reforms and the crucial role of the international financial institutions, placing instead the Bank of Settlements as the vehicle for achieving those reforms. This would reduce creditor leverage in getting reforms adopted and politicize the debt problem by concentrating debt in one U.S. institution which is to offer softer terms. Finally, the proposal fails to indicate how additional bank credits could be mobilized to support the economic policies of good adjusters.

The paper overlooks the interconnection between banks of other countries in international lending; U.S. banks hold only one-third of LDC exposure. Unless banks of other countries cooperate in the scheme to relieve debtor nations of the necessity to earn U.S. dollars to service their debts, the debtor nations could use the foreign exchange they do earn to pay off foreign banks at the expense of U.S. creditors.

Technically, the paper seems to confuse bank reserves (which are held against liabilities, i.e. deposits) with bank capital (which is held against assets). The decline in oil prices, as in the Mexican case, is forcing some countries to consider seeking interest rate concessions, but this should not be accepted by the U.S. Government as a justification for a generalized scheme that would transform commercial bank debt into local currency loans at longer maturities and reduced rates of interest. For non-oil exporting LDCs, the current price decline is a blessing.

The proposal is considered an alternative to bailing out banks through the FDIC. In concept, it is "a private intermediary institution", whose initial operating capital would be raised by the sale of zero coupon bonds to the public. However, there apparently would be a major U.S. Government contribution (or participation) through the addition of all outstanding U.S. AID loans, which would be serviced by the bank and over which the bank would have authority to renegotiate. This in itself could be seen as a partial U.S. contribution to a commercial bank bailout and would remove U.S. Government leverage over the debtors through Paris Club negotiations.

The proposal suggests combining loans of varying degrees of risk to a variety of nations. Many banks would wish to retain their direct relationship with individual borrowers, maintain the role of their branches in foreign countries, and be unwilling to sell off loans that they considered better than others.

The concept might have some attraction if an exit vehicle were being designed for banks wishing to retire from international lending.

An attachment (Tab A) considers in more detail some of the points in the proposal that refer to the Baker Initiative.³ The proposal is also attached. (Tab B)⁴

³ Tab A is attached but not printed.

⁴ Tab B is attached but not printed.

200. Memorandum From the U.S. Executive Director of the International Monetary Fund (Dallara) to Secretary of the Treasury Baker¹

Washington, March 27, 1986

SUBJECT

Adoption of U.S. Trust Fund Proposal

With virtually unanimous support, the U.S. modified proposal for use of IMF Trust Fund reflows was approved yesterday by the IMF Executive Board. The decision taken by the Board creates a new facility, the 2.7 billion SDR “Structural Adjustment Facility,” (SAF) which will be complemented by World Bank and other resources in support of comprehensive growth-oriented economic programs of low-income countries with protracted balance of payments problems. Operations will begin immediately as the U.S. proposal has also been accepted by the World Bank Board.²

Our lobbying efforts with the Latin and Sub-Saharan African countries in recent weeks proved effective, as Directors representing those countries modified their positions, and yesterday indicated outright support, or at least, acceptance of our approach. In the end, almost all Directors associated themselves with the decision.

The Board’s decision was the final step required for the implementation of the initiative that you introduced in Seoul. As directed by the Interim Committee in Seoul, however, a report on the Board’s decision will be given at the April Interim Committee meeting. By deciding in favor of the U.S. proposal, the Board has agreed that the Fund will work with the Bank and the individual member country in jointly developing the Policy Framework Papers, which will cover a wide range of macro-economic and structural areas, and guide the development of growth-oriented loan programs by each institution. Acceptance of the Policy Framework marks a major step forward in Fund/Bank collaboration, and has far-reaching implications for the way in which the Fund conducts its business. It will be the first time that the Fund and the Bank have fielded joint missions to member countries on a regular basis. These procedures should enhance the prospects that the Fund and the Bank

¹ Source: National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Correspondence Files, 1986, UD-13W, 56-89-13, Box 31, [no folder title]. No classification marking. A copy was sent to Darman.

² A copy of the Chairman of the World Bank’s summary of the discussion of the Trust Fund Proposal at the Executive Directors’ meeting, which took place March 17–18, is in the Reagan Library, Stephen Farrar Files, 1986–1987 File, Subject File, Debt—Baker Plan 1985–1986; NLR-177-1B-1-2-9.

will provide consistent, complementary advice that can assist countries in tackling their economic problems and establishing growth.

During the course of the Board discussion, many Directors expressed their governments' appreciation for the U.S. initiative, and for the leadership the U.S. has provided in supporting growth and more effective lending programs in the poorest countries, particularly Sub-Saharan Africa.

As you know, many people in Treasury, my office at the Fund, the U.S.E.D.'s office at the Bank, State and AID have put forth considerable effort in bringing this proposal to fruition. In particular, I would like to call to your attention the role that Mary Bush, my Alternate, has played in helping to formulate the modified proposal and to gain its acceptance in the international community.

Letters of appreciation from you to Secretary Shultz and Peter McPherson are being prepared to recognize the roles that they and their staffs have played in support of this effort.

201. Memorandum From Stephen Farrar of the National Security Council Staff to the President's Assistant for National Security Affairs (Poindexter)¹

Washington, March 14, 1986

SUBJECT

IDB Replenishment

Negotiations on replenishment of the Interamerican Development Bank (IDB) begin next Thursday, March 20, in Costa Rica. Treasury will be taking a tough position. A substantial funding increase—within USG budget planning ceilings—would be contingent upon:

- *Reform in lending policies* (conditionality, faster-disbursing loans);
- *Reorganization* of the IDB, including a new unit (headed by an American) to implement the new lending policies; and²

¹ Source: Reagan Library, Stephen Farrar Files, Chronological File, Farrar Chron March 1986; NLR-177-5-28-14-5. No classification marking. Sent for information. Sent through Danzansky. Farrar initialed for Danzansky.

² Poindexter highlighted this point and the previous point in the right-hand margin and wrote: "Are these growth oriented?" In a March 18 memorandum to Poindexter, Farrar wrote: "The U.S. is definitely pressing for policies that will promote growth and investment, as outlined in the Baker Plan. Reorganization of the IDB would be designed to ensure that those policies are implemented." (Reagan Library, Stephen Farrar Files, Chronological File, Farrar Chron March 1986; NLR-177-5-28-13-6)

— *Changed voting rules* to require 65% of votes for a majority instead of the current 50% (allowing the U.S. plus one other donor to block proposals).

The changes are necessary if the IDB, long one of the least efficient of the multilateral development banks, is to play a serious role in implementing the Baker Plan for resolving the third world's debt crisis.

Preliminary soundings indicate that the IDB and Latin governments are prepared to accept tougher conditionality and reorganization of the IDB. Their positions on the voting change are less clear. Between now and March 20, the Latins are likely to test whether the USG is unified behind Treasury's position. A display of unity is extremely important now. State appears to be firmly on board.

Philip Hughes concurs.

202. Memorandum From the Under Secretary of State for Economic Affairs (Wallis) to President Reagan¹

Washington, April 9, 1986

SUBJECT

Second Briefing Package on the Tokyo Economic Summit

[Omitted here is an introduction to the memorandum.]

1. *Debt Problems*

Continued growth and falling interest rates in the Summit countries are having a positive impact on growth prospects for the developing countries. However, many heavily-indebted developing nations have yet to adopt the economic policies necessary to come to grips with their problems. We will be seeking Summit endorsement of the U.S. "Program for Sustained Growth," which calls for growth-oriented structural reforms in debtor countries supported by increased World Bank and commercial bank lending. This proposal (along with related issues) has been one of the major topics for discussion at this week's

¹ Source: Reagan Library, Alexander Platt Files, Friday Reports 11/01/1987–12/31/1987; NLR-429-4-38-6-4. Confidential. Sent under an April 12 covering memorandum from Poindexter to Reagan recommending he review the briefing memorandum from Wallis. Reagan approved the recommendation with his initials and a checkmark.

IMF Interim Committee meeting.² A background paper is attached at Tab 1.³

The Summit should also welcome the recent approval in the IMF and World Bank Executive Boards of the U.S. proposal for close IMF/World Bank cooperation to support market-oriented policy reforms in their poorest member countries.⁴ Under this proposal, the two institutions will jointly negotiate "comprehensive policy frameworks" with eligible member countries, and each institution will then provide financing to support the agreed policy reforms.⁵ These and other actions will form a positive context for the May 27–31 UN Special Session on the Critical Economic Situation in Africa (at which Vice President Bush will probably represent the United States). Summit countries will be looking for ways to show support for Africa, without kindling unrealistic expectations or demands for still more new programs or facilities.

[Omitted here is briefing material on multilateral trade negotiations, energy policy, and education issues.]

² The meetings of the Interim Committee of the IMF and the Development Committee of the World Bank and IMF took place April 9–11 in Washington. Baker delivered a statement before the meetings entitled "The International Debt Situation: Improving the Prospects for Growth." A copy of his statement is in the Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: The Trip of President Reagan to Indonesia/the ASEAN conference and the Tokyo Economic Summit. In an April 21 memorandum to Danzansky, Farrar reported on the meetings, relaying that there had been some criticism at the meetings that resources for the Baker Plan would not be adequate. According to the memorandum, Baker responded by insisting planned amounts "should be adequate" but that the U.S. was "prepared to consider a World Bank GCI if there is a 'demonstrated increase in demand for quality lending' above levels now projected." (Reagan Library, Stephen Farrar Files, Chronological File, Farrar Chron April 1986–04/16/1986–04/30/1986)

³ Tab 1, an undated paper entitled "U.S. Debt Initiative," is attached but not printed. Tab 2, an undated paper entitled "New Round of Multilateral Trade Negotiations," and Tab 3, an undated paper entitled "Energy Issues" are also attached but not printed.

⁴ See Document 200.

⁵ In the Tokyo Economic Summit Conference Declaration, issued on May 6, the G-7 Heads of State reaffirmed the "continued importance of the case-by-case approach to international debt problems" and welcomed the "progress made in developing the cooperative debt strategy, in particular building on the United States initiative." For the text of the declaration, see *Public Papers: Reagan, 1986*, Book I, pp. 558–562. A copy of the minutes of the May 5 afternoon Heads of State meeting is in the Reagan Library, Stephen Danzansky Files, Administrative File, Attention 05/01/1986–05/05/1986; NLR-733-23-12-7-2.

203. Memorandum From the Deputy Secretary of State (Whitehead) to the Acting Assistant Secretary of State for African Affairs (Wisner)¹

Washington, March 4, 1986

I've finally found the time to read Henry Breck's interesting paper on how to get rid of the African debt problem.² I have great respect for Henry, another veteran Wall Street hand, but I don't agree with his conclusion which is to declare a blanket moratorium on all the debt. Any such move would assure that no private sector money would be invested in Africa for many years. It would relegate Africa to the bread line for the next generation.

There is no easy answer to the African debt problem, but I am convinced of one thing—that each country is different. Countries with democratic governments which have free economies and encourage private investment do in fact do better than those with centrist policies. A blanket moratorium sweeps them all under, good performers and poor performers both. It's like a farmer with a leaky barn deciding to burn it down rather than fix the roof.

I'm for the Whitehead Muddle-Through Policy, which considers each country separately, adjusting as necessary, cajoling difficult decisions, and lets the banks do the negotiating rather than the government.

Having said all this, I think Henry Breck would be a splendid addition to the government, if he could be persuaded to come. It would seem logical to me that he could help David Mulford with African or Latin American debt negotiation or maybe work at IMF.³ I'll be glad to see him if you want me to.

John C. Whitehead⁴

¹ Source: Department of State, Executive Secretariat, S/S-I Records, Files of the Deputy Secretary of State (D), Lot 95D334: Debt. Confidential.

² The undated paper, "Sub-Saharan Debt—A View from the Right," is attached but not printed. The paper was sent under a February 12 memorandum from Wisner to Whitehead.

³ An unknown hand drew an arrow in the left-hand margin next to this sentence.

⁴ Whitehead initialed "JCW" above his typed signature.

204. Memorandum From Stephen Farrar of the National Security Council Staff to the President's Assistant for National Security Affairs (Poindexter)¹

Washington, July 15, 1986

SUBJECT

The Bradley Plan for Latin Debt Relief

In a speech in Zurich on June 29, Senator Bill Bradley outlined a bold alternative to the Baker Plan for managing Latin American debt.² Bradley's thesis is that Latin debt is too large to allow sustainable economic growth. Key elements of his 3-year recovery package are as follows:

- *Interest rate relief* of 3 points per year on all official and commercial debt.
- *Forgiveness of principal* of 3 percent per year.
- *No new commercial lending.*
- *Lending by multilateral development institutions* of \$3 billion per year (as in the Baker Plan).

The Bradley proposal also differs from the Baker Plan in several other respects. For example, Bradley would allow each debtor country to design its own economic recovery package; the Baker Plan calls for packages negotiated with the IMF. Attached at Tab A is a table comparing the Baker and Bradley proposals.³

Analysis

The Baker Plan—and established Administration debt policy—is built on the premise that debt forgiveness will hurt debtor countries more than it will help, because future new lending will dry up in the face of bad credit ratings.

Bradley rejects this premise. He believes that debt forgiveness will improve the flow of new credits as economic growth picks up and as capital flight slows. Bill Cline of the Institute for International Economics argues (see Tab B)⁴ that Bradley is wrong; banks are not

¹ Source: Reagan Library, Stephen Danzansky Files, International Trade Subject Outline, VIII (C) Debt—New Ideas—Baker Plan. No classification marking. Sent for information. Sent through Danzansky. A stamped notation in the top right-hand corner of the memorandum reads: "Nat'l Sec Advisor has seen."

² A copy of Bradley's June 29 speech is in the Reagan Library, Stephen Farrar Files, 1986–1987 File, Subject File, Debt—Baker Plan 1985–1986; NLR-177-1B-1-14-6.

³ Tab A, "A Comparison of the Baker and Bradley Plans," is attached but not printed.

⁴ Tab B, a copy of William R. Cline, "Bradley's Debt Plan Won't Work," *Washington Post*, July 15, 1986, p. A19, is attached but not printed.

likely to voluntarily take loans off the books, and there is no way to force them to do so. Moreover, Cline concludes that the cost to the banks would be extremely high—cutting annual profits in half and reducing capital by 17 to 25 percent.

Debt forgiveness cannot be ruled out for some country in the future. Mexico is the most likely candidate, since it will be extremely difficult for Mexico to halt the growth in (let alone reduce) its \$100 billion stock of debt. However, the plan now being developed with the IMF calls for economic restructuring that could help Mexico realize its impressive potential without drastic steps. That plan deserves solid U.S. support.

The second-guessing of the Baker Plan by Bradley and others is in part due to the slowness of the Plan to take shape. In fact, all the elements of the Plan were never meant to be in place at once. The Administration faces a challenge in delivering the U.S. share of the proposed \$3 billion annual lending by MDB's in the current budget environment.

Conclusion

The Bradley Plan is based on a faulty reading of the impact of forgiveness on commercial banks' willingness to extend new loans in the future. Debt forgiveness is not appropriate now.⁵

⁵ A copy of the Treasury Department's analysis of the Bradley Plan, dated July 14, is in the Reagan Library, Stephen Farrar Files, 1986–1987 File, Subject File, Debt—Baker Plan 1985–1986; NLR–177–1B–1–12–8. The analysis concluded: "Senator Bradley's debt proposal is not necessary, and poses a number of serious problems." A July 15 information memorandum from Lamb to Shultz summarized and analyzed the Bradley Plan, outlining "key problems" with the plan. Attached to that memorandum is a copy of the EB/PAS analysis of the Bradley Plan. (Department of State, Executive Secretariat, S/S Files, 1986 Official Office Files, Action/Briefing/Information/Through Memoranda,/Chron Files/Memoranda to the Secretary Handled by (E) Economic Affairs Allen Wallis, Lot 89D156: Through Memoranda, July 1986)

205. Information Memorandum From the Assistant Secretary of State for Intelligence and Research (Abramowitz) and the Assistant Secretary of State for Economic and Business Affairs (McMinn) to Acting Secretary of State Whitehead¹

Washington, August 12, 1986

SUBJECT

Rethinking the LDC Debt Strategy

The LDC debt problem has evolved in several significant aspects since 1982, as shown in the attached INR study:²

— The commercial banks have trimmed their LDC portfolio and have strengthened their capital reserves against LDC losses.

— LDCs have not dared to break decisively with creditors, but most have also resisted taking the tough steps needed to reform their economies.

— The debt problem is now less a threat to the international financial system than in 1982. It is evolving into a predominately development and foreign policy problem, in part because the flow of commercial capital to LDCs may be curtailed for the foreseeable future.

Policy Implications: As it becomes widely recognized that the debt problem is now more political than financial, it will be increasingly difficult to maintain the emphasis on policy reform in the debtor countries. The debtors will increase their efforts to politicize the problem; our allies will be soft. Yet policy reform is vital to preserve domestic support for the resource outlays (IBRD, IDA, IMF, etc.) that are an integral part of our debt strategy; it is also necessary if we are ever to see the problem alleviated, voluntary capital flows picking up a large part of the financing necessary for development, and solid growth and development in Latin America and Africa to begin again.

— The World Bank's lending programs should be enlarged, on the condition that increased Bank lending is for rigorous structural reform; thus we should get off the fence soon on a new GCI.

¹ Source: Department of State, Executive Secretariat, S/S-I Records, Official Correspondence of Deputy Secretary John C. Whitehead, July 1982–Jan 1989, Lot 89D139: [no folder title]. Confidential. Drafted by Marshall Casse (EB/PAS). Sent through Wallis, who initialed the memorandum on August 15. Mueller initialed the memorandum and wrote "8/13." A stamped notation on the memorandum reads: "Aug 1986 J.C.W. has seen." Whitehead wrote in the top right-hand corner of the memorandum: "I'm not quite as sanguine as this paper and the INR paper. Latin America is better—except for Mexico, Peru, and Bolivia, which are worse. But the Middle East is worse—Israel, Egypt, Tunisia, Morocco and Sub-Saharan Africa is worse. We'll probably muddle through, but we can't relax yet. J."

² The INR study, "The International Debt Problem After Four Years: Good News, Bad News," dated July 29, is attached but not printed.

— We need to develop a strategy to ensure that we and the other major industrial countries are committed in fact—as well as in word—to policy reform in the debtor countries.

— We need to study other questions to see if there are ways to depoliticize the debt problem:

(i) does bank regulation exacerbate the problem and politicize it, forcing banks to keep debt on their books when following market incentives would have led them to sell it at a discount, write it off, or accept a default? Would a more market determined system lead to new voluntary lending?; and

(ii) is there a way to cushion more effectively external factors (i.e., an oil price decline) so that long-term creditworthiness can be determined more fully by domestic policy as it affects long-term real growth prospects?

We are preparing a paper for you on these and other such questions. The policy proposals in this memorandum are the responsibility of EB alone.

206. Information Memorandum From the Assistant Secretary of State for Intelligence and Research (Abramowitz) and the Acting Assistant Secretary of State for Economic and Business Affairs (Lamb) to Acting Secretary of State Whitehead¹

Washington, August 22, 1986

SUBJECT

Your Comment on Our August 12 Memo on Rethinking the LDC Debt Strategy²

We agree that the LDC debt situation remains serious, especially from the point of view of the US Government and the major debtors in Latin America and elsewhere. What we meant to underscore by our August 12 memo is that the nature of the problem may have fundamentally changed, bringing the foreign policy and developmental issues

¹ Source: Department of State, Executive Secretariat, S/S-I Records, Files of the Deputy Secretary of State (D), Lot 95D334: Debt. Confidential. Drafted by William Milam (EB/IFD) and Ralph Lindstrom (INR/REC); cleared by Casse. Sent through Wallis, who initialed the memorandum on August 25. Mueller initialed the memorandum and wrote "8/23." A stamped notation on the memorandum reads: "Aug 1986 J.C.W. has seen."

² Attached and printed as Document 205. See also footnote 1 thereto.

more to-the-fore. The US may need to alter its debt strategy to deal with the new shape of the problem.

The INR paper points out the decreased vulnerability of the banking system in the US and abroad to LDC debtors.³ This means that one leg of the Baker Plan—the new money from the private banks—may be loose, if not missing. The banks will be much harder to drag into financing efforts for many debtors, though for Mexico (perhaps a couple of others) it is still in their interest to protect the value of the loans (assets) they have on their books as long as the cost, in their view, is not excessive. For most debtor countries, we will need to rely more on official financing (IMF, IBRD, etc.) at a time of budget stringency in all industrialized countries. A question, in this regard, is whether there is a way to base LDC creditworthiness only on domestic policy and performance, insulating the borrower from exogenous shocks.

Thus, the focus of the debt problem may be much more political than financial in the coming years. Debtor countries are likely to seek increasingly to politicize this problem with us and other creditor countries. It may, therefore, be in our overall best interest to find ways progressively to “depoliticize” the debt problem.

³ See footnote 2, Document 205.

207. Information Memorandum From the Acting Assistant Secretary of State for Economic and Business Affairs (Lamb) to Acting Secretary of State Whitehead¹

Washington, August 23, 1986

SUBJECT

Comments on "Secondary Market for bank loans to LDCs"

We have received a good deal of reaction to our discussion paper on secondary markets.² A summary of the comments is attached at Tab 1.³ The Fed, Treasury and the SEC have made preliminary responses. Treasury sees great potential in the secondary market for ameliorating the LDC debt problem and has been devoting considerable attention to the key issues. We also spoke with Citibank, Bankers' Trust, Drexel, Goldman, First Boston and Shearson. Bankers Trust sent a thoughtful and very complete set of comments (attached at Tab 2).⁴

There is broad consensus that the secondary market could be helpful in resolving the debt crisis. Although a joint Treasury/State seminar promoting the benefits of the secondary market would be useful, the accounting regulations that currently inhibit transactions should be resolved beforehand. It is unlikely State can or should take the lead in this, but indications are that the SEC may be willing to chair a study group to resolve the accounting issues quickly.

The State Department could play a constructive role on secondary market issues by:

- Publicizing the benefits of the secondary market both in the US and abroad.

¹ Source: Department of State, Executive Secretariat, S/S-I Records, Official Correspondence of Deputy Secretary John C. Whitehead, July 1982–Jan 1989, Lot 89D139: [no folder title]. Confidential. Drafted by Aloysious Siow (EB/PAS) on August 20; cleared by Casse and Milam. A stamped notation on the memorandum reads: "Aug 1986 J.C.W. has seen." Mueller initialed the memorandum and wrote "8/25." Whitehead wrote in the top right-hand corner of the memorandum: "Well done. I encourage your further initiatives in this important subject. JCW."

² A copy of the paper, "The Secondary Market for bank loans to LDCs," dated July 1, is in the Department of State, Executive Secretariat, S/S-I Records, Official Correspondence of Deputy Secretary John C. Whitehead, July 1982–Jan 1989, Lot 89D139: [no folder title]. Lamb forwarded the paper to Whitehead under a July 10 memorandum, on which Whitehead wrote: "A good paper. The two most active participants in the secondary market are, I think, Bankers Trust (Charles Sanford, CEO) and Drexel Burnham (Fred Joseph, CEO). I'll be glad to write them along with Bob Rubin at Goldman Sachs. I like broadening the subject to include securitization and subordination, although the words make the banks nervous."

³ Tab 1, a paper drafted by Siow on August 21 and entitled "Comments on 'Secondary Market for bank loans to LDCs,'" is attached but not printed.

⁴ Tab 2, an August 7 paper prepared by Managing Director of Bankers Trust Richard Martin, is attached but not printed.

- Encouraging countries to facilitate debt/equity swaps by minimizing red tape and fees, and by creating a friendly environment for foreign investment.
- Investigating the role of the multilateral development banks in these markets and encouraging them to play a positive role.
- Encouraging OPIC and the new Multilateral Investment Guarantee Agency (MIGA) to aid equity investments in debtor countries.

208. Information Memorandum From the Assistant Secretary of State for Economic and Business Affairs (McMinn) and the Director of the Policy Planning Staff (Solomon) to Secretary of State Shultz¹

Washington, October 24, 1986

SUBJECT

The International Economy for the Next Two Years: An Integrated Approach

EB and S/P have developed the following three part strategy for advancing the President's international economic policy objectives for the next two years. In general, our proposed strategy is a continuation and strengthening of our current policies. These recommendations follow-up on the August Policy Planning Staff exercise identifying priority foreign policy initiatives for the last two years of the Reagan Administration.²

[Omitted here are Element I and Element II.]

ELEMENT III: Improve the international financial picture through continued vigorous implementation of our debt and development strategy.

Recommended Administration actions:

This is an area where *continuity* is the watch word. Our existing debt policy is a good one. We must bear in mind that what we do concerning protectionism, U.S. domestic reform, and encouraging the FRG, Japan and other lenders to provide more capital to developing countries offer the best hope for additional resource flows to LDCs.

¹ Source: Department of State, Executive Secretariat, S/S Files, 1986 Official Office Files, Action/Briefing/Information/Through Memoranda,/Chron Files/Memoranda to the Secretary Handled by (E) Economic Affairs Allen Wallis, Lot 89D156: Through Memoranda, October 1986. No classification marking. Drafted by Sandra O'Leary (S/P) and Fredi Bove (EB); cleared by Kauzlarich. Sent through Wallis. Wallis wrote at the top of the memorandum: "Item 4 (p. 3) requires careful, cautious thought. Was discussed at length in [illegible] SIG-IESE [SIG-IEP?] with McFarlane strongest advocate. Has real possibilities but real dangers. AW." The full text of the memorandum is scheduled for publication in *Foreign Relations*, 1981-1988, vol. XXXVII, Trade; Monetary Policy; Industrialized Country Cooperation, 1985-1988.

² Not found.

1. We should be *firm in selling our current debt policy* in all available international fora, such as UNCTAD VII³ and the fall meeting of the Economic Commission for Latin America and the Caribbean (ECLAC).⁴

2. We should continue to encourage increased IMF/World Bank cooperation and coordination.

3. While the Administration should not take a lead role in advocating *creative financing measures*, we should focus on:

— removing unnecessary regulation or other impediments to sound financing processes and

— avoiding proposals which would set unacceptable precedents in areas such as U.S. domestic agricultural loans.

³ UNCTAD VII was scheduled to take place from July 8 to August 3, 1987, in Geneva.

⁴ Presumably a reference to the 19th session of the ECLAC Committee of the Whole, scheduled to take place from August 13 to 14, 1987, in New York.

209. Memorandum From Secretary of State Shultz to President Reagan¹

Washington, December 5, 1986

[Omitted here is information on congressional outreach activities.]

2. *Congressional Summit on Debt & Trade*. John Whitehead spoke on Third World debt this morning at a well-attended New York conference organized by Senator Bradley and five of his colleagues.² Building on Jim Baker's initiative, John emphasized the importance of equity investment in the LDCs. To achieve long-term growth, rather than continue a cycle of borrowing and refinancing, debtor countries need to encourage foreign and domestic investment by creating favorable business climates. The conference generated considerable support for our position of increased equity investment.³ (U)

[Omitted here is information on French demonstrations.]

¹ Source: Reagan Library, George Shultz Papers, President's Evening Reading August–December 1986; NLR-775-33-28-1-4. Confidential.

² A copy of Whitehead's opening statement before the U.S. Congressional Summit on Trade and Debt is in the Department of State, Executive Secretariat, S/S Files, 1986 Official Office Files, Action/Briefing/Information/Through Memoranda,/Chron Files/Memoranda to the Secretary Handled by (E) Economic Affairs Allen Wallis, Lot 89D156: Through Memoranda, December 1986. Baker spoke at the Summit on December 4. A copy of his remarks is in the Reagan Library, Stephen Farrar Files, 1986–1987 File, Subject File, Debt—Baker Plan 1985–1986.

³ See Document 207.

210. Memorandum From Stephen Danzansky of the National Security Council Staff to the President's Deputy Assistant for National Security Affairs (Powell)¹

Washington, February 17, 1987

SUBJECT

IEP Shultz/Baker/Carlucci Breakfast—February 13, 1987

The following issues were discussed:

[Omitted here is discussion of Polish sanctions.]

AFRICAN DEBT—

— McPherson discussed at some length the troublesome issue of African debt. He indicated that there was little likelihood that most of the debtor nations, especially in Sub-Saharan Africa would be able to make payments and that we ought to be looking at creative ways to address that problem since most of this debt would never be repaid.

— Both Shultz and Baker lamented that at a time when we were finally moving the LLDCs away from statism to market economic systems and theory, we have so little money available to be of real help to them.

— McPherson then discussed various possibilities like selling IMF gold to create facilities (or deepen existing funds) for African LLDC debt. Baker quickly discounted that idea indicating that there was only so much the Congress could absorb in one year by way of contribution to multilateral institutions. We have IDA VIII on this year's agenda; next year it will be IBRD GCI (General Capital Increase). We cannot add to that a quota increase for IMF.

— Shultz said that what we need in these institutions is some sort of loan loss reserve to deal with the matter of unpaid debt. He suggested that perhaps an Assistant or Deputy Assistant Secretary level working group should be charged to wrestle with Africa.

[Omitted here is discussion of the Africa Hunger Initiative, Egypt FMS, and export controls.]

DEBT-GENERAL

— Shultz asked about the recent reporting from Brazil and other large South American debtor nations suggesting unilateral payment moratoriums, cartels and the like.

¹ Source: Reagan Library, Stephen Farrar Files, 1987–1988 International Economic Affairs Directorate Outline File, IEP Breakfasts 02/12/1987–04/23/1987; NLR-177-4-33-2-3. No classification marking. Sent for information. Copies were sent to Green, Pearson, and Rodman.

— Darman responded that the Treasury approach to the matter would continue to be to manage each problem on a case-by-case basis without resorting to any earth-shattering, broadly applicable debt-reduction rules (Bradley Plan) which would threaten the flexibility of the present approach and set back the reforms already evident from conditionality.

— Whitehead agreed that the present “muddle through” approach, while not terribly romantic, is the only way out. He did suggest that we ought to pay as much attention as possible to debt-equity swaps and described in some detail the Shearson-American Express Philippine Fund Plan whereunder \$200 million (with 50% OPIC insurance) of bank debt would be converted into shares in a mutual fund which would convert the \$ debt into pesos and purchase Philippine government and private businesses, install management therein and create a well-managed economic base.

— Darman then set forth Treasury’s view of the game plan for managing the various country accounts as follows:

- Mexico . . . should be finished first
- Ecuador, the Philippines and Chile . . . should follow
- Brazil and Argentina . . . would then be tackled

Darman felt that the Mexican, Ecuadorian and Philippine situations should be resolvable in reasonably short order. Brazil and Argentina will require special care and skill.

— Darman then mentioned that Treasury was looking hard at what to do with the smaller U.S. banks who had invested in the international debt markets in the past but who were intimidated by the big guys from staying in any longer. For political and fiscal reasons these banks needed encouragement to stay and Treasury was working up a plan to give them workable “packages” of options from which they might choose to keep them in the business. More on this as things develop.

211. Memorandum From the Deputy Secretary of State (Whitehead) to Secretary of State Shultz¹

Washington, March 12, 1987

SUBJECT

Daily Activities Report

[Omitted here is information unrelated to debt issues.]

4. *LDC Debt Meeting*. I got together all of our experts on the Latin debt problem this afternoon for a discussion of the issue prior to your meeting on Monday.² ARA has developed a new scheme and, although it has many problems, it is at least encouraging to know that the building is starting to think more creatively about how to manage the LDC debt problem.³ I would like to have State think about new approaches to the LDC debt issue from the standpoint of needing to build a new phase onto the Baker plan (without infringing on Treasury's lead role). At your meeting on Monday, you might encourage a continuation of the process we started today, i.e. moving the focus from ARA's specific plan to simply encouraging people to generate more new ideas.

John Whitehead⁴

¹ Source: Department of State, Executive Secretariat, S/S-I Records, The Executive Secretariat's Special Caption Documents, Lot 92D630: Not for the System—March 1987. Secret; Not for the System. Mueller initialed the memorandum and wrote "3/12."

² March 16. No record of the meeting has been found.

³ In a February 26 memorandum to Whitehead, Abrams outlined a proposal to strengthen the administration debt strategy by "providing partial relief through a World Bank facility to needy countries which are improving their economic management." Attached to the memorandum is an undated paper further outlining the proposal. (Department of State, Executive Secretariat, S/S-I Records, Files of the Deputy Secretary of State (D), Lot 95D334: Debt)

⁴ Whitehead initialed "JCW" above his typed signature.

212. Letter From Secretary of the Treasury Baker to Vice President Bush¹

Washington, March 19, 1987

Dear George:

This letter provides background material for you to use at your discretion in reply to the letter you received from Mr. Henry R. Breck, dated March 6, 1987.²

I do not agree with Mr. Breck's assertion that a series of defaults by major debtor countries is imminent. While it is true that Brazil suspended interest payments to commercial banks and Ecuador went into arrears in January on its own bank interest payments, I believe that both of these countries will soon normalize their relationship with bank creditors. In the case of Peru, we are dealing with a more difficult case, as President Garcia has chosen to make the debt issue a domestic political issue.

Looking at the debtor countries as a whole, it is hard to generalize about the impact the foreign debt is having on them. For example, with the exception of the Philippines, we find that the Asian debtors have carried their debt burden—which is no lighter than most troubled debtors—without jeopardizing their growth prospects. Thailand, Malaysia and Korea are just a few names that readily come to mind.

The problem countries have by and large been in Central and South America. It appears to me that the reason for the concentration in this Hemisphere can be found in economic mismanagement. Why did Mexico run into financial problems in 1982 after several years of high oil earnings? Why did Brazil run into problems this year, after several years of trade surplus? I can increase the list, but the answer would be the same. What got them into trouble was bad economic policies: overvalued exchange rates, large public sector deficits, excessive government intervention, and a generally anti-export, inward-looking approach to economic development.

At the outset of the international debt crisis in 1982, a high level Treasury task force looked into the threat to the international financial system that might stem from temporary suspension of payments, moratoria and outright defaults by the debtor nations. Contingency

¹ Source: Princeton University, Mudd Manuscript Library, James A. Baker III Papers, Box 81, Folder 19, Bush, George H.W., 1985–1987. No classification marking.

² The letter is attached but not printed. In a March 15 letter from Bush to Baker, Bush asked Baker to advise him on the March 6 letter he received from Henry Breck. Bush's letter is *ibid.*

operations and courses of action to address the debt problem were analyzed and evaluated.

It was decided at that time to pursue the international debt problem on a case by case, cooperative approach. We believed at that time, and still do, that most of the debtors intend to repay the banks. Our approach, which is flexible and is open to refinement, enables the creditors, both U.S. and foreign, and both official and private, to work with the debtor to devise a mutually acceptable debt workout arrangement. It also recognizes that each debtor faces a unique set of circumstances, including debt burden, ability to repay and different economic and political environments.

That strategy was strengthened and modified in October 1985 when I proposed the Program for Sustained Growth to the international financial community in Seoul, Korea during the annual meeting of the International Monetary Fund (IMF) and the World Bank. The Program for Sustained Growth focuses on the fundamental need for strong, sustainable growth and increased foreign exchange earnings in the debtor nation as a prerequisite to restoration of creditworthiness and ultimate resolution of the debt problem. Achieving stronger growth in the LDCs requires: (1) economic reforms designed to use resources more efficiently; (2) supportive financing by the international financial community; and (3) strong, open markets in the developed nations.

The IMF has established new economic adjustment linked standby programs with 8 of the 15 major debtor nations since October 1985. Meanwhile, the World Bank has negotiated new policy based loans with ten of them.

The international financial community has supported the Program for Sustained Growth from the outset. All major creditors recognize that we are in this problem together. While there has been reluctance recently on the part of some commercial banks, we believe that the banking community will do its part on a case by case basis during the coming months to overcome this problem. Treasury has encouraged the commercial banks to consider innovations if these will help ensure fair burden sharing.

Treasury also is working with the other developed nations to coordinate economic policies so as to provide strong and open markets for all trading nations. The LDCs will benefit from increased export earnings which in turn should enhance their growth and ability to repay debts.

At the same time, the banking regulators have been encouraging the commercial banks to increase their capital and reserves so as to be in a better position to cope with loan losses, both domestic and foreign. For example, the banks have been required to set aside special reserves for those countries that have had protracted difficulties in servicing

debt. As a result, U.S. banks have reduced their vulnerability to the international debt crisis by about 50 percent since 1982 through significant increases in capital and general loan loss reserves. Banks in other creditor nations have followed similar practices. Moreover, U.S. and U.K. banking regulators recently announced their intention to adopt a new capital adequacy policy that will place more weight on risk factors in determining what is the appropriate level of capital for an individual bank.

While some of the debtor nations face political and social strains, we do not believe that major debtors intend to repudiate their debt. They want to restore their creditworthiness and obtain adequate new commercial bank loans to finance future investment and growth. I believe that we should be working with these countries to restore their creditworthiness and access to voluntary lending from the markets—which is what we are trying to do with our debt strategy—and not looking for ways (like debt write-offs) which would prevent them from returning to the financial markets for years to come. There certainly will be individual problems and payments interruptions. These do not constitute a systemic crisis and our approach is flexible enough to deal with such interruptions on a case-by-case basis. In addition, there are adequate regulatory, accounting and supervisory mechanisms in place or available to deal with such eventualities.

I hope that this material will be useful to you as you prepare a reply to Mr. Breck.

Sincerely,

James A. Baker, III³

³ Baker signed “Jim” above his typed signature.

213. Memorandum From the Assistant Secretary of State for African Affairs (Crocker) to the Assistant Secretary of State for Economic and Business Affairs (McMinn)¹

Washington, March 20, 1987

SUBJECT

EB's Memo on Changing the Debt Strategy

Thank you for sending me a copy of EB's memo to Deputy Secretary Whitehead on changing the debt strategy.² However, I must tell you that I was troubled by some of its conclusions. To put the matter simply, while I agree with you on the fundamental importance of adjustment and reform within the debtor countries, I disagree with your suggestion that a revised debt strategy which incorporated arrangements for conditioned debt forgiveness would endanger these countries' reform efforts or their access to capital markets. In fact, it is my firm belief that an equitable and workable debt strategy will require just such conditioned debt relief measures.

A number of factors contribute to this belief. The first and most important is the fact that debts outstanding in many developing countries have now risen to the point where there is no hope of their final settlement without debt relief. In Africa alone, there is example after example of countries where debt ratios are such as to forestall any reasonable hope of their eventual settlement without debt relief. For instance, in Somalia, outstanding external debt is now 15 times export earnings. Its debt service on loans due multilateral institutions alone will exceed export earnings in 1987. Similarly, in Zambia, the debt due the IMF and the World Bank alone exceeds GDP; total debt now runs above 400 percent of GDP; and scheduled interest alone in 1987 will run in the range of 25 percent of GDP. In Madagascar, Zaire, Mozambique,

¹ Source: Department of State, Executive Secretariat, S/S-I Records, Files of the Deputy Secretary of State (D), Lot 95D334: Debt. Confidential. A stamped notation on the memorandum reads: "Apr 6 1987 J.C.W. has seen." On an adhesive note affixed at the top of the memorandum McMinn wrote: "JCW: You'll see from the attached that AF favors some form of debt forgiveness. While I don't agree with many of Chet's arguments, I think it is true that, when discussing debt strategies, the least developed countries of Africa and the middle income countries of Latin America are like mixing apples + oranges—each will require different solutions. DM."

² A copy of the memorandum from McMinn to Whitehead, drafted March 9, is attached but not printed. The memorandum summarized: "Debt alleviation, including 'debt-purchase' schemes, will weaken our leverage on reform, and will provide, over the long run, less financing for growth and development in the heavily indebted LDCs. The present strategy—perhaps with smoother application—is much more supportive of our foreign policy objectives."

Sudan and Liberia, the situation is very much the same. In each of these cases, the currently outstanding external debt has reached the point where there is no hope of adjusting economies to it. Rather, in these cases, the debt itself must be adjusted, if these countries are ever to be set on a course of stable, self-sustaining growth.

Secondly, I firmly believe that debt relief can be conditioned, tranced and delivered in support of effective reform programs. ARA's proposal for a debt reduction facility, for instance, outlines one possibility.³ The basic point is that debt relief is an item of value for debtor countries, and, as an item of value, can provide the basis for *quid pro quo* negotiations regarding requisite reform measures. In that, it is no different than any other type of donor or creditor support.

Thirdly, I am not at all convinced that debt relief negotiations would be any more subject to politicization than are aid program or rescheduling negotiations. If we can handle the political pressures inherent in those negotiations, and still devote our resources effectively to the support of reform efforts, then we should be able to handle debt relief negotiations as well.

Fourthly, I was troubled by the suggestion that the greatest beneficiaries of such debt relief measures would invariably be those that deserved it least. That statement ignores the full range of factors that have contributed to the current debt crisis. Policy errors within the debtor countries have played a role, but so have the rise in real interest rates, slow industrial country growth, the resurgence of protectionism within developed countries, and the collapse in commodity prices. No one "deserved" these developments, but some—particularly those previously in debt and heavily dependent on commodity exports—have had to pay an extraordinary price for them.⁴

In any case, conditioned debt relief is no more a reward than any other type of conditioned financing support. Like every other type of conditioned financing support, it is an investment in change. Where it differs is only in charging that investment to original creditors, whose original lending decisions helped create the current crisis.

Moreover, the suggestion that debt relief measures will inevitably reward the least deserving ignores the fact that such a moral hazard is easily identified and treated. Such a hazard only arises in cases where a country has the capacity to pay but does not. It does not arise when a country lacks the capacity to pay entirely. A simple review of basic indicators (e.g., reserve levels, debt servicing ratios, and import trends), however, will more than suffice to distinguish these two sets

³ See footnote 3, Document 211.

⁴ McMinn highlighted this paragraph in the right-hand margin.

of countries. The problem then is only to ensure that the first set of countries—those who cannot pay—receives a more generous portion of relief per unit of reform than do those whose original free choice was not to pay. The problem, in fact, is exactly analogous that faced (and solved) by the IMF every year in designing programs for countries with a poor performance record. In those cases, exactly this formula—less support, more reform—is applied to secure against the possibility of an abuse of the IMF's lending programs.

I was also concerned by the suggestion that any form of debt relief might undercut debtor countries' access to international capital markets. That statement ignores two basic facts—that debtor countries' access to capital markets has already been sharply cut and is not likely to be restored until steps are taken to address what observers are increasingly calling the debt overhang—that portion of a country's debt that is never likely to be serviced under any conceivable financial scenario. Until that is done, every potential new investor will inevitably shy from a situation where there are already too many claimants for too few dollars. Alone, of course, measures to address the debt overhang—presumably by debt relief—would not suffice to restore a country's access to capital markets. There would also have to be signs of vigorous financial reform within the debtor country. That, however is the very point of conditioned debt relief—to link a country's reform efforts to measures to address the debt overhang, providing in the process both the necessary and sufficient conditions for a resumption of normal capital flows. That—the fact that conditioned debt relief would help countries meet both the conditions for restored access to capital markets—is in fact the special advantage of such arrangements when compared with any other type of conditioned financial support.

In sum, I believe that some measure of conditioned debt relief will be absolutely critical to the successful implementation of our debt and growth strategy. Moreover, I am quite convinced that a workable, manageable and financeable arrangement for debt relief can quite easily [be] worked out, perhaps along the lines of the IMF-financed arrangement suggested by Congressman LaFalce.⁵ In any case, I sincerely hope that you will encourage your bureau and Treasury to review comprehensively all ideas in the context of the African debt group that has now started meeting. We will want to brief the Secretary on the progress of that work sometime soon.

⁵ Presumable reference to The International Debt Policy Act (H.R. 1423) introduced by Representative John LaFalce (D-NY) on March 7.

214. Letter From Secretary of the Treasury Baker to Representative Fernand St Germain¹

Washington, March 23, 1987

Dear Mr. Chairman:

I understand that the House Banking Committee plans to mark up legislation on March 25th that contains several provisions regarding international debt and monetary issues, for inclusion in H.R. 3, the House trade bill. On behalf of the Administration, I would like to express serious concerns about some of these provisions, which could have an adverse effect on: our efforts to improve growth in the debtor nations under the international debt strategy; cooperative efforts to improve international exchange market stability; and access for U.S. commercial banks and securities firms to foreign markets.

International Debt Facility

The proposed international debt facility in effect amounts to a clear bailout of commercial banks by the public sector, something which I have pledged to Congress that I would oppose. It could entail substantial Federal budget and tax revenue costs, as well as potential contingent liabilities for participating member governments in case of default on restructured or securitized debt by debtor nations. I do not believe Congress can adequately assess the U.S. national interest in establishing such a facility without a better understanding of these potential costs to the U.S. Government and U.S. taxpayers.

By raising expectations of debt forgiveness, the proposed legislation could also undermine efforts now underway within debtor countries to adopt reforms which are essential to stronger, sustained growth. Indeed, this approach would strengthen those within debtor nations who advocate unilateral efforts to limit debt service payments. Finally, by providing an easy “out” for commercial banks, and by increasing uncertainties about the value of outstanding loans to debtor nations, the proposed facility could also seriously impair debtors’ ability to obtain needed financing, including trade finance, in international markets. This would hamper, rather than help U.S. exports.

¹ Source: Reagan Library, Stephen Farrar Files, 1987–1988 International Economic Affairs Directorate Outline File, Reports and Plans 03/01/1987–06/30/1987; NLR-177-2-6-3-4. No classification marking.

For all of these reasons, the Administration cannot support the requirement to initiate negotiations on such a facility.²

[Omitted here is information relating to other economic issues.]

U.S. Membership in MIGA and Merger of IDB Capital

We are pleased that the draft bill authorizes United States membership and our capital subscription for the Multilateral Investment Guarantee Agency. MIGA will have a clear mandate to work toward an open investment climate in developing countries, thereby promoting the role of the private sector and long-term economic growth and development. To effect U.S. membership in the MIGA,³ it is important that the bill authorize the United States to subscribe and pay for shares in the amounts requested without restrictions on budgetary outlays that would prevent us from making full payment.

We also welcome authorization for U.S. agreement to the merger of the "interregional" and "ordinary" capital resources of the Inter-American Development Bank. Merger of the interregional and ordinary capital windows of the IDB will result in easier access to financial markets on more advantageous terms without cost to the United States.

I look forward to working together to address the concerns I have raised.

Sincerely,

James A. Baker, III⁴

² In a March 24 letter to St Germain, Volcker expressed similar concerns with the proposed legislation's international debt management provisions. (Reagan Library, Stephen Farrar Files, 1987–1988 International Economic Affairs Directorate Outline File, Reports and Plans 03/01/1987–06/30/1987; NLR–177–2–6–6–1)

³ For documentation on MIGA, see the Foreign Assistance; International Financial Institutions; Commodity Policy compilation of this volume.

⁴ Baker signed "Jim Baker" above his typed signature.

215. Memorandum of Conversation¹

Washington, March 31, 1987, 5 p.m.

PARTICIPANTS

France:

Prime Minister Chirac

Jean Raimond, Foreign Minister

Francois de l'Estang, Diplomatic Adviser

Emmanuel Rodocanachi, Economic Counselor

Emmanuel de Margerie, French Ambassador to the United States

M. Friedman, Chairman of Air France

Treasury:

Secretary Baker

Deputy Secretary Darman

Assistant Secretary Mulford

U.S. Ambassador to France Joe Rodgers

Laurie Berger, French Desk Officer, as notetaker

SUBJECT

The Louvre Agreement, U.S. trade and budget deficits, international debt

DISTRIBUTION

Deputy Secretary Darman, Assistant Secretary Mulford; Deputy Assistant Secretaries Berger, Conrow, Cornell, Dallara; Messrs. Barreda, DeFalco, Fauver, Newman, Ms. Chaves and Ms. Wileden, Exec Sec

[Omitted here is discussion relating to economic issues other than the international debt situation.]

PRIME MINISTER CHIRAC brought up the international debt situation. The situation is getting worse and worse. Commercial banks are getting out of poor countries, aid is not increasing, development hopes are vanishing, debt can't be repaid. For countries like France and the United States, with a shared history of concern for human rights, there is a moral obligation to do something. In a world where General Secretary Gorbachev is taking initiatives in this area, it is madness if we don't do anything. In ten years, most of these countries will be Marxist/terrorist strongholds. SECRETARY BAKER asked the Prime Minister what his solution would be.² PRIME MINISTER CHIRAC said that President Reagan must take the initiative, and outlined a four-part

¹ Source: Reagan Library, Executive Secretariat, NSC Trip File, Venice Summit 1987—Policy Papers; NLR-755-26-29-4-0. Confidential. Prepared by Laurinda Berger; approved by Mulford. The meeting took place in Chirac's suite at the Willard Hotel.

² An unknown hand placed an asterisk in the right-hand margin next to this sentence.

plan. First, more money should be given to the IMF and the World Bank and more debt should be rescheduled (the Paris Club should be involved). Further, the constraints imposed by these two institutions on countries should be lowered because they are not politically acceptable at present. Second, it is important to encourage commercial banks to return to these countries and to put resources there. It is difficult, but the effort must be made. The American president of the World Bank and the European managing director of the IMF should meet with leading bankers and convince them to return. Third, developed countries must increase aid to debtor countries, in spite of budgetary problems. Fourth, commodity agreements should be revived in order to halt disastrous price fluctuations in key commodity markets (coffee, cocoa).³ He also indicated that the French propose to approach the Pope with this issue so as to mobilize spiritual leaders.⁴

PRIME MINISTER CHIRAC went on to propose a type of commodity agreement under which industrialized country producers would stop making below-cost sales of surplus products (butter for the EC, grain for the United States) to countries such as the Soviet Union and Saudi Arabia. Instead, there could be an agreement to sell surpluses to such countries at prices no lower than the cost of production, using the revenues generated by the agreement to sell additional amounts from surpluses to poor countries at low prices or at zero prices. It wouldn't be free market policy, but it's obvious what will happen in these countries (especially in Africa) if we do not look beyond the short-term. This issue was raised with President Reagan and with Secretary Shultz.⁵

SECRETARY BAKER responded that he didn't disagree with the statement of the problem, but that there is a gap between the conception and implementation of the solution. The Administration does disagree with arrangements to cartelize world markets. Even if this objection could be overcome, such an agreement might not work. OPEC didn't work in the long run, and that was a case of only a few producers and one commodity. In the case of agricultural products, many countries could become producers and undercut prices. PRIME MINISTER CHIRAC pointed out that this proposal was just one idea.

SECRETARY BAKER acknowledged that the debt problem is one of the biggest facing world leaders today. The trick is finding a solution that is not a Marshall Plan, the ideal solution. The resources simply aren't there for a Marshall Plan. The toughest job the Secretary of the

³ An unknown hand underlined "commodity agreements should be revived" and placed an exclamation point in the right-hand margin next to this sentence.

⁴ An unknown hand underlined "approach the Pope."

⁵ Chirac met with Reagan and Shultz in the morning.

Treasury has is going to the Hill to get money for international institutions. Negotiations on IDA VIII have just been concluded, with the United States to contribute 25 percent, but we still need Congressional approval of supplemental funding for the MDB's.⁶ It's hard because there is no domestic political constituency in favor of giving money to these institutions. The Administration also doesn't agree with the idea of lowering IMF conditionality.

PRIME MINISTER CHIRAC conceded that there are difficulties, that there are not resources to fund a Marshall Plan, but urged that there be some movement. A proposal to put this issue on the agenda for Venice had been presented to Secretary Shultz earlier in the day.⁷ Shultz didn't say no; he instead raised the issue of terrorism in connection with the Venice agenda. In exchange, PRIME MINISTER CHIRAC said, he wants the debt issue on the Venice agenda, at least to give hope.⁸ SECRETARY BAKER asked whether the French proposals were directed to all debtor countries, noting that debtor countries such as Mexico, Brazil and Argentina have greater resources than some other LDCs. PRIME MINISTER CHIRAC said that while the problems of Argentina, Mexico and Brazil are important, he was referring to the UN's list of 25 or so poorest countries (in terms of income per capita), particularly in Africa and Asia.

A brief general discussion of the definition and identity of the poorest countries ensued before the meeting ended.

⁶ See Document 352.

⁷ A reference to the Venice Economic Summit, which took place June 8–10.

⁸ An unknown hand bracketed "A proposal to put this issue on the agenda for Venice had been presented to Secretary Shultz earlier in the day. Shultz didn't say no; he instead raised the issue of terrorism in connection with the Venice agenda. In exchange, PRIME MINISTER CHIRAC said, he wants the debt issue on the Venice" and placed an asterisk in the right-hand margin to the right of the bracketed sentences. An unknown hand underlined "In exchange" and "wants the debt issue on the Venice agenda, at least to."

216. Information Memorandum From the Director of the Policy Planning Staff (Solomon) to Secretary of State Shultz¹

Washington, April 3, 1987

SUBJECT

Approach to the Debt Problem

Attached are talking points on the debt situation plus the framework for an international institution that would purchase debt from commercial banks wishing to get rid of paper.² As elaborated, this proposal would be similar but somewhat broader than ARA's proposal which we discussed with you on March 16,³ and with HR 1423—introduced recently by Representative John LaFalce (D-NY).⁴

We discussed the talking points with John Whitehead on April 2. While agreeing with the analysis, John does not favor an international institution to trade debt. He has three basic objections:

— The proposal would give some incentive to countries with a serious debt problem to follow bad economic policies in order to increase the discount on outstanding debt.

— The debt problem is so great that it would be impossible to raise enough money to cover outstanding debt. As an example, he notes that if the U.S. were able to get Congressional approval for a \$1 billion capital share, the most we could probably hope to raise from other governments would be on the order of \$3 billion. If we were then able to borrow \$4 billion from private capital markets and use the resulting \$8 billion to purchase outstanding loans at 50¢ on the dollar, we would only be able to acquire \$16 billion in debt—a drop in the bucket.

— This scheme would be seen on the Hill as a bank bailout, which would be politically impossible to get through the Congress.

John agrees that something has to be done to add to the Baker Plan, but whatever we do should still center on the case-by-case approach. He stresses the importance of eliminating capital outflows from the

¹ Source: Reagan Library, George Shultz Papers, Secretary's Meetings with the President (04/01/1987); NLR-775-19-22-1-6. Confidential. Drafted by Kauzlarich (S/P). A stamped notation at the top of the memorandum reads: "Super Sensitive." Quinn initialed the memorandum and wrote "4/3." The memorandum was included in a briefing package for Shultz for an April 3 meeting with Reagan. According to the President's Daily Diary, Shultz, Baker, and Carlucci met with Reagan on April 3 from 1:30 to 2:01 p.m. (Reagan Library)

² The talking points are attached but not printed.

³ See Document 211 and footnote 2 thereto.

⁴ See footnote 5, Document 213.

LDCs and finding a way to target additional lending to those countries which are able to repatriate capital—say a dollar of new lending for each dollar of capital inflow. He sees a bright future for debt-equity swaps, and believes that direct investment rather than debt offers the best hope for restoring growth in debtor countries.

John, and we, agree that a new banking institution (or any other *single* proposal) will not in itself solve the debt problem. Certainly the idea is not to establish an institution that will purchase all outstanding debt. Indeed, one possibility would be to exclude Mexico, Brazil, Venezuela and Argentina (who account for about \$300 billion or over one-third of total LDC debt) from this approach because they are so large and resource-rich that the existing pattern of creditor-debtor relations should be followed. (Excluding these countries, however, could complicate the task of raising capital for the facility.) Because most of the debt is government-to-government, we would exclude the poorest (mainly African) countries from the facility as well. Essentially, therefore, the institution would exist for a middle tier of countries such as Ecuador, Colombia, Philippines, Ivory Coast, Chile and Morocco.

Further, we would see the institution as one element in a policy package that might also include:

- measures to encourage capital reflows;
- reforms in U.S. banking regulations to eliminate problems associated with alternative bank approaches to debt;
- debt-equity swaps; and
- a strengthened IBRD cofinancing effort aimed at encouraging direct investment.

We suspect that there are others as well. EB, ARA and S/P are examining alternatives and are working on an evaluation for you.

217. Memorandum of Conversation¹

Washington, April 9, 1987, 7:45–8:15 a.m.

PARTICIPANTS

Netherlands:

Finance Minister Ruding
C. Mass, Treasurer General
G. A. Posthumus, IMF Executive Director
Mr. Keller, Assistant to the Minister

Treasury:

Secretary Baker
Senior Deputy Assistant Secretary Dallara
Deputy Assistant Secretary Berger
Mark Sobel, Notetaker

SUBJECT

Interim Committee

DISTRIBUTION

Secretary Baker, Exec Sec, Assistant Secretary Mulford, Messrs. Dallara, Berger, Conrow, Fauver, Newman, Lister, DeFalco, Hennesey, Vukmanic, Ms. Chaves

Following introductory greetings, FINANCE MINISTER RUDING asked the Secretary whether he expected any new initiatives at the upcoming Interim Committee meetings.²

The SECRETARY observed that the G–24, and some members of Congress, often call for “global” or “overnight” solutions to the debt situation. SECRETARY BAKER felt it was imperative that the Interim Committee communicate reaffirm its support for the debt strategy and avoid the impression that “overnight” solutions were feasible.³ Important progress had been made under the strengthened debt strategy, though problems existed in some areas. The debt crisis, however, could not be legislated away. All of the proposals to address debt problems through new financing arrangements would cost substantial amounts of taxpayer

¹ Source: Washington National Records Center, RG 56, Executive Secretariat, Congressional Files, 1987, 56–90–29, Box 45, [no folder title]. Confidential. Prepared by Mark Sobel; approved by Thomas Berger. The meeting took place in Ruding’s suite at the IMF.

² In an April 16 memorandum to Shultz, McMinn reported on the World Bank/IMF spring Development Committee meeting, which took place on April 10. The Committee endorsed the Baker Plan approach. (Department of State, Executive Secretariat, S/S Files, 1987 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D155: Through Memoranda, April 1987)

³ For the text of the Press Communiqué of the Interim Committee’s 28th meeting, April 9–10, see *International Monetary Fund: Annual Report 1987*, pp. 113–116.

money. MINISTER RUDING and SECRETARY BAKER agreed that recent G–24 calls for the establishment of two new committees to review debt and monetary questions were not helpful in that the proposed new committees would only duplicate work in existing fora.

[Omitted here is discussion of Brazilian debt and other economic issues.]

218. Memorandum From the Under Secretary of State for Economic Affairs (Wallis) to Secretary of State Shultz¹

Washington, May 8, 1987

SUBJECT

Debt Strategy Proposals

It is unfortunate that ARA and EB could not provide you with a unified memorandum on this subject as requested. I am afraid that the resulting hodgepodge, while containing valuable elements, still amounts to something less than a coherent analysis of weaknesses in the present strategy and ways in which different proposals would address them.²

EB and ARA agree, and so do I, that our present, basically sound strategy has achieved important progress, but that there is still a hard road ahead for debtor countries and their creditors. (Were quick and easy solutions to be expected?) All agree that further economic policy reforms in the debtor countries are the key to a sustainable long-run solution.

¹ Source: Department of State, Executive Secretariat, S/S Files, 1987 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D155: Memoranda for the Secretary April/May/June 1987. Confidential. Quinn initialed the memorandum and wrote “5/11.”

² A copy of McMinn and Abrams’ undated memorandum to Shultz is in Department of State, Executive Secretariat, S/S–I Records, Files of the Deputy Secretary of State (D), Lot 95D334: Debt. In it, Abrams and McMinn explained that Shultz had requested “a joint examination” from EB and ARA of various possibilities for strengthening the current debt strategy, but that “our two Bureaus have struggled for the past two months on this and still cannot come up with a common view; our approaches differ fundamentally.” The memorandum laid out the two contrasting views. In a May 7 memorandum to Shultz, Abramowitz provided INR’s assessment of how to improve the current debt strategy, writing: “The LDC debt problem is getting worse instead of better in many important respects, raising serious questions concerning the effectiveness of our current debt strategy.” (Reagan Library, George Shultz Papers, Official Memoranda (05/07/1987); NLR–775–58A–40–3–0)

EB and ARA also describe current strains on the debt strategy: difficult and contentious debtor-creditor negotiations and political pressures in debtor countries. ARA fears that these pressures may lead to political upheavals unfavorable to the further reforms needed in these countries, as well as damaging to our foreign policy interests; EB believes that the frustration level is likely to recede, a conclusion buttressed by the table (Tab 4) showing substantially reduced net resource outflows this year and next for the fifteen heavily-indebted countries.³

Neither Bureau clearly identifies major weaknesses in the Baker strategy, the correction of which could avert these strains, but they agree on the desirability of encouraging larger net financial flows to the debtors and improving incentives to economic policy reform. The need to strengthen the current strategy is undisputed, but it seems to me that no case emerges here that it needs to be fundamentally altered.

The Bureaus agree on a number of proposals as promising and potentially supportive of the existing strategy. However, they part company over ARA's proposal for a government-financed "buy-back" facility (buy-out is more descriptive) which would forgive debt in exchange for policy reforms.

I believe that any plan which seeks reduction of debt by government fiat (Bradley) or at taxpayer expense (ARA) departs radically from our existing strategy. The ARA plan would introduce OECD governments into debt management in a dramatically new way, greatly increasing the politicization of the process. Acceptance of the principle of government-financed debt forgiveness would inevitably encourage future demands for more and more, producing inter-government friction.

The plan would involve a major shift of burdens from the parties that originally contracted the loans—the banks and the LDC agencies—to the taxpayers. (Although banks would need to acknowledge some losses on their books, sales to the facility would be voluntary, and therefore presumably beneficial to them as compared to the present situation—the inevitable charge of bank bail-out would be partly justified.) Essentially the facility would be speculating with taxpayer money that the purchased loans will be serviced and, during the life of the facility, rise to full face value from their purchase price, thus covering the cost of forgiveness. Costs to taxpayers would be highly uncertain but potentially large.

ARA believes these costs are outweighed by potential benefits to the debt strategy. The plan would, it is true, provide some reduction of debt-service payments and thus some respite for the debtor countries, but it would bring no lasting solution to the debt problem unless, as claimed, it were to be an effective spur to economic policy reform.

³ Tab 4 is not attached.

Support of policy reform in the debtor countries is of course needed (and provided within the existing strategy). But the idea that the offer of this kind of debt relief would produce substantial additional reform is at best naive. The domestic political barriers to reform would still be present—opponents of reform would still have much to lose from the loss of their protected positions. Effective pressure for reform must come from within; outside pressure will produce limited results. Financial support for reform will be most effective when it has a positive relationship to the reforms needed. For example, debt-equity swaps provide both debt reduction and incentives to improve the investment climate.

In my view, then, USG attention should be focused on ways to facilitate the more flexible approaches by banks called for in Baker's "menu approach" and greater engagement by capital markets in financing LDC private-sector investment. A good many of the ideas briefly described in the ARA/EB paper go in this direction—for example, the IFC debt conversion program and interest payment alternatives. We should direct efforts to be focused on developing such proposals.

Allen Wallis⁴

⁴ Wallis initialed "AW" above his typed signature.

219. Memorandum From Secretary of State Shultz and Secretary of the Treasury Baker to President Reagan¹

Washington, May 26, 1987

SUBJECT

Venice Economic Summit—Scope Paper

I. YOUR OBJECTIVES

1. *To obtain support for U.S. initiatives and leadership in addressing major international economic issues, including specifically:*

— strengthening prospects for increased growth, reduced trade imbalances, and greater exchange rate stability, through closer coordination of economic policies;

¹ Source: Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: The Participation of President Reagan in the Venice Economic Summit, June 8–11, 1987. Confidential.

- taking a decisive step forward on agricultural policy reform;
- the strengthened debt strategy, including a menu approach to new financing options by banks, as the best means for managing international debt problems, with more generous “Paris Club” debt rescheduling terms for the poorest countries;
- fighting protectionism and moving forward on the new round of multilateral trade negotiations.

2. *To strengthen cooperation among Summit countries in meeting challenges to security of our citizens and of the world*, with a particular focus on East-West relations, regional challenges and combatting terrorism.

[Omitted here are a description of the setting for the Venice Summit and information on economic issues other than debt.]

D. Problems of Debt and Development

The international community has made considerable progress since adopting the U.S. initiative on debt outlined by Secretary Baker in October, 1985. Many debtor countries are now making market-oriented policy changes to promote growth, and average growth in the major debtor countries has strengthened, with reduced inflation and return of flight capital in some countries. The IMF and the World Bank have provided important assistance to these reform efforts, and additional official support has come through Paris Club debt rescheduling.² Commercial bank financing will be substantial in 1987, with welcome signs of greater flexibility and innovation in bank financing arrangements appearing in recent months. At the latest IMF/World Bank meetings this spring, the basic Baker approach was reaffirmed, and will be at the Summit.³

Nevertheless, additional efforts are needed to ensure sustained economic growth. Several commercial bank negotiations have been difficult and prolonged and political pressures for debt relief are increasing. Our efforts to encourage the commercial banks to develop

² In an April 28 memorandum to Wallis, Lamb reported on a “special, technical-level Paris Club meeting” on April 24 to “discuss the possibility of according enhanced debt relief in the context of official debt reschedulings for the poorest and most indebted countries.” Lamb noted that “an informal consensus emerged to provide longer repayment terms for the poorest and most indebted countries undertaking major reform programs.” Lamb attached to the memorandum the Paris Club Chairman’s summary of the proceedings of the meeting. (Department of State, Executive Secretariat, S/S Files, 1987 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D155: Briefing/Information Memoranda April 1987)

³ See footnote 2, Document 217. In his report on the third Venice Summit preparatory meeting, April 30–May 2 in Porto Cervo, Wallis communicated that the Sherpas endorsed “as the only acceptable approach” to the debt problem “the growth-oriented strategy launched by the U.S. in October 1985.” (Department of State, Executive Secretariat, S/S Files, 1987 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D155: Memoranda for the Secretary April/May/June 1987)

a “menu” of alternative financing options is designed to facilitate the completion of commercial bank financial packages and ensure continued support for debtor reforms. We hope the Summit will endorse these efforts.

Summit participants will probably highlight the severe economic plight of a number of the poorest countries, largely in Sub-Saharan Africa. A good many of these countries have recognized the imperative of economic reform, and have taken courageous corrective measures. The Summit leaders can endorse several current initiatives to support these efforts, including better Paris Club terms, use of financing from the higher-than-expected IDA replenishment, better coordinated with lending from bilateral donors and the IMF Structural Adjustment Facility. We will have to remain alert to unsound or unrealistic proposals from the French or others.

[Omitted here is information on topics not focused on debt.]

220. Letter From the Under Secretary of State for Economic and Agricultural Affairs (Wallis) to the President and Chairman of the Export-Import Bank of the United States (Bohn)¹

Washington, June 4, 1987

Dear John:

Thank you for your letter of May 29.² I am very intrigued by your creative suggestion to use Eximbank’s guarantee authority more broadly in the debt strategy.

I agree with your thesis that Eximbank and its foreign counterparts are not being used to their fullest potential in our international debt strategy. I believe the export credit agencies do have a potentially important role to play in this arena, while still fulfilling their essential

¹ Source: Department of State, Executive Secretariat, S/S Files, 1987 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D155: Action Memoranda, June 1987. No classification marking. A handwritten June 4 covering note by Wallis reads: “Whitehead should hear about this—he’ll be interested. Send him copies of Bohn’s letter & mine. AW.”

² Bohn’s letter is attached but not printed. Bohn proposed that the Eximbank could play a wider role in dealing with the LDC debt issue. Specifically, he raised that the Bank had a “guarantee authority of about \$4 billion which we are not likely to use this year,” adding that the Bank “could use this authority to guarantee the borrowings by selected LDC-debt problem countries on a fixed rate, or floating rate, long-term (25–30 years) basis.”

mandates. I am heartened that, under your leadership, Eximbank is becoming a more dynamic player in difficult markets, while still managing to remain competitive. Another area where I am convinced we could perform better—and generate additional procurement for U.S. suppliers while supporting LDC adjustment efforts—is in cofinancing with the World Bank. I would welcome your views on how Eximbank could play a more active role in this regard.

Returning to your specific proposal, as you rightly point out it would have major implications for the OECD Arrangement;³ we would need to prepare the ground very carefully with other Participants to avoid undermining the Arrangement. I hope that obstacles in this regard can be worked out successfully.

We will also need to consider the budget impact of your proposal. The President's credit reform proposal currently before the Congress would require appropriation of estimated subsidy elements in any guarantee program. Of course, gains from longer-term Eximbank lending may compensate for the higher budgetary costs.

Again, thank you for your thought-provoking letter. I look forward to resuming this dialogue when I return from the Summit.⁴ We think your idea could be a positive contribution, but there remain questions to be examined.

Sincerely,

Allen Wallis⁵

³ A reference to the OECD Export Credit Arrangement.

⁴ A reference to the Venice Economic Summit, which took place June 8–10.

⁵ Wallis signed "Allen" above his typed signature.

221. Minutes of a Meeting¹

Venice, June 9, 1987, 3:18–5:25 p.m.

1987 ECONOMIC SUMMIT—AFTERNOON PLENARY SESSION

PARTICIPANTS

President Ronald Reagan
Secretary George Shultz
Secretary James Baker

Prime Minister Amintore Fanfani
Minister of Foreign Affairs Giulio Andreotti
Minister of Treasury & Budget Giovanni Goria

President Francois Mitterrand
Prime Minister Chirac
Minister of Finance Edouard Balladur

Chancellor Helmut Kohl
Minister of Foreign Affairs Hans-Dietrich Genscher
Minister of Finance Gerhard Stoltenberg
Minister of Economy Martin Bangemann

Prime Minister Yashuhiro Nakasone
Minister of Foreign Affairs Tadashi Kuranari
Minister of Finance Kiichi Miyazawa
Minister of Industry & Foreign Trade Hagime Tamura

Prime Minister Brian Mulroney
Secretary of State for External Affairs Joseph Clark
Minister of Finance Michael Wilson

President of European Council Jacques Delors
Economic Communities Representative Martens
Minister of Foreign Affairs of Belgium Leo Tindemans
Member of the Commission of the European Communities Willy de Clercq

Sir Geoffrey Howe, Secretary of State for Foreign & Commonwealth Affairs
Chancellor of the Exchequer Nigel Lawson

FANFANI calls on Goria to report for Finance Ministers.

GORIA: Recalls Tokyo establishment of G-7 and duties assigned have made significant progress. Economies have grown, but slower.

¹ Source: Reagan Library, Stephen Danzansky Files, Summit File, The President's Trip to the Tokyo Economic Summit 05/03/1986–05/07/1986; NLR-733–15–7–3–1. Confidential. No drafting information appears on the minutes. The meeting was the afternoon plenary session of the Summit. Minutes of the opening meeting of the Venice Summit, which took place June 9 from 9:57 a.m. to 12:08 p.m. are *ibid*.

Have slowed exchange rates (sic). He is reading too fast to cover but we should be able to get text. Commitments at Plaza, Louvre, Washington. Exchange rates within ranges roughly compatible—usual formula.

Using indicators in multilateral surveillance. List a few—rapidly. We'll have to define objective, etc., etc., etc. Might use ranges as goals. Need pragmatism and flexibility. These are main criteria for selecting indicators. Indicators may change from time to time. No automaticity. Can contribute to greater stability.

3:29 PM

GORIA: (Continued) Must give markets confidence in stability. Report should be absolutely confidential—could affect markets. Yesterday and today discussed international trade, especially agriculture will not go beyond OECD Ministerial. Might repeat precisely what was said at OECD. Committed to presenting material for communique. Unanimous agreement reached. Have a paragraph to substitute for paragraph 9 in present draft. International debts—discussion only started regarding poorest of poor. Prepared to reschedule, lower interest rates, and give grace periods. IMF directors initiative much appreciated. Everyone showed a will to reach an agreement next fall.

3:37 PM

No discussion of mid-level debtors. Fanfani; Sherpas (?) will polish statement tonight for review tomorrow.

3:39 PM

KOHL: Public expects two messages, East-West relations, and third world debt. Must go further than previous Summits Communique; must say much more than this report does. Find a way to get a statement for tomorrow that goes much further.

FANFANI: Thinks all agree we must say something decisive and precise. Question has important political aspects. Should also discuss agriculture.

MULRONEY: In Jan-Feb was in Zambia and Senegal, talked to Kaunda yesterday. 650–350 changes in per capita GNP over 4-1/2 years. (Canadian dollars)

External debt grew 67 percent. Per capita investment \$47.

Followed IMF but had food riots.

MULRONEY (Continued) and stopped IMF. Aid should be grants not aid; ODA loans should be converted to grants. 60 percent of foreign earnings used to service debts. Endorse Camdessus proposal, Japan to put half the money to triple structural adjustment facility.²

² A reference to the IMF Managing Director's proposal to significantly increase the resources of the Structural Adjustment Facility (SAF) over the course of 3 years, beginning January 1, 1988.

3:49 PM

BAKER: Debt problem different for poorest of poor. Approach must be different for mid-income countries problem is growth. Four principles of (Baker Plan) still valid. Debt of least developed countries mostly official debt. US no longer in position to take 60 percent of exports from debtor countries. Thinks there will be new commercial bad flow. But banks after reserving, in position to be firmer.

LAWSON: Backs what Baker said. Need to work toward more market oriented solution. Develop secondary markets. But for LLDC's burden of debt is insupportable. Grants must be conditioned on policy reforms. What they need is not more lending and rescheduling, but debt relief. (Gap)

REAGAN: Have we been neglecting teaching how to farm, how to set private businesses? Using volunteers (Peace Corps).

4:00 PM

CHIRAC: Was for IMF in September take action promptly.³ Any proposal from Camdessus will be well thought out—we should endorse.

DECLERQ: Are all initiatives good but should not be scattered—should be concerted.

HOWE: Reagan point should not be passed over unsupported. Good results from human aid.

CLARK: Also supports volunteers.

HOWE: Not just volunteers.

LAWSON (British): Camdessus proposal good but not enough—must deal with debt to individual countries and international organizations.

FANFANI: Summarizes—emphasizing urgency.

NAKASONE: Agrees with Fanfani summary and other remarks. Discuss not just in terms of feelings, make scientific (sic) studies. Various roles—banks, MDB's, volunteers. Japan will grant \$500 million to sub-South African countries. But what is most efficient means of concerting action.

NAKASONE: (Continued) Take supplement IMF as target. Have experts meet, have clear strategy and long-term perspective.

KOHL: Very important subject—Latin America and Africa. FRG has written off \$4.2 billion DM. This Summit must go out with clear message. Decide direction now, don't wait until September. Must

³ Most likely a reference to the annual meeting of the Board of Governors of the World Bank Group and the International Monetary Fund, which took place from September 29 to October 1.

subject ethical quality. It is not the children or the starving who are to blame. Case by case, no across the board. Solutions: There are international organizations to devise methods. Political considerations important. Finance Ministers should draw up a text we can adopt tomorrow. We must do something.

MITTERRAND: Lack practical way to deal with debt. Must give Finance Ministers more specific instructions. Our intentions are varied. Must go further this evening.

4:22 PM

MITTERRAND: (Continued) Are we ready or are we not to put up funds immediately? Let's spend 30 minutes, 15 minutes maybe 5 specifying what Finance Ministers should do.

SHULTZ: Any statement on Sub-Saharan Africa must have important dimension beyond funds. Refer to 85 famine. Problem of maldistribution of food still a problem. Africa a continent of plagues. Locusts last year. AIDS of stunning proportions, affect those who agree to manage a plan that centers only on debt (does not dismiss debt problem). Can be seriously incomplete. A lot more to problem than what is in jurisdiction of Finance Ministers.

ANDREOTTI: Talks about financial problems. Write-off would destroy their credits. Has analyzed whether debts for weapons. Weapons bought with cash. Some least developed countries have bled themselves dry buying weapons for cash. Need monetary and surveillance.

4:34 PM

FANFANI: Calls on Goria—are Finance Ministers prepared to prepare a paper tonight?

GORIA: Two issues: (1) International cooperation (2) The indebtedness situation. Need to decide on certain initiatives Camdessus proposal good. Paris Club—reached, lower interest, grace. He will assume responsibility to convene Finance Ministers for dinner and prepare a statement to submit to Sherpas before too late.

[Omitted here is discussion of the OECD and other issues.]

5:25 PM Adjourn.

222. Memorandum From Stephen Danzansky and Herman Cohen of the National Security Council Staff to the President's Assistant for National Security Affairs (Carlucci)¹

Washington, June 19, 1987

SUBJECT

Venice Follow-up on African Debt

The Venice Summit communique includes an agreement that Summit countries should seek ways to help relieve the debt problems of the poorest countries, primarily in Sub-Saharan Africa.² For countries undertaking adjustment efforts, Summit leaders agreed that their countries should:

- Consider lowering interest rates on existing debt, and
- Extend grace and repayment periods, especially in the Paris Club.

The communique also welcomes “the various proposals made in this area by some of us and also the proposal by the Managing Director of the IMF for a significant increase in the resources of the Structural Adjustment Facility over the three years from January 1, 1988.³ We urge a conclusion on discussions on these proposals within this year.”

It is important that we press ahead for early and significant progress on African debt. There has been some slippage among good-performing countries in the last few weeks. Zambia has abandoned efforts to reach agreement with the IMF and World Bank, and has turned away from market-oriented policies. The Ivory Coast, a free-market model for Africa, which has not been an aid recipient, has announced that it will no longer meet its debt obligations. In spite of following the right policies, both countries were facing a net resource outflow after the bills were paid. There are several other countries which will soon be in the

¹ Source: Reagan Library, Stephen Farrar Files, Chronological File, Farrar Chron June 1987; NLR-177-6-25-5-7. No classification marking. Sent for action. Drafted by Farrar and Rosenberg. Farrar initialed for Danzansky. A stamped notation on the memorandum reads: “signed.”

² For the text of the Economic Declaration, issued June 10 at the Venice Economic Summit, see Department of State *Bulletin*, August 1987, pp. 11–14. In addition to recognizing that the “problems of some of the poorest countries, primarily in Sub-Saharan Africa, are uniquely difficult and need special treatment,” the Declaration affirmed its support of the “growth-oriented case-by-case strategy” of the Baker plan for “major middle-income debtors.”

³ For discussion at the Venice Economic Summit of increasing the resources of the Structural Adjustment Facility, see Document 221 and footnote 2 thereto.

same position. If the good performers abandon the fight, what can we expect of the others?

Paris Club reforms agreed to at Venice are well underway and will provide some limited relief. The main issue for follow-up is the expansion of the IMF's Structural Adjustment Facility (SAF), which provides long-term concessional loans to poor countries that undertake economic reforms. About \$3–3.5 billion will be available through the SAF between now and 1991. Michael Camdessus wants to triple the SAF, primarily because the IMF has about \$8 billion in repayments coming due from Sub-Saharan Africa over that period. The repayments are a result of medium-term loans made by the IMF on hard terms during the late 1970's and the early 1980's—mostly at the insistence of the U.S. and other member countries.

There are three main ways that the SAF could be enlarged: 1) by pro rata subscriptions from IMF member countries, 2) by voluntary contributions, and 3) by sale of IMF-held gold. For all practical purposes, the U.S. cannot support Option 1 as long as so many existing international obligations (such as IDA replenishment) are unmet. Therefore, we must decide between telling Camdessus to pass the hat among surplus countries (Japan, Germany, Taiwan, Korea, etc.) and selling some IMF gold—or possibly a combination of these two approaches. Both options have drawbacks. The target of concluding discussions on these proposals “within this year” means that a U.S. position will be needed at the annual meetings of the IMF and World Bank during the last week of September. Allowing for summer vacation slippage, it would be well to press for interagency consideration now.

Bob Dean concurs.

RECOMMENDATION:

That you sign the attached memorandum to Secretaries Shultz and Baker and AID Administrator McPherson (Tab I)⁴ recommending that the interagency group on African debt (created at the February international economic policy breakfast)⁵ be asked to provide an options paper by the end of July.⁶

⁴ The signed memorandum is attached but not printed.

⁵ See Document 210.

⁶ Carlucci initialed the “Approve” option.

223. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Mulford) to Secretary of the Treasury Baker¹

Washington, June 19, 1987

SUBJECT

A Strengthened Debt Strategy

This memo proposes a plan for strengthening the debt strategy which would allow you to take a significant initiative in the near future with a realistic prospect of reaching agreement on these changes by the time of the October IMF/World Bank meetings.²

Principal Considerations

We should recognize that the recent reserve actions by the commercial banks will further reduce their willingness to lend for strictly balance of payments purposes.³ The U.S. banks believe that they are in a stronger position to negotiate both with the debtor and the creditor governments. At the same time, foreign banks fear that large numbers of U.S. banks will withdraw altogether, thereby seriously undermining the credibility of U.S. banks as a group to carry their fair share of the overall financing burden.

The commercial banks' primary objectives appear to be:

- To achieve greater official involvement. This means not only more official flows but also arrangements which will allow the banks to distinguish between new money commitments and old loans (epitomized by their seeking World Bank preferred creditor status and direct World Bank guarantees).

- To make a strong input at an earlier stage into the negotiations for reforms and conditionality which apply to debtor nations.

- To develop options for participation that move them towards "specific purpose lending" with a private sector orientation, and away from general lending to finance budget and balance of payments

¹ Source: Washington National Records Center, RG 56, Executive Secretariat, Congressional Files, 1987, 56–90–29, Box 44, [no folder title]. Confidential. Mulford's stamped initials appear next to his name in the "From" line.

² See footnote 3, Document 221.

³ In a June 4 memorandum to Shultz, McCall reported on Citicorp Bank's and Chase Bank's decisions "to boost their loan-loss reserves." McCall analyzed the implications of these decisions for the administration debt strategy, commenting that "Citicorp's announcement has been widely billed as a death blow to the Baker Plan. More likely, however, it will lead to more variety in the ways that commercial banks take part. The other key features—LDC reform and MDB adjustment lending—remain as valid as ever." (Department of State, Executive Secretariat, S/P Records, Memoranda/Correspondence From the Director of the Policy Planning Staff to the Secretary and Other Seventh Floor Principals, Lot 89D149: S/P Chron–June 1987)

deficits. In practice, unless the banks understand that they will have to make up any shortfall in "specific purpose lending" with new balance of payments loans, this is likely to result in less overall lending by the banks, who in future will justify their withdrawal by claiming that opportunities for "specific purpose lending" failed to develop.

At the moment, the banks have not clarified their thinking as to how to achieve the above objectives. The menu approach clearly has appeal. However, it is not yet clear to what extent the banks will seek to enhance their menus with official inducements.

As World Bank lending grows, supplemented in due course by the GCI, and further concessions are made in the Paris Club, commercial banks will seek to allow official financing flows to replace their declining share of new financing. Unless we develop a strategy to prevent this, they are likely to succeed in this effort. We need, therefore, to determine how we wish to manage this process in order to strengthen bank participation in the debt strategy, or at least to avoid a decline in bank resources that increases even further the pressure on debtor and creditor governments.

Our strategy should be to reaffirm the basic principles of our debt strategy, particularly the need for growth-oriented reforms by debtor countries. To strengthen the strategy, we have to reassert our leadership in the areas over which we have a substantial degree of control, such as the IMF, the World Bank, and certain regulatory issues. However, we should also be willing to play a more visible role in other areas of the debt strategy, such as with the banks in improving the new money negotiating process and in developing the "menu" approach.

Our most immediately pressing dilemma is how to avoid a clear and obvious bailout by the public sector, while recognizing there may be a need for official inducements to maintain bank participation. There are essentially two approaches we can pursue, which are not necessarily mutually exclusive:

(1) *More official financing through the IMF and World Bank, with no fundamental changes in present policies.* This would maintain the present character of these institutions, but would not induce sufficient bank participation. As a result, the IFIs would end up picking up the shortfall in commercial bank lending in order to close financing gaps.

(2) *Changes in IMF and World Bank policies, including in particular, greater use of World Bank concessions to leverage commercial bank financing.* By selective use of preferred creditor status and/or guarantees of commercial bank loans, we should be able to induce broader and larger bank participation (identifiable additionality), thereby minimizing commercial bank withdrawal from LDC lending. This approach would reduce the potential magnitude of future official lending to fill financing gaps, but would open the door to use of techniques we have not so far supported on a general basis in the World Bank. (See Tab B

for summary of pros and cons relating to preferred creditor status or guarantees.)⁴

Suggested Approach

Our aim should be to set and manage an agenda for strengthening the debt strategy, but without altering its fundamental principles. I think the best way to proceed is the following:

(1) We should first seek the views of the chief policy officers of major U.S. banks to determine what is essential to maintain their participation. To do this, however, we must have an idea of what we are prepared to put on the table and what we will seek from them in turn (for example, new financing and the terms that apply to old debt). We should leave the banks in no doubt that a lack of new money commitment by them will be met on our part by a reduced concern for their future debt service flows. The goal of these consultations would be to develop in Treasury a view of what constitutes the minimum requirements for keeping the larger banks in, and then to reach a firm understanding with the banks on a common approach which will insure their participation. This should be done on an individual basis and should be followed up by a meeting between these bankers and the Secretary of the Treasury and the Chairman of the Federal Reserve. At this meeting a specific understanding should be obtained from the banks shortly before you make public our new proposals.

(2) We would also consider how to consult with the IFIs and other creditors at an appropriate stage of this process.

Following these discussions/commitments, we would go public with the following approach:

(1) Reaffirm the present debt strategy and call on the IMF and the World Bank to intensify their efforts, in close cooperation with the commercial banks, to improve the growth elements and consistency of application of their programs.

(2) Announce that we favor moving forward with a GCI for the World Bank provided we can reach agreement on the general outlines of expanded World Bank lending to debtor nations, including the resolution of certain policy issues, such as fast-disbursing loans, conditionality, direct investment, debt/equity swaps and improved coordination with the banks on private sector lending. We would also have the option here to indicate the course we intend to follow with respect to World Bank cofinancing. (See Tab A).⁵

⁴ Tab B, an undated and untitled paper, is attached but not printed.

⁵ Tab A, "Proposals for IBRD Cofinancing," undated, is attached but not printed.

(3) Announce that we favor creation of a new External Contingency Facility (ECF) in the IMF which would enlarge the resources available to debtor countries on a more diversified basis and with stronger conditionality to replace the Compensatory Financing Facility (CFF). This would involve follow-up negotiations with the Fund and other major creditors between now and October but would hold out the prospect of an increase in the flow of new resources from the IMF to the debtors. (See Tab C).⁶

(4) Announce that we are commencing a review of U.S. bank regulatory arrangements to assure that the regulatory framework permits U.S. banks to provide a broad spectrum of mechanisms to support debtor reforms and help alleviate debt burdens. (Still seeking OCC and Fed views).

(5) Announce that we favor earlier and closer participation by the banks with international institutions in negotiations with debtor countries and outline a consultative arrangement for accomplishing this. We would have here a variety of options, including a coordinating mechanism or some form of formal debt facility. (See TAB D).⁷

(6) At the same time we should indicate a willingness to work with the banks in implementing their menu of options, including exploring ways of distinguishing new from old debt. The aim would be to insure sufficient bank financing to maintain their fair share of financing gaps under specific economic reform programs.

The perception of movement toward strengthening the debt strategy is very important to establish soon. Reaching a critical mass for Argentina was an important milestone, but cannot itself be definitive for the future of the debt strategy.⁸ The banks see Argentina as a transitional deal, having come during a period of commercial bank reassessment of LDC lending. Having taken additional reserves, they are likely to be less willing to provide new loans the next time. Brazil therefore will be a critical test both for the further evolution of the menu approach and continued bank participation.

If we wish to seize the initiative, we should aim to make our announcements in late July/early August when Argentina is financed, Brazil has begun its bank negotiations, and Mr. Greenspan is close to assuming the Chairmanship of the Federal Reserve.⁹

⁶ Tab C, "Proposal for an IMF External Contingency Facility," dated June 19, is attached but not printed.

⁷ Tab D, "Proposal for an International Debt Facility," undated, is attached but not printed.

⁸ See Document 224.

⁹ Reagan nominated Greenspan to be Chairman of the Board of Governors of the Federal Reserve System on June 2. For his remarks, see *Public Papers: Reagan, 1987*, Book I, pp. 597–598. Greenspan was sworn in as Chairman on August 11.

224. Memorandum From Stephen Danzansky of the National Security Council Staff to the President's Deputy Assistant for National Security Affairs (Powell)¹

Washington, June 26, 1987

SUBJECT

Readout from International Economic Policy Breakfast, June 26, 1987

Inter-American Development Bank

Secretary Baker asked for a united Administration front on the question of the IDB in light of the stepped-up efforts of South and Central American countries to lobby the Congress and Administration to ease up on Treasury's "hard-line" position to link increased financial support for the Bank with voting or at minimum blocking rights proportionate to the U.S. contribution to the Bank. The policy reforms which the U.S. feels are needed in debtor countries are not always translated into conditionality when the U.S. does not control whether or not new lending is authorized. This has stymied progress in the borrowing countries and Treasury has taken the position that unless the U.S. gets its policy "say" commensurate with its financial commitment, we will take our money and put it into the World Bank where policy reform is the watchword. Whitehead agreed with Baker's assessment and further indicated that he thought the members of the IDB would finally come around to granting the U.S. its request if we hung tough on proportional voting. Baker mentioned that there was considerable activity by Mexico and many South American countries to pressure Treasury into modifying its position. They were lobbying Congress pretty hard and would likely visit sympathetic Administration officials. He asked that we hold the line and opined that if we do, we will ultimately get our way.

[Omitted here are discussion of Taiwan and Shultz's thoughts on the U.S. trade deficit and status as a net debtor.]

Debt

Shultz then asked Baker what he intended to do about middle income debt. Do we just let things muddle along? This, in Shultz' opinion, will only delay the difficulty since he does not believe the debt will

¹ Source: Reagan Library, Stephen Danzansky Files, Chronological File, Danzansky Chron June 1987–July 1987; NLR-733-22-13-11-7. Secret. Sent for information. The memorandum is marked: "Information Extremely Market Sensitive." A stamped notation in the top right-hand corner of the memorandum reads: "Deputy Natl Sec Advisor has seen." "Danzansky" is written at the top of the memorandum. Copies were sent to Green, Courtney, and Rodman.

be repaid in any event. Secretary Baker responded that indeed he had a small group working on the issue of what else can be done to help the problem. (Shultz indicated that he would like to join.) Basically, said Baker, the current strategy was working, witness the new package negotiated with Argentina by the banks. Banks will lend new money. In the Argentina package, the "menu" approach was very successful since they used almost every approach from debt-equity swaps to exit bonds; everything but interest capitalization. The latter is something Treasury will be looking at in its study of the debt question, i.e. regulatory help on that front. Shultz commented that he felt that the Citicorp situation was indicative of the inability of banks to cope with the status quo and an indication that they are pulling out of the Baker strategy.² Baker disagreed; maybe they plan to pull out in the long term, but in the short term the big banks cannot afford to get out and declare a loss. No one has taken a loss yet; only reclassified their debts and capitalized accordingly. He's not worried about the large banks but the medium sized regional banks. It is they who will likely pull out and may need assistance getting there.

[Omitted here is Shultz's expression of concern with current macroeconomic policy.]

SAF and the Poorest Countries

FCC raised the question of the Structural Adjustment Fund and the Venice declaration.³ Baker indicated that Camdessus had lobbied for and obtained a Summit commitment to triple the SAF which Baker was mad as the devil about. The SAF was a U.S. creation, part of the Baker Plan, and was funded by trust fund reflows from the sale of gold. The U.S. cannot afford to triple its contribution and if people want to increase the SAF to help African nations, they should rely upon the surplus nations for the money and not the U.S. FCC then indicated his concern about the African nations like Ivory Coast who had done much by way of reform but who just didn't have the resources to be able to meet obligations. Baker said that the Summit recognized the special nature of African countries and if they wanted the SAF to deal with these problems they could not rely upon the U.S. to chip in money given the problems we are having with the IDA VIII⁴ and other funding in the Congress. Baker did not offer to discuss the SAF question interagency.

[Omitted here is discussion of EC fats and oils.]

² See footnote 3, Document 223.

³ See Document 222.

⁴ See Document 352.

225. Letter From Secretary of the Treasury Baker to the Managing Director of the International Monetary Fund (Camdessus) and the President of the World Bank (Conable)¹

Washington, July 1, 1987

Dear Michel and Barber:

Thank you for your telex inviting me to send representatives to a meeting in Paris on July 10.² Your message provides an opportunity to share with you a number of thoughts I have about the problems of low-income countries.

As you know, the U.S. believes that the Policy Framework process offers the best approach for addressing these problems. Consequently, we joined the other Summit countries in Venice in welcoming your initiative, Michel, to expand the resources of the Structural Adjustment Facility.³ At the same time, we stressed that efforts to obtain contributions for this purpose should focus on countries with balance of payments or budget surpluses. I continue to believe this is the most practical basis on which to proceed.⁴

I would like to draw your attention, however, to several concerns which I have regarding the implementation of the Policy Framework process and the operation of the Structural Adjustment Facility. These concerns pre-date the initiative to expand the SAF, and merit prompt attention and action.

Let me first assure you that we recognize the considerable progress that has been made in implementing an inherently difficult approach. Indeed, we have seen some forward movement in a number of areas in recent months. Nevertheless, there is clear scope for additional efforts to make the approach more effective along the lines suggested to you by David Mulford last January. (Attached is the note which he left with you, Barber, and with Jacques de Larosiere.)⁵ Many of our concerns were reiterated by Charles Dallara in the recent IMF Board review of the SAF. Let me mention in particular three areas:

Collaboration between the Bank and the Fund. From the outset, we have felt that the key to success for the Policy Framework approach

¹ Source: Washington National Records Center, RG 56, Executive Secretariat, Congressional Files, 1987, 56–90–29, Box 34, Dept and Agen, s/ World Bank '87. No classification marking. Copies were sent to the G–10 Finance Ministers.

² The June 19 telex is attached but not printed.

³ See Document 222.

⁴ See Document 224.

⁵ Not attached.

would be genuine and effective collaboration between your two institutions. In our view, the desired standard of collaboration has not yet been achieved. One area of concern is the extent to which the Bank has participated in the leadership and staffing of the missions that have negotiated Policy Framework papers with eligible countries. We have also been troubled by the suggestion that the Fund might move ahead of the Bank in a number of cases. In other words, we have not yet seen the full commitment to the Policy Framework approach within the two institutions that we expect.⁶

Financing in Support of Policy Frameworks. We have been pleased to see that the Bank has increased its lending to a number of countries that have embarked upon broad-ranging structural adjustment programs. Nonetheless, it is not clear that the Bank is consistently using Policy Frameworks to determine the level and composition of its lending programs in the majority of countries that have negotiated these Frameworks. Furthermore, we are disappointed by the limited response of bilateral donors to Policy Frameworks. While the donors themselves must address this problem, we believe that more effective use of Policy Framework papers in the donor coordination process would bring about a better response.

SAF Conditionality. Considerable efforts were made in order to achieve meaningful conditionality for SAF loans. Despite these achievements, there is considerable room for improvement in the selection and use of benchmarks regarding structural objectives, and in monitoring performance under annual SAF programs. Improvement is needed in view of the Bank's decision to extend structural adjustment credits to countries without stand-by arrangements, and the Paris Club's decision to provide debt relief on the basis of a SAF only. It is all the more important if the resources provided through the SAF are to be expanded significantly.

While I have this opportunity, I should also mention that we support the Bank's proposal for mobilizing more co-financing from bilateral donors to support adjustment efforts in low-income African countries. To succeed, however, the Bank and Fund will need to address the concerns I have noted above in connection with the Policy Framework approach. Furthermore, I should mention some concerns related to the debt measures for African countries referred to in your telex. Although

⁶ In an October 13 memorandum to Baker, Mulford communicated that Conable had requested a meeting with Baker on October 13 "to discuss World Bank/IMF coordination." Mulford forwarded briefing materials he had used at a meeting with senior management of the Bank and Fund in January to discuss improving the Policy Framework process and to address longstanding concerns about effective collaboration between the Fund and Bank. (Washington National Records Center, RG 56, Records of the Under Secretary for International Affairs (Mulford), Subject Files, 1985, 1991, 56-04-0100, Box 4, [no folder title])

it is not entirely clear what kind of measures are being proposed, three constraints should be kept in mind. First, some of the measures may have budget impacts, and could end up shifting funds among foreign assistance programs rather than increasing aid to Africa. Second, some debt-related measures proposed for African countries could create negative precedents for efforts to deal with the debt problems of other borrowers, including domestic borrowers that have obtained credit from government agencies. Third, we must be certain that any new approaches in this area will be more effective than existing approaches in terms of promoting growth and balance of payments adjustment in Africa.

In closing, let me assure you that we will work closely with the Bank and the Fund to strengthen our efforts to deal with the serious economic problems of low-income African countries. I hope you can move quickly to address the specific issues I have raised in order to get the greatest possible return on the limited funds we are able to target on these countries.

Sincerely,

James A. Baker, III

226. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Mulford) to Secretary of the Treasury Baker¹

Washington, August 26, 1987

SUBJECT

Enlarging the SAF—Issues for September Meetings

In discussions since the Venice Summit on the Camdessus proposal to enlarge the Structural Adjustment Facility (SAF), potential contributors have been strongly supportive of enlargement, but have expressed divergent views over the form of contributions and burden sharing.

Enlargement of the SAF will be one of the main subjects for discussion at the September 27 Interim Committee meeting. I will have a preliminary exchange of views on the subject at the G-5 Deputies

¹ Source: Washington National Records Center, RG 56, Executive Secretariat, Congressional Files, 1987, 56–90–29, Box 44, [no folder title]. Confidential.

meeting on September 8. In preparation for these meetings, we need to focus on two basic issues:

— Should the enlargement be structured in the form of loans directly to the IMF (thereby placing on the IMF the risk of non-payment by the low-income borrowers), or as loans to a trust fund administered by the IMF (which would spread the risk of non-payment among the contributors)?

— What, if any, contribution could the U.S. make to the enlargement?

A. Direct Lending to the IMF

One possible approach is that contributors could make loans directly to the IMF. These loans would be highly-liquid claims on the Fund that they could treat as reserve assets. In order to reduce interest charges to the low-income borrowers to the level of the SAF ($\frac{1}{2}$ percent per annum), contributors would also have to provide grants to an interest subsidy fund. (Roughly one dollar of grants for every three dollars of loans.) While there are precedents for this approach, it is inconsistent with the twin objectives of a SAF enlargement, namely supporting adjustment in low-income countries *and* protecting the Fund's financial strength.

This approach is opposed by Camdessus, and we have argued strongly against it in post-Venice discussions. The overwhelming drawback is that it would lead to an increase in the Fund's exposure in low-income countries, thereby undermining the monetary character of the Fund and further threatening its financial integrity. In addition, it would be difficult to fashion a facility that would be available only to the poorest countries without infringing on the fundamental IMF tenet that all members are treated uniformly. Consequently, the criteria governing use of the facility would probably result in some borrowing by middle-income LDCs, thereby dissipating the resources available for those countries in greatest need. Moreover, this approach would encourage members unable to gain access to the enlarged SAF to seek concessions regarding their access to other IMF resources (e.g., higher access limits under the enlarged access policy, longer maturities, lower interest rates, rescheduling IMF obligations, etc.). If successful, these efforts would reduce IMF liquidity and hasten the need for a quota increase.

The Japanese strongly favor this approach, however, arguing that direct loans to the IMF are the only way in which their central bank could provide resources, and that alternative financing techniques would preclude them from counting the resulting claims as reserve assets, and would require budgetary expenditures. The Japanese are also pushing for a large U.S. share. Other countries are also attracted to direct loans to the IMF for similar reasons, but have not been as adamant as the Japanese.

Implications for Possible U.S. Participation

— Under this approach, a U.S. contribution to the enlarged SAF would have to have two components:

◦ A direct loan to the IMF, authorized and appropriated by the Congress. Consistent with current practice, this loan would probably not produce a net budget outlay. (There is some risk however, that Congress would perceive the loan as tantamount to concessional foreign aid and would treat the loan as producing a budget outlay. This would set a precedent for changing the treatment of other IMF transactions so as to produce budget outlays.)

◦ A grant to an interest subsidy account, authorized and appropriated by the Congress. This would produce a net outlay under the 150 account.

— If the U.S. can make a loan to the IMF that does not have an impact on net budget outlays, other contributors may view this as grounds for a larger U.S. share. On the other hand, to the extent that other contributors insist upon this approach, it could lessen the pressure on the U.S. to make a substantial contribution.

— Under this approach, a direct U.S. loan of \$300–600 million might be sufficient to reach agreement on an SDR 6 billion enlargement, but it is too soon to be sure. (A loan of this size would have to be matched by a grant of \$100–200 million to the interest subsidy account, although we could also spread the grants out over the next 13 years at \$8–16 million per year.)

B. Lending to a Trust Fund

The original Camdessus proposal envisaged loans from contributors to a trust fund on concessional terms matching those of the SAF. This approach is the most consistent with the twin objectives of helping low-income countries and strengthening the financial position of the IMF. In contrast to the direct loan approach, the risk of lending to low-income countries from a trust fund would fall on contributing governments rather than on the IMF (and ultimately the U.S. and the IMF's other creditor members). We supported this approach, although we stressed that efforts to seek contributions should focus on countries with balance of payments or budget surpluses.

Most potential contributors expressed reservations about this approach in its purest form because it would leave them bearing the risk of default, and because their claims would not be liquid. As a consequence, they would not be able to make their contributions in the form of off-budget central bank loans.

Responding to these concerns, the Fund staff have proposed a variety of measures to provide security and liquidity for loans to a SAF Trust. These include: (a) establishing a reserve with the estimated SDR

4 billion in SAF reflows to compensate contributors in the event of non-payment—leaving the SAF Trust with a claim on the delinquent borrower; (b) adding to the reserve the proceeds from a small surcharge on interest paid by low-income borrowers or a small discount on interest paid to the contributors—0.2 percent on both lenders and borrowers would yield SDR 200 million; (c) establishing a sinking fund at a rate of 2.5 percent of the loans made by the Trust; and (d) including transfer and encashment provisions to provide liquidity.

The staff also looked into the possibility of pledging a portion of the Fund's gold as collateral for loans to the SAF Trust, although it does not yet have approval from Camdessus to advance this means of enhancing security and liquidity. While use of IMF gold would make loans to the Trust more attractive, it could also prompt other LDCs to seek use of a portion of the Fund's gold for their balance of payments financing needs (as occurred with the 1975–80 gold sales for the initial Trust Fund).

Since the U.S., as the Fund's largest creditor, bears most of the risk of the Fund's current exposure in low-income countries, we benefit the most from a Trust Fund approach in which other contributors provide the bulk of the financing and assume a larger share of the risk. Similarly, the U.S. has a strong incentive to minimize the use of IMF gold to back the Trust as this gold provides the ultimate security for the much larger U.S. claims on the IMF.

Implications for Possible U.S. Participation

— Better than the direct lending approach because it is easier to target on low-income countries, and because it would shift a portion of the risk to other contributors.

— Even with various embellishments to provide liquidity and some risk protection, we probably would not be able to avoid treating a U.S. loan to a SAF Trust as producing a net budget outlay. With IMF gold as collateral, we could discuss with Congress the possibility that this loan be treated like other transactions with the IMF (i.e., no net outlay), but it is doubtful they would agree.

— Use of IMF gold as collateral, however, would require prior Congressional approval. Furthermore, depending on the amount of collateral and possible pressure to use additional IMF gold for the benefit of other LDCs, this approach to reducing risk could weaken the IMF's financial position and the security of U.S. claims on the Fund.

C. Other Approaches

There are two other approaches that have been discussed but do not appear to have enough support to warrant serious consideration:

— First, the SAF could be enlarged by means of selling IMF gold. While this would allow the U.S. (and others) to escape any budget impact, we would still need Congressional approval, and gold sales would undermine the security of our claims on the Fund. Furthermore, Camdessus has said he is adamantly opposed to this approach due to the weakness of the Fund's financial position as a result of growing arrears.

— Second, enlargement could be accomplished by an SDR allocation of SDR 10 billion, of which SDR 6 billion would be "donated" by industrial countries to a SAF Trust. This is contrary to our position on SDR allocations in general, and to our position on an SDR-aid link. Moreover, U.S. loans or grants of SDRs could require Congressional approval. No other contributors are pushing this approach.

Conclusion

From the perspective of short-term budget implications, the direct lending approach has the advantage of minimizing outlays, although the total amount of authorizations and appropriations would be higher. This advantage is more than outweighed by the disadvantages, especially from increasing the Fund's exposure in uncreditworthy countries and exacerbating repayment difficulties. From the broader perspective of U.S. interests in strengthening the IMF and promoting adjustment in low-income countries, the SAF Trust approach is clearly the most desirable, and also avoids the need to request congressional support for both a loan and a grant. Our support for the SAF Trust lends weight to the arguments of the Managing Director, and would lead to the smallest overall commitment of funds (assuming the same level for a U.S. loan in either case).

In advocating the SAF Trust approach, we can expect to meet some continuing resistance, although some countries may be more attracted to a SAF Trust approach when combined with various provisions for greater liquidity and risk protection. If other contributors insist on direct loans to the IMF, we are in a better position to argue for a smaller share. Indeed, our view of the efficacy of the direct loan approach provides grounds for making no contribution at all.

Recommended Approach for September Meetings

1. We should continue to argue strongly for lending to a Trust Fund rather than directly to the IMF, emphasizing that we have major doubts about the efficacy of enlarging the SAF by means of direct lending.²

² Baker wrote "yes" in the left-hand margin next to this point.

2. We should support the exploration of various features to enhance the security and liquidity of loans to a Trust, possibly including a very modest use of IMF gold as collateral.³

3. We should indicate a willingness to contemplate a modest loan on concessional terms to the SAF Trust, but continue to stress that efforts to obtain contributions should focus on surplus countries.⁴ We should emphasize that we will not be in a position until later in 1987 to indicate whether the U.S. would contribute, and what the size of any possible contribution might be.⁵

4. We should stress to the Fund and other contributors that it would be counterproductive to draw public attention to the issue of a U.S. contribution during the September meetings because of pending Congressional action on the IDA VIII replenishment.⁶

5. We should point out that we are still not satisfied that some of the underlying problems associated with the operation of the SAF (conditionality, monitoring, IBRD participation) have been solved, and continue to press for improvements.⁷

RECOMMENDATION: That you approve the approach recommended above.⁸

³ Baker underlined "possibly including a very modest use of IMF gold as collateral" and wrote "no" in the left-hand margin next to this point.

⁴ Baker underlined "We should indicate a willingness to contemplate a modest loan on concessional terms" and wrote "no" in the left-hand margin next to this point.

⁵ Baker wrote "in advance" in the right-hand margin next to this point and drew a box around it.

⁶ Baker wrote "yes" in the left-hand margin next to this point. He wrote under the point "Our priorities, IDA, GCI, SAF" and drew a box around those words. Next to these words he wrote: "I intend to confront them in that order. No obj. to surplus countries [illegible]."

⁷ Baker wrote "yes" in the left-hand margin next to this point.

⁸ Baker did not indicate his approval or disapproval of the recommendation. Under the recommendation he wrote: "Other—See above issue by issue. JAB III 9/5."

227. Memorandum From Stephen Danzansky of the National Security Council Staff to the President's Assistant for National Security Affairs (Carlucci)¹

Washington, September 21, 1987

SUBJECT

Phone Call to Jim Baker on IMF Annual Meeting

Purpose of Call

To convey the importance you attach to finding a way to enlarge the IMF's Structural Adjustment Fund (SAF) and to offer your help in searching for ways the U.S. might participate.

Background

The SAF is a \$3 billion fund created in 1985 to provide long-term concessional loans to poor countries undertaking policy reforms. Its resources come from repayment of loans made under the IMF Trust Fund, created in the early 1970's from sales of IMF gold. The SAF is a key element of the Baker Plan.

The problem with the SAF is that it is too small: Sub-Saharan African countries alone owe the IMF some \$6 billion over the next three years in repayment for standby arrangements agreed to in the early 1980's. While that repayment burden cannot be carried, it also cannot be rescheduled—because of tradition due to the IMF's monetary character.

This spring, IMF Managing Director Camdessus proposed tripling the SAF, in effect to provide refinancing for the \$6 billion in loans coming due to the IMF. Camdessus ignored Jim Baker's advice not to launch a public campaign since the U.S. cannot participate now. The SAF expansion was endorsed in principle at the Venice Summit, though the U.S. took the position that surplus countries (Japan, Germany, etc.) should provide the funding.

Baker is attempting to contain pressure for an expanded SAF until Congress has provided funding for IDA-8, half of which is planned for Africa. Nevertheless, the U.S. will be urged to participate at the upcoming IMF annual meeting. Some countries (Italy, U.K.) are prepared to sell some of the IMF's \$50 billion in gold if necessary to finance the

¹ Source: Reagan Library, Stephen Farrar Files, Chronological File, Farrar Chron September 1987; NLR-177-6-35-5-6. No classification marking. Sent for action. Prepared by Farrar. A stamped notation in the top right-hand corner of the memorandum reads: "Nat'l Sec Advisor has seen." Carlucci wrote at the top of the memorandum: "Thru this mtg—then revisit."

SAF. Baker—and perhaps Camdessus—oppose gold sales. Baker fears that gold sales would undermine the strength of the IMF as a monetary institution and would undermine Congressional support of the IMF.

Discussion

We believe that an expanded SAF is critical to resolving Sub-Saharan Africa's debt problem. Without a resolution, there is little prospect for progress in the area, including progress on the President's Initiative to End Hunger in Africa.² Also, the Africans themselves are planning an OAU Summit meeting on debt in December.³

The U.S. ought to be prepared to consider hard choices in seeking ways to expand the SAF. One possible way is to provide new funding—perhaps as little as \$50–60 million per year for six years, according to an informal Treasury staff estimate. Another possible way is to collateralize the IMF's gold, using it as security against future loan default. Neither of these choices is easy.

How the U.S. plays the issue at next week's IMF meeting is a question of tone as well as substance. The U.S. should appear willing to consider the options further.

State staff support collateralizing gold, though Secretary Shultz has not taken a position. For your information at Tab II is a letter to you from John Sewell, President of the Overseas Development Council, supporting the gold sales option.⁴

Hank Cohen concurs.

RECOMMENDATION

That you use the talking points at Tab I⁵ to call Jim Baker.⁶

² For information on the President's initiative to end hunger, see *Foreign Relations*, 1981–1988, vol. XLI, Global Issues II, Document 259.

³ Telegram 5029 from Addis Ababa, December 1, transmitted the text of the Final Declaration of the OAU Summit on African Debt. The Declaration called for numerous proposals, including the conversion of past official bilateral loans to grants, a reduction of real interest rates on existing loans, 50-year repayment and 10-year grace period on new loans, and a suspension of debt repayment for 10 years from 1988. (Department of State, Central Foreign Policy File, Electronic Telegrams, D870983–0610)

⁴ Tab II, Sewell's September 11 letter to Carlucci, is attached but not printed.

⁵ Tab I, a set of undated talking points entitled "Phone Call to Secretary Baker: IMF Annual Meeting: Expanding the Structural Adjustment Fund," is attached but not printed.

⁶ Carlucci did not indicate his approval or disapproval of the recommendation.

228. Information Memorandum From the Assistant Secretary of State for Economic and Business Affairs (McMinn) to Secretary of State Shultz¹

Washington, October 3, 1987

SUBJECT

IMF/IBRD Annual Meetings: Slow and Steady²

SUMMARY AND INTRODUCTION

Meetings of the G-5/7, G-10, Interim and Development Committees and the Boards of Governors of the IMF and the IBRD proceeded in a comparatively subdued atmosphere, a distinct contrast from the last several years. The USG succeeded in preserving its leadership in the international financial system through a combination of the earlier announcements of support for an IBRD General Capital Increase (GCI), the President's approval of new Federal deficit reduction targets, and several proposals in Secretary Baker's address for minor variations in policy coordination and the debt strategy. Despite widespread agreement that industrial country growth is below par while resolution of the debt crisis remains elusive, the world's financial leaders opted for, or assented to, continuation and strengthening of ongoing initiatives. *END SUMMARY AND INTRODUCTION*

[Omitted here is information on industrial world developments and policy coordination.]

Debt Strategy

Despite widespread concern over adjustment fatigue in debtor countries and the increasing difficulty of securing new commercial financing, Baker again kept the lead with his announcements of USG support for an IBRD GCI and several sound but minor proposals for incorporation into the strengthened debt strategy. The latter included:

— enhancing the menu approach through increased emphasis on voluntary swaps of debt for equity as well as for securities (exit bonds);

¹ Source: Department of State, Executive Secretariat, S/S Files, 1987 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D155: Through Memoranda October 1987. Confidential. Drafted by Seth Winnick (EB/IFD/OMA) and Jack Robinson (EB/EFD/ODF) on October 2; cleared in EB/IFD/ODF, EB/IFD/OMA, and EB and by Milam. Sent through Wallis. "RH 10/3" is written at the top of the memorandum.

² A copy of Treasury's "highlights" report on the IMF/World Bank annual meetings is in the Reagan Library, Stephen Farrar Files, 1987–1988 International Economic Affairs Directorate Outline File, Debt 1 of 2—03/01/1987–04/30/1987; NLR-177-1B-50-1-6.

- endorsement of limited interest capitalization, on a voluntary basis, particularly for smaller debtors;
- growth-oriented changes in IMF programs such as replacement of quarterly targets with semiannual targets in 18-month standbys to provide greater flexibility in program implementation; and,
- use of structural reform targets in place of some quantitative fiscal and monetary targets. (This proposal, if accepted, would be of immediate importance for both Ecuador and Argentina.)

Baker also proposed creation of an External Contingency Facility (ECF) to replace the Compensatory Financing Facility (CFF). The new facility would be broader and “richer” than the CFF (it would include compensation for interest rate increases and allow access to a higher percentage of quota). Drawings under the new facility could be made to support stand-by programs threatened by a change in external circumstances.³

Other Issues in Brief

Conable in Control: Slightly over one year into his term, Bank President Conable delivered a direct and forceful address to the Governors. Baker strongly endorsed Conable’s leadership and reform of the Bank, laying the recent contentious Bank reorganization to rest. His vote of confidence was amply demonstrated by USG support for a GCI.

SAF Expansion: Camdessus’ proposal to triple the SAF received broad support; however, USG refusal to contribute due to budgetary strictures dims chances for rapid implementation.⁴

IMF Quota Increase: USG unwillingness to pursue a rapid quota increase, based both on budgetary constraints and the belief that Fund liquidity is adequate, will delay quota discussions.

NIC’s: Baker called on the Asian NICs, citing Hong Kong, Singapore, Taiwan and Korea by name, to remove trade barriers and capital controls and to pursue appropriate exchange rate policies.

G-10 Expansion: The G-10 agreed to renew the General Arrangements to Borrow (GAB) for another five years but did not reach a consensus on accepting new members. Spain, Australia and Austria are seeking to join.

³ In a November 12 memorandum to Baker, Mulford provided an update on “consultations in the Fund and the Bank to seek support for your proposals announced at the Annual Meetings for establishing an External Contingency Facility (EFC), adapting IMF lending policies, and building better Fund/Bank collaboration.” (Washington National Records Center, Records of the Under Secretary for International Affairs (Mulford), Subject Files, 1985, 1991, 56-04-0100, Box 4, [no folder present])

⁴ See Documents 226 and 227.

229. Telegram From the Department of State to the Embassy in Venezuela¹

Washington, October 30, 1987, 0128Z

338173. Subject: CAP/Whitehead Memcon.

1. Confidential—Entire text.

2. Begin Summary: Carlos Andres Perez (CAP) and Deputy Secretary of State John Whitehead discussed debt for about forty-five minutes, October 28. Perez explained why he favors a unified Latin debtors group to set a framework for bilateral debt negotiations, and described the present and potential social and developmental consequences of the current structure of international debt. He noted in passing that under some circumstances, he would favor economic supervision by the IMF or World Bank, and that he thought the U.S. should hold a conference with debtor nations to reach a solution to the crisis. Whitehead noted the impossibility in a free society of commanding commercial banks to reach an accommodation with their debtors and said that a solution to the debt crisis lay with investment and voluntary capital inflow to debtor countries. He rejected the notion that the U.S. had a duty to bail out nations who have reached impossible debt levels due to their own economic mismanagement. In the corridor at the conclusion of the meeting CAP said he was gravely concerned about Central America and that he was trying to help make the Arias Plan successful.² End Summary.

3. Also present were the Andean Affairs Office Director, Mr. Whitehead's special assistant, and the Venezuela Desk Officer (notetaker).

4. Debtors group: Responding to Whitehead's question, Perez said that he did not believe Latin debtors should form a group to "confront" creditors. Confrontation would not allow anyone to advance. At the same time, national economies are not independent and there were good reasons why Latin countries in similar economic circumstances, and with similar debt problems should join together to propose a direction and general framework for debt negotiation. Perez envisioned

¹ Source: Department of State, Executive Secretariat, S/S-I Records, Official Correspondence of Deputy Secretary John C. Whitehead, July 1982–Jan 1989, Lot 89D139: Memoranda of Conversation 1987. Confidential; Immediate. Drafted by Brad Hittle (ARA/AND); cleared by Stephen Kelly (S), B. Lynn Pascoe (S/S), and William Haugh (S/S-O); approved by Michael Skol (ARA/AND).

² A reference to the Central American Peace Plan put forth by the President of Costa Rica, Oscar Arias Sanchez, and signed August 7 in Guatemala City.

something like a Latin OECD rather than a debtors club. Independent countries would continue to negotiate bilaterally with creditors, but within agreed limits.

5. Debt conference: Debt would certainly be discussed at the November Group of Eight summit in Acapulco.³ A later debt conference with creditors could offer a chance to find a solution before reaching a crisis stage.

6. Linking debt with other development factors: Perez said a consequence of high debt service was insufficient funds left for development and social spending. Without investment capital, debtor countries could not produce and would be unable to purchase goods from developed countries as much as in the past. Debt ought to be linked with trade and capital flow in a development framework to determine the limits within which debt repayment could be negotiated.

7. Consequences: Perez thought the situation in Argentina, Brazil and Mexico was dangerous, and noted that serious resistance to terms of the recent rescheduling arrangement were also developing in the private sector in Venezuela. Perez believed that if a new global debtor-creditor relationship were not made in about six months, serious pressures would emerge to force a change. In Venezuela, where the labor movement has traditionally been controlled, there could be unrest if the standard of living continues to fall. He favored a "reasoned" debt policy change in advance of crisis.

8. The problem of future financing in the face of non-payment: Whitehead reminded CAP that banks could not be ordered to lend in a free society, and asked how a country like Venezuela would attract necessary new lending if it paid back less interest or principal than it had initially agreed. CAP said he did not think Venezuela would default, but that the potential political consequences of continuing with the present system made change imperative.

9. Debtor countries should put house in order: Whitehead noted that much of the Latin debt problem was due to government subsidies, economic distortions, and bad management for which the lenders should not be asked to pay the price. CAP agreed. Lessons would come from this debt crisis and things would be done differently in the future. However, drastic action was needed to break out of the no-growth cycle engendered by high debt costs. CAP claimed he would not object to economic advice from the U.S., or discipline from an international

³ Telegram 24301 from Mexico City, December 1, transmitted the Embassy's analysis of the debt proposals reached by the Group of 8 at the Acapulco Summit, which were enunciated in a final document issued November 29. (Department of State, Central Foreign Policy File, Electronic Telegrams, D870985-0411)

financial institution, although in Venezuela an imposed economic plan would be politically impossible to accept.

10. We help countries that help themselves: Whitehead said the basis of our economic program was to cooperate with debtor countries on a case by case basis; and to reward steps that build sound economies, good credit, and attract new investment, the solution for debtor countries was to take necessary steps and attract capital. Whitehead ended the conversation, giving CAP a copy of a recent speech he had given on debt.⁴ (Department will transmit a copy to Caracas.) Both CAP and Whitehead wanted to meet again.

[Omitted here is discussion of the Central American security situation.]

Shultz

⁴ Whitehead delivered an address, entitled “Third World Dilemma: More Debt or More Equity,” before the Council on Foreign Relations in New York City on October 21. He argued: “Now is the time to reinvigorate the Baker plan by emphasizing the importance of capital investment—an extremely promising, but often overlooked, source of new money.” For the text of Whitehead’s address, see Department of State *Bulletin*, December 1987, pp. 54–57.

230. Information Memorandum From the Director of the Policy Planning Staff (Solomon) to Secretary of State Shultz¹

Washington, November 13, 1987

SUBJECT

Facing Reality In Our Debt Strategy

Summary. Our debt strategy still has a long way to go in enabling the problem debtors to become both prosperous and credit-worthy. Experience so far suggests that the conditions necessary for its

¹ Source: Department of State, Executive Secretariat, S/P Records, Memoranda/Correspondence From the Director of the Policy Planning Staff to the Secretary and Other Seventh Floor Principals, Lot 89D149: S/P Chron—November 1987. Limited Official Use. Drafted by Marc Wall (S/P) on November 12; reviewed by Paul Balabanis (E), Nicholas Burakow (EB/IFD/OMA), Steven Webb (EB/PAS), Jane Harrington (ARA/ECP), and David Konkel (INR/EC); cleared by Kauzlarich. Kauzlarich also initialed for Wall and Solomon. The initials “AMH” are written on the memorandum and crossed out. “BJ 11/13” is written on the memorandum.

success—domestic adjustment, export expansion, and fresh capital flows—cannot be achieved in a politically realistic timeframe. The markets, limited though they are, recognize this. They are facing up to the consequences that some of the loans will not be serviced in full. The reluctance of creditor country governments to do so is putting our interests in the debtor countries under strain.

Many assessments that reach this conclusion end with the recommendation that creditor country governments should step in and do more. On the contrary, under present circumstances it would be better if they did less. Government intervention has done just about as much as it can to squeeze additional lending from commercial banks and budget pressures virtually rule out publicly financed mechanisms for debt relief. A process is already underway that could lead through direct bargaining between the banks and the debtor countries to a market-determined settlement of the debt overhang. Creditor country governments can help by pursuing supportive macroeconomic and trade policies. Otherwise, the best thing they can do is get out of the way. *End Summary.*

Since 1982, our debt management policies have successfully bought time to strengthen the international financial system. But the problems of the debtors remain. As shown in the charts for the sample of 15 countries singled out in the Baker Plan, the record overall is disappointing. While it would be preferable to use base years starting before the period of unsustainable borrowing peaked, the readily available IMF figures for the years since 1980 present a stark picture of the trends in per capita incomes, financial flows, and the ability to service debt. (See charts 1–3)²

What Went Wrong?

For debtor countries to service their loans and attract new ones without sacrificing growth, they need larger export capacity, demand for their exports in overseas markets, and new foreign capital. It has not worked out that way.

— Constraints on Adjustment. The debtor countries have been either unwilling or unable to restructure their economies at the pace and on the scale required.

◦ Even the most reform-minded regimes have seen their efforts thwarted by resistance from powerful unions, business lobbies, and bureaucracies. Their failure to implement better policies reflects at least as much their political vulnerability as their misjudgments.

² Chart 1, "Domestic Absorption—In Real Terms: 1980–87," Chart 2, "Financial Flows: 1979–87," and Chart 3, "Debt Ratios: 1979–87," are attached but not printed.

◦ Building up export industries requires investment in new factories, infrastructure, and farms. Instead, the countries cited in the Baker Plan have responded to their debt burdens by cutting investment to levels barely sufficient to maintain existing capital stock. (See chart 4)³

◦ The record of the industrial countries on trade liberalization and macroeconomic coordination has not inspired confidence that they will be able to adjust their own economies enough to accommodate both an increase in debtor country exports and a reduction in the U.S. trade deficit.

— Commodity Price Disinflation. Despite boosting the volume of their exports, the 15 major debtor countries have not increased their export earnings. The reason lies in the shakeout in prices for oil and non-oil commodities, the principal source of export earnings for all but Yugoslavia. (See charts 5–6)⁴

— Capital Flows. Despite the upsurge in international lending and in international bond and equity issues, developing countries with debt problems have been almost entirely left out. Claims by commercial banks on the 15 problem debtors actually fell in 1986. While commitments under new refinancing packages could exceed \$18 billion over 1986 and 1987, banks are reducing their exposure to private sector borrowers. Their total net disbursements through 1988 are thus unlikely to increase by much. Foreign direct investment is providing little help to offset these trends. (See charts 7–9)⁵

Coming to Terms with the Judgment of the Marketplace

The markets are typically well ahead of governments in facing up to the fact that many debtor country loans are not worth their face value and are unlikely to become so. Six of the fifteen countries cited in the Baker Plan are confirming the market's judgment by no longer paying interest on their loans. In fact, the process has already begun that will lead to writedowns, interest deferments or capitalization, and eventually selective forgiveness. Should creditor country governments try to resist? If not, what should their role be, if any?

There was a strong case for government intervention to protect the banking system when the debt crisis first broke. That task having been accomplished, other issues have come to the fore. We have fundamental interests in fostering stable, Western-oriented democracies and more vigorous markets for U.S. exports in the debtor countries. While it

³ Chart 4, "Investment: 1979–87," is attached but not printed.

⁴ Chart 5, "Export Trends: 1980–87," and Chart 6, "Real Prices—Oil and Non-Oil Commodities: 1980–87," are attached but not printed.

⁵ Chart 7, "External Financing: 1979–87," Chart 8, "Banking Lending: 1981–87," and Chart 9, "Gross Bond Issues: 1981–87," are attached but not printed.

would be desirable if these countries serviced their loans in full, trying to deny the reality that some of them will not may only serve to undermine these other interests.

There are effectively two ways in which creditor country governments can deal with a process of interest deferment and partial debt cancellation:

— *Debt Discount Facility.* A facility with support from the IMF or World Bank would buy or guarantee the discounted loans of commercial banks. This arrangement would shift liability for any additional losses from the banks to the creditor country governments. Whatever its merits, today's budget environment all but rules out such an approach.

— *Direct Bargaining.* Creditor country governments would stay out of the negotiations between the debtor countries and their lenders. Whatever the outcome, countries undertaking reforms could still be allowed access to IMF support. While taxpayers would not be directly liable for any writedowns, they would share the costs with banks through reductions in tax revenues.

Toward a Market Solution

In the end, direct bargaining between the banks and the debtor countries offers the most realistic alternative. At least initially, it could contribute to more contentious debtor-creditor relations. Writedowns would strain banks with weaker capital positions. But this approach would also discourage both the banks and the debtor countries from prolonging their disputes in hope that creditor country governments would intervene on either's behalf. It would instead reinforce incentives to work out their own settlements involving more sustainable levels of financial transfers.

This approach should not be billed as a "solution" to the debt problem. Whether countries continue paying interest and try to borrow more or they opt for moratoriums on interest payments, without basic economic reform, they would be no closer to correcting their underlying problems. And whichever decision they make, a vigorous world trading system is a prerequisite for their future growth.

In many respects, more hands-off policies would leave essential elements of our debt strategy unchanged. For the debtor countries, the hard work of implementing domestic reforms with backing from the IMF and the multilateral banks would continue. For the creditor country governments, the challenge of assuring open and growing markets for exports from debtor countries and effective support for the official lenders would remain.

But this approach would also require that creditor country governments be strict in resisting the temptation to intervene in debtor-creditor negotiations. The recognition of the damage caused by trying

to set prices in foreign exchange markets may make it easier to incorporate this lesson in our debt policy.

In practice, this means:

- Changing the practice of making IMF programs contingent on the commitment of commercial banks to lend more.

- Avoiding putting pressure on either the banks or debtor countries in their negotiations over new financing programs.

- Exploring ways to cushion the impact on banks of recognizing losses on bad loans.

- Examining the possible role of the IMF or World Bank in monitoring reform commitments made as part of agreements involving partial forgiveness or interest deferments.

If you believe this approach is worth pursuing, we can work with EB and ARA to assess in more detail its risks and benefits and to develop specific policy actions. You would also need to take up with Jim Baker Treasury's practice of intervening in negotiations between the banks and the debtor countries.⁶

⁶ See Document 235.

231. Letter From Secretary of State Shultz to Secretary of the Treasury Baker¹

Washington, December 1, 1987

Dear Jim:

I strongly endorse your support for a General Capital Increase for the World Bank. I am sure that your announcement, coming as it did on the eve of the IMF/World Bank Annual Meetings, gave Barber Conable a boost both within the Bank and with other Bank members. In the coming months, I will make clear, in my discussions with members of Congress, that the GCI will serve very important U.S. foreign policy goals in addition to increasing the Bank's impact on economic development. In this regard, I would like to share with you my views on the size and level of paid-in capital for the GCI.

¹ Source: National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Congressional Correspondence, 1988, UD-10, 56-10-1, Box 33, Dept and Agency /S/ 88. No classification marking.

I favor a substantial GCI. I believe, like you, that economic reform represents the only available means for many developing countries to achieve sustained economic growth. This requires adequate financing as well as thoughtful—and often acutely painful—policy adjustments. The World Bank has done a good job of providing advice on the latter. A substantial GCI would assure that when solid commitments to reform are present, seed capital for growth will not be wanting. A large GCI offers the additional advantage of postponing the time when the Congress will have to consider the next GCI request.

I am also concerned that Congress not come to view a large GCI as an unnecessary drain upon the budget at a time when our energies are, quite rightly, concentrated on reining in government spending. I realize that some of our fellow members at the World Bank favor a substantial paid-in of between 5 and 10%. Their arguments are often echoed by Bank staff and some members of the financial community.

However, I believe it would be unwise for the Administration to request from Congress what it is so unlikely to deliver. Backed by its member-nations, the World Bank can quite easily sustain a minimal level of paid-in capital without jeopardizing its access to capital markets on favorable terms. In fact, I am convinced that a hard-headed financial analysis shows this GCI could go forward with zero paid-in. However, I recognize negotiating realities may well force us to accept a paid-in above zero.

For the Administration, each dollar devoted to the World Bank is one dollar less for IDA, regional MDB accounts, and other high priority items in our 150 account. Each one percentage point increase in the paid-in portion of a \$60 billion GCI translates into a \$118 million commitment for the United States, biting deep into our Foreign Affairs budget.

Realizing this, I hope that you will press our partners at the World Bank hard and long for a substantial GCI, but one with the lowest possible paid-in portion. You can be assured of my full support in this endeavor.

With warm personal regards,

Sincerely yours,

George P. Shultz²

²Shultz signed "George" above his typed signature. In a February 1 letter to Shultz, Baker expressed agreement with Shultz's thoughts on the GCI. Baker wrote that Shultz's "evaluation of the need for a relatively low paid-in portion for the GCI is right on the mark." Baker believed "we could present this request to Congress without jeopardizing other foreign assistance priorities." (National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Congressional Correspondence, 1988, UD-10, 56-10-1, Box 33, Dept and Agency /S/ 88)

232. Memorandum From the Under Secretary of State for Economic and Agricultural Affairs (Wallis) to Secretary of State Shultz¹

Washington, December 17, 1987

SUBJECT

Bank of Boston Write-Off of LDC Loans

The attached memoranda from EB and ARA both give useful perspectives on the implications of the Bank of Boston move for the debt strategy.²

The Baker approach correctly emphasizes that sound, market-oriented internal policies are the only way heavily indebted countries can grow, service their debts, and re-establish creditworthiness. We should continue to promote and support such policies along the lines of the present strategy.

But we must also recognize reality: in some, possibly many cases, entrenched political forces in debtor countries will prevent adequate policies from being adopted. In such cases, the loans are not going to be fully serviced, and our strategy needs to allow for voluntary settlements between banks and the debtor countries which recognize this fact. As the EB memorandum points out, steps like those taken by the Bank of Boston prepare the ground for such action.³ (At the same time, these steps put some pressure on debtor governments to recognize that changing course toward sound policies may be preferable to a formal, public acknowledgement of their poor credit standing.)

Such private, market-determined settlements may be difficult to reach, but where a second-best solution is necessary, they will be

¹ Source: Department of State, Executive Secretariat, S/S Files, 1987 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D155: [no folder title]. Confidential. A stamped notation reading "GPS" appears on the memorandum, indicating Shultz saw it. The memorandum is stamped: "ES Sensitive."

² A December 17 memorandum from Abrams to Acting Secretary Whitehead and a December 17 memorandum from Larson to Shultz are not attached. Copies of both memoranda are in the Reagan Library, George Shultz Papers, Executive Secretariat Sensitive (12/17/1987–12/29/1987). In his memorandum, Larson explained that the Bank of Boston announced on "December 15 that it would write off \$200 million of its \$1 billion portfolio of LDC (predominantly Latin American) loans, making it the first major U.S. bank to declare a significant portion of its Latin loans to be uncollectable." The bank also "said that it would place the remaining \$800 million on a non-accrual basis and that it would increase its loan loss provisions against these loans by \$200 million, to a total of \$430 million."

³ Larson concluded in his December 17 memorandum (see footnote 2, above) that the Bank of Boston's decision "injects a welcome shot of realism into debtor-creditor negotiations. Although it may complicate our current debt strategy of arranging concerted lending packages, the Bank of Boston's action is a logical response to market signals that many LDC loans are worth far less than their par value. Policymakers must find constructive ways to build on what the market is telling us about the LDC debt crisis." (Ibid.)

in the best long-run interests of our banking system and our relations with these countries.

Allen Wallis⁴

⁴ Wallis initialed "AW" above his typed signature. He wrote under his signature: "Am told by Mulford (protect) that (1) Bank of Boston main motive was to improve their competitive position in domestic markets—their stock price rose, other bank stocks fell. (2) Security Pacific will emulate B of B, and probably others. AW."

233. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Mulford) to Secretary of the Treasury Baker¹

Washington, December 17, 1987

SUBJECT

DEBT SITUATION—NEAR-TERM OUTLOOK AND OPTIONS

Summary. Commercial banks' willingness to provide new money to LDC debtors will be seriously compromised if the recent decision by the Bank of Boston to increase substantially its reserves forces other U.S. banks to take similar action.² At the same time, Brazil, Argentina and other key debtors face strong political pressures to reduce debt service and minimize adjustment efforts. This may lead one or more debtors to consider unilateral action in early 1988 to reduce its debt service burden. Both Brazil and Argentina confront key deadlines/decisions in the next 30–60 days.

Continued resistance by major debtors to take necessary economic reform measures, unwillingness by banks to provide new money, and a potentially steep drop in oil prices may require us to consider a fundamental departure from the present debt strategy.

It may be possible, however, to contain the situation over the next three months through increased support for troubled but adjusting debtors such as Argentina and possibly Mexico. This would require a more

¹ Source: Washington National Records Center, RG 56, Executive Secretariat, Congressional Files, 1987, 56–90–29, Box 45, Classified Memos to the Secretary (December) '87. Confidential. Sent for information. Baker wrote in the top left-hand corner of the memorandum: "1/3/88 CJ: Back to me pls. Thanx. JAB III." Copies were sent to McPherson and George Gould (Treasury).

² See Document 232.

active role for Treasury and official creditors, particularly the World Bank, and would go a long way towards isolating the Brazil problem.

Commercial Bank Environment. The decision by Bank of Boston to write off \$200 million in its LDC exposure; add an additional \$200 million to its reserves for LDC loan losses; and to place on nonperforming basis an additional \$470 million (on top of \$330 million already on a non-performing basis) is indicative of a more general hardening of commercial banks' attitudes towards debt problems. Through this action Bank of Boston's reserves and write offs are now equal to 63% of its non-trade LDC exposure.

Bank of Boston's action will increase pressure on other U.S. banks to follow suit. To date, only Mellon Bank has followed suit and Security Pacific is considering doing the same. While many of the regionals can match the Bank of Boston's move, some money center banks cannot. If the latest reserve action is generally followed by the U.S. banking system (even if at a lower level), it will reduce further the already low appetite of commercial banks for new money packages.

Debtor Country Environment. This latest reserve move comes against a backdrop of continued deterioration in the economies of several major debtors. In particular, Brazil and Argentina face serious political constraints which limit their margin for maneuver and which could give rise to unilateral actions to limit debt service. Such actions by these two major debtors would necessarily set the tone for other debtor countries. Both these nations and the Philippines, Ivory Coast, Nigeria, and Ecuador are expected to seek new money and/or additional debt relief from banks during the first half of 1988.

Brazil. Under the interim agreement, Brazil and commercial banks have until January 15 to agree on a term sheet. The two sides remain apart on many difficult issues: the link between commercial bank disbursements and the IMF; interest cap and interest capitalization; securitization (with an element of debt forgiveness); and the spread.

Brazil's political situation has paralyzed economic policy making and is the major cause of the present rapid degeneration in the domestic economy. Brazilian inflation is over 350% for 1987, is accelerating, and will exceed 20% per month by early 1988.

The operational deficit is 6–7% of GDP and the overall public sector borrowing requirement is 35–40% of GDP. The only bright spot is the trade balance; a surplus of \$11 billion in 1987 that could easily grow to \$12 billion in 1988. Daily exchange rate devaluations and depressed domestic demand are the key factors. There is little chance of an adequate economic adjustment program before mid-1988. This makes an IMF program and renewed official financing to Brazil before second-half 1988 remote.

Lack of political leadership in Brazil raises serious questions as to whether even the immediate negotiations with commercial banks can

be concluded in a timely fashion. There is a real danger that, if agreement on a term sheet is not at hand by January 15, the GOB will reinstate its moratorium on payment of bank interest. This would probably prompt ICERC to downgrade some Brazilian obligations to "value-impaired" as early as end-January. New non-trade related lending to Brazil is unlikely if this occurs.

A breakdown in negotiations could also trigger a broadening of the moratorium to include interest to official creditors as well as payments to the World Bank and IMF. This risk increases if Brazil proves unable to get its domestic house in order during the first half of 1988 and no official flows occur.

Accelerating deterioration of Brazil's relations with creditors would be a singularly negative development for the debt strategy. It would come at a time when Argentina is having difficulty with its own economic program and faces a potential cash squeeze.

Argentina. The GOA has been unable to implement the fiscal measures required under its IMF program. With the inauguration of the new opposition-controlled Congress on December 10, a compromise tax package may be in the offing. However, we fear that this compromise will be insufficient to stabilize the fiscal situation and satisfy the Fund.

If Argentina fails its early January performance review, the IMF would withhold its next disbursement. This would, in turn, occasion a suspension of the next \$500 million in commercial bank money. Given Argentina's low level of disposable reserves (about \$500 million at year-end), Alfonsín would be forced to suspend some debt service payments. Such an action will be more likely if Brazil has again suspended payments. Simultaneous moratoriums by both nations would magnify the overall impact and could precipitate other direct challenges to the debt strategy.

Other major debtors. A number of other major debtors pose problems for the debt strategy. However, these countries are driven by different forces and timeframes than Argentina and Brazil. Although we do *not* envision near term actions by these countries which would have systemic impacts, several of them would be susceptible to political pressures in the event of a significant and roughly simultaneous deterioration in the Brazilian and Argentine debt situations (see Tab A).³

Implications for Debt Strategy. The convergence of increased willingness on the part of commercial banks to reserve and eventually write off LDC exposure, in combination with increased pressures for debt relief by key debtors points to a considerably more contentious negotiating environment in 1988 with sharply poorer prospects for concerted new money packages. Many commercial banks will strongly resist providing new money while debtor countries will press harder for greater concessions.

³ Tab A, an undated paper entitled "Implications of a Deepening Brazil—Argentine Debt Crisis for Other Major Debtor Nations During Early 1988," is attached but not printed.

Increased commercial bank reserves, which banks and the market see as more accurately reflecting the value of LDC debt and as providing protection against further adverse debtor actions, may encourage some debtors to default or seek to “capture” unilaterally part or all of the secondary market discount reflected in the banks’ write off.

While the situation may be manageable in the near term by isolating Brazil, continued debtor resistance to reform, bank unwillingness to lend, and a potential steep drop in oil prices may require a fundamental departure from the present strategy.

Possible Approaches.

A. “*Steady as She Goes*”. We would continue to pursue the present strategy as outlined in your Annual Meetings speech.⁴ We would give greater emphasis on developing and implementing menu options, but with no major shift in the relative official/commercial bank burdens. This would involve the following elements:

- *More activist Treasury role* in negotiations between banks and LDCs, including offering specific solutions to expedite negotiations.

- *New money efforts, exit/conversion bonds and debt/equity swaps.* Greater use and enhanced implementation of these instruments would be encouraged by regulatory agencies’ actions. Interagency staff work on this has progressed and we have prepared letters from you to Greenspan and Clarke on these points. In addition, debtors would be urged to allow greater amounts of debt/equity conversions to take place, including by domestic residents to stimulate capital repatriation.

- *Delinking of commercial bank disbursements from IMF programs.* Encourage banks to reduce, phase, or eliminate the link between disbursements and IMF targets. They would instead accept indirect links to Paris Club reschedulings and World Bank sector loans and *de minimis* links or no links for disbursements earmarked for elimination of external arrears.

- *Early implementation of IMF External Contingency Facility.*

- *Early conclusion of negotiations on a significant IBRD GCI.*

B. *Greater Official Participation in Debt Strategy.* Official creditors would *indirectly* assume a greater share of the burden. This could involve the following elements:

- *Increased use of official (e.g., IBRD) guarantees for new bank lending.*

- *Selective granting of preferred creditor status for new money.*

- *Official support for proposals involving securitization of outstanding bank-held debt that incorporate some form of official guarantees or assumption of risk.*

C. *New Departures from Existing Strategy.* Debtors’ outstanding debt service burden would be reduced to enhance repayment prospects on remaining debt. Implementation of this approach could involve the following elements either individually or in combination:

⁴ See Document 228.

— *Creation of a Debt Facility.* Official creditors, in a joint venture with commercial banks, could establish and provide limited financial support for a new facility to purchase bank-held debt at a discount. This discount could be passed on to the debtors in exchange for economic policy commitments. Official participation could be structured in such a way as to minimize the charge of a bank bail-out, which is a serious disadvantage of all present debt facility proposals.

— *Chapter 11 partial bankruptcy for debtors.* A mechanism, analogous to the domestic bankruptcy mechanism, could be established (perhaps through the IMF) to facilitate a negotiated forgiveness of a significant portion of LDC debt.

— *More aggressive use of ICERC.* Regulators could more aggressively require write offs by banks. This would give banks a tax deduction and would have no negative impact on earnings unless a bank chooses to rebuild reserves following the write off. But, this action would likely discourage new lending. For non-adjusting LDCs, more aggressive use of ICERC would be a "seal of disapproval."

— *Urge banks to provide partial debt forgiveness.* Regulators in industrial countries could encourage banks to pass on to adjusting debtors part or all of the write offs and associated tax benefits derived from a more aggressive use of mandatory writedowns.

234. Memorandum of Conversation¹

Washington, January 29, 1988, 7:30–8:30 a.m.

SUBJECT

International Economic Policy Breakfast of January 29, 1988

PARTICIPANTS

Secretary of State, George P. Shultz
 Acting Assistant Secretary for Economic and Business Affairs, Alan Larson
 Secretary of the Treasury, James A. Baker
 Deputy Secretary of the Treasury, M. Peter McPherson
 Assistant to the President for National Security Affairs, Colin L. Powell
 Director for International Economic Affairs, NSC, Stephen P. Farrar
 Administrator, Agency for International Development, Alan Woods

[Omitted here is discussion of economic issues not focused on debt.]

Mexican Debt for Bonds Plan

Baker said *Mulford* will be testifying on the plan early next week. We don't know whether major banks will participate—bids are due

¹ Source: Reagan Library, Stephen Danzansky Files, Subject File, IEP Breakfasts 11/12/1987–09/09/1988; NLR–733–10–23–4–7. Secret. Prepared by Farrar. The meeting took place at the Department of the Treasury.

by February 19. The regional banks and foreign banks likely will bid. The question is what discount will be offered. A big discount—50%, for example—could hurt weaker banks. *Baker* saw the plan as a useful item in the menu, mainly as an exit vehicle for regional banks. *Shultz* asserted that the Mexican plan is a difference in kind from previous elements of the debt strategy because it acknowledges that not all Latin debts will be repaid. *Baker* concurred. (C)

Debt Strategy

Baker reviewed the U.S. strategy—growth, Baker Plan, menu, etc.—and said it is still valid. Useful new tool might be some limited cofinancing with the World Bank. He ran through the alternatives—Marshall Plan, legislated relief, buy-out of debt by international institutions—as a unworkable, but was willing to look at all ideas. *Shultz* was concerned that the USG may be too much in the middle of negotiations between debtor countries and commercial banks.² *Baker* agreed that it is important to keep the burden on the two protagonists. Treasury is studying a range of options that could help do that, including ways of separating old debt from new debt that would have seniority for servicing purposes. The key, *Baker* said, is to manage a gradual reduction of the debt burden. (C)

[Omitted here is discussion of the IDB Presidency.]

Future PRG Discussions on Debt

Colin Powell raised with Secretary *Baker* the issue of PRG discussions of debt. He said that as Deputy NSA he had chaired three meetings and found them useful information exchanges.³ *David Mulford*

² In a January 28 memorandum to *Shultz* that provided background, recommendations, and talking points for the January 29 breakfast meeting with *Baker*, *Larson* outlined key elements of an evolution of the debt strategy that EB saw to be necessary for remedying the debt problem. One of the key elements was a “phasing out of USG intervention in bank/debtor negotiations to give widest possible latitude for reaching debt settlements, be they write-offs, new money, bond swaps or other arrangements.” (Department of State, Executive Secretariat, S/S Files, 1988–1989 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D154: Through Memoranda, February 1988)

³ In a January 25 memorandum to *Negroponete*, *Danzansky* explained that the Policy Review Group “has discussed the international debt situation three times during the past year.” On February 19, 1987, the PRG discussed solely the situation in Brazil. On April 27, the PRG discussed the debt situations in Brazil, Argentina, and the Philippines. On September 18, the PRG discussed the debt situations in Brazil, Argentina, the Philippines, and Africa. *Danzansky* attached the minutes and agendas of all three meetings to the memorandum (Reagan Library, Stephen Farrar Files, Chronological File, Farrar Chron January 1988; NLR-77-7-22-1-3) Minutes of the February 19 meeting are scheduled for publication in *Foreign Relations*, 1981–1988, vol. XVI, South America. Minutes of the April 27 and September 18 meetings are also scheduled for publication in *Foreign Relations*, 1981–1988, vol. XVI, South America.

typically briefed the PRG on the status of Treasury activities, and foreign policy agencies got a chance to offer their perspectives. *Baker* said he had no problem with PRG meeting to exchange information. He had been under the impression that the meeting scheduled for earlier this week was to be a decision meeting, due to the short notice and formal appearance of the agenda.⁴ *Powell* assured him that it was not planned as a decision meeting, and agreed that any decisions would be taken up at the IEP breakfast or by the EPC. With that, *Baker* gave his OK to future PRG meetings on the subject.⁵ (C)

⁴ According to an undated background paper prepared for *Powell* for the January 29 breakfast meeting, which *Danzansky* sent to *Powell* under a January 28 memorandum, the NSC "had scheduled a PRG discussion on debt" for January 25 to which *Baker* had objected. The paper recommended that *Powell* raise at the breakfast meeting the importance of having a forum for "ongoing senior-level interagency communication on debt." (Reagan Library, Stephen Farrar Files, Chronological File, Farrar Chron January 1988; NLR-177-7-22-23-9)

⁵ See Documents 235 and 236.

235. Memorandum From Stephen Danzansky of the National Security Council Staff to the President's Deputy Assistant for National Security Affairs (Negroponte)¹

Washington, February 4, 1988

SUBJECT

PRG Meeting on International Debt, 2:00 P.M., Friday, February 5, 1988, The Situation Room²

Events over the next few months will be critical for U.S. debt policy, particularly toward the major Latin debtors.

◦ In *Brazil*, a new economic team headed by Finance Minister *Nobrega* is negotiating with commercial banks toward an agreement which could provide as much as \$7 billion in new money through

¹ Source: National Security Council, NSC Institutional Files, Box SR-123, PRG MTG 00099. Confidential. Sent for action. Prepared by Farrar, who initialed for *Danzansky*. A stamped notation at the top of the memorandum reads: "Deputy Natl Sec Advisor has seen."

² See Document 236.

1989 in exchange for Brazilian agreement to resume interest payments on commercial debt. Bank negotiators believe that less new money is needed (in the \$4–5 billion range), and only through the middle of 1989. Agreement may hinge on Brazil's willingness to enter into an IMF program. The banks have insisted that an IMF program be in place before any commercial funds are disbursed. Brazil has rejected any linkage. Brazil's domestic political uncertainty makes it unlikely that meaningful economic reform measures will be implemented successfully in the near future.

◦ *Argentina* has nearly depleted its foreign exchange reserves. It would receive \$775 million in new funds from the IMF and commercial banks during the first quarter if it is found to be in compliance with the current IMF standby arrangement. The IMF has reportedly agreed to make a positive finding despite clear inadequacies in Argentina's recent tax reforms. Argentina must remain in the Fund's good graces to fill a financing gap of about \$2 billion for the rest of 1988. CIA places the odds of Argentina declaring a moratorium on commercial interest payments sometime over the next six months at greater than 50%.

◦ *Mexico's* relatively large foreign exchange reserves (\$14–15 billion in November) enabled it to announce its debt-for-bonds plan on December 29. Under the plan, Mexico would use up to \$2 billion of its reserves to buy up to \$10 billion in U.S. Treasury 20-year zero-coupon bonds to serve as collateral for Mexican bonds offered in exchange for discounted debt. Bids on the Mexican bonds will be announced on February 19. The plan is an innovative, market-based approach to alleviating the debt burden, but it is uncertain how many banks will participate and at what discount. Interest in the scheme is spreading. The Philippines have already begun pressing for a similar approach. With scarce foreign exchange reserves, however, the GOP wants \$1.5 billion in grants or soft loans from the U.S., Japan and Taiwan to allow purchase of the zero-coupon bonds.

Mexico's current IMF program ends in March, 1988, as does availability of the \$7 billion new money package provided by commercial banks last year. In view of its strong reserve position, Mexico is unlikely to need another IMF program or commercial rescheduling this year.

Treasury and the Federal Reserve have effectively abandoned their hands-off stance to managing debt crises, becoming visible and activist as intermediaries between debtor governments and their foreign banks. The agreement reached in early December that avoided Brazilian debt being declared value-impaired by U.S. regulators was reached at Treasury and Fed insistence. Our concern is that excessive activism will take pressure off the commercial banks to participate in debt restructurings. It could also create pressure for official resources to reduce the debt burden.

The recent increases in reserves by international commercial banks to cover potential losses on third world loans divides the banks in terms of flexibility to deal with the debt. Provisions for losses range from 70%

for major West German banks to 5% for Japanese banks. In the U.S. most money center banks have reserves of about 25%, though some (and some regional banks) have reserves in excess of 50%. Stronger reserves for potential losses allow banks to pursue more aggressive or confrontational strategies.

The debt issue receives little interagency review. The Mexican debt-for-bonds plan was not reviewed at all. Debt has been discussed occasionally at the monthly international economic breakfasts, attended by Shultz/Baker/Powell. The PRG has provided the only other senior-level forum. In addition to obtaining a report from Treasury on the status of negotiations with the three countries, it will be especially useful to *encourage discussion of how the separate negotiations relate to each other and affect the broader U.S. debt strategy*. State and the CIA will also be prepared to address linkages to U.S. foreign policy objectives in the region.

Jose Sorzano concurs.

RECOMMENDATION

That you use the agenda at Tab A and the talking points at Tab B³ to lead the discussion. The talkers include country-specific questions that you might ask as appropriate.⁴

³ Tab A, "Agenda," and Tab B, "Talking Points," are attached but not printed. Tab C, "Table—Basic Economic Data," is also attached but not printed.

⁴ Negroponte did not indicate his approval or disapproval of the recommendation.

236. Minutes of a Policy Review Group Meeting¹

Washington, February 5, 1988, 2–3 p.m.

SUBJECT

International Debt

PARTICIPANTS

State:

W. Allen Wallis

William Milam

Paul Taylor

Treasury:

David Mulford

Ciro DeFalco

Defense:

David Wigg

Robert Pastorino

OMB:

Wayne Army

CIA:

Deane Hoffmann

[name not declassified]

JCS:

Jonathan Howe

Paul Donaldson

CEA:

Michael Mussa

AID:

Malcolm Butler

James Fox

NSC:

John Negroponte

Stephen Danzansky

Stephen Farrar

Minutes

John Negroponte identified the objective of the meeting as gaining a better understanding of the linkages between the financial and foreign policy dimensions of the debt problem.

Argentina

Mulford described the tight financial situation. External reserves are \$500 million or less. Argentina is renegotiating its standby arrangement with the IMF, having missed its fiscal deficit target. It must pay about \$400 million in BONEX (dollar-denominated) bonds on February 15. In order to make the payment, the GOA stopped payment of interest to banks on January 1 and is accumulating arrearages to the IMF. However, *Mulford* said that if Argentina can reach agreement with the IMF, it will have access to \$225 million from the IMF and \$550 million from commercial banks, plus a \$500 million World Bank sector loan later this year. In his view, it is a question of timing. The negotiations

¹ Source: National Security Council, NSC Institutional Files, Box SR-123, PRG MTG 00099. Confidential. Sent under a February 8 covering memorandum from Danzansky to Stevens, requesting that Stevens approve the minutes. The meeting took place in the White House Situation Room.

should be resolved by early next week. If successful, the Argentines will ask for a bridge loan to provide temporary financing through the end of March.

Allen Wallis cited the need for Argentina to adopt and stick to meaningful economic reforms. *Mulford* said Argentina plans to begin new negotiations with the banks in April, seeking a 2 or 3 year program with structural changes. Prospects were also good for a more flexible IMF approach. *Mulford* said that Argentina is not close to declaring a moratorium.

Both *Wallis* and *Deane Hoffmann* noted the difficult domestic political environment in which Argentine financial negotiators must operate. In response to a question from *John Negroponte*, it was asserted that the military is not a threat to retake control. *Ciro DeFalco* observed that the Peronist opposition has been even more cooperative recently because it wants to relieve the debt problem before assuming power in the 1989 elections.

Brazil

Mulford summarized Brazil's financial history over the past year. Last February, it declared a moratorium on interest payments on commercial debt. During the summer, it began pressing for a unilateral securitization plan which amounted to a disguised form of default. The USG firmly rejected it, and persuaded Brazil to concentrate on finding a way to avoid U.S. regulators declaring Brazilian debt "value impaired". In December, a \$4.5 billion package was put together to finance arrears, thus avoiding such a declaration. The agreement contained a provision requiring Brazil to remain current on interest payments in 1988, a provision that is not being honored.

Mulford said Brazil is now negotiating with banks on a medium-term restructuring agreement, and this week agreed to pay \$350 million toward interest arrears without condition. It has also agreed to announce the end of its moratorium when agreement is reached on the term sheet for the medium-term package. It will also begin negotiations with the IMF, with a mid-June target for agreement. While Brazil wants no linkage between commercial bank disbursements and IMF funds, the same security can be obtained other ways, such as through the Paris Club. *Bill Milam* thought the Paris Club could be effective in this role, although it would be difficult. Overall, *Mulford* saw a marked improvement in the Brazilian situation compared to last summer.

Wallis noted the relationship to the informatics controversy. He said improvement in the debt situation corresponds with Brazilian actions to defuse the informatics situation, in which the U.S. is poised to

retaliate.² *Deane Hoffmann* observed that the potential for improvement is limited by President Sarney's obsession with winning a longer term in office. In response to a question from *Steve Danzansky*, *Paul Taylor* opined that most of the bad economic provisions in Brazil's pending constitution will be removed.

Mexico

Mulford noted the favorable turnabout in Mexico's external accounts (1987 trade surplus of \$10 billion and current account surplus of \$4 billion) but cautioned that much change is needed in domestic economic policies. He described Mexico's debt-for-bonds plan, but said we will not know until February 19 how successful it will be. He guessed that smaller regional U.S. banks and some larger foreign banks with larger reserves would want to take advantage of the plan. Large money-center banks might be less willing.

In response to a question from *Steve Danzansky*, *Mulford* said that bank regulators are not taking special steps to encourage banks to participate in the Mexican plan, though regulatory changes in Japan might be influential. He noted a possible regulatory problem in the requirement that bidding banks mark offered loans at the bid price, whether or not the bid was successful.

Summary

Mulford said that the Baker Plan strategy is still in place and is supported by other countries as the only workable approach. The menu concept has made the strategy stronger, and has encouraged market-related ideas. Banks are now looking for better ways to participate, promising more productive use of capital. A fundamental problem with Argentina, he said, is that it is insolvent. It is thus an ideal candidate for finding a way to reduce the stock of debt. But he cautioned against being lured by seemingly simple global solutions that will end up requiring large-scale government funds.

² Documentation on this is scheduled for publication in *Foreign Relations*, 1981–1988, vol. XVI, South America.

237. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Mulford) to Secretary of the Treasury Baker¹

Washington, February 26, 1988

SUBJECT

Next Steps Under the Debt Strategy

Summary

This memo provides an appraisal of the debt strategy, in light of recent developments and evolving debtor and commercial bank attitudes. In particular, it explores options for encouraging new bank financing, as well as various debt reduction proposals that do not involve a direct and substantial shift of the debt burden to taxpayers of creditor countries.

While the debt strategy has been successful in a number of respects, and remains valid for our general approach, I believe we need to consider whether additional measures are needed to help assure continued new financial flows for the major debtors, and whether we should develop new mechanisms to help reduce the stock of debt.

My conclusion is that we need to make progress on both fronts, but with solutions only to be applied on a case-by-case basis. It is inevitable, however, that as we approach individual cases certain elements of our approach, particularly those related to attempts to reduce the stock of debt, will in practice be perceived as having a general applicability. We need, therefore, to bear in mind these general implications and make certain that we can live with them as they are adapted and perhaps generalized to some extent among debtor countries.

Argentina is clearly a special case and one that will need immediate attention. The GOA received a large commercial bank financing package in 1987 (completed in August), but is now so short of reserves that new financing for 1988 is imperative to meet a very high debt service burden. The problem is complicated by the fact that negotiations with Brazil and the marketing of Brazil's new money package to the banks will overlap with Argentina's negotiations with the IMF and the commercial banks. A proposal for Argentina is included on page 7 of this memo.

¹ Source: National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Congressional Correspondence, 1988, UD-10, 56-10-1, Box 43, Classified Memos to the Secretary, February '88. Secret. Baker placed a checkmark at the top of the memorandum.

Current Assessment

The basic strategy has been successful in:

(1) Buying time for both the debtor nations and the international financial community to continue confronting this deeply intractable problem. (The fact that no financial market “crisis” has occurred is itself an achievement.)

(2) Convincing debtors to begin making fundamental economic reforms aimed at strengthening growth (e.g., Mexico finally is beginning to reform its trade regime).

(3) Enhancing the World Bank’s emphasis on policy-based structural reforms and encouraging a more growth-oriented, longer-term focus for IMF programs.

(4) Providing time for the commercial banks to increase both capital and reserves, reducing their vulnerability on LDC exposure, while maintaining their support for new debtor reforms.

(5) Achieving more flexible regulatory mechanisms in support of new financing and exit instruments.

(6) Providing political support to debtors which have had to accept the reduced availability of financing. As a result the growth in the stock of debt has been greatly reduced so that in many countries GNP is growing faster than debt.

(7) Convincing debtor nations that the feared instrument of a debt moratorium is not an attractive tool for long-term use.

(8) Forcing banks to recognize that losses are inevitable and encouraging them to position themselves to take losses. (Debtor conversions and other menu options are being actively embraced.)

On the negative side, the stock of debt remains too large and in some cases is still growing too fast; debtor nations and commercial banks are experiencing “fatigue” in their respective efforts; debtor governments are under domestic political pressure to demonstrate more rapid progress; and commercial banks are increasingly reluctant to extend new loans. Perhaps most important, there is widespread political perception that we are not making progress with the debt strategy and that some global solution involving the transfer of the problem to taxpayers in creditor countries will have to be found.² There is a lack of hope for ultimately resolving this problem without a major crisis. In short, as our ability to resolve the debt problem through market solutions has improved, the prospects for our avoiding a political solution with major creditor government involvement appear to be diminishing.

In my view, the key to reversing this trend is to find ways to accelerate the menu of options approach, including the provision of new money, and at the same time to find market-based solutions for reducing the stock of debt for those debtors with the largest debt burdens

²Baker underlined “global solution involving the transfer of the problem to taxpayers in creditor countries.”

in relation to their GNP and their capacity to service debt. In addition, we must be prepared for our banks to face a painful show-down with one or more debtor countries if that possibility emerges at some point in the next few months.

Although we are presently making good progress with Brazil and Argentina,³ the period ahead may prove to be very difficult. Adverse developments on the debt front could seriously affect a small number of U.S. banks and pose difficult problems for financial markets. We should not, however, let our policy response be driven by concerns about the financial weakness of two or three sizeable U.S. banks. The ultimate cost to our strategy of such a course appears to me to far exceed that of facing up to the implications of serious problems for one or two banks.

A. Enhancing Capital Flows

The "menu" approach proposed last spring is evolving to help meet the need for greater flexibility in new money packages, but there is reason for concern that it is not evolving rapidly enough to induce stronger bank lending. Both the Ecuador and the Colombia new money packages saw large numbers of banks refuse to participate, and the bank advisory committee for Cote d'Ivoire has adopted a plan (probably subject to legal challenge) that would penalize banks that refuse to participate.

We should continue to encourage the menu approach (e.g., debt/equity swaps, trade credits, new money bonds) and seek additional options or refinements that provide a basis for continued participation by banks. For example, the recent OCC statement in connection with the Mexican debt/bond exchange offer that national banks may hold LDC bonds as either loans or as Type III investment securities helps to clarify the general question of whether and how banks can hold LDC bonds. It may also help in the development of a market for LDC bonds as a new money instrument which is viewed as a preferred, non-reschedulable obligation.

We should also continue to press both the IMF and the World Bank to focus on reforms in debtors' investment climates as an alternative to new debt flows. However, the development of new corporate investment flows will take time, will depend upon a restoration of confidence, and cannot substitute in the short term for continued commercial bank financial support.

As the banks exit from existing exposure, the base for new lending will shrink, making the provision of new funds more difficult to assure. The major money center banks will be reluctant to pick up this

³ Baker underlined "we are presently making good progress with Brazil and Argentina."

slack without added sweeteners. In cases where banks are extremely reluctant to increase their exposure, we probably will need to consider various forms of support from the international financial institutions. These could include the following general approaches:

(1) *Parallel IBRD cofinancing.*

This program has only been used in a few instances for debtors with a significant rescheduling risk. It fails to meet the banks' objective to obtain full preferred creditor status *and* a cross-default provision.

(2) *IBRD cofinancing with formal preferred creditor status.*

The banks would welcome this approach, but its use is limited by the fact that among major debtors the proportion of the stock of debt that already enjoys preferred status is relatively high. Its heavy use therefore could jeopardize the preferred status of both the World Bank and the IMF.

(3) *IBRD guarantees or insurance.*

Increased use, on a selected basis, of guarantees of the later maturities of commercial bank loans (as done for Mexico and Chile) are probably the most effective means of enhancing commercial bank flows. They can be used to clearly differentiate new loans from outstanding loans that may be candidates for writing down. As a cosmetic device to help avoid perceptions of a bank bailout, it might be possible for the IBRD to offer "insurance" for higher fees instead of guarantees.

B. Possible Measures for Reducing the Stock of Debt Without a Direct and Substantial Shift of Debt Burdens to Taxpayers of Creditor Countries

Some reasonable reduction in the stock of debt of several major debtor countries would do more to breathe new hope and political credibility into the debt strategy than any other development. The greatest benefits in all respects would be derived from mechanisms that reduce the stock of debt without engaging in conventional debt forgiveness. The greatest weakness of all "grand design" proposals, such as the debt facility proposed by Jim Robinson and some Members of Congress, is that the proposals all visualize large creditor government involvement and negotiated forgiveness of debt.⁴ Our search for solutions in this area should be based on the following principles:

— The primary focus should be on market-based instruments to reduce debt and debt service burdens.

— Official support should avoid shifting the risk on existing private sector debt to the public sector. (Collateralization techniques are preferable to outright purchases of debt. The reduction of regulatory or tax impediments or clarification of regulatory/tax treatment can also be useful.)

— If official funds are involved, they should be carefully conditioned on policy reforms on a case-by-case basis and they should be strictly limited both as to size and to their precedential implications for other countries.

⁴ Baker underlined "visualize large creditor government involvement" and "negotiated forgiveness of debt."

Finally, we should remember that debt reduction can be composed of many facets and that while some may produce small results, the total impact may be significant. In any case, some small measure of debt reduction is far superior to the creation of more debt. A number of positive steps have been taken recently to support techniques that reduce the stock of debt and/or debt service burdens:

— The *Fed* has liberalized Regulation K provisions to permit bank holding companies (and in limited cases, banks) to own, through debt/equity swaps, up to 40 percent of *any* private sector company and up to 100 percent of the voting shares of nonfinancial institutions which are being privatized. The permissible holding period for such equity holdings has been lengthened to the shorter of 15 years or 2 years beyond the period of the debtor country's restrictions on repatriation of the investment.

— Treasury has issued a revenue ruling on the valuation for tax purposes of *debt/equity swaps* and *debt/charity swaps*.

— Treasury has supported the Mexican *debt/bond exchange* offer through the issue of zero-coupon bonds to collateralize the principal of the Mexican bonds.

— Treasury will prepare a report to Congress (due April 1) on possible initiatives to encourage the development of *debt-conservation swaps*, including potential IMF or World Bank measures.⁵

The Mexican exchange offer provides an alternative route to reduce more rapidly the stock of debt, and by larger amounts. If it is successful, we may want to consider whether it could be developed further for other key debtors. Since Venezuela is the only major debtor with adequate reserves to collateralize securitized debt from its own resources, the following options offer alternative ways of collateralizing or buying back debt for other countries:

1. *World Bank/IMF Debt Reduction Program.* To assist debtors with low reserve levels, the World Bank and/or the IMF could provide funds to debtors to boost their reserves specifically for the purpose of enabling them to purchase zero-coupon bonds to back the debt/bond swap. The loans should be linked to commercial bank loans for this purpose, and/or could be designated as "debt reduction loans".⁶ Conditionality would apply to such IMF and World Bank sector loans. As an alternative to lending, the World Bank itself could possibly issue the zero coupon bonds directly to collateralize the bond issue on behalf of the country. (The World Bank could also simply guarantee the

⁵ A copy of the report, "U.S. Treasury Department Report to Congress on Debt-for-Nature Swaps," is in the National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Congressional Correspondence, 1988, UD-10, 56-10-1, Box 46, [no folder title].

⁶ Baker underlined "'debt reduction loans'."

principal repayment of the debtor's own bond issue to avoid altogether the need to buy zeroes.)

Implications. While the debt exchange would occur through the market, some level of official finance would be involved.⁷ Funds for this purpose would have to be additional to other loans to meet the debtors' financing gap. While the international financial institutions would be assuming additional risk, this would be spread to the full membership of the Bank and Fund, and could be shared with the commercial banks.

2. *Debt Exchange Using IMF or World Bank "Window".* Surplus countries (i.e., Japan, Germany, Taiwan, etc.) would fund a newly created IMF or World Bank window similar to the IMF's Witteveen Facility in the 1970s. The new window would provide finance to debtor countries to collateralize bond issues to retire commercial bank debt. The finance would be used by the debtor country to purchase the zeroes.

Implications. Additional funds for the collateralization would come from surplus countries, so that present IMF or World Bank resources would not be drawn upon.⁸ However, because the IMF or World Bank would be responsible for repaying the surplus countries for funds provided, the World Bank and IMF would still bear the risk.⁹ Creation of such a window, like the previous proposal, would involve the spreading of risk onto all members of the Bank and IMF, but the window would involve the surplus countries directly in recycling their surpluses to the debtor countries. This would take a lot of time to negotiate. There would also be pressure for the U.S. to contribute.

3. *Bolivian-Type Debt Buyback.* Under this approach debt would be retired directly by providing concessional finance to allow the debtor to buy back its debt at a substantial discount. This approach could be used for countries with exceptionally poor payments capacity such that their ability to even service interest on a reduced stock of debt is suspect.

Implications. This approach is only feasible for countries which expect that their future balance of payments financing needs will be met *exclusively* by official creditors. As such, it has limited applicability among major debtors. It could be used, though, to retire commercial bank debt in recognized "basket cases", i.e., Sudan and Zaire.¹⁰ In addition to problems posed using official finance to support a debt buy-back (i.e., Congressional charges of "bailing out the banks"), it would also raise questions of comparability for official creditors, who could be asked to forgive their own credits owed by the affected debtor country.

[Omitted here is the proposal for Argentina.]

⁷ Baker underlined "some level of official finance would be involved."

⁸ Baker underlined "would come from surplus countries."

⁹ Baker underlined "World Bank and IMF would still bear the risk."

¹⁰ Baker underlined "Sudan and Zaire."

238. Information Memorandum From the Acting Assistant Secretary of State for Economic and Business Affairs (Larson) to Secretary of State Shultz¹

Washington, March 16, 1988

SUBJECT

Problems Brewing on IMF Conditionality in Major and Strategic LDCs

Summary and Introduction. Over the next 6–9 months, pressures regarding IMF policies will intensify. A number of politically important, problem-debtor countries need good Fund programs to avoid a severe financial squeeze, but are unable or unwilling to undertake serious economic adjustment. These include Egypt, Yugoslavia, Argentina, Zaire, and probably Senegal and Brazil. At the same time, G–7 countries (and most OECD countries) are pressuring IMF Managing Director Camdessus to toughen up the Fund programs. They blame the US for the recent tendency toward weaker ones. *End Summary and Introduction.*

Industrial-country members of the IMF are beginning to resist “weak” standby programs. Fund standbys have supported a number of weak adjustment programs recently as a last resort to prevent important LDC debtors from abandoning managed adjustment altogether. Weak standby programs do little to correct entrenched balance of payments problems but do allow the Fund to supply credit to “refinance” payments to the IMF, and provide justification for Paris Club rescheduling. Industrial countries conclude that weak programs cannot continue without compromising the integrity of the IMF and endangering the monetary nature of the organization. In addition, there is fear that the Fund is falling victim to the conditionality paradox which has plagued concerted commercial lending; *viz.* the worst financial/economic performers, which should pursue the most stringent adjustment, are rewarded with the softest lending terms and performance criteria.

This emerging consensus that the Fund must toughen up runs directly counter to the growing “adjustment fatigue” of the debtor/developing countries. Egypt is the most adamant, as you heard personally from Mubarak. At the same time, Egypt requires both enormous adjustment *and* enormous financing if it is to avoid severe economic crisis. Without a standby and the concomitant Paris Club,

¹ Source: Department of State, Executive Secretariat, S/S Files, 1988–1989 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D154: Through Memoranda March 1988. Confidential. Drafted by Seth Winnick (EB/IFD/OMA) on March 11; cleared by Milam. Sent through Wallis. Wallis wrote on the memorandum: “worth reading.” “3.16 JB” is written at the top of the memorandum.

Egypt's financing requirement this year would be about \$2 billion. But Yugoslavia, Zaire, Argentina, and possibly Brazil and Senegal may also become big problems before mid-year. These governments, like Egypt, seem to be drawing a line in the sand, saying they will accept an IMF program only on their terms. Also like Egypt, they all need generous Paris Club and/or commercial bank reschedulings along with standbys.

To take the long view, we are at the juncture of two contradictory trends: "adjustment fatigue" in the LDCs/debtors *vs* "financing fatigue" in the creditors. Effective adjustment in most LDC's requires deep structural change and a strong, prolonged political will to effect this change in the face of slow growth. This realization is one factor which increasingly influences both debtors and commercial lenders as they struggle to reach accommodation on rescheduling/new money packages.

Creditors have learned that the effectiveness of conditionality is questionable. Countries cannot be forced against their will into sound economic management. The IMF and IBRD, like the commercial banks, have found themselves protecting their investments in debtors, instead of pursuing effective adjustment. The result has been acceptance of weak programs for both middle income and the poorest countries.

The developing world has discovered that policy adjustment can be both delayed and piecemeal without immediate consequences, perhaps because of an overly tolerant international financial community. In other words, the incentives for LDC political leaders to pursue sound economic policies have been less than clear.

The US has not been consistent in its own approach. We have tended to acquiesce—if not encourage—accommodating IMF programs in the big debtors (except Yugoslavia), but have been tough on the programs in other countries. In addition, the US has insisted on conservative financial management by the IMF, in particular significant and continuous increases in IMF reserves against losses.

Other G-7 Finance Ministries and Central Banks are trying to close ranks on the need for better IMF programs. (There will, of course, be conflicts within the G-7 governments over these issues, between finance and foreign ministries.) The G-7 Deputies, we believe, are charged to monitor major IMF programs and report on them to Ministers. Treasury staff is sensitive to the perception that the US has been the leading culprit, and is no doubt sensitizing Baker. However, it is questionable whether Treasury can withstand the temptation to jump in on the side of a major debtor (e.g. Brazil) when problems with the Fund threaten the debt strategy.

Within the next few months, Egypt, Argentina, Yugoslavia, Zaire, Brazil and Senegal will all seek new or renewed IMF programs with minimal conditionality. They will expect our support in the IMF as part

of the political and security relationship they have with us. Balancing our broad interests in these countries will be extremely difficult, and easily could create friction with Treasury, and possibly within the G-7, from time to time. In our view, we need to get Baker's agreement to set up a system for early warning, discussion, and resolution of these issues. The primary interlocutors should probably be Allen Wallis and Peter McPherson; Alan Woods should be included when AID is involved in the debtor country—as in Egypt. Such a system would avoid much strain, and the need for last-minute, Cabinet-level decisions.

239. Information Memorandum From the Assistant Secretary of State for Economic and Business Affairs (McAllister) to Acting Secretary of State Whitehead¹

Washington, April 22, 1988

SUBJECT

IMF/IBRD Spring Meetings: Surprising Harmony

SUMMARY AND INTRODUCTION

Despite mid-week jitters in the stock and foreign exchange markets, last week's meetings in Washington of the G-7/10, Interim, and Development Committees were quiet and productive.² Economic policy coordination and the twin problems of debt and poverty in the Third World remain high-profile issues. But G-7 members paid an indirect tribute to Treasury Secretary Baker by emphasizing the IBRD replenishment and the slow-but-steady progress achieved under the strengthened debt strategy. END SUMMARY AND INTRODUCTION

G-7 and 10

[Omitted here is reporting on discussion of exchange rates.]

¹ Source: Department of State, Executive Secretariat, S/S Files, 1988-1989 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D154: Through Memoranda April 1988. Confidential. Drafted by Seth Winnick (EB/IFD/OMA) and Jack Robinson (EB/EFD/ODF); cleared in EB/EFD and EB/IFD/OMA, and by Larson. Sent through Wallis. Larson also initialed the memorandum for McAllister. Shultz was in Moscow April 21-24 to discuss preparations for the upcoming summit meeting; Whitehead served as Acting Secretary.

² The Interim and Development Committees of the IMF and World Bank met April 14-15.

On the debt strategy, the seven attempted to preempt any dramatic proposals by issuing a strong endorsement of the case-by-case approach. The G–10 meeting was a bit spicier than usual as the new chairman, Swedish Finance Minister Feldt, was rebuffed in his attempts to initiate a new study of the international monetary system.

The Interim Committee

The Committee endorsed IMF staff's cautious appraisal of the world economic outlook: steady, moderate growth with low inflation, less-than-certain prospects for further reductions in external imbalances (as deeper US fiscal deficit cuts and further structural reform in Europe and Japan come up against tougher political barriers), and considerable downside risks without much upside potential.

The committee endorsed a compromise forged by the Fund on reform of the Compensatory Financing Facility (CFF) and establishment of the Contingency Financing Facility proposed by Secretary Baker last September.³ The reformed facility (tentatively the CCFF or C2F2) will have tighter conditionality but greater flexibility than the old. A major victory for Secretary Baker, the facility could have a lasting impact on the financing of adjustment programs. The committee also gave encouragement to the Managing Director's efforts to formulate longer term adjustment programs and to revitalize the Fund's Extended Fund Facility which finances such programs.

On other issues, Treasury succeeded in focusing attention on the problem of growing arrears to the IMF and on the need for the newly industrialized economies to pursue more responsible exchange rate, trade, and domestic demand policies. The issue of a substantial quota increase, which only the US opposes, will be a pressing one at the September Annual Meetings,⁴ though a change in the US position is not expected soon.

The Development Committee

Two familiar issues dominated the April 15 Development Committee meeting: debt, and the adequacy of resource transfers to LDCs. Debt proved the most difficult, due in part to a World Bank background paper proposing an expanded role in facilitating voluntary debt reductions.⁵ Yet Secretary Baker and his G–7 colleagues argued convincingly that reform-oriented debtors are slowly turning the situation around. They dismissed global debt relief schemes and

³ See Document 228.

⁴ See Documents 246 and 247.

⁵ Not found.

counseled reliance on sound economic reforms and the current debt strategy.

On the resource transfer side, donors emphasized several recent initiatives that have bolstered the lending capacity of the Bank and Fund:

— *The World Bank* has negotiated a \$74.8 billion general capital increase, mobilized an estimated \$6.4 billion in concessional cofinancing for Sub-Saharan Africa, and launched the Multilateral Investment Guarantee Agency (MIGA) to stimulate investment in the LDCs.

— *The IMF* trebled the resources available for concessional lending with its Enhanced Structural Adjustment Facility (ESAF).⁶

British Finance Minister Nigel Lawson renewed his appeal for increased aid to Sub-Saharan Africa. However, with optimism growing that multilateral and bilateral donors can meet Africa's basic resource needs through 1990, there was a renewed sense that responsibility for development rests squarely with LDC governments.

There were also encouraging signs that after years of turgid speeches and stale debate, the Development Committee is making a comeback. Discussion this spring was lively but remarkably free of can't. And with the communique completed over lunch (a first), the informal afternoon session kept the members' attention focused squarely on the issues.

⁶ See Document 224.

240. Letter From President Reagan to Senate Majority Leader Robert Byrd¹

Washington, June 10, 1988

Dear Senator Byrd:

As you are aware, the Administration in February of this year reached agreement on a General Capital Increase (GCI) for the World

¹ Source: Washington National Records Center, RG 56, Executive Secretariat, Secretaries Miller, Regan, and Baker Files, January 1979–December 1988, 56–10–0062, Box 3, Memos/Notes, Secretary Baker, June–August. No classification marking. Sent under a June 21 covering memorandum from Robert Zoellick to Baker and McPherson, in which Zoellick communicated that "Senate Appropriations included our administration \$70 million GCI request."

Bank.² This would require an annual paid-in appropriation of \$70.1 million for the 6-year period 1989–1994, substantially less than the appropriation required for the previous capital increase. Recently the Department of the Treasury submitted legislation to the Congress authorizing U.S. participation in the GCI.

The General Capital Increase is in our national economic and strategic interests. The World Bank remains the single largest source of development assistance. The Bank commits the vast majority of its funds in support of specific investment projects in the middle income developing nations. These are mostly nations (such as the Philippines, Egypt, Pakistan, Turkey, Morocco, Tunisia, Mexico, Argentina, Indonesia, and Brazil) that are strategically and economically important to the United States.

The Bank's General Capital Increase will provide new development funding for these countries at a level far beyond that which we could accomplish bilaterally. This is because in the World Bank the cost of assisting these nations is shared with the other major non-communist industrial nations, and the Bank raises most of its funds by borrowing in the international capital markets.

The U.S. contribution of \$70.1 million annually (plus repayment reflows from earlier loans) will make available an average of \$18.8 billion in new annual World Bank loan commitments over the next 6 years, a multiple 268 times the U.S. appropriation.

The substantial increase in the Bank's resources will enable it to expand its vital role in promoting structural adjustment and market-oriented economic reforms. The Bank plays a key role in the major Latin American debtor nations that are pursuing significant economic reforms. Such reforms often include privatization, freeing prices from official controls, and reducing trade barriers, which would benefit U.S. exports. Turkey is an example of a major ally that has successfully implemented structural adjustment, in conjunction with active World Bank involvement.

World Bank project and sector lending will benefit U.S. business. American exports of equipment, agricultural products, and consulting services will increase from the growth in developing nations promoted by World Bank lending. Many U.S. firms profit directly from export sales financed by World Bank loans. United States companies

² In a February 22 memorandum to Baker, Conrow reported on the successful conclusion of the GCI negotiations and that the World Bank Board of Executive Directors "recommended approval of a \$74.8 billion General Capital Increase with a three percent paid-in component on February 19, 1988." (National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Congressional Correspondence, 1988, UD-10, 56-10-1, Box 38, [no folder title])

received \$1.6 billion (or 22 percent) of World Bank disbursements for foreign procurement in World Bank fiscal year 1987. American firms also received additional sums from World Bank project-related procurement contracts that are financed by borrowing countries.

United States participation in the GCI will also accomplish other important foreign economic policy goals. The GCI commits the Bank to increase its support for the private sector in developing countries. The GCI resolution also calls on the Bank to take specific steps to make environmental protection a higher priority. Finally, our humanitarian goals are served by the Bank's emphasis upon alleviating mass poverty.

I ask you to support quick and unencumbered passage of authorizing legislation for the GCI. It is in everyone's interest to ensure that this significant legislation is passed without distorting amendments. I urge you to support this important effort.

Sincerely,

Ronald Reagan

241. Memorandum From Secretary of State Shultz and Secretary of the Treasury Baker to President Reagan¹

Washington, undated

SUBJECT

The Toronto Economic Summit

I. YOUR OBJECTIVES

1. *To obtain Summit support for U.S. approaches to major international economic issues, including specifically:*

- affirming that international economic policy coordination is working well to preserve and enhance economic growth, further the reduction of external imbalances and promote exchange rate stability;
- focusing public attention on the vital importance of structural reform to complement macroeconomic policies so that Summit countries can sustain or increase their economic growth;

¹ Source: Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: Background Book, The Economic Summit Toronto Canada, June 19–20, 1988. Secret.

— ensuring significant progress by the midterm review of the Uruguay Round, particularly in agriculture, services, intellectual property and the functioning of the GATT system;

— reaffirming support for the current case-by-case debt strategy, including further development of the “menu” of financing options, and opposing generalized debt forgiveness schemes that transfer risks from the private sector to the international institutions or creditor governments.

2. Strengthen cooperation among Summit countries in meeting the challenges of the future through reliance on open markets and free societies, with a particular emphasis on the evolving East-West relations, the common fight against narcotics and terrorism, and shared responsibilities for economic and security leadership.

[Omitted here is a description of the setting of the Toronto Summit and discussion of other economic issues.]

D. Problems of Debt and Development

The Summit will return to the related topics of debt and aid to the poorest. There are likely to be several proposals for new assistance or debt relief programs, particularly for the poorest countries (primarily Sub-Saharan Africa).² We will want to maintain a clear distinction between our approach to the poorest countries and the heavily indebted middle income countries.

For the middle income debtors, we should be able to achieve Summit reaffirmation of the current market-based, cooperative debt strategy and support for continued development of the “menu approach” to commercial bank financing. However, the Japanese may suggest the need for debt relief backed by greater assurance of debt service payments for commercial banks.³

While we support voluntary agreements between commercial banks and debtor governments to restructure debt, we want the Summit to oppose generalized approaches to debt relief that would transfer the risk on commercial bank debt to the international financial institutions or creditor governments. We also believe that World Bank guarantees or other enhancements involving World Bank exposure should not be used on a general basis to induce new commercial bank loans.

President Mitterrand can be expected to seek debt forgiveness for the poorest countries, while the U.K. will seek Summit approval for Chancellor Lawson’s proposal that the Paris Club provide concessional interest rates for the rescheduled debt of the poorest nations. For legal and budgetary reasons, such a plan would not be viable in the United

² See Document 242.

³ See Document 242.

States. However, we have recently indicated that the United States could support a differentiated approach in the Paris Club for this group of countries. This would permit those creditor countries that can do so to provide concessional interest rates in exchange for shorter repayments of their rescheduled debts (i.e., over 10 years). Those countries not able to provide concessional rates (such as the United States) would continue to reschedule the poorest countries' debts on longer terms (i.e., up to 20 years).

The Summit should stress that the key to resolution of the debt problem is domestic economic reforms in the debtor countries, encouraging private investment flows, and opening markets—both in the LDC's and in the major developed countries. Presently, GATT rules encourage LDC's to erect protective barriers that work against their long-term economic interests. At Toronto, we should challenge the notion that protectionism is an acceptable means of economic development.

[Omitted here is discussion of the political issues for the Toronto Summit.]

242. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Mulford) to Secretary of the Treasury Baker¹

Washington, June 17, 1988

SUBJECT

Paris Club Interest Rates at the Summit

Action Forcing Event

At the Summit you will be pressed for a position on the various proposals that are now on the table for dealing with debt of the poorest countries.² In addition to the Lawson plan and our own, Mitterrand and the Japanese have presented other options. Because the Mitterrand proposal includes forgiving principal, we need a considered response.

¹ Source: National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Congressional Correspondence, 1988, UD-10, 56-10-1, Box 44, [no folder title]. Limited Official Use. Sent for action. An adhesive note affixed to the first page of the memorandum reads: "Copy given to Mulford 6/24/88."

² See Document 241.

The Mitterrand Plan

President Mitterrand, in a letter to President Reagan and the other Summit leaders (attached),³ proposes that creditors be allowed *three options*:

- A *cancellation of a third of the debt service due*, including principal and interest, with remaining amounts *rescheduled over 10 years*;
- A *rescheduling of export credits with concessional interest rates* (reduced by at least half from some base rate), with *repayment over 15 years*; and,
- *Rescheduling at market rates*, but with repayment of up to *25 years*. (The current maximum is 20 years.)

These options could be utilized *only* for the poorest countries (i.e., those eligible for the special debt relief measures in last year's Venice Summit communique).

Mitterrand's proposal would specifically forgive principal—reducing the stock of nominal debt. The interest rate concession approach of the U.S./Canada plan keeps the underlying nominal stock of debt in place. It provides relief on debt service through a reduction in interest payments, causing a loss only in the present value of the debt for creditors that choose that option. Mitterrand goes a significant step further.

Other Summit countries could see the French idea as a means of achieving consensus on this difficult issue, while preserving their options. Mitterrand would note that this is a menu in which the USG could continue to reschedule at a market rate, while those choosing the write-off option would provide immediate debt relief to the poorest countries at a cost only to themselves.

Thus, objecting to the Mitterrand proposal could leave us isolated and on the defensive publicly. (You may be able to challenge Mitterrand, however, for the high ground on other African aid issues.)

Trichet has clarified to me in writing certain aspects of the Mitterrand plan that had been cause for concern.⁴ According to Trichet, the plan is intended as an expansion of the menu, with longer repayment terms applied to our proposed options. It:

- Would be applied on a *case-by-case basis through the Paris Club for the poorest countries only with appropriate conditionality maintained*—i.e., an IMF link; and,
- *Relates to debt service payments*, rather than stocks of debt. It would be applied yearly to scheduled principal and interest, rather than to the outstanding stock of debt.

The Japanese Plan

The Japanese have made a low-key suggestion for another option that would count increased grants as a substitute for concessional

³ The informal translation of the June 7 letter from Mitterrand is attached but not printed.

⁴ Not found.

interest rates on export credits.⁵ Japan announced a \$50 billion, five year spending target for official development assistance (ODA—or aid loans) on June 14. If the target is reached, it would represent a doubling of Japanese ODA from the previous five years.

However, adding aid to the Paris Club menu as a substitute for concessional interest rates is not feasible, since:

- The Paris Club is not in a position to make judgments about aid flows; and,
- Determining the “newness” or “additionality” of aid is difficult, if not impossible.

The Japanese may support the French plan in exchange for French support of their proposal.

Conclusion

Mitterrand has created a conundrum. A benign view would see the plan merely as an expansion of the Paris Club menu. I am very uncomfortable, however, with allowing an official sanction of write-offs of sovereign debt. It would be the first time that government creditors have sanctioned write-offs of principal on commercial loans in the context of a multilateral forum. There are considerable risks of contamination to other debtors, even if only beginning with other African countries such as Nigeria and Cote d’Ivoire.

We would expect Summit participants to agree at most to a general formulation on debt measures for the poorest countries. Details, including operational aspects, would then be taken up by a Paris Club working group meeting on July 11–12.

RECOMMENDATION:

1) That we not agree to the introduction of debt cancellation in the Paris Club menu (the Mitterrand plan). The French could write-off debt bilaterally, but not as part of a multilateral process;

2) That we seek a consensus on the Paris Club menu approach you outlined in your speech in Abidjan;⁶

⁵ In a June 15 memorandum to Baker, Mulford wrote that “Prime Minister Takeshita wants to announce a new debt initiative at the Toronto Summit in order to demonstrate Japanese willingness to recycle funds to help debtor countries.” Mulford then outlined and analyzed the proposal. (National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Congressional Correspondence, 1988, UD-10, 56-10-1, Box 44, [no folder title])

⁶ A copy of Baker’s remarks delivered to the 1988 Annual Meetings of the African Development Bank and Fund on June 1 in Abidjan, printed on “Treasury News” letterhead, is in Department of State, Executive Secretariat, S/S-I Records, Files of the Deputy Secretary of State (D), Lot 95D334: Debt. In the remarks, Baker announced the “willingness of the United States to expand the range of options within the Paris Club so that creditor governments which are in a position to do so can—on a case-by-case basis—provide concessional interest rate reschedulings for the poorest countries.”

3) If pressed to resolve the Mitterrand proposal, that we seek to pass the specifics of the menu to the Paris Club working group meeting in July, citing our concerns with debt forgiveness, the complexity of the proposal, and the need for further USG review; and,

4) That we welcome increased Japanese grants, but discourage grants as an additional Paris Club menu choice.⁷

⁷ Baker did not indicate his approval or disapproval of the recommendation. Below the recommendation he wrote: "Limit forgiveness of principal to *bilateral*. Rest can be done in Paris Club."

243. Minutes of a Meeting¹

Toronto, June 20, 1988, 10:26 a.m.–12:22 p.m.

SUMMIT PLENARY MEETING

PARTICIPANTS

President Reagan
Secretary of State George Shultz
Secretary of Treasury James A. Baker, III
Prime Minister Brian Mulroney (Canada) Chairman
Secretary of State for External Affairs Joseph Clark
Minister of Finance Michael Wilson
Premier of Ontario David Peterson
President Francois Mitterrand (France)
Minister of State for Foreign Affairs Roland Dumas
Minister of State for Economy, Finance & Budget Pierre Beregovoy
Prime Minister Margaret Thatcher (UK)
Secretary of State for Foreign & Commonwealth Affairs Sir Geoffrey Howe
Chancellor of the Exchequer Nigel Lawson
Chancellor Helmut Kohl (FRG)
Vice Chancellor and Minister of Foreign Affairs Hans-Dietrich Genscher
Federal Minister of Finance Gerhard Stoltenberg
Prime Minister Noboru Takeshita (Japan)
Minister of Foreign Affairs Sosuke Uno
Minister of Finance Kiichi Miyazawa
Prime Minister Ciriaco De Mita (Italy)
Minister of Foreign Affairs Giulio Andreotti
Minister of the Treasury Giuliano Amato

¹ Source: Reagan Library, Stephen Farrar Files, 1987–1988 International Economic Affairs Directorate Outline File, Summit Toronto 06/23/1988–07/08/1988; NLR–177–5–6–2–2. Confidential. The meeting took place at the Toronto Economic Summit in the main meeting room of the Metro Toronto Convention Center.

ECC President Jacques Delors (Commission of the European Communities)
 The Honorable Willy De Clercq, Commission of Foreign Affairs
 The Honorable Peter M. Schmidhuber, Commission of Monetary Affairs

U.S. NOTETAKER

Allen Wallis

[Omitted here is discussion not focused on debt.]

(11:59AM) Debt—Canada initiated idea of Commonwealth Summit.

Kohl—Problems in debtor countries. We must help countries to use aid. Must not allow further environmental devastation with our aid. Must adopt global thinking.

Thatcher—Must give clear statement. Aid loans written off. Paris Club—ask them to negotiate agreements so that options selected lead to fair burden sharing.

(12:08PM) *Mulroney*—Lunch at 12:30. Next session here 2:30–4:00; then early evening at Hart House.

Wilson—on the debt wording.

(12:09PM) Nothing to add to what Thatcher just said. Paris Club meets July.² Summit could give impetus.

Baker agrees with Thatcher and Wilson. U.S. aid 97% grants but we cannot forgive principal.³

Stoltenberg—Debt has to be considered in relation to other issues. Our markets need to be open. Conditions for investment must be improved as a precondition.

[Omitted here is discussion of the political statement.]

(12:17PM) *Amato*—Debt. Relation between reducing debt and development. Italian proposal should be taken account of—combinations, partial cancellation.

[Omitted here is discussion of Haiti.]

(12:22PM) Adjourn.

² See Document 245.

³ The Toronto Economic Summit Economic Declaration, issued June 21, declared in its section on "Debt of the Poorest," that the Heads of State "welcome the action taken by a number of creditor governments to write-off or otherwise remove the burden of ODA loans, and also urge countries to maintain a high grant element in their future assistance to the poorest." The Heads of State also declared: "The market-oriented, growth-led strategy based on the case-by-case approach remains the only viable approach for overcoming" the external debt problems of highly-indebted middle-income countries. (Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: Toronto Summit—Economic Declaration)

244. Memorandum From Tyrus Cobb of the National Security Council Staff to Paul Schott Stevens of the National Security Council Staff¹

Washington, August 25, 1988

SUBJECT

IEP Breakfast Read-Out

Today's breakfast focused heavily on items of interest to Peter McPherson and John Whitehead—debt reduction and LDC economic difficulties.

1. *ROLE OF INTERNATIONAL FINANCIAL INSTITUTIONS IN DEBT REDUCTION*: The thrust of the discussion revolved around the steps being undertaken or considered by IFIs, principally the IMF and World Bank. The general feeling was that while some of the efforts could be helpful, much of the IMF/WB measures were “muddling” the US initiatives.² Specifically, with respect to Costa Rica, McPherson felt that the WB was “walking a tightrope” between being honest observers and intrusive meddlers. The core problem was that once the resources of the multis were used for debt reduction, which we oppose, these efforts could not be controlled.

— Much of the discussion was on the GCI, the “General Capital Increase” for the World Bank. (There have been differences on this in the past between State and Treasury, but they now agree that GCI should be in the appropriations bill). GCI, while it has full budgetary authority impact, is “slow-disbursing” (first year outlays only about 15%. Thus we can go ahead and support it without it impacting negatively on our G-R-H outlay concerns). Whitehead said we need to work on Obey to insure it stays in (150 account)—Obey seems inclined not to. Mulford worried that we would not be able to get action on GCI this term, leaving us once again open to criticism from our friends for “failing to deliver on what we promised.” Whitehead said that in our “lobbying” for the 150 account more attention needs to be paid to GCI, and told McAllister to get with Fox to “make it happen.”³

¹ Source: Reagan Library, Stephen Danzansky Files, Subject File, IEP Breakfasts 11/12/1987–09/09/1988; NLR–733–10–23–8–3. Secret. Sent for information.

² In an April 7 memorandum to Baker, Mulford expressed concerns that actions and statements made by Conable and Camdessus on various proposals could harm the debt strategy and the GCI process. (National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Congressional Correspondence, 1988, UD–10, 56–10–1, Box 43, Classified Memos to the Secretary, April '88)

³ In an October 11 memorandum to Wallis, Larson wrote: “Congressional action authorizing U.S. participation and appropriating the first tranche of the U.S. contribution (\$70 million was requested; \$50 million approved) was completed on September 30. The U.S. was the last major donor to join the GCI.” (Department of State, Executive Secretariat, S/S Files, 1988–1989 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D154: Briefing/Information Memoranda September/October 1988)

Whitehead added that he wondered why Treasury had chosen to focus its attention on Central America here when the debt reduction question was really a much wider concern. Treasury DAS Malpas responded that Costa Rica was selected only as an example of "World Bank meddling," which "slows down our efforts elsewhere." He worried that countries like Brazil may now decide to go slow on working the debt reduction problem in hopes of gaining relief from the IFIs. Whitehead concluded that he agreed totally with Treasury's concerns, and disagreed with some of his private sector friends (Jim Robinson) who were writing op-ed pieces in support of IFI involvement in debt reduction.⁴

2. *HONDURAS*: Whitehead then turned to Honduras. His bottom line was the same Bob Pastorino gave me—Honduras is just too valuable to our program of assistance to the Contras to "declare them bankrupt." McPherson agreed, adding that a way must be found "to help them pay their arrearages" (but noting that finding resources will be difficult). Whitehead asked if there were a way to work out Honduras' arrears to both agencies. Treasury was uncertain and doubtful. I asked Peter if he hadn't talked with General Powell Tuesday⁵ on this and wasn't it agreed that \$50 million would be disbursed? McPherson agreed, but it didn't appear that the money had yet been disbursed. On a concluding comment everyone agreed that this had to be put on the agenda and that a "way to vote yes" had to be found.

3. *PHILIPPINES*: A major concern of Whitehead. Thrust of the discussion was that: (1) Too much of the aid money was being "dissipated"; (2) There is a confusing confluence of anxious donors; (3) Failure of reforms to be implemented in the Philippines; (4) Growing anti-Americanism; (5) Impact on base negotiations. Mulford indicated that we wanted to encourage the Japanese to go in but not unless reform measures were being undertaken. Whitehead echoed that, but added that we needed to proceed with caution (being too generous too early) lest the Japanese feel that they can get away with doing less. Whitehead, however, stressed the base situation (same points that Dick Childress gave me): It is unrealistic to proceed now in view of the absurd Philippine positions in the base negotiations; we should, however, be careful NOT to link progress on base negotiations to assistance programs. Mulford asked why not—wasn't it time to make it clear that future aid was dependent on a more forthcoming approach on the bases? Whitehead did not agree, preferring to keep the link implicit. However, he said that when the FM comes to town next month, Treasury—in its inimitable

⁴ A reference to James D. Robinson, III, the Chairman and CEO of American Express.

⁵ August 23.

way—should come on very strong. McPherson said “No problem” on that score.

[Omitted here is discussion of Bermuda and base negotiation issues.]

4. *BRAZIL/MEXICO/ARGENTINA*: Mulford opened the discussion by noting that only limited progress had been achieved in any of the countries. In Brazil, McPherson noted, there has been some improvements—“our persistence has paid off”. This demonstrates why the “menu approach” is the way to go (reference to tailoring debt reduction to individual countries and not following a master plan). Key next steps lay in imposing meaningful wage/price measures. On Argentina, McPherson noted, the outlook was bleaker. They had received a bridge loan, but it had NOT yet been disbursed. The Fund and Argentina “were miles apart”; their relationship over time has not been a good one. We are not sure if or when the loan will actually be available. External financing sources are becoming more cautious. Doubt was expressed whether or not Alfonsin was in a position to accomplish anything of real impact any more. Whitehead agreed that things were bad, but wished that IFI personnel would stop publicly saying things were going so poorly—that only made the financing situation more tenuous and scared investors away. In sum, limited optimism on Brazil, deep pessimism on Argentina, Mexico was not discussed.

Due to time constraints Poland and Hungary were not discussed and no sense of urgency was expressed. It was anticipated that State would host the next IEP breakfast in two weeks.⁶

⁶ In a September 9 memorandum to Powell, Danzansky provided a read-out of the September 9 IEP breakfast, attended by Whitehead, McPherson, and Negroponte, during which the status of various countries and the replenishment of the IDB were discussed. (Reagan Library, Stephen Danzansky Files, Subject File, IEP Breakfasts 11/12/1987–09/09/1988; NLR-733-10-23-11-9)

245. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Mulford) to Acting Secretary of the Treasury McPherson¹

Washington, September 12, 1988

SUBJECT

Paris Club-Poorest: Eligibility

Action Forcing Event

You may be approached by State to reconsider Secretary Baker's decision to limit the Paris Club framework of options for the poorest countries to Sub-Saharan Africa only. *Bolivia* already has postponed negotiations for a new rescheduling while Club discussions on the framework and on eligibility continue. I expect this issue to be raised in my G-7 Deputies meetings this week and in the Paris Club next week.²

Background

You will recall that Secretary Baker reaffirmed in early July that the Paris Club options should be limited to countries in Sub-Saharan Africa. The Secretary said specifically that *Bolivia* should not be included.

Secretary Baker was concerned mainly about possible contagion effects. He reasoned (I believe) that if the special treatment were extended to countries outside Sub-Saharan Africa, it would immediately become a global debt relief mechanism. For example, if *Bolivia* received such treatment, other Latin debtors would only have to ask creditors to stretch the income criterion, rather than breaching both an income *and* a geographic test.

There is a general Paris Club consensus that eligibility should be limited to IDA-only recipients (per capita income of \$550 or less) with a debt service ratio of 30% or more and a Fund/Bank adjustment program in place. While there had been a sense that the differentiated approach would be limited to Sub-Saharan Africa, that question was

¹ Source: National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Congressional Correspondence, 1988, UD-10, 56-10-1, Box 44, Classified Memos to the Secretary, August '88. Limited Official Use. Sent for action. A stamped notation at the top of the memorandum reads, "Noted MPM." All brackets are in the original.

² The week of September 19.

reopened during the July Paris Club meeting.³ The IMF, joined by some smaller creditors, insisted that there should be no geographic limits. In addition, the Japanese have told us since that they would like to see *Bangladesh* (which does not meet the debt burden criterion) and *Burma* included in the eligible set.

Other Considerations

Income Level: Despite its obvious poverty and current IDA-only borrowing from the World Bank group, Bolivia has the highest per capita income (\$570) of countries in this group. It currently is receiving IDA-only funds only because of a lack of creditworthiness.

Applying the Paris Club options to non-African Bolivia would make it difficult to argue that “blend-country” *Pakistan* should not receive such treatment when its per capita income (\$350) is less than *Senegal* (\$510) or even *Liberia* (\$440). [*Nigeria* (\$370) will pose a separate problem, despite its current lack of IDA or SAF-eligibility.]

Amount of Relief Required: Bolivia’s financial situation is qualitatively better than most Sub-Saharan African countries. The working assumptions of its ESAF program are for rescheduling of debt service due only on so-called non-previously rescheduled debt. The IMF projects a debt service “hump” for Bolivia in the early 1990s and a potential financing gap after conventional reschedulings, but those would appear to be manageable through a rescheduling of part of the previously rescheduled debt at that time.

State Department View: State wants Bolivia to be eligible for the options approach and John Whitehead may seek your concurrence.

Conclusion: We will be under pressure during Paris Club discussions the week of September 19 to enlarge the set of countries eligible for special treatment under the Paris Club options approach. Bolivia may also press us on this issue and has postponed its Paris Club negotiations pending further debate.

Providing such treatment to Bolivia, however, will cause difficulties in excluding other non-African countries—most notably *Pakistan*.⁴ The framework was proposed with Sub-Saharan Africa in mind.

³ In an August 4 memorandum to Baker, Mulford provided an update on the July 26 Paris Club meeting, during which the question of geographic eligibility was reopened. Mulford also reported that the Paris Club “did *not* conclude a package of options for the poorest, most heavily indebted countries,” as the United States had expected it would. (National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Congressional Correspondence, 1988, UD-10, 56-10-1, Box 44, Classified Memos to the Secretary, August ’88) In telegram 278573 to Tokyo, August 25, the Department reported on the status of the Paris Club discussions of the Toronto Summit debt relief proposals. (Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: Toronto Summit)

⁴ McPherson underlined “most notably *Pakistan*.”

Recommendation: That you be prepared for State's request. That you reconfirm Secretary Baker's decision to limit the Paris Club options approach to countries in Sub-Saharan Africa only and that Bolivia not be eligible.⁵

⁵ McPherson initialed the "Approve" option.

246. Memorandum From Stephen Farrar of the National Security Council Staff to the President's Assistant for National Security Affairs (Powell)¹

Washington, September 30, 1988

SUBJECT

Report on IMF/World Bank Annual Meetings

The IMF/World Bank annual meetings, held in Berlin this past week, were accurately described as the "world's premier financial jamboree." The thousands of official delegates appeared outnumbered by bankers and other financiers, creating a non-stop series of meetings and receptions. The Administration achieved its main objectives of avoiding departure from current policy on international debt and exchange rates. As expected, we were isolated in resisting calls to expand the resources of the IMF. Highlights of the meetings follow.

[Omitted here is discussion of G-7 economic cooperation.]

¹ Source: Reagan Library, Stephen Farrar Files, 1987-1988 International Economic Affairs Directorate Outline File, IEP Breakfasts 04/24/1987-11/18/1988; NLR-177-4-34-14-9. Confidential. Sent for information. Sent under an October 3 covering memorandum from Farrar to Negroponte, which provided the agenda for an IEP breakfast meeting scheduled for October 4. In the memorandum, Farrar explained that the communiqués of the IMF and World Bank meetings in Berlin "endorsed the U.S. position that any new techniques for managing the debt problem should be market-based, voluntary and should not shift risk from the private sector to the public sector. Treasury will want to reaffirm these principles." Farrar recommended to Negroponte that "you endorse the Treasury approach. The international debt issue will be high on the agenda of the new Administration." For a readout of the October 4 IEP breakfast meeting, see Document 247.

International Debt

All communiques issued during the meetings supported the current debt strategy. However, there was much talk of the need for a new approach.

— For debt of the *poorest countries*, especially Sub-Saharan Africa, creditor countries congratulated themselves for agreeing in the Paris Club the previous week on rules for implementing the debt relief scheme agreed to at the Toronto Economic Summit.² African debtor countries quickly observed that the Paris Club actions were not enough.

— On debt of *middle-income countries*, Japan announced that its Export-Import Bank will provide medium-term loans at concessional rates. These loans would be untied (to purchase of Japanese products) and would be provided in parallel with IMF programs. Japan also reiterated its proposal made at Toronto (opposed by the U.S.) to give the IMF a central role in debt restructurings. Japan's proposals fell somewhat flat, perhaps because of the absence of Finance Minister Miyazawa.

— Mexico promoted a debt proposal that was a clear departure from the Baker Plan. It includes official guarantees of commercial lending.

In his address to the IMF, Secretary Brady attempted to put such debt proposals back in their box by asserting that "the United States regards with skepticism proposals that may appear to conform to the basic principles of the debt strategy, but which in practice will produce only an illusion of progress."

Progress in the debt situations of several countries helped brighten the atmosphere of the meetings.

— *Brazil* and its commercial banks were commended for concluding agreement the previous week on a refinancing and new money package.

— *Argentina* and the World Bank announced agreement on \$1.25 billion in new loans. This agreement was controversial because it was reached before Argentina had an IMF program in place. The IMF is concerned that it may have been undercut in its efforts to get Argentina to commit to meaningful economic reforms. The deal is a sign of the World Bank's (and U.S.) anxiety about keeping Argentina's finances from spinning out of control. However, almost no one believes that Argentina is prepared to undertake enough economic reforms to make a sustained difference.

— *Peru* showed signs of ending its status as a financial outlaw, which began three years ago when incoming President Garcia limited debt payments to 10% of export earnings. Finance Minister Salinas

² In telegram 324149 to all African diplomatic posts, October 4, the Department reported: "G-7 policymakers, meeting prior to the IMF/IBRD annual meetings in Berlin, agreed on a framework of comparability for implementing the Toronto Summit's call for a differentiated approach to rescheduling the debts of low-income African reformers." (Department of State, Central Foreign Policy File, Electronic Telegrams, D880886–0818)

held a well-publicized “confidential” meeting with IMF Managing Director Camdessus, probably to search for ways for Peru to pay off its \$562 million in arrears to the Fund and become eligible for new credits.

— *Zaire* pressed the U.S. (Allen Wallis) for support in persuading the IMF to relax conditions for entering into a Fund program. President Mobutu believes that President Reagan committed U.S. support in a March 1988 letter. My checks since my return have uncovered no such letter.

IMF Resources

The IMF is basically a revolving fund whose reserves are available for the temporary needs of its members. Its resources are now stretched because several member countries, including Sudan, Zambia, Peru and Liberia, are in arrears totalling almost \$3 billion, about 10% of outstanding IMF credit. The IMF does not reschedule its debt, for fear that its role as a monetary institution would be jeopardized. Countries in serious arrears have no practical way of getting back on financial track since they cannot raise the cash to pay off arrears. This problem was discussed at Berlin, but no conclusions were reached. Over the next year, IMF rules will need to be changed to allow arrears to be refinanced as part of an IMF program.

As predicted, IMF Managing Director Camdessus continued his loud call for a doubling of IMF quotas—funds paid in by member countries. The U.S. firmly opposed any agreement now on a quota increase. Secretary Brady wisely wants to secure Congressional approval of the increase in World Bank resources contained in the FY 1989 budget. He argued that agreement on a quota increase should come after agreement on the IMF’s role in the 1990’s and resolution of the arrearage problem.

World Bank Resources

The U.S. is the only major country remaining to fulfill its commitment to pay into the Bank’s \$75 billion Eighth General Capital Increase. Nevertheless, we were able to report that a major hurdle had been crossed. The week before the meetings, the House Banking Committee approved authorizing legislation.³ Appropriations prospects are also favorable.

Untied Lending to Soviet Bloc Countries

During his confirmation hearing, Secretary Brady promised to raise the issue with his G-7 counterparts. He did raise it, but no other country perceived a problem.

³ See footnote 3, Document 244.

USG Representation

There was little interagency coordination at the meetings. Treasury, the lead agency, asserted nearly complete control in setting U.S. positions on draft communiques and in drafting U.S. statements. The exception was that Federal Reserve Board Chairman Greenspan worked directly with Secretary Brady at key points, especially in drafting the Secretary's address to the IMF. The lack of coordination may have been visible to other delegations, as Treasury and State held separate sets of bilateral meetings. I heard many calls for more White House coordination of international economic issues.

247. Memorandum From Stephen Farrar of the National Security Council Staff to the President's Assistant for National Security Affairs (Powell) and the President's Deputy Assistant for National Security Affairs (Negroponte)¹

Washington, October 4, 1988, 9:33 a.m.

SUBJECT

Readout on International Econ. Policy Breakfast

1. EVALUATION OF IMF/WORLD BANK ANNUAL MEETINGS

Japanese Debt Proposal. David Mulford reported that the U.S. was successful in persuading the Japanese to downplay the debt relief proposal it initially advanced at Toronto. The Japanese plan calls for debtor countries to create accounts held by the IMF that would be used to guarantee repayment of securities issued to refinance commercial debt. The problem with the proposal is that it assumes expanded lending from the IMF and World Bank in order to provide debtor countries with the foreign exchange to finance these new accounts. In

¹ Source: Reagan Library, Stephen Farrar Files, 1987–1988 International Economic Affairs Directorate Outline File, IEP Breakfasts 04/24/1987–11/18/1988; NLR-177–4–34–15–8. Confidential. Copies were sent to Nelson Ledsky, Rudolf Perina, James Kelly, Richard Childress, Cobb, Richard Saunders, Eric Melby, and Peter Rodman. Printed from an uninitialed copy.

effect, the risk of repayment gets shifted from the private sector to the public sector.²

G-7 Agreement. Mulford noted that the G-7 ministers agreed that they should examine structural impediments to growth (e.g., labor market flexibility, trade barriers) as part of their surveillance process, even though these issues raise jurisdictional problems in each country's government.

IMF Quota Increase. Mulford reported that the U.S. successfully held back pressure, created by IMF Managing Director Camdessus, for a doubling of IMF quotas. While we have agreed to review the issue next spring, we have insisted that any decision will need to be linked to agreement on the IMF's role in the 1990's. The IMF needs to define that role. In the meantime, the IMF has adequate liquid reserves (\$45 billion).

Debt Strategy. Gene McAllister reported that his analysis shows that the current debt strategy has been working, and we need to do more to get the message out. Treasury agreed.

Debt of Poorest Countries. Mulford observed that the agreement reached in the Paris Club the previous week on rescheduling debt to the poorest countries—mainly Sub-Saharan Africa—contributed to the positive atmosphere at Berlin.

[Omitted here is discussion of various countries' situations and the European internal market.]

6. PARTICIPANTS

State: John Whitehead, Gene McAllister, Bill Milam

Treasury: Peter McPherson, David Mulford, David Malpass

NSC: John Negroponte, Steve Farrar

² See Document 246. In an undated memorandum to McPherson, Mulford analyzed the two debt proposals announced by the Japanese at the IMF/World Bank meetings in Berlin. He attached texts of the two proposals to the memorandum. (National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Congressional Correspondence, 1988, UD-10, 56-10-1, Box 44, Classified Memos to the Secretary, October '88)

248. Paper Prepared by Secretary of the Treasury Brady¹

Washington, October 4, 1988

**U.S. LEADERSHIP IN THE INTERNATIONAL
FINANCIAL INSTITUTIONS**

At the recent IMF/World Bank meetings in Berlin, I was struck by Japan's new assertiveness in utilizing its increasing financial clout to play a more influential role in international economic policy decision making. This was especially apparent in their attempt to obtain a larger leadership role in the international financial institutions. An expanded Japanese role is inevitable (they have already become number two in the World Bank) and, if properly handled, could be desirable given its enhanced economic position. However, this needs to be achieved in a manner which does not undermine U.S. ability to utilize the IMF and World Bank to promote its interests.

This issue will confront us primarily in connection with the ongoing negotiations on a possible increase in IMF quotas (i.e., capital subscriptions). The Japanese are pressing hard for a large quota increase that will permit them to move to the second position in terms of voting power (behind the United States) from their current slot of number five (below the United Kingdom, Germany, and France). We are in the process of developing a strategy on the quota issue that will provide for an orderly and gradual increase in Japan's voice and vote in the IMF, but does not require the United States to see its quota share diluted disproportionately. In this context, we will also need to decide on the key demands we should make on Japan in exchange for U.S. support on quotas. In particular, we want to assure that Japan utilizes its enhanced IMF position to support policies that reflect a global perspective on the role of the IMF rather than narrow Japanese economic interests.

Meanwhile, we need to move ahead promptly to refurbish U.S. credibility in the IMF. U.S. credibility has been damaged recently by our inability to participate fully in the IMF's Enhanced Structural Adjustment Facility (ESAF) which provides concessional assistance to the poorest countries in support of economic reforms. In addition, the United States has pushed the IMF to provide financing to countries such as Sudan, Liberia, Peru, Zaire, Somalia, and Zambia where we have major foreign policy concerns but which have not implemented necessary economic reforms and are incapable of repaying their IMF

¹ Source: Reagan Library, Stephen Farrar Files, Chronological File, Farrar Chron October 1988; NLR-177-8-30-11-2. Confidential. Sent under an October 4 covering memorandum from Brady to Powell.

loans. As a result, these countries account for virtually all of the \$3 billion in overdue obligations to the IMF. These arrears threaten the financial integrity of the institution and its effectiveness in resolving the LDC debt problem.

The ESAF is a critical element in dealing with both the problem of the poorest countries and also the Fund's arrears. Our inability to participate is hurting us with the African countries and other creditor governments. A U.S. commitment now to make a modest contribution spread over 10 years would represent a very cost effective means of refurbishing our image and improving our leverage on a key IMF issue. I recognize that the tight budget situation requires that we utilize our limited foreign assistance resources prudently. However, we need to be in a position to be as forthcoming as possible when the developing countries and the international institution take the necessary steps to put their own houses in order. Consequently, I have been considering how the United States might participate in the ESAF to support IMF efforts to promote reforms.

Moreover, while foreign policy considerations need to be taken into account in reaching our position on IMF loans, we must also consider carefully the economic basis for such loans. As I indicated in my Berlin speech, we live in a world of scarce financial resources which requires that those funds be used prudently. It is in our long-run interest that the IMF remain financially strong and that the U.S. credibility in the institution be preserved. The ability of the IMF to support U.S. allies is being damaged by the arrears problem and we must be mindful of this situation in developing our positions on future IMF lending.

249. Letter From Secretary of the Treasury Brady to Secretary of State Shultz¹

Washington, October 7, 1988

Dear George:

I have been thinking a lot about our discussion Sunday night concerning what place the United States will have in the world economic scene in the future.² Naturally, this depends on a lot of things. Perhaps

¹ Source: Reagan Library, George Shultz Papers, Executive Secretariat Sensitive (10/01/1988-10/15/1988); NLR-775-17-61-6-0. No classification marking.

² October 2. No record of this meeting has been found.

the linchpins are the World Bank and the International Monetary Fund (IMF) and our roles in them.

We have long been able to shape the overall thrust of these organizations in a way which serves our long-range financial and foreign policy interests. As you know, however, our involvement in these organizations is under attack, both from inside and outside the United States. Inside, many Congressmen and Senators question the usefulness of the multilateral institutions. Although they voice different concerns about these organizations, one of the most vocal groups of critics are conservatives who do not want us lending to communist/socialist countries. Others—in fact I would say most—do not want us making loans which have little or no chance of being repaid.

The fight over GCI was hard, and we barely won the battle. In the end, we got only \$50 million of the \$70 million increase to which we had agreed internationally. In the final days of debate, I told many Senators and Congressmen that if they supported the multilaterals by providing the necessary funds, we would make sure that only sound loans are made. The battle over an increase in IMF quotas, although not yet on us, is looking enormously difficult. In 1983, we just barely got the last IMF funding increase passed, by a margin of 217–211 in the House.³ This time it will be even more difficult, in part because of the Fund's growing arrears problem.

This brings me back to our discussion about Poland, where the short-run foreign policy objectives are totally clear and admirable.⁴ How best to achieve our long-term interests are less clear because the resources we have for solving these problems are finite. Thus, we must not only pursue our vital interests in Poland, but also preserve our leadership role in the international financial institutions. We cannot do this unless we are able to obtain funding for the organizations when needed, and unless we maintain our credibility within them. As you know, we face a severe challenge to our leadership in both international organizations from Japan, which others in Europe seem fully to support.

We have put enormous pressure on the IMF to clear up the arrears problem. This problem is now near \$3 billion and growing.

³ For documentation on the IMF funding increase of 1983, see the Foreign Assistance; International Financial Institutions; Commodity Policy compilation in this volume. Documentation is also scheduled for publication in *Foreign Relations*, 1981–1988, vol. XXXVI, Trade; Monetary Policy; Industrialized Country Cooperation, 1981–1984.

⁴ Documentation on this is scheduled for publication in *Foreign Relations*, 1981–1988, vol. IX, Poland, 1982–1988. The situation in Poland was discussed in the October 4 IEP breakfast meeting. Part of the readout of the meeting, which does not include the discussion on Poland, is printed as Document 247.

Unfortunately, over half of the arrears involves clients of the United States where we pushed the IMF to make loans to countries in spite of the absence of a continuing commitment to credible economic reform. If our strategy is to work, we cannot push countries into standby programs that lay the basis for further arrears in the IMF. We will need a strong IMF in the 1990s to support U.S. foreign policy objectives.

In Berlin, in the G-5, G-7, G-10, and Interim Committee meetings, and even more forcefully in my annual meeting address, I stated our strong conviction that ignoring the arrears problem would foretell the decline and fall of the IMF. I believe this is correct. The IMF has, with strong U.S. support, developed an approach that could provide a real breakthrough on the arrears problem. However, if we were to support IMF financing for Poland now on foreign policy grounds alone, our credibility and ability to implement this approach would be seriously compromised.

We have a problem, and I have asked Peter McPherson to work with John Whitehead on Poland to do our best. But if the Treasury is to stand down on our basic philosophy in regard to multilateral institutions, it won't be long before we lose our influence, and after that the Fund will degenerate to a foreign aid organization dominated by other countries.

Sincerely,

Nicholas F. Brady⁵

⁵ Brady signed "Nick" above his typed signature.

250. Paper Prepared in the Department of the Treasury¹

Washington, undated

INTERNATIONAL DEBT SITUATION

There is a growing consensus within the international community that the current debt strategy is wearing thin and that “new solutions” are needed. This is due in part to the popular perception that the major debtor nations are no better off today than they were six years ago and that the heavy claim of debt service obligations on their export earnings is politically unsustainable. While we disagree with this judgment, it is clear that the debtor nations themselves, to varying degrees, are tiring of the effort required, and that commercial banks are increasingly reluctant to provide new financing as they seek to reduce LDC exposure.

This sense of “fatigue” has been reinforced by the recent fascination with debt reduction—in debtor nations, in academic and banking circles, in Congress, and even within other industrial nations, most recently Japan and France. An easing of debt service burdens as an alternative or complement to new financial flows has been a practical element of the debt strategy from the beginning—through commercial bank debt restructuring and retiming agreements and reduction of spreads, as well as Paris Club reschedulings of both principal and interest. The current voluntary “menu” approach also provides opportunities for reducing debt and/or debt service burdens through such mechanisms as debt/equity swaps, debt/bond exchanges, and other debt conversions.

However, the common denominator of virtually all “new” debt proposals now being put forward to simultaneously ease debt service burdens and enhance debtor growth is the use of public sector resources on a grand scale to facilitate or guarantee debt reduction. The strategy which we have pursued since 1985, on the other hand, has been based on a fundamental policy limitation on the use of public funds in addressing debt problems. We have been extremely careful to avoid “bailing out” commercial banks on their existing exposure via public expenditures or acceptance of contingent liability on such debt. In addition, we have accepted World Bank guarantees on new commercial bank loans only in extremis where essential to complete financing

¹ Source: National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Congressional Correspondence, 1988, UD-10, 56-10-1, Box 44, Classified Memos to the Secretary, October '88. Confidential. Sent under an October 18 covering memorandum from Mulford to Brady, in which Mulford wrote: “Attached is a paper and background information for our meeting tomorrow on debt. We should hold this paper closely until we decide on the next steps.”

packages and when leveraging substantial additional lending. The strategy, in short, has relied upon commercial banks to negotiate any changes in their outstanding claims on their own, while providing their fair share of new financial support for debtors' reform efforts.

The sharp decline in commodity prices and export earnings for the major debtor countries in 1985–86 unfortunately set back efforts to improve the debtors' capacity to service debt, reflecting the vital importance of exports to a growth-based strategy. Stronger OECD growth, a sharp reduction in LIBOR interest rates, and market-oriented debtor reform efforts have all helped to improve the debtors' situations more recently. For the period since 1982 as a whole, substantial progress has been made in reducing the major debtors' current account deficits, in strengthening their growth, and in reducing the risks to the international financial system. Most of the major debtors have made significant external and domestic policy adjustments and are now actively pursuing market-oriented reforms. Both imports and exports are expanding; and critical interest/export ratios have declined by nearly one-third since 1982. (More detailed data on progress under the debt strategy are attached.)²

It would be folly to move away from a strategy that is working without a concrete and coherent plan to replace it. Chaos is no substitute for steady progress.

Efforts to further strengthen the current strategy should focus on doing more to emphasize and enhance the positive role being played by the IMF and the World Bank in this process as part of creditor governments' contribution to resolving the debt problem. Indeed, it serves U.S. interests to underscore the benefits provided by the international financial institutions (IFIs). They provide an excellent source of information and expertise for debtor governments in devising macroeconomic and structural reforms. Our contributions to the IMF and the World Bank, moreover, provide an excellent value for the U.S., resulting in substantial U.S. influence for a very small amount of paid-in capital. U.S. support for a World Bank GCI and for the IMF's new Contingency and Compensatory Financing Facility to help shield debtors from adverse external developments exemplify recent U.S. commitments to assure strong IMF and World Bank support for debtor nations.

At the same time, it is vital to maintain continued commercial bank participation in the debt strategy. The commercial banks account for roughly two-thirds of the total external debt of the 15 major debtor nations: they must continue to provide financial support (through either new financing or an easing of financial obligations, or both) as

²Not found attached.

part of the debt workout process. Creditor governments should not ask their taxpayers, through whatever mechanisms, to assume the risk on outstanding commercial bank loans, or to take on a disproportionate share of new financial support.

The grand proposals which have been suggested by the Japanese and French are fuzzy as to practical details and raise a number of unanswered questions.³ Both in effect would require substantial new financing and/or a major assumption of commercial bank risk by creditor governments or the IFIs to have any practical effect on the debt problem. By raising expectations for substantial new resources to back debt reduction on a global scale, they may well be counterproductive. Entering into prolonged discussions on such proposals—if they cannot be carried out—would in our view do more harm than good.

The key to a sound debt strategy is a practical recognition of what is feasible, and cooperative efforts to achieve that end. Stronger growth in debtor nations and a reduction of debt burdens are achievable objectives. But massive injections of new financing or a major shift in commercial bank risk to creditor governments are neither practical nor an assured means of obtaining those objectives. In the final analysis, only commercial banks themselves can agree to reduce their claims on debtor nations; a number of banks are now moving to do this on their own or as part of negotiations with debtor countries. Serious consideration of alternative “bailout” scenarios can only delay this process and increase the ultimate cost to taxpayers, while undermining the debtors’ own commitments to essential policy reforms.

³ See Documents 242 and 247.

251. Memorandum From Stephen Farrar of the National Security Council Staff to the President's Assistant for National Security Affairs (Powell)¹

Washington, October 20, 1988

SUBJECT

Your Breakfast with Secretary Shultz and Chairman Sprinkel, 7:30 A.M., Friday, October 21, 1988²

The agenda for Friday's breakfast includes some of the issues discussed last Friday with Secretary Brady.³ The agenda is as follows.

[Omitted here is information on Shultz's views on the international position of the U.S. economy]

2. LDC Debt and the Role of the International Financial Institutions

As he indicated last Friday, Secretary Shultz believes that the U.S. needs to re-evaluate the role of the IMF, and with it the debt strategy.⁴ The IMF has evolved from its original mission as a neutral provider of short-term finance to its current role as debt ringmaster. In his view, the IMF staff produces "classroom" programs that do not work because they have little political sophistication. The result is that they merely push debt-servicing problems a year or two down the road. The U.S. compounds the problem by arm-twisting the IMF into hastily drawn programs with high priority countries (e.g., Egypt).

Sprinkel and Meltzer are likely to be much more critical of the IMF than was Secretary Brady last week.

You might note the need to coordinate an Administration position. This process could logically be triggered by the paper on the IMF that Secretary Brady said was underway in Treasury and would be done in "about a week."

[Omitted here is information on economic issues not focused on debt.]

¹ Source: Reagan Library, Stephen Farrar Files, Chronological File, Farrar Chron October 1988; NLR-177-8-33-1-0. Confidential. Sent for information. A stamped notation on the memorandum reads: "Nat'l Sec Advisor has seen."

² Minutes of an October 21 meeting have not been found. A copy of the Department of State's October 19 briefing memorandum provided for this meeting from Larson to Shultz is in the Department of State, Executive Secretariat, S/S Files, 1988-1989 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D154: Through Memoranda September/October 1988.

³ Minutes of an IEP breakfast on October 14 have not been found. An October 13 memorandum from Farrar to Powell provided an agenda for this meeting. (Reagan Library, Stephen Farrar Files, Chronological File, Farrar Chron October 1988)

⁴ See footnote 3, above.

252. Paper Prepared in the Department of State¹

Washington, undated

THE U.S. DEBT STRATEGY

Substantial Progress to Date.

◦ A key accomplishment is the increasing recognition among developing countries that long-term growth requires a strong commitment to market-oriented policies.

◦ For the 15 major debtors specified in the Baker Plan as a group, GDP growth averaged a positive 3 percent in 1986–87 versus negative growth of 3 percent in 1983; export earnings rose 13 percent and imports 9 percent in 1987; imports in 1988 are expected to be at their highest levels since 1982; the aggregate current account deficit fell from \$50 billion in 1982 to \$15 billion in 1986 and \$9 billion in 1987; debt interest/export ratios declined by nearly one-third between 1982 and 1987; aggregate reserves in 1987 were \$38 billion, 46 percent above the 1982 level; and capital flight is being turned around, with several countries having net inflows of non-debt-creating finance in 1987.

◦ To accelerate this progress, the U.S. has encouraged the further development of a “menu” of alternative, market-driven financial instruments to help meet the diverse interests of both debtor nations and the banking community in devising new financing packages. The thrust among commercial creditors, as well as among the debtors, is for packages that include a variety of options to reduce debt.

— Negotiated, market-oriented mechanisms can, in the aggregate, make a dramatic difference in the debt burden of countries.

— About \$10–11 billion in debt/equity swaps and other debt conversions have helped to reduce debt and debt service burdens and to stimulate new investment flows in various countries.

— *Chile* converted \$5.2 billion from debt to equity through September 1988—a third of its commercial debt stock. In early November, Chile bought back about \$300 million of its debt at 56 cents on the dollar.

— *Mexico* eliminated 2% of its debt stock through an innovative securitization scheme with long-term, principal-secured bonds, and variants of this program are planned for the future.

¹ Source: Department of State, Executive Secretariat, S/S Files, 1988–1989 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D154: Through Memoranda November 1988. Drafted by John Moran (EB/IFD/OMA) on November 16; cleared in EB/IFD/OMA by Milam. Sent under a November 17 covering memorandum from McAllister to Shultz which provided briefing material for a November 18 IEP breakfast meeting.

— *Bolivia* repurchased half its commercial debt stock at a cost of 11¢/\$1 with a voluntarily-funded debt-buyback plan.

— *Brazil* negotiated a package with the banks in 1988 that offers six variations of debt/equity swaps. Brazil can potentially reduce its external debt to commercial banks by a net of \$18 billion by 1993, or about one-fourth of outstanding debt, with corresponding savings of \$5 billion on future interest payments.

◦ Commercial banks have played a major role.

— Total exposure of U.S. banks in the Baker Plan countries, plus two other highly indebted countries, has dropped by 10.5 percent since 1982. The exposure of nine money center banks relative to primary capital declined from 192.4 percent in 1982 to 106.6 percent in 1987. For all other banks, the exposure relative to capital dropped from 85.2 percent in 1982 to 35.2 percent in 1987.

— The decline in exposure relative to capital came about due to lower absolute loans outstanding and a large increase in banks' capital. Banks want to step up debt reduction now because the provisions they have taken to date place them in a better position to do so, and because depressed bank stock prices tend to rise when high-risk LDC debt is converted, even at a discount.

— Banks have made significant loan loss reserves and have taken some write offs. Although exact figures are not readily available, U.S. banks have taken reserves equal to about 15–20 percent of their LDC exposure.

— They have committed some \$17 billion in new finance since October of 1985, while rescheduling approximately \$207 billion on outstanding debt, reducing interest rate spreads and providing longer grace periods and maturities.

◦ The IMF and World Bank provided strong support for the debtors' efforts through general economic advice and assistance in the development of growth-oriented programs. Together the two institutions provided \$25 billion in new loan commitments during the last three years.

◦ Official creditors in the Paris Club have rescheduled approximately \$25 billion in outstanding debt and interest since October 1985. In addition to its Paris Club participation, the U.S. supported a \$74.8 billion World Bank General Capital Increase to assure that capital is not a constraint on the ability of the World Bank to fulfill its key role in the debt strategy. The U.S. also advocated the creation or strengthening of several IMF facilities to promote growth-oriented structural reform programs.

Despite the Progress, Problems Remain.

◦ Total LDC indebtedness has increased from \$720 billion at the end of 1982 to \$983 billion at the end of 1987. Latin debt grew from \$336 billion to \$416 billion in the same period, while Sub-Saharan debt grew from \$65 billion to \$124 billion.

◦ The ratio of total debt to exports of goods and services went from 125 percent in 1982 to 157 percent in 1987. This worrisome trend may be shifting, however, as LDC export earnings have increased faster than LDC debt in the last two years.

◦ Despite new money packages and increased official lending, the 15 countries specified in the Baker Plan experienced net outward resource transfers of \$138 billion during 1983–1987; flight capital was not the primary cause of outward resource flow in this period; most capital flight took place before 1983.

◦ Concerted Balance of Payment (BOP) lending is increasingly difficult; even the few Latin countries that have not rescheduled commercial debt have increasing difficulty in borrowing. In a sense, commercial bank creditors have abandoned any pretense of a case-by-case approach, and now rate all middle-income Latin debtors (and the Philippines, Nigeria and perhaps Indonesia) as not very creditworthy.

◦ Per capita GDP declined by 6 percent in Sub-Saharan Africa over 1981–1987, and by 7 percent in Latin America.

◦ International financial institutions are assuming an increasing share of the burden of lending. Commercial banks are clamoring for IFI guarantees to cover new bank lending. Arrearages to the IFIs are growing, and could become a serious problem in the 1990s.

◦ The rate at which countries seek rescheduling from their official creditors via the Paris Club is increasing. From 1983–1987, the frequency of rescheduling quadrupled, with two-thirds of the countries which requested rescheduling doing so on previously rescheduled debt.

◦ As debt loads increase and per capita incomes decline, debtor fatigue increasingly leads to a search for a politicized means to solve the debt problem.

◦ Political change in Latin America may lead to more radical approaches on external debt. New presidents in Mexico and Ecuador may take harder stances. The possible victors in presidential elections to be held before 1990 in Venezuela, Brazil, Peru, Argentina, Bolivia and Chile may also take a more confrontational approach.

Present Situation.

◦ Our approach has been flexible and innovative, but perceptions have altered even faster than the debt strategy could be modified. Increasingly the debt workout is perceived by debtors and many creditors as stalled.

◦ Debt has become increasingly politicized, both in debtor and creditor countries. As a result, the search for a “political” solution has accelerated, and the foreign policy challenges have become more acute. In effect, third world debt is now as much a foreign policy issue, with a short-term focus, as a financial issue, with a medium-term focus.

◦ In the debtor countries, governments important to us politically are under great pressure to reduce the burden of their debt. The issue has taken on heavy symbolic importance.

◦ In creditor countries, the issue is also growing in political importance.

◦ A growing segment of the U.S. Congress supports debt relief, again a political sentiment based on the feeling in some sectors of U.S. society (e.g. exporters and farmers) that the banks have been saved at their expense.

Issues for New Administration.

◦ The Administration needs to find a concept that defuses the debt issue politically yet incorporates all the elements needed to continue and validate the progress that has occurred since 1982.

◦ The debt strategy evolution to date offers us the opportunity to construct a modified framework that could depoliticize debt and lay the foundation for sustained economic growth in indebted LDCs.

◦ A sharp departure from the present debt strategy is not necessary. It is increasingly clear, however, that any new design must facilitate debt reduction by encouraging banks to differentiate between debt that would continue to be serviced, and debt that would not be serviced, with banks accepting their losses and settling for less than full value.

◦ We have the opportunity to foster even greater movement on the debt reduction front. The USG should articulate a concept or way of thinking about the debt problem which puts much greater reliance on debtors and creditors working out debt reduction without government intervention.

◦ In addition, the Administration might consider whether to enhance the role of the World Bank in facilitating the exit of smaller creditors and debt reduction by larger banks. World Bank guarantees for exit bonds and voluntary debt reduction may be useful, although World Bank guarantees for new commercial bank lending should be discouraged.

◦ This new design must maintain incentives for short-term trade lines and medium-term project financing even as creditors write off other assets in an orderly fashion.

◦ Settlements under a newly evolved debt strategy must be voluntary, country specific (i.e. case-by-case) between the commercial creditors and the debtors, with the USG resolutely on the sidelines. IMF and World Bank lending would be based strictly on the extent of debtor reform, and separate from debtor/commercial bank negotiations.

253. Memorandum of Conversation¹

Washington, November 18, 1988, 7:30–8:30 a.m.

SUBJECT

International Economic Policy Breakfast

PARTICIPANTS

George P. Shultz, Secretary of State
Nicholas F. Brady, Secretary of the Treasury
John C. Whitehead, Deputy Secretary of State
M. Peter McPherson, Deputy Secretary of the Treasury
Colin L. Powell, Assistant to the President for National Security Affairs
Ambassador Alan Woods, Administrator, Agency for International Development
Allen Wallis, Under Secretary of State for Economic Affairs
Ambassador Max Kampelman, Counselor, Department of State
Eugene McAllister, Assistant Secretary of State for Economic and Business Affairs
Charles Dallara, Assistant Secretary of the Treasury for Policy
Stephen P. Farrar, NSC Staff

[Omitted here is discussion of Mexico, Canada, and the foreign exchange market.]

International Affairs Funding

Peter McPherson opened the discussion by noting the tightness of the FY 1990 budget and the desirability of State and Treasury working together during the upcoming appeals process. He then urged support for a Treasury proposal to fund a U.S. contribution to the Enhanced Structural Adjustment Fund (ESAF), an \$8 billion concessional loan window of the IMF. In his view, U.S. participation is essential if the ESAF is to be helpful in eliminating the problem of the \$3 billion arrears owed by developing countries to the IMF. Some countries, such as Sudan and Liberia, have arrears so large that refinancing is necessary in order to normalize relations with the IMF. (C)

Secretary Shultz opined that the U.S. should not support taxpayer bailouts through the IMF. He also questioned Treasury's assertion that the U.S. has an obligation to help the IMF since we pushed the Fund reluctantly into bad programs with U.S. clients. Finally, he observed that even \$15 million per year is big money in the Function 150 account, and that he would need to think hard before supporting the ESAF

¹ Source: Reagan Library, Stephen Farrar Files, Chronological File, Farrar Chron November 1988; NLR-177-9-3-2-1. Confidential. No drafting information appears on the memorandum. The meeting took place at the Department of State. Sent under a November 18 covering memorandum from Farrar to Stevens, in which Farrar recommended that Stevens approve the memorandum.

proposal. He said that he understood that OMB would propose to cut the Function 150 request by at least \$1 billion and, while he sympathized with OMB's problem, he would go to the President to press his budget request. (C)

It was agreed that State and Treasury would work together on the budget appeal for Function 150. (C)

254. Letter From Secretary of State Shultz to Secretary of the Treasury Brady¹

Washington, December 2, 1988

Dear Nick:

I wanted to share with you some of my thoughts regarding a possible US contribution to the IMF's Enhanced Structural Adjustment Facility (ESAF). I remain concerned with an ESAF focused on clearing arrears rather than structural adjustment. This does not appear to be the best use of our very scarce economic support funds.

As I understand it, you are suggesting that our contribution would help us to redirect the ESAF to clear up the IMF's arrears problem.² The ESAF was established a year ago, but only two programs (Bolivia and Malawi) are in place and only three more (Senegal, Gambia and Ghana) are in preparation.

I question whether the ESAF can accomplish the actual clearance of IMF arrears. Four countries—Liberia, Peru, Sudan and Zambia—account for 80 percent of this total. Peru is not eligible for the ESAF. For the remaining three countries, the amounts available under the ESAF are insufficient to cover arrears already accumulated. I take IMF arrears problems very seriously, but am inclined to think that the ESAF should

¹ Source: Reagan Library, George Shultz Papers, Official Memoranda (12/02/1988–12/05/1988); NLR-775-59-3-2-2. No classification marking. Drafted by Maureen Quinn (EB/IFD/ODF) on November 21; cleared in EB/IFD/ODF, EB/IFD/OMA, EB/PAS, E, and EB, and in substance in D/P&R. The words "Orig ltr to addressee by courier" are typed at the top of the memorandum.

² In an October 18 letter to Wright, Brady outlined Treasury's request "to provide for a U.S. contribution of \$150 million" to fund the ESAF, stating: "The ESAF is a critical element in international efforts to deal with the serious economic problems confronting the poorest countries." (Department of State, Executive Secretariat, S/S Files, 1988–1989 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D154: Through Memoranda November 1988)

concentrate on helping those countries who can to move forward, not on dealing with the results of past mistakes.

IMF management and other donors are clearly reluctant to redirect the use of ESAF resources for the clearance of arrears. I fear that “buying a seat at the table” will not shift donor views significantly on the issue of ESAF resources. The intended participants may also balk at the proposal, particularly when their arrears exceed the level of resources that could be available to them.

We need to consider alternative approaches to solving the IMF’s arrears problem and assess a full range of possible options. We may want to undertake such consideration in the context of a broader examination of the role the IMF should play in the world economy of the 1990s and the 21st century. I look forward to further discussions on this matter.

With warm personal regards,
Sincerely yours,

George P. Shultz³

³ Shultz signed “George” above his typed signature.

255. Memorandum From Stephen Farrar of the National Security Council Staff to the President’s Assistant for National Security Affairs (Powell)¹

Washington, December 12, 1988

SUBJECT

Meeting on International Debt, 4:30 p.m., Tuesday, December 13, 1988²

At the November 10 meeting,³ the debt problem was discussed in general terms, and Treasury undertook to develop specific ideas.⁴ These ideas will be tabled at the December 13 meeting. In assessing

¹ Source: Reagan Library, Stephen Farrar Files, Chronological File, Farrar Chron December 1988; NLR-177-9-6-8-2. Secret. Sent for information. A stamped notation in the right-hand corner of the memorandum reads: “Nat’l Sec Advisor has seen.”

² No minutes or summary of this meeting have been found.

³ No record of this meeting has been found.

⁴ See Document 256.

Treasury's proposals, I believe that some principles should be kept in mind:

— *Governments Must Pay.* The nature of the debt problem is now as much foreign policy and national security as it is financial. Therefore, governments in creditor countries cannot expect banks and debtor countries to bear all of the cost of solving it.

— *But Payment Should be Indirect.* The question of how governments pay is critical. Budget pressures in the U.S. make it attractive to pay indirectly, i.e., through tax expenditures. The indirect approach also has the advantage of preserving market incentives by keeping pressure on banks and debtor governments to negotiate with each other.

— *Regulatory Reform.* As a first step toward a more supportive government role in resolving the debt problem, bank regulators (the Office of the Comptroller of the Currency and the Federal Reserve) should search for ways to make the banks' regulatory environment more conducive to developing new ways to reduce the debt burden. While I believe this can be done, problems in the domestic U.S. banking industry make it a delicate task.

— *Guarantees.* A second way of providing indirect resource support would be to expand the use of guarantee authority. The World Bank, for example, has authority to issue guarantees, but activity has been limited because of the Bank's conservative accounting rules. Also, the USG has about \$10 billion in guarantee authority available through Eximbank, about half of which was unused last fiscal year.

— *Flows vs. Stocks.* Priority should be given to ideas that help reduce the near-term debt servicing burden (flows). Reducing the stock of outstanding debt should be of secondary importance.

Next Steps: Treasury should form a small group composed of experts on bank regulation to identify appropriate regulatory changes. A revised U.S. policy is urgently needed to deal with imminent pressure from Mexico, where President Salinas has made debt renegotiation his top priority. Also, the Latin G-8 meeting now underway promises that the Bush Administration will be greeted with a unified Latin position on debt.⁵

⁵Telegram 16017 from Brasilia, December 13, transmitted the text of the press communiqué issued on December 12 by the Ministers of Finance of Latin American countries who met in Rio de Janeiro on December 12 to discuss the issue of foreign debt. (Department of State, Central Foreign Policy File, Electronic Telegrams, D881088-0782) An undated paper prepared in the National Security Council on transition issues, which Farrar sent to Gates under a January 3, 1989, memorandum, stated that the new administration "will need to adopt a clear and effective strategy early next year to manage the debt problem. This strategy will need to include judgments on the role of the IMF and World Bank in the international financial system. Without such a strategy, the Administration will quickly find itself on the defensive, both with Congress and internationally." (Reagan Library, Stephen Farrar Files, Chronological File, Farrar Chron January 1989)

256. Paper Prepared in the Department of the Treasury¹

Washington, undated

**CONTINUATION OF CURRENT APPROACH TO DEBT PROBLEMS:
A REALISTIC ASSESSMENT**

The current approach to debt problems focuses on the adoption of debtor reforms buttressed by external financial support. Its fundamental objective is to generate stronger growth in debtor nations as a basis for achieving a reduction of debt burdens over time and a restoration of access to financial markets. A complementary objective has been to improve the debt/equity mix of both new and existing external obligations and to boost domestic savings as an alternative to new foreign debt.

The debt strategy has successfully bought time during which commercial banks have strengthened both capital and reserve positions, reducing the risk of default to the financial system. It has encouraged a stronger focus on growth-oriented macroeconomic and structural reforms in debtor nations essential to sustained growth over the longer term. And it has maintained a cooperative international effort in support of debtor nations. The bright spots are real and have been summarized in previous papers. Nevertheless, there continues to be a political perception that the debtor nations are in as difficult a position now as they were a few years ago.

In assessing progress toward the strategy's basic objectives, the following factors stand out:

(1) While debtor nations have been implementing more growth-oriented policies, *policy implementation has been uneven and so far has generally failed to generate renewed investor confidence*. Debtors have frequently failed to fully implement Fund programs, in some cases requiring waivers of performance requirements under consecutive programs. The reform process has been stop-go instead of a sustained effort. Tangible "results" from structural reforms have been especially difficult to measure.

(2) *Growth has improved for most countries, but remains too slow in many to sustain the political will to continue economic reform efforts or to generate a substantial reduction in debt in a reasonable period of time*. In

¹ Source: National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Congressional Correspondence, 1988, UD-10, 56-10-1, Box 35, Group Letters S/, Current Approach to Debt Problem 88-72157. No classification marking. Sent under identical covering memoranda, dated December 12, from Brady to Shultz, Baker, Powell, and Greenspan. The memorandum to Baker included a handwritten note from Brady, which reads: "Jim, Also attached is the memo #1 which formed the basis for the first meeting. NFB."

the three largest debtors (Brazil, Argentina, Mexico) growth has fallen sharply for either external (oil price) or domestic policy reasons.

(3) *Export earnings* have recovered to pre-1982 levels (following a sharp decline in 1985–86), but for most countries *have not generated any "excess" earnings for use in reducing debt*. (The exceptions are the Mexican debt/bond exchange using Mexican reserves and the Chilean debt buy-back from copper earnings.)

(4) For most countries, *debt and debt service burdens continue to increase*. Debt for the 15 major debtors has increased by \$100 billion since 1982; debt/export and debt/GDP ratios remain well above the 1982 level. While interest payment/export ratios have improved, the recent increase in interest rates is eating away at these benefits. Six of the major debtors are currently in arrears on payments to commercial banks (*a de facto* means of temporarily reducing debt service payments).

(5) *Investment has declined* from an average of about 25% of GDP in 1980–81 to 17% in 1985–87; *domestic savings as a share of domestic income also remains below pre-1982 levels*. In many cases, healthy investment opportunities are not being exploited due to lack of access to funds. While some \$10 billion in debt/equity swaps and \$9 billion in other debt conversions since 1985 have helped to reduce debt and debt service burdens, conversions at this pace won't produce manageable interest burdens over the near term for most countries. (Chile, again, may be the exception.)

Although the trends appear more positive during 1987–1988, they can only be sustained with strong growth in OECD export markets or commodity prices and a resumption of lower or declining interest rates. These are events which we cannot count on for sure.

Tactically, the debt strategy has relied since 1982 on the generation of large debtor trade surpluses and concerted international lending packages to assure continued payment of interest on commercial bank and official loans. Commercial banks, however, are increasingly reluctant to provide new financing as they seek to reduce their LDC exposure. Debtor nations, for their part, seek more direct and immediate relief to reduce their large net transfers abroad. At the same time, the pressure for increased IMF and World Bank loans, World Bank "enhancements" of commercial bank loans, and IMF or World Bank loans for debt reduction purposes is growing.

A cold and hard appraisal of a continuation of the current approach would suggest the following negative trends:

- There will be a continuing gradual shifting of risk on LDC debt from the private to the public sector.

- Debtors will continue to adopt partial reform measures in order to obtain financial support. Such reforms will become more difficult, however, in the absence of more rapid progress in reducing debt burdens—and debtor nations will demand a higher premium for their reform efforts (larger loans from the international financial institutions or specific, immediate relief).

- Growth will remain anemic, and won't be sustained if reform efforts falter. Incentives for debtor reform will decline unless cash flow

can be improved. Any increase in export earnings will go primarily to service debt rather than being invested in future growth.

- Commercial banks will continue to insist on being paid interest as they withdraw from new lending, while providing “relief” only at the margin.

- The Fund and Bank will become increasingly enmeshed in new lending to debtor nations as the commercial banks pull back. Loans from both institutions will increasingly focus on servicing both their own and commercial bank debt. The potential for arrears, already increasing for both institutions, could threaten their own viability, or necessitate debt reschedulings and additional infusions of funds from shareholders. This problem may well need to be faced within the next two to three years.

- Continued new lending by the international financial institutions (and stronger arm-twisting to obtain even marginal lending by commercial banks) will boost both debt and debt service burdens, further burdening debtor nations.

- Adverse external developments (higher interest rates, slower OECD growth, lower oil prices) will continue to cause periodic financing “crises” for individual countries. *Ad hoc* responses will provide temporary bandaids, but not long-term solutions.

- Democracies, particularly in Latin America, may be placed at risk.

Appraising these negative points involves matters of judgment on which there is obviously substantial disagreement. However, *there is a clear need in the current debt strategy to place a stronger emphasis on reduction of debt and debt service burdens*. The strategy is already moving in this direction, in encouraging the development of both new money and voluntary debt reduction techniques in commercial bank packages. However, progress in reducing debt burdens has been at the margin for most countries. The potential for further voluntary transactions is limited by:

- commercial bank willingness to accept losses;
- the debtors’ unwillingness to open their markets more widely to foreign investment; and
- deep disagreement between debtors and banks about the terms to apply to debt/equity swaps and/or other techniques for reducing debt.

A more comprehensive approach to debt reduction would require solutions that depend more heavily on official resources or sanctions, or a large scale transfer of risk to the international financial institutions.²

² Also sent under the December 12 covering memoranda (see footnote 1, above), are two papers outlining potential new approaches to the international debt problem. The paper, “Back to Basics for the IMF and World Bank,” suggests that the United States could call for a major reassessment of the roles of the IMF and World Bank in the world economy. The paper, “A ‘Permanent’ Solution Through Debt Service Moratoria and Restructuring: A Fresh Start for LDCs,” examines the role debt moratoriums and negotiated debt restructurings could play in alleviating debt difficulties. Both papers are attached but not printed.

Foreign Assistance; International Financial Institutions; Commodity Policy

257. Letter From Secretary of State Haig to the Director of the Office of Management and Budget (Stockman)¹

Washington, January 26, 1981

Dear Dave:

I understand that the OMB review of the Carter Administration's FY 82 budget proposal could affect the status of many of our foreign affairs programs. Some of these programs—security and development assistance in particular—are as important to U.S. national security as many items in the defense budget.

It may well be that there is room for reductions in certain programs; indeed, I expect this to be the case. However, I know you agree that policy must drive these resource decisions, and we are only just beginning the Reagan Administration's review of U.S. national security policy.

In general, I believe that critical State Department and foreign assistance programs which relate to our national security policy should be treated in the same way as defense programs. These programs fall into three principal categories:

- Properly tailored security assistance, which enables our friends and Allies to take on defense tasks which otherwise we would have to assume ourselves;

- Economic assistance programs, which are one of the key tools available to us to promote regional stability, particularly for some of our principal recipients such as Egypt and Israel;

- Functions carried out by State Department personnel overseas—intelligence, negotiations for base access and overflight rights, arranging military exercises, etc.—which are of direct value to our defense posture.

¹ Source: Reagan Library, Executive Secretariat, NSC Subject File, [Security Assistance] Foreign Aid (February 1981); NLR-753-92-10-2-7. Confidential.

Pending a more thorough review, I believe such matters should be treated as defense items in any OMB budget review, particularly since we are already starting with levels of security assistance that were cut badly by the Carter Administration.

Sincerely,

Alexander M. Haig, Jr.²

²Haig signed “Al” above his typed signature.

258. Briefing Memorandum From the Under Secretary of State for Economic Affairs (Rashish), the Under Secretary of State for Security Assistance, Science and Technology (Buckley), and the Director-Designate of the Policy Planning Staff (Wolfowitz) to Secretary of State Haig¹

Washington, January 29, 1981

SUBJECT

Your Meeting with Stockman on Foreign Assistance Budget Cuts

Issue

You will be meeting with Stockman tomorrow² to review an OMB suggested package of severe reductions in both the FY 1981 and FY 1982 foreign assistance budgets. Also invited are Secretaries Regan, Weinberger, Block, Brock, Mr. Meese, and others in the Budget Working Group. Stockman proposes cutting almost \$880 million in major foreign assistance programs from the currently planned FY 1981 level of \$6 billion. For FY 1982, he recommends reducing the \$8 billion Carter budget proposal for these programs by \$2.6 billion. Programs across the board would be cut; those affected most would be the International Development Association, other multilateral development bank funding,

¹ Source: Department of State, Executive Secretariat, S/P Records, Memoranda and Correspondence from the Director of the Policy Planning Staff to the Secretary and Other Seventh Floor Principals, Lot 89D149: Jan. 21–31, 1981. Confidential. Drafted by Barney Rush (E) and Michael Feldstein (S/P); cleared in PM, EB, and IO. A stamped notation on the memorandum reads: “Expedite.”

² January 30.

development assistance, PL 480 Title I, the Economic Support Fund (ESF), and other international organizations.

Impact of the Cuts

The abrupt reductions proposed by OMB would have a severe impact on vital American interests. These proposals would:

- Break U.S. commitments, made last year, to replenish the International Development Association and the African Development Bank.

- Eliminate a \$100 million ESF contingency fund—a program crucial to our ability to respond quickly to economic and political crises.

- By 1984, eliminate PL 480 Title I, a program of major importance to our relations with Jamaica, Indonesia, Pakistan, and Egypt; as well as Kenya and Somalia, countries important to our Indian Ocean access. The loss of the ESF contingency fund coupled with a severe cut in PL 480 cripples our flexibility to respond to the dynamic world situation.

- Eliminate paid-in capital to the World Bank, thus taking away U.S. veto power in, and harming the creditworthiness of, a mainstay of the Western-oriented world economic system.

- In FY 1981 reduce AID to Latin America—a priority area for the Administration. This is the case since cuts must be taken from unobligated funds. Less than 20% of the funds for Latin America have been obligated.

- In FY 82 and beyond, cut severely bilateral assistance to at least some strategic regions, such as Southeast Asia, Africa, the Near East, or Central America; we could not maintain our programs, and hence our influence, in all of them.

Recommended Strategy for Meeting

We believe it important for you to convey, early on at the meeting, four general points:

- (1) The Reagan Administration has set as a major goal strengthening America's world position and resisting the spread of Soviet influence and the creation of opportunities which the Soviets could exploit; this cannot be done without adequate—even expanded—resources.

- (2) Foreign policy should determine the budget; budget cuts should not determine foreign policy. You, as Secretary of State, have responsibility for determining where adjustments can be made in the foreign assistance budget that are consistent with this Administration's foreign policy. Giving OMB a free hand to identify cuts at this time will undercut your authority.

(3) The Administration must have the time to create its own assistance strategy.

(4) If it is necessary to accept an understanding that the foreign assistance budget is to be cut, we recommend you not agree to any specific overall figure at this meeting, but indicate a willingness to work with OMB on determining such a figure. You should reserve the right to submit no cuts and, indeed, to propose increases in categories which you believe are of strategic importance.

The meeting will be focused around the OMB proposals and is scheduled to last three hours. It will be difficult to avoid discussion of program specifics. This presents a danger since it is likely to result in a bargaining session, e.g., agreeing to a greatly reduced PL 480 Title I program in exchange for dropping its call for a complete phase-out of the program, or offering more bilateral aid to sweeten a phase-out of concessional contributions to the MDBs.

We urge that you avoid accepting any specific cuts or program recommendations. We believe harmful effects of budget cuts can be minimized by our first identifying reductions that would be least painful in foreign policy terms for us to accommodate and then negotiating these with OMB and ultimately the President. We have begun to identify such cuts.

You might want to note you are pleased that there are no cuts to the Carter Administration's proposed FMS programs since the programs themselves are not adequate. (We plan, for example, to propose that several country programs, including Turkey, Portugal, and Egypt, be restructured so as to increase the proportion of direct, concessionary credits. The overall FMS program size would remain the same though.) This matter should be discussed in the context of our defense programs. As a result, the Carter program proposals should *not* be released until we have had this opportunity to review them.

259. Memorandum From Henry Nau of the National Security Council Staff to the President's Assistant for National Security Affairs (Allen)¹

Washington, January 29, 1981

SUBJECT

Meeting Friday, January 30, 1981, 3:00 p.m. on Foreign Aid Retrenchment

The attached paper² outlines the Stockman recommendations for foreign aid retrenchment which will be discussed at the meeting Friday afternoon,³ 3:00 p.m. The highlights are as follows (see page 5–6 for best overview of the numbers):

1. Security Assistance is excluded. OMB tells me this was done intentionally to indicate that they did not seek to propose increases or decreases in the FMS credit, IMET or MAP accounts. I had Bob Kimmitt check on whether State or Defense intended to raise the possibility of enhancement of the security assistance budget. His memo and recommendations are attached.⁴

2. Every other major program takes some reduction with multilateral programs being cut back more than bilateral programs.

3. Nevertheless, the most important bilateral programs for implementing foreign policy objectives are also cut substantially.

a. PL–480 is cut by ½ in FY 82 and eliminated altogether after FY 82 (The Egyptian Ambassador has already called about the PL–480 cuts after the story in Thursday's *Post*).⁵

b. Economic Support Fund (excluding Egypt and Israel) is cut by \$100 m in FY 82 (the contingency fund is eliminated) and increases only slightly thereafter to the same level in FY 85 that Carter proposed for FY 82 (meaning a real decline from Carter FY 82 levels).

4. By contrast to PL–480 the bilateral AID account, which involves long-term project assistance for basic human needs (agriculture, health, etc.) and is therefore less flexible and useful for supporting new foreign policy initiatives, is not cut but increases by 3 percent annually from FY 82 on.

¹ Source: Reagan Library, Executive Secretariat, NSC Subject File, [Security Assistance] Foreign Aid (January 1981). Confidential. Sent for information. A handwritten note on the memorandum reads: "RVA: Tim Deal is on standby for this meeting. J."

² Not attached.

³ January 30.

⁴ Not attached.

⁵ See John M. Goshko, "Huge Cutback Proposed in Foreign Aid," *Washington Post*, January 29, 1981, p. A1.

5. All of this leads me to make the following points which you may wish to pursue at the meeting Friday:

a. The President has given priority to budget reductions. We must all cooperate. Foreign aid has become an unpopular program because it has been divorced increasingly from US national security and foreign policy objectives. In the short-run, therefore, if more popular domestic programs must be cut, foreign aid too will have to be cut.

b. However, short-term cuts must reflect the policy priorities of the new Administration, not continuing priorities of the previous Administration

1. The proposed cuts for FY 81 must take into account the funds that have already been obligated by the Carter Administration, since cuts at this point must come from unobligated funds. I am told, for example, that the \$211 m proposed cut in the AID budget will have to come heavily from Central and South America, a clear priority region for the new Administration.

2. Is it not possible to cut IDA VI completely for FY 81, since a renegotiation of the replenishment is not likely to be accomplished before the end of the fiscal year?⁶

3. Only modest amounts have been cut from the FY 81 budget for multilateral banks (except IDA) and international organizations and no cuts have been proposed for the Peace Corps? Have we looked at these accounts critically enough?

c. In the longer-run (FY 83 on), the need to cut foreign aid is less persuasive. Support for foreign aid can be rebuilt by linking this aid more closely to visible US security and commercial interests. Indeed, as new directions are set for American foreign policy in the Indian Ocean and Southwest Asia, the Caribbean, Central America, and other areas, it will be imperative that we have adequate foreign assistance resources to support American objectives.

1. Is it wise, therefore, to eliminate PL-480 aid unless we increase proportionately ESF funds?

2. It is also misleading to show the ESF account excluding Egypt and Israel only. ESF funds are currently earmarked for Greece, Turkey, Spain, and other countries as well. Some 85% of ESF-money is locked in. The contingency fund of \$100 m. is desperately needed, not only in FY 82 but in the out-years as well.

As Bob Kimmitt points out, you can expect Haig to support the retention of the ESF contingency fund. On economic assistance, State is internally divided between Hormats and, to a lesser extent, Rashish, who believe that Stockman's proposals go too far too fast in the case of the IDA and multilateral bank reductions, and Buckley, who favors bilateral flexibility (hence PL-480 and ESF) even if it means cutting severely into US support of the banks.

⁶ An unknown hand bracketed this sentence in the left-hand margin.

In my view, the cutback of the banks is unfortunate but necessary. When resources are tight and the security threat is more pressing, bilateral aid must take priority. IDA invests predominantly in India, Bangladesh and Pakistan. The first two are not high on the list of immediate US security interests. The World Bank, by contrast, invests primarily in Brazil, Mexico, Indonesia and South Korea. These are all important countries from the standpoint of US security interests. If anything therefore, we should favor the World Bank and the General Capital Increase (GCI) rather than continue IDA at the expense of GCI. This is the opposite of what Stockman recommends (see pages 7–8 of attached paper).

260. Memorandum From the Acting Assistant Secretary of the Treasury for International Affairs (Nachmanoff) to Secretary of the Treasury Regan¹

Washington, February 11, 1981

SUBJECT

Reaction to Proposed Cuts in Foreign Assistance

In addition to the oral messages you have received, the written response to OMB proposals to cut foreign assistance programs, in particular a reduced share in the upcoming International Development Association (IDA) replenishment, so far consists of seven personal messages to you, from David Rockefeller, the Finance Ministers of Japan, Germany, Mexico and India, the President of the Inter-American Development Bank, and the Executive Director of Bread for the World.² We have also received 29 demarches through diplomatic channels (list attached)³ and a letter to Secretary Haig from Representative Conte.

All of the comments are strongly critical of the OMB proposals. Most developed countries stress the international nature of our commitment to the IDA replenishment. The message is that all countries are

¹ Source: National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Official Files, 1981, UD-10D27, 56-83-71, Box 35, Memo to the Secretary Classified February 81. Limited Official Use. Sent through Sprinkel, who did not initial the memorandum.

² Correspondence not found.

³ The undated list, entitled "Countries Criticizing OMB Proposals to Cut Foreign Aid," is attached but not printed.

facing budgetary pressures similar to those in the U.S. and that everyone else is finding means to honor the pledge. Japan, Germany and Norway point to their own advance contributions to help IDA bridge the gap until the full replenishment becomes effective. Japan warns it might also face domestic political problems if the U.S. reduces its contribution because the Diet has already approved Japanese funding.

Other developed country concerns include the impact of an IDA cut on the general North/South dialogue as well as on other international negotiations. A separate cable from Japan raised the possibility that some countries, such as France, will question whether the U.S. should be allowed to retain its current IMF/IBRD share and voting rights if it is unwilling to bear an equitable share of the IDA replenishment. The Japanese suggest that, if the U.S. cuts its share, it should ask other countries to reduce their shares proportionately.

Less developed countries emphasize their dire economic predicament and the harm they will suffer if foreign aid is reduced. Fears are expressed about the future of the U.N. Economic Program and the regional development banks as well as IDA. Several countries mention their political moderation and support of Western ideals, even in the face of Soviet destabilization efforts. Finally, Madagascar and Rwanda pointedly remind us that they voted against PLO observer status at the IMF/IBRD annual meeting last fall,⁴ on the understanding that the U.S. would not otherwise participate in the IDA replenishment. The Ivory Coast says it will have no choice but to support increased Saudi Arabian participation in the IMF, possibly an indirect reference to the PLO issue.

⁴ See *Foreign Relations, 1977–1980*, vol. III, Foreign Economic Policy, Document 250, footnote 3.

261. Memorandum From the President's Assistant for National Security Affairs (Allen) to Secretary of State Haig¹

Washington, February 19, 1981

SUBJECT

Private Sector's Role in Development Assistance

As you know, the President has a great interest in promoting the role of the US private sector in development assistance to key, friendly developing countries. He was struck by the difficulties encountered during the Seaga visit in being responsive to Seaga's requests for private sector assistance.²

Involving the private sector may be a general problem that should be considered in our reorganization and strengthening of foreign assistance programs. Current AID programs offer few opportunities to involve US private firms in continuing trade and investment relations with developing countries, while the two programs that do, OPIC and the Trade and Development Program (TDP), must now be subjected to the same budget stringency as other programs.

There is an opportunity, however, to reallocate reduced budgets so as to favor programs that offer greater opportunities to engage the private sector in development activities.

I attach a paper³ which discusses the development of such programs, starting with better targeting and coordination of several existing activities:

(1) The Trade and Development Program, currently a small, separate program under IDCA.

(2) Export-Import Bank.

(3) Economic Support Fund.

(4) Overseas Private Investment Corporation (OPIC).

(5) Enhanced and earlier reporting of export opportunities by US Executive Directors at the Multilateral Development Banks and US embassies.

(6) Joint Commissions, Commercial Attaches Program, etc.

¹Source: National Archives, RG 59, Files of the Office of Under Secretary for Security Assistance, Science and Technology, James L. Buckley, Lot 82D352: Buckley Chron March 1981. No classification marking.

²Reagan hosted Prime Minister Seaga of Jamaica and his wife at the White House on January 28. The text of the memorandum of conversation of this meeting is scheduled for publication in *Foreign Relations*, 1981–1988, vol. XVII, pt. 1, Mexico; Western Caribbean.

³Not attached.

The paper advocates the establishment of a leadership structure for private sector development assistance parallel with and comparable to AID (which works largely with the public sector on basic human needs projects). The private sector program and the basic human needs program would report for policy direction to a foreign assistance chief, currently the IDCA Director or, if a restructuring takes place, at the Under Secretary level in the Department of State.

These ideas are clearly in an early state of formulation. But I bring them to your attention now to ensure that the design of effective and flexible ways to involve the private sector in US foreign assistance is given the early attention it deserves.

Richard V. Allen

*Assistant to the President for
National Security Affairs*

262. Memorandum From Stephen Thompson of the Department of State Industrial and Strategic Materials Division to the Chief of the Department of State Industrial and Strategic Materials Division (Todd)¹

Washington, May 15, 1981

SUBJECT

CEA Opposition to Commodity Agreements

At a May 14 meeting with Under Secretary Rashish, Bill Niskanen, a member-designate of the Council of Economic Advisers (CEA), in the course of his comments against commodity agreements, stated that he had been dismayed to learn that the principal reason for the U.S. joining the tin and rubber agreements was to avoid embarrassing the Department of State. According to Art Kobler, EB/STA, who also attended the meeting, Rashish readily defended our membership in those agreements with strong foreign policy arguments but he added that he would not try to defend them on economic grounds. Then, Kobler said, Rashish stated his basic position on commodity agreements: although the U.S. should continue to honor its existing

¹ Source: Department of State, Bureau of Economic and Business Affairs, General Commodity Subject Files, 1965–83, Lot 84D247: Commodities General 1981. Limited Official Use.

commitments, it would be best for the U.S. to avoid joining agreements for other commodities. Rashish stressed that our commitment to join the rubber agreement was a government commitment and not the State Department's and he pointed out, that to withdraw shortly before the Secretary's ASEAN trip in June² would be counterproductive.

Mr. Kobler, who was once assigned to ICD, told Niskanen that based on political and not economic considerations, as a least cost demonstration of our commitment to improving North-South relations, the U.S. decided in 1976 to join the Fifth International Tin Agreement and to participate in the natural rubber agreement negotiations. Kobler also stressed the importance of maintaining good relations with ASEAN.

Although Niskanen's opposition to U.S. membership in commodity agreements was rather obvious, Kobler thought Niskanen would grudgingly accept U.S. membership in the tin and rubber agreements after this testing of Rashish's views, and perhaps a sudden realization that withdrawal from existing commitments might result in undesirable foreign policy implications.

A free-trader and former Ford employee, who was apparently fired for his opposition to import controls, Niskanen will be responsible for micro-economic matters including trade, at CEA.

FYI. Greg Christopulos of USTR told me on May 14 that someone (probably Niskanen) from CEA called the OMB office director responsible for commodities and told him of his opposition to commodity agreements.

² Haig attended the ASEAN Foreign Ministers meeting in Manila from June 17 to 20.

263. Memorandum From Henry Nau and Rutherford Poats of the National Security Council Staff to the President's Assistant for National Security Affairs (Allen)¹

Washington, May 22, 1981

SUBJECT

Coordination of Economic Development Programs

The Senate Foreign Relations Committee has inserted an amendment to the pending Foreign Assistance Bill that would abolish the International Development Cooperation Agency (IDCA). Clem Zablocki, sponsor of the IDCA plan, is said by his staff to be determined to oppose such an amendment if raised in his House Foreign Affairs Committee and to fight it in the House-Senate Conference. We must, therefore, develop an Administration position on the disagreement before the conference, sometime next month.

Peter McPherson had planned to let IDCA wither away but not abolish it until experience confirmed his hope that he could be effective as coordinator of economic development matters from his position as head of AID. He outlined this informal approach in his memorandum of April 15 (Tab A).²

The prospective Senate-House Conference disagreement on abolishing IDCA affords the opportunity to compromise this issue with less Congressional difficulty than if we had initiated the debate by sending a reorganization plan to the House Foreign Affairs and Government Operations Committees, whose chairmen have a paternal interest in IDCA.

We share with OMB staff considerable skepticism that the head of one operating agency can achieve effective coordination of all of our development assistance programs and influence other US Government actions affecting the economies of developing nations. The history of failures by AID Administrators to do just this led Zablocki and the late Senator Humphrey to press for IDCA.³

¹ Source: Reagan Library, Executive Secretariat, NSC Subject File, [Security Assistance] Foreign Aid, (May 1981–August 1981). No classification marking. Sent for information. A copy was sent to Bailey. A stamped notation reads: "RVA has seen." Lenz initialed the top right-hand corner of the memorandum.

² Attached but not printed.

³ Humphrey proposed the establishment of a single foreign aid agency charged with administering bilateral and multilateral aid. Ultimately, Carter issued Executive Order 12163 on September 29, 1979, establishing IDCA. For the text of the executive order, see *Public Papers: Carter, 1979*, Book II, pp. 1792–1800.

We agree with Peter that IDCA has been an awkward bureaucratic layer in most respects and it overly insulated development aid from foreign policy. But we believe the coordinator must have a policy, rather than just an operating agency, position in the government if he is to get Treasury, Agriculture, and the State Department bureaucracy to respond to his views.

When these considerations are coupled with the determination to integrate economic development with other aspects of our foreign policy under the direction of the Secretary of State, the organizational conclusion seems to be either (1) retain a shell of IDCA and its legal authorities but put it in State and appoint McPherson as Director while he continues to serve, concurrently, as Administrator of AID; or (2) abolish IDCA but give its authorities to a new Under Secretary of State for Development and appoint McPherson to this position while he continues to serve as Administrator of AID.⁴

We will explore these ideas with OMB and with McPherson's and Buckley's people before anyone gets out on a limb in talking with Senate or House members. If it seems necessary, we will ask you to weigh in.⁵

⁴ Allen wrote and underlined "unlikely" in the right-hand margin next to this point.

⁵ Allen wrote "Ok" and "(1) Seems best" in the bottom margin of the memorandum. In a June 15 memorandum to Stockman, McPherson, and Friedersdorf, Allen wrote that he supported McPherson's approach of "seeking through consultations to design a compromise between Percy and Zablocki on the IDCA amendment. From my perspective, our objectives should be to (1) assure integration of development aid into foreign policy-making under the Secretary of State, (2) eliminate unnecessary bureaucracy, but (3) retain legal authority and organizational capacity for effective coordination of multilateral with bilateral development aid, and (4) preserve Zablocki's support for the pending aid bill." (Department of State, Executive Secretariat, S/S-I Records, The Executive Secretariat's Special Caption Documents, Lot 92D630: Not For The System: Nov. 1982)

264. Memorandum Prepared in the Department of State¹

Washington, undated

FY 83 FOREIGN ASSISTANCE REQUESTS

A. GOALS

This memorandum outlines in Part C a set of more specific foreign policy criteria to be applied in coordinating final preparation of a consolidated FY 83 foreign assistance budget, and in considering requests for reprogramming or new funding requests that arise during the budget year. As I indicated in my June 13 memo on the budget process,² I intend that this budget review will move substantially in the direction of better coordination of all U.S. assistance program, by measuring competing requests against a common standard.

The priorities identified reflect the major objectives of the Administration. While many of these are cast in strategic terms, the common element in most of our foreign assistance programs will be encouraging a process leading to greater political and economic self-confidence and a greater willingness and ability to address domestic and international problems in ways consistent with U.S. interests.

Our assistance should complement countries' own efforts to address their basic economic and security problems and to provide a better life for their people. Allowing U.S. assistance to substitute for sound domestic policy, economic or political, would be counterproductive to the countries and to our interests.

Political and economic self-confidence are long-term objectives. Absorption problems in many developing countries and our own limited resources will force severe constraints on the level and mix of our assistance. We will heed to consider trade-offs between what is desirable economically, e.g., to reinforce critical economic reforms, and what is desirable from the security viewpoint, e.g., to meet a given proximate threat.

I recognize that it will be difficult to meet our objectives without increased resources. An important part of our budget process will be to compare competing programs against our global objectives and to decide *whether* and/or at what levels to propose FY 83 programs.

¹ Source: National Archives, RG 59, Files of the Office of Under Secretary for Security Assistance, Science and Technology, James L. Buckley, Lot 82D352: Buckley Chron August 1981. Secret. Buckley forwarded the memorandum to Crocker, Enders, Holdridge, Eagleburger, and Veliotis under an August 7 covering memorandum.

² Not found.

Our challenge—in a period of budget austerity—will be to show that any increases we propose in overall assistance levels are critical to the achievement of vital national interests. In this regard, assistance programs that do not clearly help us to pursue our most important foreign and security policy objectives must be phased down or terminated.

[Omitted here are Part B, “Process,” and Part C, “Priority Objectives,” of the memorandum.]

265. Memorandum From Secretary of State Haig to the Counselor to the President (Meese)¹

Washington, August 15, 1981

SUBJECT

FY 1982 Security and Development Assistance Legislation

With passage of the critical domestic economic legislation, it is imperative that we now turn our attention to enactment of the FY 1982 security and development assistance authorization and appropriations bills and raise these to the top of the White House legislative agenda.

The Administration has constructed an ambitious international security policy to sustain our leadership role and fortify the defense of our national interests. The credibility and success of this policy depend mainly on significant improvements in our defense posture and a parallel strengthening of allied and friendly forces. These two major and complementary objectives are of the highest priority; they require increased budgetary levels.

We are, however, confronted by the prospect of failure. Thus far, Congress has not enacted authorization and appropriations legislation for the FY 1982 foreign assistance program. For the third consecutive year the program is threatened with a continuing resolution which would provide substantially less than we need. The security assistance shortfall could be as much as \$1.5 billion below the \$6.8 billion program authority request.

¹ Source: Reagan Library, Executive Secretariat, NSC Subject File, [Security Assistance] Foreign Aid (May 1981–August 1981). Confidential.

Key Democrats including HFAC Chairman Zablocki are willing to approve most aspects of the program, but are unwilling to take the lead, as in previous years, without assurances of strong Republican support. Many Republican House members, however, do not yet believe that the White House is interested in the legislation and have not been willing to support it. This perception reinforces a traditional House antipathy toward foreign assistance.

If we cannot get foreign assistance bills this year, Israel will be about the only security assistance country program to survive in reasonable shape. Egypt, Turkey, Sudan, Kenya, Portugal, El Salvador, and Thailand among others, plus our initiatives for Military Assistance and Economic Support special requirements funds to meet unanticipated needs, will suffer irreparable damage. Key development assistance programs such as those in Africa and Central America will be reduced. A dangerous precedent would also be set for FY 1983 for which we are planning major augmentations.

In sum, if the resources necessary to carry out this Administration's foreign policy are to be available in FY 82, the Congress, particularly Republican members, must understand that the White House regards urgent passage of this program to be critical to its foreign policy objectives. Successful enactment will require the full resources of the White House staff. I strongly urge that you place foreign assistance legislation as one of the two or three highest congressional priorities of the Administration.²

² Haig wrote in the bottom margin of the memorandum: "Ed—I cannot overemphasize how critical this issue is becoming. There will be no hope of carrying the day unless the Pres. and the senior W.H. staff get behind this issue *now*. Thanks, Al."

266. Minutes of a Cabinet Council on Economic Affairs Meeting¹

Washington, September 23, 1981, 8:45 a.m.

ATTENDEES:

Messrs. Regan, Block, Weidenbaum, Anderson, Porter, Wright, Sprinkel, McPherson, Hormats, Leland, Kudlow, Schneider, Bailey, Denoon, Hopkins, Evered, Garrett, Gribbin, Naylor, Rosenthal, Waldman, and Cribb, Ms. Connor, Ms. McLaughlin, and Ms. Moore

[Omitted here is discussion of federal credit policy.]

2. *Assessment of Multilateral Development Banks*

The Council reviewed a study prepared by the Department of the Treasury in coordination with several other departments and agencies, on the policies and operations of the multilateral development banks (MDBs) to help provide the basis for a policy and budgetary framework for U.S. participation in these institutions in the 1980s.²

Mr. Sprinkel's presentation focused on the principal findings of the study. He noted that to date MDB performance has been mixed: economic rates of return have been relatively high (15–20 percent) suggesting a positive contribution to development; a fairly high percentage of recent loans have had economic or financial problems, many due to insufficient MDB leverage on LDC policy reform; however, U.S. influence in the MDBs has been strong and has almost always prevailed on significant matters.

He observed that the study concluded that the MDB goals to integrate the LDCs into the international economic system should be consistent with four administration maxims: adherence to free and open markets; emphasis on the private sector as a vehicle for growth; minimal government involvement; and assistance to the needy who are willing to help themselves.

He outlined the key preliminary recommendations of the study: more emphasis on using MDB funds as catalysts for private investment and for promoting private sector development in the LDCs; increasing the focus of "soft window" lending on the poorest LDCs while pursuing more selectivity in MDB lending geared to appropriate economic and financial policies; and pursuing effective graduation policies for users of capital window funds.

¹ Source: Reagan Library, Richard Darman Files, Cabinet Council on Economic Affairs 09/08/81–09/24/1981, Case File 018936. No classification marking. The meeting took place in the Roosevelt Room at the White House. No drafting information appears on the minutes.

² A summary of the study, which was forwarded to the Cabinet Council on Economic Affairs on September 21 under a covering memorandum from Porter, is in the Reagan Library, Richard Darman Files, Cabinet Council on Economic Affairs 09/23/1981, Case File 01895D.

The discussion focused on the unresolved budget issues, how fast countries can mature from concessional lending, the advisability of deferring final decisions on MDB issues until after Cancun,³ and the relationship of aid to economic growth.

The Council agreed to continue discussion of this subject at its meeting on Thursday morning, September 24.⁴

³ For documentation on the 1981 Cancun Summit, see the Global Negotiations compilation of this volume.

⁴ See Document 267.

267. Minutes of a Cabinet Council on Economic Affairs Meeting¹

Washington, September 24, 1981, 8:45 a.m.

ATTENDEES:

Messrs. Regan, Donovan, Lewis, Brock, Weidenbaum, Anderson, Porter, Wright, Sprinkel, McPherson, Hormats, Leland, Niskanen, Hopkins, Gribbin, Waldman, Nau, Cribb, Bledsoe, Hemel, Ms. Moore, and Ms. McLaughlin

1. *Assessment of Multilateral Development Banks*

The Council continued its review of the study assessing the performance of the multilateral development banks (MDBs).² Mr. Sprinkel's presentation focused on the use of MDBs in stimulating private investment, the criteria for LDC performance, the need for continued and increased emphasis on strict conditionality, and alternative budget recommendations.

The discussion focused on how quickly to push graduation, levels of funding, and the most appropriate places (soft lending rather than hard lending) to sustain funding reductions.

The Council concurred in a six percent reduction in overall funding for MDBs as part of the budget reduction program.

The discussion also included consideration of the method of defending MDB budget reductions at the IMF meetings, the method of

¹ Source: Reagan Library, Richard Darman Files, Cabinet Council on Economic Affairs 09/08/81–09/24/1981, Case File 018936. No classification marking. The meeting took place in the Roosevelt Room at the White House. No drafting information appears on the minutes.

² See Document 266.

announcing the MDB budget reductions, the President's speech before the IMF meeting³ and what it should include about our position on the MDBs, and other subjects likely to come up at the IMF/IBRD and related meetings next week.⁴

Decisions

The Council endorsed the basic conclusions in the assessment of multilateral development banks study.

The Council directed the Departments of State and Treasury and the Agency for International Development to develop:

1. Recommendations concerning the allocation of budget reductions among the various MDB assistance programs.

2. Talking points for U.S. officials to use with respect to the U.S. government's position on the MDBs.

3. Language for use in the President's remarks to the IMF and World Bank meetings with respect to the administration's support for the MDBs.

[Omitted here is discussion of pension policy.]

³ Reagan delivered remarks at the annual meeting of the Board of Governors of the World Bank Group and the International Monetary Fund on September 29. For the text of Reagan's remarks, see *Public Papers: Reagan, 1981*, Book II, pp. 854–856.

⁴ The annual meeting of the Board of Governors of the World Bank Group and the International Monetary Fund took place in Washington September 29–October 2.

268. Letter From Secretary of State Haig to the Director of the Office of Management and Budget (Stockman)¹

Washington, October 16, 1981

Dear Mr. Stockman:

With this letter I am transmitting the consolidated Foreign Assistance budget for Fiscal Year 1983.² It has been discussed extensively with interested agencies and has the full support of the Department

¹ Source: National Archives, RG 59, Files of the Office of Under Secretary for Security Assistance, Science and Technology, James L. Buckley, Lot 82D352: untitled folder. Confidential. Drafted by John Wolf (T), L. Peters (EB/ODF), and Feldstein (S/P); cleared in PM, EUR, and AID; cleared in draft in EB, ARA, AF, EA, NEA, H, S/P, IO, OES, and PM. Wolf initialed for himself, Peters, and Feldstein.

² Annex 1, "Budget by Program Category," Annex 2, "Definition of Objectives by Policy and Program," and Annex 3, "Budget by Foreign Policy Objective with Country and Program Detail," are attached but not printed.

of Defense and the International Development Cooperation Agency. Supporting documentation is included in the Security Assistance Policy Review Working Group and IDCA budget submissions.

In developing our foreign assistance proposal, I insisted we hold a strict balance between the resources necessary to achieve the President's foreign policy objectives and his priority concern to limit the rate of growth of government spending and to balance the FY 1984 budget.

The \$6824 million in budget outlays that I am requesting is, quite simply, the minimum amount necessary to achieve the President's foreign policy objectives. Beyond doubt, I would have preferred higher levels to give us some margin of flexibility. In a world of real security threats, high political tension and economic disarray, we must be prepared to offer more than rhetoric. Our assistance must be adequate in size and flexibility to assure our friends of our determination to help them meet the very real problems and threats they confront.

We can not possibly conduct the President's foreign policy with the level of resources suggested by OMB. Programatically, we would have to take the following unacceptable steps:

ESF—We would have to cut contingency funds and programs in Turkey, the Middle East, Sudan, and in the Caribbean Basin.

FMS—Our guaranteed credit request reflects in large part the President's decisions on Israel, Egypt and Pakistan. Without an adequate direct credit program with flexible terms, realistic financing would not be available to help key countries like Sudan, Turkey, and El Salvador. At less than the levels proposed, we would be seriously weakened in the Middle East peace process, our access and overflight rights to the Indian Ocean and the Persian Gulf area would be undercut, and we could not adequately support Southwest Asian frontline states like Pakistan against Soviet aggression. Neither could we respond effectively to Soviet threats through its proxies. In short, our strategic position worldwide would be undercut with serious consequences for our credibility as a reliable security partner.

PL-480—Any cuts in PL-480 would have to be made against both Title I and Title II, and such cuts would produce unacceptable foreign policy and domestic consequences.³ Not only would reductions encounter legislative and treaty complications, but they would also force widespread food aid reductions in strategically important countries where

³ The Agricultural Trade Development and Assistance Act (P.L.-480), signed into law by Eisenhower on July 10, 1954, established the Food for Peace program. Title I authorizes concessional sales of surplus grains to friendly nations. Title II provides for the donation of U.S. agricultural commodities to private voluntary organizations and international organizations for use in foreign humanitarian feeding programs and for emergency and disaster relief.

we are at least as concerned about the impact of inadequate food supplies on domestic stability as we are about their ability to respond to external threats.

We have outlined our request for bilateral security and economic assistance in terms of nine priority areas of concentration (see annex 2). We have not tried to justify individual countries *vis-a-vis* all other countries, but rather in terms of their contribution to our specific foreign policy objectives. In terms of multilateral assistance, we have given appropriate weight to how our contributions to the multilateral banks complement our strategic objectives, as well as to the importance of maintaining the President's credibility regarding undertakings he has made on current commitments.

Besides the foreign assistance items included in the figures mentioned above, there are several other budgetary items I wish to note:

— I am concerned that OMB has proposed to accelerate sharply the rate at which AID must reduce its staffing levels. It is essential to stick to the 1986 target agreed to last spring, and I will want to review its progress to ensure the consequences do not adversely impact on the management of our foreign assistance programs.

— It is important that the Peace Corps have adequate funds to carry out the important complementary role it plays in our foreign assistance program.

— We agreed earlier this year that the U.S. would provide \$35 million to the Common Fund in FY 1983; that amount is in addition to my proposal here.

Our request also includes \$5 million for a new security assistance program to provide aid to foreign law enforcement personnel in combatting terrorism. This program was approved by the President. We will shortly transmit draft legislation to your staff.

While there can be no doubt as to the importance of achieving the President's budgetary objectives, I am seriously concerned that we not lose sight of the real issue that we are addressing in this budget, the security of the United States and the safety of the American people. My judgment, shared by the entire national security community, is that any foreign assistance program materially smaller than our proposal would constitute a grave threat to our national interests.

Sincerely,

Alexander M. Haig, Jr.

269. Memorandum From the Under Secretary of State for Security Assistance, Science and Technology (Buckley) to the Deputy Secretary of State (Clark)¹

Washington, October 21, 1981

SUBJECT

IDCA

You asked for my views on the issue of IDCA, and Peter McPherson's proposal to maintain it as a shell without personnel but with statutory authority intact.² Frankly, I continue to view IDCA as an anachronism. It had little policy relevance even during the Carter Administration when development for its own sake was a policy priority. IDCA's role is less vital in this Administration, where development policy and economic and development assistance are viewed within the overall context of our foreign assistance resources and our foreign policy objectives.

I see programmatic advantage in giving the Administrator of AID first among equal status within the Administration in terms of developing a specific development strategy to implement our broad policy goals. He also has a very important role in terms of his providing input to the Secretary of Treasury on development policy for the multilateral banks.

The real issue is where decisions will be made on resource allocation questions. Here, Peter McPherson and I have different views. I believe he considers my "coordinating" role as narrowly defined, more or less collating annual budget proposals from AID and PM. It would be the

¹Source: National Archives, RG 59, Files of the Office of Under Secretary for Security Assistance, Science and Technology, James L. Buckley, Lot 82D352: untitled folder. No classification marking. The memorandum was sent under an undated covering memorandum to Bremer from Wolf, which stated: "The attached memorandum to Judge Clark on IDCA was drafted with considerable personal JLB input. Since the memo was done in full candor, it should *not* receive any distribution except through S/S to D as your note requested."

²In a November 17 memorandum to Haig, Clark referenced this memorandum and wrote that he thought the Department of State should agree with McPherson's proposal to "continue the IDCA as a shell, thus avoiding a struggle with Percy and Zablocki in the face of our foreign assistance legislative needs and enabling Peter to more easily and effectively influence the U.S. role in the banks." Clark recommended that Haig authorize him to "inform McPherson that he should continue with his plan to hold IDCA as a shell while developing plans for its ultimate elimination, but that this decision is contingent upon an agreed *modus vivendi* re development assistance matters between AID, E, and T." Haig did not indicate a decision on the memorandum. (Department of State, Executive Secretariat, S/S-I Records, The Executive Secretariat's Special Caption Documents, Lot 92D630: Not For The System: Nov. 1982)

Director of IDCA who formulated actual economic assistance proposals based on State's broad foreign policy guidance. Also, he would make programmatic decisions throughout the year.

IDCA's focus specifically on development as its own objective complicates life for us. A process which attempts to justify economic assistance and security assistance separately must be a process which is inherently unmanageable. It will lack policy focus, and it must promote, rather than diminish, the impression that there is no common theme running throughout.

Experience shows we need to have one central point that exercises leadership and provides the policy discipline required to develop consistent, comprehensive foreign assistance proposals for the Secretary. Since there are trade-offs, our approach is to use any or all of the individual assistance programs (economic or security) to meet our specific foreign policy objectives. This is important during preparation of annual budgets and important throughout the year, as the recent supplemental proposals by PM, NEA, AF and ARA would indicate.³ IDCA was unable to exercise this discipline over State Department bureaus during the Carter Administration, and the bureaus will not accept it from IDCA now.

In the FY 1983 process, we played the role of honest broker. The State bureaus accepted our taking the lead, and AID worked closely with us on proposals that are broadly supported now in State and AID.

I question whether we must keep IDCA to get an Authorization Bill. We have had no bill for two years, and it is by no means certain we will get one this year—with or without IDCA. While I do not propose to ignore Clem Zablocki, who is one of IDCA's champions, I do think our FY 82 consolidated budget, which includes a specific objective for "aid to poorer countries" and specific increases in development assistance for the poorest LDCs, is the best demonstration we can give that we mean to meet the Secretary's pledge to continue generous assistance to the poorest countries. This is an approach we will follow because it is good foreign policy, and the right thing to do. We do not need IDCA to act as a development conscience in this regard.⁴

³ Not found.

⁴ Buckley wrote in the bottom margin of the memorandum: "A further thought: Democrats will vote for AID even in the absence of IDCA because they believe in it. Republicans, however, may be more likely to vote for AID if IDCA is removed."

270. Minutes of a National Security Council Meeting¹

Washington, December 8, 1981, 10:15–11:30 a.m.; 2:20–3:35 p.m.

SUBJECT

Global Negotiations and FY83 Foreign Assistance Budget

PARTICIPANTS

The President

The Vice President

State:

Secretary Alexander M. Haig, Jr.

Dep. Sec. William P. Clark

Under Sec. James L. Buckley

Under Sec. Richard T. Kennedy

Treasury:

Secretary Donald T. Regan

OSD:

Dep. Sec. Frank C. Carlucci

Justice:

Attorney Gen. William French Smith

OMB:

Dir. David Stockman

Mr. Edward Harper

Mr. William Schneider

CIA:

Dir. William J. Casey

USUN:

Amb. Jeane Kirkpatrick

JCS:

Acting Chairman Thomas B. Hayward

Lt. Gen. Paul F. Gorman

AID:

Admin. Peter McPherson

White House:

Mr. Edwin Meese III

Mr. James A. Baker III

Mr. Michael K. Deaver

Admiral James W. Nance

Admiral Daniel Murphy

Mr. Richard Darman

Mr. Craig Fuller

Mr. Edward Hickey

NSC:

R. Adm. John Poindexter

Major Robert Kimmitt

Mr. Henry R. Nau

OPD:

Dir. Martin Anderson

[Omitted here is discussion of Global Negotiations; see Document 79.]

FY 83 FOREIGN ASSISTANCE BUDGET

Admiral Nance opened the discussion by quoting from NSDD–5,² in which the President stated that conventional arms transfers are a

¹ Source: National Security Council, NSC Institutional Files, Box SR–100, NSC 00030 RWRPM 12/08/81 FY 1983 Foreign Assistance Budget. Secret. The meeting took place in the Cabinet Room. No drafting information appears on the minutes.

² The full text of NSDD–5, “Conventional Arms Transfer Policy,” dated July 8, 1981, is scheduled for publication in *Foreign Relations*, 1981–1988, vol. XL, Global Issues I.

vital component of our foreign policy and an important complement to our defense policy. He noted that the security assistance budget, which undergirds arms transfers, has fallen from 10% to 2% the size of the defense budget in outlay terms since the late 1950s. What was needed at this time was reconfirmation of the importance of security assistance as a national security instrument. There currently exists a \$1.1 billion difference between the State request and the ceiling established by OMB. If we stick to the OMB mark, we need to decide where cuts must occur; if we stick to the State mark, we must determine where the additional money above the ceiling is to be found.

The President stated that he met yesterday with Republican Congressmen³ who were inclined to vote against foreign aid. He said that he, too, had spoken out against foreign aid that is merely a "give-away" or "rat hole." However, he stressed to these Congressmen the fact that the security assistance component of the foreign assistance budget is vital to our national security, and he sought their support for the FY 82 request at its enhanced level. He noted that he often speaks to foreign leaders about assistance that the U.S. might provide in military terms, and he told the Congressmen that he must have adequate resources to respond appropriately during these conversations. Thus, as he looks at this budget, he will try to determine how much of it is "give-away" foreign aid and how much is in fact vital to our national interest.

Admiral Nance interjected that not all of the \$1.1 billion difference between State and OMB was in security assistance, and he asked *Under Secretary Buckley* to describe the overall budget to the President.

Under Secretary Buckley said that about two-thirds of the FY 83 request is for security assistance, all of which had been targeted to specific programs of interest to the U.S. Twenty-two percent of the budget is in the form of bilateral aid, half of which is targeted to countries in which we have strong security interests.

Mr. McPherson stressed that we have been very careful with this year's foreign aid request and have tried to eliminate unnecessary programs wherever possible. He noted that there is a security orientation even for development assistance.

Under Secretary Buckley then sketched the consequences of a budget at the OMB level, describing in detail the countries and programs that would be adversely affected by the lower level.

³ On December 7 from 4:47 to 5:40 p.m., Reagan met with members of the House of Representatives who endorsed his candidacy. (Reagan Library, President's Daily Diary)

Secretary Haig remarked that the budget situation was even more skewed than it appeared, since the majority of funds are going to Israel, Egypt and the base rights countries, and while Congress makes annual cuts, it always leaves the Israeli program intact or enhanced. Thus, it is the “little guys” with whom the President has met who suffer most from an austere budget. He had been on the Hill today talking to Republican House members, and the chances for averting a disaster on the FY 82 budget are slim. He remarked that State had taken all the cuts that OMB had mandated throughout the year. He also noted that, in the FY 83 budget, a \$400 million difference exists on the State authorization, and the lower level would require closing 40 installations, some of which are important to CIA and Defense requirements. On security assistance, he noted that we are talking about only a decimal point of the Defense budget and, in his view, \$2 billion in security assistance buys more than does \$10 billion in the Defense budget. In sum, he said that we appeared to be losing our sense of balance and that we risk gutting the President’s foreign policy by not allocating adequate resources that are carefully tailored to meeting foreign policy objectives. As an example of careful tailoring, he called attention to the fact that we are cutting IDA from 23% to 14%.

Mr. Stockman said that the central issue was the ceiling under which he was operating, a planning ceiling that the President had approved in September for all agencies. Either the ceiling is wrong or the agency request is too high, and without resolving this fundamental question, we will in effect have no budget process whatever on foreign assistance. He noted that most of these programs are slow-spending and that, while there is a major difference this year, the gap will grow even wider in future years. He stated that while he recognized the pressures on the State budget, it must be realized that we are looking at a 16% increase in FY 83, 18% in FY 84, and 12% in FY 85. Thus, we are faced with changing the ceiling or changing priorities to meet legitimate security assistance needs. He also remarked that in addition to the difference in the FY 83 budget outlay figures, there is also a considerable difference in the off-budget account, as well as a \$1 billion supplemental planned for FY 82 to cover Polish and Caribbean initiatives. In sum, he stated that we face a major budgetary difference, one that cannot be resolved simply by making changes at the margin.

Secretary Haig agreed that the difference is fundamental, but he noted that excessive rigidity now will make adjustment even more difficult later in the year when unforeseen contingencies may arise. He remarked that he was not happy with what happened this year when the State Department tried to play ball and in effect got double-dipped for cuts during the budget process.

The President interjected that he had just finished a major budget overview session prior to the NSC meeting, and that the table was still warm because of the heated discussion during that session.⁴

Secretary Haig remarked that today had also been difficult for him, since he was on the Hill speaking to House members when word of the increased budget deficit leaked out.

The Vice President then asked when we needed to decide the FY 83 security assistance question.

Mr. Meese replied that we did not need to decide the question at this meeting. Rather, it had been raised as an NSC agenda item so that the question could be viewed in policy as well as budgetary terms. He also thought it important for members of the NSC to have a better idea of requirements down the road because of the budget stringencies we face. He remarked that because of major differences that exist and will exist, we might need to consider more carefully the notion of contingency funding.

Secretary Haig reminded the President that unless we secure passage of the FY 82 budget in its current form, we will face a major backlog in a number of critical accounts, including Egypt.

Mr. Stockman responded that it is difficult for him to understand how we can come in with a budget request in FY 83 40% higher than the FY 82 budget for which Congressional approval looks risky at best.

Deputy Secretary Carlucci said that he agreed with Secretary Haig about the importance of the security assistance budget and noted that this budget "carries the freight" for us during our important base negotiations.

Admiral Hayward said that the Joint Chiefs of Staff did not wish to get into specific numbers, but they would like to support the basic policy arguments made by Secretary Haig and Deputy Secretary Carlucci. He noted, in fact, that if anything the JCS believed the program, even at the State level, is underfunded.

Secretary Haig noted that we also have a problem with extremely high interest rates on FMS loans. He said that it is incongruous to go to financially strapped countries in the Caribbean with offers of military equipment at a 16% interest rate.

Deputy Secretary Carlucci noted that the rate is now down to about 13%, but that was still too high for most countries, including important Mideast countries like Tunisia.

⁴Reagan participated in a meeting to discuss the FY 1983 U.S. budget on December 8, from 1:09 to 2:18 p.m. (Reagan Library, President's Daily Diary)

The President remarked that King Hussein told him that one reason he intended to buy Russian air defense missiles was that they were one-third the cost of those available from the U.S.

Secretary Haig said that we must bear in mind that, in the security assistance field, we are picking up the pieces from the Carter Administration's policy that was prejudiced against arms sales.

Secretary Regan said that he agreed with Secretary Haig, particularly insofar as excessively high interest rates are concerned.

Deputy Secretary Carlucci then noted that the security assistance budget helps to fund arms sales that themselves keep the defense production base warm.

The President replied that he understood that point.

Mr. Meese then asked whether there were any place in the budget to come up with additional funds, perhaps in the form of contingency funds.

Mr. Stockman replied that there were programs that could be cut, but not enough to make up for the major difference that now exists. He noted, for instance, that there is \$200 million in aid allocated for OPEC countries, and that on the MDBs, we appear to be heading toward the Carter level in the next round of negotiations.

Mr. McPherson interjected that most of the money for OPEC countries was intended for specific programs, such as population control, in Indonesia and Ecuador.

Under Secretary Buckley noted that the budget proposes a \$75 million ESF contingency fund and a \$50 million contingency for the Caribbean Basin Initiative, both of which are too small.⁵

The President then asked the amount of the IDCA check that Mr. McPherson had presented to him earlier in the year.

Mr. McPherson replied that it was for \$28 million.

Mr. Meese then stated that the policy question had been well presented, and it was now time for OMB to make its decisions against the backdrop. Further issues can be raised after the initial OMB decisions have been made.

Mr. Stockman replied that he cannot go higher than the ceilings that were approved in September. Thus, it will be difficult to make adjustments on a program-by-program basis, and that, even with adjustments, the results may not be satisfactory to Secretary Haig. He thus recommended that we review the planning ceiling, then go through the pass-back exercise, or else we would arrive again at a stalemate.

⁵ See footnote 2, Document 23.

Secretary Haig responded that we are already at a crisis point, that we cannot meet the President's foreign policy commitments at the projected levels. He also noted that Congress would not let the State Department close 40 installations, and thus adjustments were also necessary in the State budget.

Mr. Stockman interjected that OMB had worked hard to help hold to State's FY 82 level during Congressional considerations, in spite of the fact that many Congressmen wanted major cuts, including some from the State budget.

Admiral Nance summarized for the President by noting that this meeting was not intended to produce a decision, but rather to provide the President the necessary information on this major policy question. It should now be clear to the President that a major problem does exist and will have to be addressed later.

The President ended the meeting by stating that he had learned quite a bit, perhaps more than he could use at this point, and that he was prepared to revisit this issue in the future.

271. Minutes of a Cabinet Council on Economic Affairs Meeting¹

Washington, January 29, 1982, 8:45 a.m.

ATTENDEES:

The Vice President, Messrs. Regan, Baldrige, Donovan, Lewis, Weidenbaum, Anderson, Porter, Davis, Lyng, Sprinkel, Hormats, Leland, Ikle, Kudlow, Savas, Gray, Bailey, Baroody, Cicconi, Dederick, Frierson, Garrett, Hopkins, Hudson, Michalopoulos, Bledsoe, Cribb, Hemel, Ms. Dyke, and Ms. Williams

1. *Multilateral Development Bank Assessment*

The Council reviewed a paper assessing U.S. participation in the multilateral development banks in the 1980s.² The paper included an executive summary of a lengthy, comprehensive study undertaken by the Department of the Treasury in coordination with the Department

¹ Source: Reagan Library, Office of Policy Development, Cabinet Councils, Other Cabinet Councils, Cabinet Council on Economic Affairs III. No classification marking. The meeting took place in the Roosevelt Room at the White House. No drafting information appears on the minutes.

² Attached but not printed.

of State, the Office of Management and Budget, and the International Development Cooperation Agency.³

Mr. Sprinkel's presentation focused on the role of the multilateral development banks (MDBs) in increasing the flow of capital to less developed countries (LDCs) noting that MDB funds represented only 6–7 percent of total flows to the developing world, that the rates of return on projects were relatively high, and that on the whole their operation was cost effective. His presentation also explored the role of the MDBs in correcting LDC market imperfections, U.S. objectives with regard to MDB performance, the record of the MDBs in coordinating policies with the International Monetary Fund, and the merits of funding MDBs through callable capital allocations versus replenishments.

The Council's discussion centered on the role of federal budgetary constraints in determining U.S. contributions to MDBs in the coming years, the consistency of the study's recommendations with the President's pledges at Cancun,⁴ the role of the MDBs in stimulating LDC demand for U.S. products, potential congressional opposition toward new U.S. contributions to the MDBs, and the most appropriate language to use in the budget section of the report.

Decisions

The Council approved the eight specific policy recommendations in the study⁵ relating to market forces, promoting policy reform, sector allocation, graduation, maturation, paid-in capital, U.S. participation in real terms in the soft loan windows, and U.S. budget priorities.

The Council suggested several clarifications in the language of the budget section of the report, so that it accords more closely with the policy recommendations.

[Omitted here is discussion of Polish debt.]

³ See footnote 2, Document 266.

⁴ See Document 75.

⁵ An unknown hand underlined "approved the eight specific policy recommendations in the study" and wrote "CD" in the left-hand margin.

272. Memorandum From the Under Secretary of State for Security Assistance, Science and Technology (Buckley) to Secretary of State Haig¹

Washington, February 20, 1982

SUBJECT

Friday Report

Foreign Policy Guidance for the FY 1984 Assistance Budget: I promised that you would shortly have for approval foreign policy guidelines for next year's assistance process.

I am sorry to say that this will not happen as promptly as I had hoped. Peter McPherson has chosen to use the transmission of this particular item as a pretext for raising fundamental issues of who is responsible for overall policy guidance for allocating our foreign assistance resources.² What is at issue is a seemingly nit-picking, bureaucratic detail which nevertheless reflects a matter of fundamental principle which you may be called upon to settle.

Briefly, last year, we succeeded in integrating our security and economic assistance budgets in a new way which I believe better reflected policy goals for this Administration, rather than being driven by the self-justifying and self-contained imperatives of either development or military assistance theory. AID cooperated and participated fully in this effort, but the major new element achieved last year was our giving the regional assistant secretaries and their bureaus a stronger role in the process, stressing the obvious point that they had much to contribute in focusing our total assistance effort toward specific policy goals.³

Not everyone was satisfied with the results of the process, but all—especially the regional bureaus—recognized that they had been heard fairly.

Peter has made it clear that he grasps the meaning of what was done last year, and that his objective now is to roll back that process and re-establish AID's pre-eminent,⁴ or exclusive, role in economic

¹ Source: National Archives, RG 59, Files of Alexander M. Haig, Jr., 1981–1982, Lot 82D370: Very Sensitive—Not for System—1981–1982. Secret; Not for the System. The memorandum was sent under a February 20 covering memorandum from Bremer to Haig on which Haig wrote: "Peter is a superb performer who has been always responsible to our national needs. But Jim is and has been absolutely right on this issue which must be resolved on policy grounds—Peter administers."

² Haig highlighted this sentence in the right-hand margin.

³ Haig placed a checkmark next to this sentence in the right-hand margin.

⁴ Haig highlighted this sentence in the right-hand margin.

assistance budget-making. Thus his objection to my role in preparing comprehensive foreign policy guidelines to be issued by you. Thus the objections we can expect—advance notice has already been given—to our presenting our assistance budget for FY 83 as an integrated whole in congressional testimony next month. And thus his objection to our using the congressionally-mandated review of foreign assistance now underway as a vehicle to prepare a comprehensive Presidential report on this Administration's concept of assistance in our foreign policy.

I recognize that this deserves fuller analysis and discussion in person. I also recognize that you may wish that we simply do the best we can in the circumstances without forcing the State/AID question to a head. But I felt I owed you at least some brief explanation of where we stand, and a warning word that we can expect some apparently simple foreign assistance issues to become complex and anguished because of the underlying philosophical differences with AID.

273. Information Memorandum From the Assistant Secretary of State for Economic and Business Affairs (Hormats) to Secretary of State Haig¹

Washington, April 30, 1982

SUBJECT

Sugar Quotas

Larry Eagleburger and Tom Enders do not agree with me, but I want to ensure that you understand the full adverse implications of sugar quota preferences for the Caribbean Basin:

— Basin preferences would cut tonnages substantially to some of our closest friends and allies. These include Australia,² The Philippines,³ Thailand, Brazil and Colombia, all of whom would be

¹ Source: Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: 1982 Versailles Summit Cabinet 1982. Confidential. Drafted by Mark Lore (EB/ORF/ICD/TRP); cleared in EB/ORF. Printed from an uninitialed copy. Haig wrote at the top of the memorandum on May 1: "Larry, I'm impressed w/ Bob's argument. Let's all discuss. AMH." An unknown hand wrote at the top of the memorandum: "Stoessel will attend Cabt. Council Mtg on Tues (Pres. will chair)." Large portions of the memorandum were highlighted.

² An unknown hand wrote in the right-hand margin: "Amb. says GOA will be very upset. Raised with VP."

³ An unknown hand wrote in the left-hand margin: "See attached letter." The letter is not attached.

infuriated. Adverse reaction overseas to the rumor of preferences has already been very sharp. The Australians are taking it up with the Vice President during his current visit.⁴ EA has told me there is bound to be serious fall-out in a number of areas of major concern to us such as Philippine base negotiations and the stability of the Fraser government.

— There would be a dramatic effect on some smaller countries where we also have significant interests. These include Mauritius (facing important elections in June), Zimbabwe, Peru and many other developing countries. These countries are more dependent on sugar than many Basin countries. The credibility of our concern for their stable development would unavoidably suffer. So would our urgings that they develop through the free market system.

— Preferences would flatly contravene our obligations under the GATT. It is highly doubtful that we could secure a waiver, given strong opposition from the several dozen countries which would be adversely affected. It could well gut our eventual later effort to obtain a GATT waiver for the Caribbean Basin Free Trade Area.

— Domestic refiners will almost certainly bring a suit against quota imposition. Preferential allocation would make the Administration's case more difficult to defend. If the refiners succeed with a preliminary injunction, the Administration's ability to protect the domestic sugar program would be seriously hampered. Significant, unplanned budget outlays (up to \$1.5 billion in FY 83) could result.

— Special preferences for the Basin—or for anyone—would return us to discredited former practices when sugar quotas were manipulated according to political influence. Some countries are already lobbying for special Basin-state preferences. This could easily snowball, causing the Administration significant embarrassment.

— Reaction on the Hill could in fact undercut what should be our central focus for the Basin—the CBI. There is strong reason to believe that the Congress will see quota preferences as administratively establishing a discriminatory system of trade concessions before CBI legislation is considered.

I continue to believe strongly that these serious cuts in so many areas cannot be justified by the additional [illegible] million or so which might flow to the Basin under [illegible] proposal. The non-preferential USDA proposal—around which all other agencies have rallied—gives the Basin countries a better market share (38 percent) than they have now [illegible] percent). I believe that this treats the Basin more than equitably and meets the President's commitment while preserving very important interests elsewhere.

⁴ Bush visited Singapore April 27–29, Australia April 30–May 3, New Zealand May 3–5, and China May 7–9.

274. Memorandum From Henry Nau of the National Security Council Staff to the President's Assistant for National Security Affairs (Clark)¹

Washington, May 3, 1982

SUBJECT

Full Cabinet Meeting, May 4, 11:00 a.m.

As far as I know, there are two items on the agenda: 1) sugar import quotas (see background paper at Tab I),² and GATT round of trade negotiations with developing countries (see background paper at Tab II).³

SUGAR IMPORT QUOTAS

The Cabinet Council on Food and Agriculture has already recommended that the President impose sugar import quotas.⁴ With world sugar prices falling, USDA can no longer defend the domestic sugar price support program with fees and duties alone. The full Cabinet must decide, in imposing this quota, whether or not to give preference to the Caribbean Basin countries.

As things now stand, prior to implementation of the Caribbean Basin Initiative, Caribbean countries could export this year to the United States up to 180,000 tons each on a duty-free basis under the Generalized System of Preferences (GSP). The three largest Caribbean suppliers—Dominican Republic, Panama and Guatemala—cannot export duty-free since they have exceeded the competitive need limit (180,000 tons) under the GSP system.

With the implementation of the Caribbean Basin Initiative, which will not pass Congress before July in any case, all Caribbean suppliers could export duty-free up to the competitive need limit, and the

¹ Source: Reagan Library, Assistant to the President for National Security Affairs Chron File, Case file 8202960; NLR-812-88-15-1-6. Confidential. Sent for information. A stamped notation reads "Noted" at the top of the memorandum.

² Not attached.

³ Not attached.

⁴ In an April 22 memorandum to Reagan, Block explained: "Given current conditions in the world sugar market, the only effective means of supporting domestic sugar prices is a quota on sugar imports. Imposition of a quota designed to achieve the specified price support level is inconsistent with this Administration's free trade policy and will complicate U.S. efforts to challenge restrictive trade practices of Japan and the European Community. While acknowledging these trade policy problems, the Cabinet Council nevertheless unanimously recommends imposing a restrictive quota on sugar imports through the end of the current fiscal year." (Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: 1982 Versailles Summit Cabinet 1982)

three largest suppliers could export duty-free up to an absolute quota equivalent to approximately 110% of average annual shipments from these countries over the last three years (Dominican Republic 780,000 tons, Guatemala 210,000 tons and Panama 160,000 tons). The President mentioned the 780,000 ton figure to President Guzman in a letter of March 23 (see Tab III).⁵

The quotas being proposed will reduce the level of sugar exports to the U.S. from all Caribbean suppliers. One scheme advanced by USDA allocates roughly 38% of the quota to Caribbean suppliers on a strictly historical basis. Another proposed by State allocates 52% of the quota to the Caribbean on a preferential basis (see page 4 of Tab I for these numbers). In both cases, the quotas for the big suppliers are less than the amounts they might have shipped without the quotas (e.g. Dominican Republic shipped about 800,000 tons last year and would ship only 640,000 tons this year under the State proposal and 492,000 tons under the USDA proposal).

Under these circumstances, the State proposal should be preferred. USTR and most other agencies, however, strongly oppose applying the quota on a preferential basis. They believe this would violate GATT and make non-Caribbean suppliers such as Australia, Brazil, The Philippines, Mauritius and others very unhappy.

Hence, the USDA proposal is likely to be favored. It accords no quota preference to the Caribbean suppliers and the tariff preference provided by the CBI is not likely to go into effect before the end of this fiscal year. The only way to offset the negative effect of the quota is to administer it so as to minimize the use of fees. Currently, a fee of 4.98¢ per pound is applied to sugar imports at the border. If this fee were waived or reduced over the rest of this fiscal year, as much as \$70 million additional revenues would accrue to the Caribbean suppliers. The current memo to the President (Tab I) does not allow for the reduction of these fees.

OMB is said to favor an arrangement by which the fee would be reduced to a minimum of 2¢ per pound, in which case some \$50 million worth of fees would still be charged. This amount would then be provided to the Caribbean suppliers in additional foreign aid. Dave Stockman is said to support a request for adding \$50 million to the CBI supplemental of \$350 million for FY82.

If this alternative were accepted, it would represent a reasonable compromise even though it is unlikely that Congress will approve additional supplemental assistance.

⁵Not attached.

TRADE

Bill Brock is proposing a new round of trade negotiations with developing countries. This proposal is an exceptionally imaginative one. It is directly in line with the President's Cancun policy which stressed the importance of trade and private investment as essential complements to foreign aid. And it represents a global initiative to go along with the President's Caribbean Basin Initiative, a program that in practice closely relates trade and aid.

The proposal calls for:

- bilateral negotiations with individual developing countries, particularly the advanced LDCs like Brazil, Hong Kong, India, Israel, Korea, Mexico, etc.

- a reduction from MFN tariffs for developing countries in return for reduction in their tariff rates on other trade barriers, such as quotas or licensing requirements.

- binding these agreements under GATT, even in those cases where the developing country partner is not a member of GATT, thereby drawing more LDCs into GATT.

This proposal was discussed at the Trade Policy Committee meeting yesterday⁶ and received general approval provided it was discussed at the OECD in general terms only and we proceeded to develop some of the analysis indicating what is to be gained through improved access to LDC markets. At the full Cabinet meeting, Labor and Commerce will express the most serious objections. State and AID will strongly support the proposal. I recommend that you also support it, pointing out that it places the President in a leading position on trade issues at a time when the trading system is in serious difficulty.

I have attached talking points on both of these subjects (Tab IV).⁷

⁶Sunday, May 2.

⁷Not attached. McFarlane wrote at the bottom of the memorandum: "Henry, 1) Dave Stockman came up with a phantom Sec32 slush fund which we can tap to rebate Carib fees. 2) Everyone endorsed Brock's trade initiative. Bud."

275. Memorandum of Conversation¹

Washington, May 4, 1982, 12:15 p.m.

SUBJECT

Mr. Bremer re Readout of Cabinet Meeting, China

The Secretary said that the Cabinet had reached a solution on the sugar quota issue. We would take money from the quota system via agricultural committees to compensate for CBI damage to Caribbean nations.² In other words, it would be non-preferential and there would be no use of foreign assistance funds. Hormats was to work with OMB and Treasury to put together the package this afternoon; we needed to reestablish the President's credibility. The Secretary said this was a tight call for him. He knew somebody would come up with something and therefore had played it the way he did.

In a telephone conversation with Enders, the Secretary outlined this new approach. He said that this did not require use of foreign assistance money, but instead used tariff revenues. We could compensate for the damaged Caribbean nations. It was under the jurisdiction of agricultural committees rather than the House or Senate Foreign Affairs ones. The Treasury proposal would not face us with the foreign assistance dilemma when we could not get the money. The Secretary conceded that we would have gotten rolled anyway.

[Omitted here is discussion of issues unrelated to sugar policy.]

¹ Source: Library of Congress, Manuscript Division, Alexander Haig Papers, Department of State, Day File, Box CL 77, 3-May 1982. Secret; Sensitive. No drafting information appears on the memorandum.

² An unknown hand wrote "CBI" in the left-hand margin.

276. Memorandum From the Under Secretary of State for Security Assistance, Science and Technology (Buckley) to Secretary of State-Designate Shultz¹

Washington, July 9, 1982

SUBJECT

Foreign Assistance; Arms Transfer Policy; Law of the Sea

Foreign Assistance and Arms Transfers

I manage two of the key resources you have available to support policy goals: I oversee the security assistance and arms transfer programs and coordinate, with Pete McPherson's close cooperation, preparation of the overall integrated Foreign Assistance budget.

Assistance and arms transfers have some characteristics in common: they are politically sensitive here at home; they involve the interests and assets of other agencies; and foreign countries lust after them to a degree which can distort or even control our relationships. Both are central elements in the Reagan Administration defense planning. Our ability to deploy the RDF in an emergency depends on political and military cooperation from countries en route, (Cap Weinberger has told the President that security assistance is in the "must have" category).

There are also significant differences between the two. The principal one is that assistance is an active, affirmative tool, while arms sales and transfers are more reactive—to the occasional chagrin of our own industry and the Pentagon, we do not hustle American military equipment and services to foreign recipients.

[Omitted here is information on arms transfers.]

II. *Foreign Assistance*

— Money spent on foreign assistance is meant to achieve specific U.S. foreign policy and defense objectives. We can't expect cooperation from others—nor expect them to take political risk of association with U.S.—if we do not respond to their own key problems, e.g., security and the need for economic growth and development.

— Assistance is no giveaway. Nearly three quarters of bilateral economic assistance buys U.S. goods and services. All the FMS purchases

¹ Source: Department of State, Executive Secretariat S/S, Special Handling Restrictions Memos 1979–1983, Lot 96D262: 1982 ES Sensitive, July 1–10. Confidential; ES Sensitive. The initials "LPB" are stamped on the memorandum. Printed from an uninitialed copy.

help maintain U.S. defense production capability. Of our total military sales, we finance only 20–30%, and that at cost-of-money rates.

— Our most important national objectives, e.g., Middle East peace, Persian Gulf security and stability and economic growth in the Caribbean, are those served by our assistance programs.

— Debate over whether we need more military security assistance or more economic assistance is continuous, partisan—and beside the point. We need an array of bilateral, and often multilateral, tools to deal with complicated economic and security problems.

— This Administration is the first to have considered all forms of bilateral and multilateral assistance within a common foreign policy framework. The resulting single integrated foreign assistance budget allows us to better design programs to optimize contribution to central U.S. national concerns.

— State/AID/DOD worked out this innovative and constructive approach; it should be even better this year (concluding stage of this process begins in about two weeks). We passed a foreign assistance bill last year for first time in three years; and many in Congress credited our new approach.

— The Administration is sharply criticized by Democrats for apparently turning from economic assistance and MDBs to security assistance. But only 42% of our total foreign assistance request including off-budget FMS guarantees is for military assistance per se. Three quarters of military assistance increases go to a limited group of key countries, e.g., Israel, Egypt, Turkey, Spain, Korea and Pakistan. Increases in concessional FMS and ESF reflect concern for the economic impact of assistance, and a desire to give substantial balance of payments support to key friends with beleaguered economies.

— Last year's success did not, however, necessarily it remains difficult to convince Congress, or the public at large, that adequate resources are necessary to conduct foreign policy. Much needs to be done again this year, moreover, there is a wide perception, shared unfortunately by some key Republicans, that the President does not really support foreign assistance.

— Last year's appropriation was first in three years; the election this year makes prospects for any assistance bill slim. Our priorities before the August recess are to get the CBI and FY 82 FMS supplemental. Both are vital for Central American policies; and the latter will ease relations with Portugal. FY 83 legislation is likely to be stalled until after elections, so CBI and '82 supplemental are also needed to set adequate baselines for the inevitable continuing resolution.

[Omitted here is information on Law of the Sea.]

277. Memorandum From the Under Secretary of State-Designate for Economic Affairs (Wallis) to the Acting Director of the Policy Planning Staff (Roche)¹

Washington, August 20, 1982

SUBJECT

8/18 Outline for UNGA Speech

My principal reaction to the outline² is that it has let the agenda be set by others, hence is too reactive.

I know that the Secretary cannot ignore the topics that have been thrust onto the front pages by mobs in the streets, much less by thoughtful academic, professional, religious, and other people. But I would like to see him *set* the agenda for international discussion, rather than simply react. This would mean making a strong thrust early in the talk on topics that he feels *should* be dominating the agenda of international discussion in general and the UN in particular. Later in the speech there would be discussions of such things as the nuclear threat, disarmament, etc.

As for the new agenda, I may be biased; but after discounting fully for that bias, I suggest that a major effort be made to put economic matters on the agenda of international discussion.

I do not mean simply matters of international trade and finance. I think that even more emphasis ought to be put on the nature of internal economies. The character of the economy of each nation has an overwhelming effect on the health, happiness, welfare, and characters of its people. Even more important, if an economy is free it makes it possible—though it certainly does not guarantee—that there will be political and social freedom. And history shows that free, democratic societies have rarely if ever gone to war against one another. (Check with a historian.) Thus, those of us charged with the primary responsibility for maintaining peaceful and constructive international relations must do our best to have a beneficial influence on domestic economic policies.

The same people who live in poverty under oppressive governments often become among the most innovative and prosperous in free societies, spreading prosperity and tolerance—even goodwill—among

¹ Source: Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987–1987, Lot 89D378: UNGA Speech 1982. No classification marking. Drafted by Wallis. Wallis forwarded the memorandum to Shultz under an undated handwritten note.

² Not found.

their fellow citizens. In a free society people cooperate productively for economic purposes even while differing in religion, politics, and tastes.

W. Allen Wallis³
Designate

³Wallis initialed "AW" above his typed signature. He wrote below his signature: "A quick reaction. If you decide to go this way, I'll try to help further." Shultz spoke before the UN General Assembly on September 30. For the text of the address, see Department of State *Bulletin*, November 1982, pp. 1–9. The address is also printed in *Foreign Relations*, 1981–1988, vol. I, Foundations of Foreign Policy, Document 120.

278. Memorandum From the Under Secretary of State-Designate for Economic Affairs (Wallis) to Secretary of State Shultz¹

Washington, September 10, 1982

SUBJECT

The Meetings in Toronto

Bob Hormats has sent up the attached memorandum² reporting on Toronto.³ While I am forwarding it, I disagree with many of the points.

- The strains on the international financial system were widely recognized and understood at Toronto. The U.S. position that these strains required caution, not over-reaction, adjustment, not unconditional financing, was consistent with the predominant view.

- The indispensable role of the IMF in promoting adjustment was clear. Equally clear, however, was the resistance on the part of borrowing countries to undertaking the necessary adjustment programs.

¹ Source: Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987–1987, Lot 89D378: Wallis Chrons Aug–Sept 1982. Secret. The initials "LPB" are stamped on the memorandum.

² Dated September 8; attached but not printed.

³ The annual meeting of the Boards of Governors of the World Bank Group and the International Monetary Fund took place in Toronto September 6–9.

- While an increase in fund resources *may* be justified on economic grounds, I do not believe that more resources will overcome the political resistance to undertaking the adjustment programs.

- Also on fund resources, the U.S. position for an “adequate” increase is largely a negotiating stance (Treasury believes a zero increase is financially appropriate). As such it would be imprudent to define a specific number early in the negotiation.

- The emergency or “crisis management” facility the U.S. has proposed stands on its own merits. We should not bargain on the size of the quota increase in order to achieve acceptance of an inherently useful facility.

- We need to develop better public support for the IMF, foreign assistance, free trade, etc.; but we cannot expect major gains in these areas in the short-term. They are after all longstanding U.S. objectives.

- On Mexico, there is justifiable serious concern. I sat in on Don Regan’s bilateral with Silva-Herzog. He knows the right thing to do. But it is not at all clear that Lopez-Portillo is interested in what is right economically.

I was struck by the widespread commentary on the success we have achieved in lowering inflation and recently interest rates. (Incidentally, those who have for so long blamed their problems on high U.S. interest rates are now saying that lower rates are not enough.) The value of a U.S. recovery, low interest rates and a strong dollar are, nevertheless, recognized by the rest of the world. This achievement comes from strong leadership in domestic economic policies.

U.S. leadership should be in the form of sound economic policy, not in going along with the crowd (anyway, not that crowd).

W. Allen Wallis⁴
Designate

⁴ Wallis initialed “AW” above his typed signature.

279. Memorandum of Conversation¹

Washington, September 21, 1982, 10 a.m.

SUBJECT

International Monetary Issues

PARTICIPANTS

United States

The Secretary

W. Allen Wallis, Under Secretary-designate for Economic Affairs

Elinor G. Constable, Deputy Assistant Secretary for International Finance and Development

International Monetary Fund

Jacques de Larosiere, Managing Director

The meeting opened with a brief discussion of the Rambouillet Economic Summit.² De Larosiere regretted the failure of participants to follow through on their commitment to adopt appropriate domestic economic policies. He hoped that, in contrast, we would take the steps agreed to at Versailles.³

The remainder of the discussion focused on trade policy as it relates to the IMF. De Larosiere said he had emphasized trade issues in his Bank/Fund Annual Meeting⁴ speech because he viewed effective measures to resist protectionist tendencies as essential if developing countries were to adjust successfully. Inaction by developed countries would threaten the entire process. He was, therefore, active in preparations for the GATT Ministerial.⁵

The Secretary asked whether, in applying its conditionality to developing countries, the Fund risked encouraging them to over-manage their efforts to get control of imports. De Larosiere thought this was unlikely, given the Fund's commitment to an open international economic regime and its emphasis on liberalizing trade policy

¹ Source: Department of State, Executive Secretariat, S/S Files, Secretary Haig Memcons and Whitehead Briefing, Lot 87D327: Secretary Shultz—Memcons September 1982. Confidential. The meeting took place in the Secretary's office. Drafted by Constable (EB) on September 24; cleared in S/S and S.

² The Rambouillet Economic Summit took place November 15-17, 1975, in Rambouillet, France. For documentation on this summit, see *Foreign Relations*, 1969-1976, vol. XXXI, Foreign Economic Policy, 1973-1976, Documents 91-129.

³ The Versailles Economic Summit took place June 4-6 at the Palace of Versailles, France. See Document 93.

⁴ See footnote 3, Document 278.

⁵ See footnote 2, Document 99.

by discouraging export subsidies and import controls. De Larosiere cited Pakistan and India as examples of countries where the Fund has pressed hard for liberalization on the import side, using explicit performance criteria and quantifiable targets. He emphasized foreign exchange policy as an important instrument of liberalization and the Fund's advice that countries eliminate dual or multiple exchange rate systems. He cautioned that, where governments have traditionally resorted to a high level of intervention, change must be gradual.

De Larosiere thought liberal policies in developing countries had to be balanced by export opportunities in developed countries if the Fund were to play a credible role in supporting effective adjustment. He wondered whether it would be possible to link the trade liberalization content of an IMF program to some sort of developed country *quid pro quo* in the GATT framework. The Secretary noted that developing countries are quick to criticize the U.S. but follow extremely protectionist policies themselves, and asked whether the Fund could make GATT affiliation a condition of a Fund program. De Larosiere said that the Fund could not insist on such a condition explicitly, but could certainly advise developing countries such as Brazil of the benefits of GATT membership. The Secretary thought a general statement by the IMF encouraging GATT affiliation might be helpful, and de Larosiere agreed.

280. Memorandum From the Assistant Secretary of the Treasury for Legislative Affairs (Thomas) to Secretary of the Treasury Regan¹

Washington, September 22, 1982

SUBJECT

SIG-IEP on Foreign Assistance

As we have been involved in the legislative process on the foreign assistance request during the past 18 months, it has become clear that there is insufficient coordination between the departments

¹ Source: Washington National Records Center, RG 56, Records of the Office of the Assistant Secretary for International Affairs, 1950–1985, Meeting and Policy Files, 1979–1992, 56–10–60, Box 1, Senior Interagency Group on International Economic Policy (SIG-IEP), Folder 1, 1982–1985. No classification marking. A typed notation at the top of the memorandum reads “Mr. Leland has seen” followed by the handwritten date “9/23/82.” Copies were sent to McNamar, Sprinkel, and Leland.

which have pieces of the account at either the planning or legislative strategy level. Each department involved (State, AID, Agriculture (PL-480), Ex-Im Bank, OPIC, and Treasury) develops its own budget request, which goes through OMB, but there is no deliberate inter-agency review at the senior level to determine the appropriateness of the budget total or mix—either for the national interest or for legislative acceptance.

Thus, for example, the supplemental appropriations ran into serious difficulty in the House this year, because the request contained the security assistance funds which were denied in the hard-fought compromise on the foreign aid bill last year, while containing none of the development assistance funds which were dropped. Similarly, this year's appropriation request for the foreign aid bill is an increase over last year's, at a time when domestic programs with strong constituencies, are being cut back. In addition, the bill requests an increase in security assistance of \$2 billion, while increasing economic and development assistance less than \$500 million. The combination of these factors is turning the traditional Democrat supporters into bench sitters at best, and opponents at worst. At the same time, we continue to face traditional Republican opposition to foreign aid—particularly multilateral.

While Treasury has completed a comprehensive assessment of the MDBs, which has provided a rational base for our future role, there is apparently no similar effort for the other components of the foreign aid account. Even Treasury's study did not address the issue of the appropriate budget mix between multilateral, bilateral, commercial, and security assistance.

The problems of the past will be complicated further by the introduction of the IMF quota increase and contingent fund requests, as well as by IDA VII replenishment negotiations in the next year.

In order to assure a fully coordinated Administration policy on foreign assistance and a coordinated legislative strategy to fulfill that policy, I strongly urge that this issue be considered by the SIG-IEP before the end of the year.²

²No record of such a meeting has been found.

281. Memorandum of Conversation¹

Washington, November 2, 1982, 9 a.m.

SUBJECT

The Secretary's Meeting with IFAD President Al-Sudeary

PARTICIPANTS

United States

The Secretary

M. Peter McPherson, AID Administrator

Ambassador Toussaint, Deputy Assistant Secretary of State for International Organization Affairs

Elinor Constable, Deputy Assistant Secretary of State for Economic and Business Affairs

John Bolton, AID Assistant Administrator for Program and Policy Coordination

International Fund for Agricultural Development

Abdelmuhsin M. Al-Sudeary, President

Summary. Al-Sudeary made a strong plea for the U.S. to meet its commitments concerning contributions to the first IFAD replenishment, stressing the ill-effects failure to do so could have upon IFAD programs and upon cooperation between OPEC and OECD. After expressing support for IFAD's work, the Secretary said the Administration will be working to improve the Continuing Resolution as it relates to several foreign policy issues but said he could not promise anything specific with respect to IFAD. The Secretary made no commitment regarding a U.S. payment to IFAD during FY 1983. End Summary.

Al-Sudeary paid personal respects to Secretary Shultz and expressed IFAD's gratitude to the United States for the encouragement and support it had given to IFAD from the beginning.

He then said he wished to convey several important points:

— IFAD is a major landmark in the cooperation between developed and developing countries, probably the best example in the world of effective North/South cooperation, and unique as an instrument of cooperation between OECD and OPEC countries.

— IFAD faces a very difficult situation in connection with the first replenishment, a replenishment worked out jointly by IFAD members and agreed to by all the parties, including the U.S.

¹ Source: Department of State, Executive Secretariat, S/S Files, Secretary Haig Memcons and Whitehead Briefing, Lot 87D327: Secretary Shultz—Memcons November 1982. Confidential. The meeting took place in the Secretary's office. Drafted by Donald Toussaint (IO); cleared in S and S/S. All brackets are in the original.

— On the basis of that agreement, all but a small number of members have made or are making their contributions. Since the U.S. has the largest contribution to make, its non-payment will have a “devastating effect” on future IFAD programs and on the future of the institution; it would also create a very difficult situation in the cooperation between OPEC and OECD.

— After reviewing the situation in Congress concerning a U.S. contribution to IFAD, *Al-Sudeary* said he wished to request the Secretary’s direct and personal intervention in this matter—in part to insure a continuing good relationship between OECD and OPEC. Noting the focus of IFAD programs coincides with the focus of U.S. aid activities (a focus on the landless and small farmer), he said there is no other organization where OPEC countries contribute such a large percentage of the total funds.

— A decision concerning the U.S. contribution will greatly affect the attitudes of other countries towards their IFAD obligations; it will also greatly affect attitudes toward OPEC/OECD cooperation.

— Noting his understanding that the U.S. may not be able to pay its commitment by the end of 1983, the deadline for first replenishment pledges, *Al-Sudeary* said this would be “extremely harmful” for IFAD. He said it would be a “big political mistake” if the United States does not fulfill its obligations and commitments. He noted several heads of state have written to President Reagan urging the U.S. to meet its pledge—and that President Reagan has committed the U.S., in a letter to Pakistani President,² to meet its obligation by the end of 1983. [Note: What the President said was that “we plan to provide the balance of the total U.S. contribution before the end of calendar year 1983”.]

— He concluded by making an appeal for a decision prior to the next IFAD Governing Council that the Administration would do everything possible with Congress to insure an appropriation permitting a U.S. contribution to IFAD. The matter requires very high-level attention within the U.S. Government. If the effort should fail, if the U.S. is unable to make its contribution, OPEC countries will blame the United States for this failure.

In a brief reply, the Secretary said that he understands the importance and significance of IFAD’s work—and supports that work. He also said he shares the hope that it will be possible to get something better than the present continuing resolution—that improvement is important not only for IFAD but also in terms of other foreign policy issues. He said the Administration will be working to secure an

²Not found.

improved continuing resolution, but it is not possible to promise anything specific with respect to IFAD.

The Secretary then noted Congress would be returning for a Special Session; historically speaking, he said such sessions had not proved very productive. Often members of Congress became embroiled in relatively insignificant battles and, on larger issues, sought to do only the minimum necessary to get out of town again. It is possible that, after the elections today, Congress could be inspired or encouraged to do better but it is not realistic to make any promises or have great expectations. The Secretary said the Administration is developing its own strategy with an aim to breaking out of the grip of the continuing resolution—a grip which has important results for many foreign policy-oriented appropriations. He said Al-Sudeary could be sure the Administration would be working on this improvement but again said it is not possible to give any predictions or assurances.

282. Memorandum From Secretary of State Shultz to President Reagan¹

Washington, November 17, 1982

SUBJECT

Resources for Foreign Policy

The failure of Congress to enact any of our regular FY–83 legislation on foreign assistance has created an intense squeeze on resources for security and economic assistance. Unless we obtain some improvement in our funding level during the lame duck session, we will be unable to carry out the foreign policy and national security initiatives to which you are committed.

We currently face a shortfall of \$2.0 billion plus in the current Continuing Resolution from your FY–83 request. Operating with this level of funds: (1) jeopardizes the peace process in Israel and Egypt; (2) poses chronic problems for our relations in Portugal, Spain, Turkey and Pakistan; and (3) risks gutting the CBI program. If you were to receive an urgent appeal for additional aid from a key ally, the current level of resources would not allow you to respond positively.

¹ Source: Reagan Library, George Shultz Papers, Official Memoranda (08/13/1982); NLR-775-25A-54-2-1. Confidential.

State, working with Treasury, Defense and other agencies has developed a comprehensive legislative game plan to push for as much legislative action as the traffic will bear. This will involve consultations with the Senate Foreign Relations Committee and the House Foreign Affairs Committee to see whether the stalled FY-83 authorization bills could go to the floor. However, irrespective of the progress on the authorization track, we must give priority attention to the appropriations process with emphasis on the House Appropriations Subcommittee on Foreign Operations. Our hope is that we can use a markup by either the House or Senate Committee at least as a basis for enhancing foreign aid funding in the 2nd Continuing Resolution.

Without your direct and visible involvement, particularly in the appropriations process, we will have no chance of rectifying this grim situation—given current hostilities toward foreign aid. At this point, we are not even certain our supporters like Jack Kemp will press for a markup in the House. On the Democratic side, only Chairman Long is even mildly interested in a markup.

Your involvement is necessary to get some momentum and to help forge a coalition among Republican members who favor security assistance and those Democrats who prefer economic aid. A direct appeal from you would underscore the urgency of the situation and bring the two sides together.

I strongly recommend that you participate in two events: a meeting with key conservatives led by Jack Kemp for reassurance on our commitment to the multi-lateral development banks (and to fulfill a commitment made last year by Secretary Haig that such a meeting would occur). This meeting may have to await your return from South America.² Secondly, an appearance by you—no matter how brief—at the White House Situation Room briefing for the full House Subcommittee will pay significant dividends. This briefing is slated for November 30.³

I regret the necessity of intruding on your crowded schedule. In light of Congressional realities, however, I fear that without your personal participation our efforts to improve this difficult situation are unlikely to succeed.

Recommendation

That you agree to participate in our legislative game plan as outlined above.⁴

² Reagan traveled to Brazil, Colombia, Costa Rica, and Honduras from November 30 to December 4.

³ There is no record in the President's Daily Diary of a meeting in the White House Situation Room on November 30. (Reagan Library)

⁴ Reagan did not indicate approval or disapproval of the recommendation.

283. Memorandum From the Acting Deputy Assistant Secretary of the Treasury for International Affairs (Lange) to the Assistant Secretary of the Treasury for International Affairs (Leland)¹

Washington, November 24, 1982

SUBJECT

U.S. Government International Commodity Policy

The Economic Bureau in State and our Commodities Office are cooperating in drafting a paper which defines U.S. commodity policy in rather specific terms. The paper is intended primarily for interagency use but it ultimately could form the basis of a public Administration statement on International Commodity Policy. Current policy, which is essentially a case-by-case examination of international commodity problems, is less forthcoming than in the previous Administration. That policy acknowledges that reducing extreme fluctuations in commodity prices can be beneficial to both exporting and importing countries and that international commodity agreements can contribute to greater stability. Some elements of this policy tend to stray from recent policy statements on international economic policy. For example, the United States views on government intervention in exchange markets seem at variance with the policy of membership in price-stabilizing commodity agreements.

To ensure that the State/Treasury paper accurately reflects the Administration's overall economic policy we are requesting your comments on the attached paper summarizing the essential elements of commodity policy and likely upcoming issues. If major inconsistencies are apparent, we will follow up to get interagency agreement on suitable corrections.

RECOMMENDATION:

That Treasury continue support of the commodity policy in the attached paper and pursue U.S. positions on upcoming issues consistent with that policy.²

¹ Source: Records of the Office of the Under Secretary for Monetary Affairs, Subject Files relating to Meetings, Working Groups, Trips, Summits, and Currency Talks, 1/1/1981–12/31/1985, UD–13W105, 56–89–45, Box 1, December 1982 Chron. No classification marking. Sent for action.

² Sprinkel checked and initialed the "Disapprove" option and next to it wrote "[illegible] we're game!" on December 2.

Attachment

Paper Prepared in the Department of the Treasury and the Department of State³

Washington, undated

U.S. COMMODITY POLICY AND ISSUES

Commodity Policy Elements

The Administration generally favors international trade in commodities through free markets which respond to changes in fundamental supply and demand conditions. This allows both producers and consumers to adjust their activities according to market signals, thereby promoting the efficient allocation of resources.

The United States will reject any agreement whose major role is the continuing transfer of resources to developing countries through price support mechanisms. With regard to bona fide price stabilizing proposals, this Administration, like previous administrations, takes a pragmatic approach. Such agreements must be workable, have adequate financing, and provide a balance of benefits to consumers and producers. Markets for many commodities are already quite efficient, so stabilization agreements have been appropriate in only a few cases.⁴

The United States believes that economically and financially sound international commodity agreements can be effective for a limited number of commodities in reducing severe fluctuations in market prices around long-term trends.⁵ Increased stability can lead to a smoother flow of investments, more stable income for producers and greater security of supply for commodity importers. Such agreements should not attempt to *eliminate* market fluctuations, but aim at more efficient operation of the market.

Existing commodity agreements generally have not inflicted great harm on the U.S. economy, but neither would their absence.⁶ LDC exporters believe they do much to help their economies.

The United States now belongs to three major commodity agreements—rubber, coffee, sugar⁷—but has declined to join the current

³ No classification marking.

⁴ Sprinkel underlined “only a few cases” and placed a question mark in the right-hand margin.

⁵ Sprinkel highlighted this sentence in the left-hand margin.

⁶ Sprinkel underlined “neither would their absence.”

⁷ Sprinkel underlined “rubber, coffee, sugar.”

agreements for cocoa and tin. We have not closed the door to participation in these latter two, if renegotiated on acceptable terms. For a number of other commodities, we will consider alternative arrangements which support research and development and/or market promotion measures designed to enhance the competitiveness of the commodity; an agreement for jute was recently concluded along these lines, but the United States has not yet ratified it.

The U.S. officially continues to support the *Common Fund for Commodities*, the new institution aimed at facilitating the financing of commodity buffer stocks. No steps have been taken thus far to ratify the Common Fund Agreement because the pace of other countries' ratifications has been going slowly (only 35 of the 90 required),⁸ because no operating commodity agreement has definitively stated it intends to associate with the Fund, and because a request for \$75 million in budget authority will likely face tough sledding in Congress.

A number of proposals for stabilizing export earnings of LDCs have been put forth. These range from liberalization of the compensatory finance facility in the IMF to a global system in a separate institution to a special facility for the least developed countries. The U.S. position is that 1) stabilization of export earnings is a balance of payments problem and therefore is within the competence of the IMF, 2) specialized schemes such as the European Stabex discourage the necessary adjustments to changing supply and demand conditions, and 3) most proposals require large new funding which is out of the question for most countries.

Upcoming Issues

The major action-forcing event in the commodities area during 1983 will be the UNCTAD VI meeting in Belgrade in June.⁹ The U.S. will have to decide what proposals, if any, it can support including:

- A new facility for export earnings stabilization;
- A commitment to ratify the Common Fund Agreement at an early date;
- Authorization for UNCTAD to pursue an aggressive work program aimed at increasing LDC shares in the processing, marketing, and distribution of commodities; and
- Commitments to negotiate new agreements for lesser commodities such as tea, bananas, hard fibers, etc.

⁸ Sprinkel highlighted this statement in the left-hand margin.

⁹ For documentation on UNCTAD VI, which took place June 6–30 in Belgrade, see the Global Negotiations compilation of this volume.

Decisions on related issues in 1983 will include:

- Ratification and implementation of the new Coffee Agreement;
 - Renegotiation of the Sugar Agreement;
 - Possible renegotiation of the Cocoa Agreement to meet U.S. objectives; and
 - A U.S. decision on continued membership in the Rubber Agreement if exporters take unilateral actions to restrict exports.
-

284. Memorandum From the Acting Deputy Assistant Secretary of the Treasury for International Affairs (Lange) to the Assistant Secretary of the Treasury for International Affairs (Leland)¹

Washington, November 24, 1982

SUBJECT

Decision on U.S. Membership in the Coffee Agreement

Negotiations for a new International Coffee Agreement ended September 24. They resulted in an accord on a new agreement to enter into force October 1, 1983.

Should the United States join the new 1983 agreement? The timetable for decision may be speeded up because of the President's trip to Latin America, November 30–December 4.²

The Negotiations

Based on a TPC mandate the United States entered negotiations for a new coffee agreement in January, 1982. The United States sought to make the agreement more responsive to market signals and to increase consuming country influence in the management of the agreement's economic provisions. The agreement relies on annual and quarterly quotas as the mechanisms to regulate the flow of coffee which in turn promotes price stability. Over the longer term the price range can be adjusted downward or upward as supply and demand trends dictate.

¹ Source: Records of the Office of the Under Secretary for Monetary Affairs, Subject Files relating to Meetings, Working Groups, Trips, Summits, and Currency Talks, 1/1/1981–12/31/1985, UD–13W105, 56–89–45, Box 1, December 1982 Chron. No classification marking. Sent for action. An undated background paper is attached but not printed.

² See footnote 2, Document 282.

Principal U.S. goals in the negotiation were 1) to improve the annual allocation of export quotas among exporting countries; 2) to introduce a system by which export quotas of those coffees in greatest demand could be increased during the year; 3) to penalize countries which failed to ship quota amounts; and 4) to outlaw collusion among producer countries.

The new agreement only partially fulfills the U.S. goals, but the Delegation did achieve at least some improvement in those areas we targeted and there is no question but that the new agreement is better than the expiring one. Importing country influence was enhanced and export allocations among producing countries were improved. However, the United States did not achieve automatic adjustment to market signals—though the door was left open to changes in that direction—nor did the United States achieve a meaningful anti-collusion provision. Consequently, export shares—questionable in any event—tend to be rigid and access to certain types of coffee may be less than optimal.

Agency Positions

In light of the negotiating results, State, USTR, and Commerce will espouse membership. Treasury staff has been more skeptical of the agreement's merits than other agencies because of deficiencies which will make the agreement's ability to respond to market forces less than we desired. On the positive side, the past agreement has provided some price stability which has benefited both consumers and producers (a recent State Department study shows that U.S. consumers are net gainers from coffee agreements).³

Foreign Policy

Foreign policy considerations play a large role in U.S. coffee policy. The first coffee agreement was largely a U.S.-Brazilian creation to help Latin America cope with a then huge coffee surplus. The United States has been a member of all agreements since. Latin America places great store in the agreement and U.S. refusal to join will be seen as a slackening in U.S. commitment and interest in Latin America.

Congress and Industry

In an unprecedented step, the U.S. coffee industry association has circulated a letter endorsing U.S. membership in the 1983 agreement. Nevertheless, even with Administration support, the coffee agreement will not have smooth sailing on the Hill. Congressman Gibbons, who will consider needed implementing legislation, is highly skeptical

³ Not found.

that the United States benefits from any coffee agreement. One flaw on which some Congressmen may focus is the ability of non-member importing countries to buy coffee at lower prices than members.

Options

1. That Treasury actively oppose U.S. membership in the agreement because it is flawed in its economic provisions and at variance with this Administration's economic philosophy of unfettered markets.

2. That Treasury not oppose membership because the agreement probably does marginally more good than harm, and leaves the door open for further improvements. Also, political considerations weigh heavily in favor of membership.

RECOMMENDATION

That Treasury not oppose membership.⁴

⁴ Sprinkel checked and initialed the "Disagree" option on December 2.

285. Letter From Acting Secretary of State Dam to the Director of the Office of Management and Budget (Stockman)¹

Washington, December 2, 1982

Dear Dave:

The Secretary has carefully reviewed the FY 1984 foreign assistance program you have proposed in your pass back.² He feels strongly that it lacks the resources necessary to implement the President's foreign and national security policy decisions. Neither does it provide the balance between economic and security resources required in a political sense to win passage of the request in Congress. Given the crippling political and foreign policy difficulties posed by the OMB budget

¹ Source: Reagan Library, Norman Bailey Files, International Economics File, AID Policy (December 1982). Confidential. Shultz was accompanying Reagan on an official working visit to Brasilia and Sao Paulo from November 30 to December 3.

² Details of the pass back were outlined in a November 26 memorandum from Schneider and McPherson to Shultz, in which they explained that the OMB cut was directed "in large measure against our various forms of economic assistance, bilateral development assistance, MDBs, food aid, and the Economic Support Fund." (Reagan Library, George Shultz Papers, Official Memoranda (11/29/1982); NLR-775-26B-8-1-2)

recommendations, we have no choice but to appeal OMB's package of proposed program decreases.

The foreign affairs agencies have invested considerable time and thought in preparing our integrated budget recommendation. The Secretary and I personally reviewed the budget, and we are convinced that it constitutes a no-frills approach to foreign assistance. Cap Weinberger shares our view that adequate foreign assistance levels are an indispensable component of our national security. I have enclosed fact sheets assessing the costs to our foreign and security policy which would result from the cuts OMB proposes.³

The Secretary knows full well the painful budgetary choices confronting the President and our Administration, and the substantial work that goes into preparation of the overall budget. At his request, therefore, Under Secretary Schneider will take the lead, working with AID Administrator McPherson and others, to put together further detailed comments on our request in light of the OMB pass back, and we will be providing these to you.

The \$35 million suggested in the OMB pass back will not be sufficient to translate the President's democracy initiative into operational reality. The Secretary, along with Secretary Weinberger, and Messrs. Wick, Casey, and McFarlane, set a working figure for the project of approximately \$100 million, which I understand will be reflected in USIA's submission to you. Specific program proposals will be forwarded to you shortly.

The Secretary's goal remains to ensure that the President has the resources necessary to sustain our foreign policy. We will propose no more, but we can afford nothing less.

Sincerely,

Kenneth W. Dam⁴
Acting Secretary

³ Attached but not printed.

⁴ Dam signed "Ken" above his typed signature.

286. Letter From the Director of the Office of Commodity Policy, Department of the Treasury (Gale) to the Director of the Office of International Commodities, Department of State (Hollick)¹

Washington, December 15, 1982

Dear Ann:

The Department of Treasury has reviewed your paper "Commodity Policy—a Look Ahead"² and offers the following comments.

The paper characterizes our current case-by-case approach to international commodity problems, sets forth the economic and policy justification for it, and outlines future issues. In Treasury's view the policy in the paper should not continue to be pursued without a thoroughgoing reassessment.

Treasury disagrees with the premise that the United States should continue to support commodity agreements on a case-by-case basis. The concept that internationally negotiated arrangements provide significant market efficiencies that justify coordinated market intervention is at sharp variance with this Administration's views. In light of this and of experience to date, the operating thesis that commodity agreements offer overriding economic benefits to both consumers and producers as a result of greater price and supply stability needs to be reexamined. A review should encompass U.S. policy with regard to several issues: U.S. membership in the new Coffee Agreement and the Common Fund; U.S. membership in current agreements; participation in renegotiations; our attitude toward other measures agreements; and new arrangements for financing stabilization of export earnings. The possibility of global economic benefits from price stabilization has been demonstrated in theory under highly restrictive assumptions, but the equitable distribution of these benefits must rely on a bargaining process which often bears little relation to economic justice. Even when the economic implications support opposition to producer proposals in commodity governing councils, overriding political concerns often foreclose an economically rational decision. In addition, any global economic benefits can be quickly dissipated by the large amounts of international capital required to finance adequate stabilization agreements.

¹ Source: Department of State, Bureau of Economic and Business Affairs, General Commodity Subject Files, 1965–83, Lot 84D247: Commodities General 1982. No classification marking.

² A copy of the paper is in the Department of State, Bureau of Economic and Business Affairs, General Commodity Subject Files, 1965–83, Lot 84D247: Briefing Book for Mr. O'Mahoney December 1982.

In the same vein, the view that commodity agreements contribute to foreign policy goals needs to be reexamined in the light of experience. Commodity agreements may in fact produce more rancor than cooperation. *Rubber* producers have resisted and effectively thwarted a major downward revision of the price range of the Rubber Agreement, and some are threatening to act outside the Agreement to limit rubber supplies. The *Sugar* Agreement has had virtually no economic effect in part because it does not cover a major portion of sugar trade, in part because it has inadequate stabilization provisions, and in part because it has been ignored and undermined by the EC. The *Coffee* Agreement has had perhaps the most noticeable economic effect and may have provided benefits to producers, but at the cost of rigid export quotas which have limited access to types of coffee needed by U.S. industry and which can only be changed by heated negotiations. The *Cocoa* Agreement, as expected, has been ineffective in defending an unrealistic price range, despite spending over \$200 million in the effort. The *Tin* Agreement has accumulated over 50,000 tons of tin and imposed export quotas, yet disgruntled producing country members are exploring cartel action outside the Agreement. The *Wheat* Agreement has had no economic provisions since 1972, after the previous agreement's price and trade regulations were widely ignored by its members.

Treasury recognizes that certain foreign policy objectives might be furthered by membership in a commodity arrangement and those considerations may carry the day. But in our view the arguments will have to be strong indeed to overcome the likely detriment from official intervention in international commodity markets.

In short, the meager benefits possible from stabilization of commodity prices are far outweighed by the likely excessive financial costs, the possibility of consumer cooperation in fixing prices and the frequent erosion of any initial foreign policy benefits.

As a result of these views, we find deficient many of the economic arguments supporting U.S. participation in renegotiation of the sugar and cocoa agreements.

With respect to jute, it has no economic provisions so there are no significant economic benefits to be derived by the U.S.—which is a major importer. There may be other justifiable objectives for such “other measures” agreements but market stabilization is not one of them.

Since the Treasury Department cannot support commodity agreements, we also see no need for a Common Fund. Nevertheless, we recognize that the Common Fund Agreement was negotiated and signed by the United States, that it is important to a number of countries, and that it could be a major item on the agenda at UNCTAD VI. Therefore,

we propose that the U.S. position be carefully reviewed during the next several months.

Turning to the subject of earnings stabilization, in your paper you indicated Treasury would prefer to cut back access in percentage terms, which I interpret to mean a reduction in allowable drawings from 125 percent of quota to 100 percent. Although this idea, together with others has been discussed, no such proposal has been put forward and Treasury has no position on it. The U.S. Government would agree to a review of the IMF's Compensatory Finance Facility at an appropriate time, but we emphasize that the review need not necessarily result in a further liberalization of the CFF.

The U.S. Government should continue to oppose the UNCTAD proposals for a complementary financing facility; these are nothing more than massive resource transfer schemes which in many cases also delay sectoral adjustments which many countries should undertake to correct fundamental weaknesses in their economies. If the State Department wishes to review the idea of a global "stabex," it should be raised at the Cabinet or Sub-cabinet level in the near future. As you know, past analytical work has suggested such a scheme would be enormously expensive besides having the drawbacks of other proposals. In view of the difficulties the Administration is having in obtaining appropriations to cover U.S. obligations in the major financial institutions, the prospects for U.S. support of a new and larger financing scheme are dim at best.

Considering the views expressed above and the operational commodity policy the U.S. representatives have been espousing at several international meetings, we believe it is necessary to have an interagency review and a restatement of Administration policy. We intend to pursue such a review in the near future.

Sincerely yours,

Hazen F. Gale

287. Action Memorandum From the Assistant Secretary of State-Designate for Economic and Business Affairs (McCormack) to the Under Secretary of State for Economic Affairs (Wallis)¹

Washington, December 22, 1982

SUBJECT

1983 International Coffee Agreement

ISSUE

Negotiation of the 1983 International Coffee Agreement was concluded in September 1982. An interagency review of the agreement is underway to establish an Executive Branch position on submitting the agreement to the Senate for ratification. Should the Department of State recommend U.S. participation in the 1983 International Coffee Agreement?

BACKGROUND

Negotiations for the 1983 International Coffee Agreement (ICA) were completed in late September 1982 by the 70 members of the International Coffee Organization (ICO). The U.S., an ICO member, actively participated in the negotiations for the 1983 ICA.

The 1983 ICA is the latest in a series of producer-consumer coffee agreements that began in 1963 (U.S.-Latin American cooperation on coffee dates back to World War II). The 1983 ICA would replace and carry forward most of the provisions of the expiring 1976 ICA with relatively minor modifications. The central economic feature of both agreements is the commitment to attempt to stabilize coffee prices within a range that is fair to consumers and remunerative to producers through individual country export quotas and a control system enforced by the importing members. Quotas are reduced to defend the price floor and expanded or suspended to defend the ceiling.

The United States played a major role in the negotiations of both the 1976 and 1983 agreements, seeking to assure a balance of benefits to producers and consumers. The \$1.15–1.50 price range, established in 1980 and unchanged since, provides a reasonable incentive

¹ Source: Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987–1987, Lot 89D378: State/Treasury Working Lunch 1982. No classification marking. Drafted by Stephen Muller (EB) on December 14; cleared in ARA/ECP. Hill initialed the memorandum and wrote: “1/11.” A stamped notation at the top of the memorandum reads: “Received Under Secretary’s Office Dec 28 1982.”

for continued coffee production while allowing prices to react within limits to traditional market factors. Consumers have a direct input in determining the aggregate annual quota and exercise influence over the distribution of that quota among coffee types. U.S. coffee roasters are satisfied that their supply requirements are being met in both quantity and type. Further, our participation in the ICA was conditioned on cessation of unilateral attempts at market manipulation by producers. With 30% of the consumer votes resulting from our trade share, we have a virtual veto on major policy decisions taken under the agreement.

The above features of the ICA apply to nearly 95% of world coffee traded, covering nearly all exporters and 90% of the importing countries. With this broad participation, the agreement can be given some credit for the fact that coffee prices have remained within or near the price range for the two years the economic provisions have been in effect (see annex I).² Experience at the upper end of the range is admittedly limited, but early in 1982 prices exceeded the range, quotas were expanded, and prices dropped. Econometric simulations performed by the Department indicate that in the event of moderate or severe supply disruptions (e.g. a frost in Brazil) the operation of the ICA could save U.S. consumers as much as \$400–500 million over five years compared to the situation absent an agreement.

The importance of coffee to the economies of a large number of Caribbean and other producers accounts for their perception of the need for, and importance of, the International Coffee Agreement and our continued participation. Coffee exports account for over 50% of total export earnings for seven countries, including Colombia and El Salvador. Nine others (e.g. Guatemala, Honduras, Costa Rica, Ivory Coast and Kenya) rely on coffee for between 20 and 50% of their export earnings (see annex 2).³ In most of these countries, political and economic stability are closely linked, and economic stability often hinges on a more predictable coffee market such as that encouraged by the ICA. These countries recognize that the economic provisions of the ICA cannot function without the United States, the world's major coffee consumer. Thus Brazil, Colombia and other coffee producers consider our participation in the ICA a reflection of our overall bilateral relations. In the multilateral context, commodity matters will be a major agenda item for UNCTAD VI in June.⁴ Any indication that the U.S. will not participate in the 1983 ICA will be viewed by a majority of developing countries as a major shift in U.S. policy.

² Attached but not printed is the graph entitled "Coffee Prices (Cents per Pound)."

³ Attached but not printed is a list entitled "Coffee Exports as a Percent of Total Exports, 1981."

⁴ See footnote 9, Document 283.

Of the major foreign affairs agencies participating in the inter-agency review, USTR, Commerce, and Agriculture are expected to recommend that the Administration submit the ICA to the Senate for ratification. Treasury is not expected to oppose the ICA per se, but may use this issue as an occasion to express objections to U.S. participation in commodity price stabilization agreements in general. The U.S. coffee trade and industry have historically taken a strong interest in the ICO, participating actively and cooperatively in ICA negotiations and implementation. Their major representative, the National Coffee Association, has gone on record as favoring U.S. participation in the 1983 ICA. There is not believed to be any significant Senate opposition to ratification of the ICA. The Senate ratified the 1976 ICA unanimously.

RECOMMENDATION

That the Department of State support Senate ratification of the 1983 International Coffee Agreement.⁵

⁵ On January 11, Wallis approved the recommendation. In the bottom margin of the last page, McCormack wrote: "Allen: In principle I am opposed to commodity agreements. This may be an exception which we should approve for reasons contained in the memo, Dick McCormack."

288. Report Prepared in the Department of State¹

Washington, undated

REPORT ON U.S. ACTIONS TO ENCOURAGE OTHER COUNTRIES TO ESTABLISH FOOD SECURITY RESERVES OR TAKE OTHER MEASURES COMPLEMENTING THE U.S. FOOD SECURITY RESERVE

The United States has taken a number of actions designed to encourage other nations to establish their own food security reserves and to take other measures for complementing our grain reserves. These actions should be viewed in the context of the present and future global food situation and U.S. efforts in the past year to improve world

¹ Source: Reagan Library, WHORM: Subject File, Commodities, CM003 (Food and Kindred Products), 100000–299999. No classification marking. Reagan transmitted the report to the House of Representatives under a January 12 covering letter to O'Neill and to the Senate under a January 12 covering letter to Percy.

food security in the areas of grain stocking policies, food aid, and agricultural development.

Food Situation

The present and future global food situation is, according to a consensus of international food agencies, relatively good, despite historic concerns and persistent distributional problems in some countries and regions, particularly Sub-Saharan Africa. Because of record production levels, world grain stocks presently meet the United Nations' Food and Agriculture Organization's (FAO) estimated requirement of 17–18% of annual consumption, and grain prices on world markets are presently very low. Against this background, it is nevertheless disturbing that a very large percentage of total world grain reserves are held in the United States, a significant financial burden to the United States that is insufficiently shared by other producing and consuming countries. These factors have influenced the efforts of the United States to promote the holding of food reserves by other countries.

Grain Stocking Policies

The U.S. market-oriented system gives foreign and domestic buyers equal access to our grain supplies. Our farmer owned-reserves encourage farmers to hold stocks when prices are low and sell them when prices are high, thus contributing to price and supply stabilization and overall food security. Our four-million ton Food Security Wheat Reserve backs up our food aid commitments. No other nation has such reserves. Major importers generally buy for short-term needs while other major exporters keep in stock only what they cannot sell.

India is one of the few LDCs to hold grain reserves for its food security. This year India is buying, largely from the U.S., at least four million tons of wheat, some of which is for stocks. Given the excellent U.S. transportation facilities and cheap grain prices, most countries prefer not to incur storage and interest charges but rather to let the U.S. hold grain reserves.

During the past year in both bilateral and multilateral discussions, the U.S. has encouraged grain exporting and importing countries to establish grain reserves. We have made the point even more strongly than before that with grain prices at their lowest levels, now is the best time to build up reserves. The following are four recent examples where the U.S. has taken this position:

1) At the semi-annual meeting of the International Wheat Council (IWC),² we have urged member countries, including major exporting

²The semi-annual meeting of the International Wheat Council took place November 29 to December 1, 1982.

countries as well as developed importers, to establish reserves. And at the special consultations of the “Major Wheat Exporters Group” held about once a year, we have urged other members to hold larger stocks rather than to continue to flood the market with exports.

2) At the FAO Intergovernmental Group on Grains in Oct. 1982, participants agreed that being the stockholder of the world is a serious burden on U.S. producers, places great strain on the U.S. and that over the long-term this produces disincentives on U.S. producers and could reduce world food security.

3) At the March 1982 FAO Intergovernmental Group on Vegetable Oils we pointed out the very favorable market opportunities available to purchase commodities for stocks, particularly rice and soya beans.

4) At the November/December 1982 FAO Council and the March/April 1982 FAO Committee on World Food Security the U.S. stressed that we are incurring the major burden of stock holding and urged other countries to implement the FAO Five Point Plan of Action on Grain Stock Policies. Other countries profess support for the Plan, but most have done little to implement its stock holding elements.

The best chance to achieve the build-up of grain stocks by major exporting nations was in the context of a new international agreement, i.e., the now defunct proposal for a new Wheat Trade Convention (WTC). However, this proposal contained certain unacceptable features for the U.S. It did not take sufficient account of market responsive national reserves, other nations were not willing to do their fair share in holding reserves, and it contained unacceptable donor provisions for LDCs. In the absence of a multilateral agreement, the record shows that it has been very difficult to convince other countries to hold stocks.

The international community has, from time to time, endorsed the negotiation of international commodity agreements providing for increased holding and coordination of food grain reserves. Some agreements have provided for regional or subregional reserves; others, such as efforts in the International Wheat Council, have aimed at concluding an agreement providing for multilaterally-held and -coordinated grain reserves in conjunction with a variety of price and other provisions designed to stabilize the grains trade. Notwithstanding continued interest on the part of some countries, efforts to reach agreement on a broad scale agreement have largely been determined to be infeasible and are not being seriously pursued. The United States has determined to formulate a case-by-case position on various proposals to provide for regional or sub-regional reserve holdings. These proposals remain under study in a variety of fora.

Food Aid

The United States is the largest food aid donor. Under our Food for Peace Program (PL 480) we provide about 5 million tons of food aid to needy countries annually either on a grant or concessional loan basis.

The United States recently signed a Protocol extending through June 1983 the Food Aid Convention, which provides a framework for food aid pledges totalling nearly 8 million tons against a 10 million ton target. The U.S. pledge is 4.47 million metric tons. A further extension for three years of the International Wheat Agreement, including both the Food Aid Convention and the existing Wheat Trade Convention is currently being sought by the International Wheat Council.

Agricultural Development

Increasing food production in developing countries is the key to their economic development and to improving world food security. This point has been reaffirmed at the Cancun Summit and other recent international meetings. In order to increase food production, the LDCs must adopt and implement appropriate national policies, including increased incentives for improving agricultural production, and increasing private sector involvement in food storage, distribution, and marketing.

Agricultural development programs are one of the best ways available to help developing countries to address their long-term problems in increasing food production. The U.S. is the largest bilateral donor of agricultural development assistance. In Fiscal Year 1982 we contributed \$700 million for agricultural and rural development assistance and nutrition programs in developing countries.

The U.S. and other countries including other major grain exporters have supported the World Food Council's (WFC) concept of national food strategies, an integrated approach to a country's food and agricultural problems. Forty-two developing countries are involved in the food strategy approach, including eleven which have completed their food strategy.

The major U.S. response to the Cancun Summit was to implement President Reagan's proposal there to send agricultural task forces to help developing countries solve their food problems.³ These Presidential Agricultural Development Task Forces raise to the highest decision-making level in the requesting countries the major constraints to increasing food production and accelerating agricultural development, and recommend alternative approaches to alleviating those constraints. They emphasize three interrelated, strategic elements of agricultural development: country policies, science and technology, and the private sector. Task Forces have included American experts from universities, agriculture-related business, cooperatives, farmers and government agencies. So far Task Forces have visited Peru, Thailand, Honduras, Liberia, and Venezuela and other Task Forces are being planned.

³ See footnote 3, Document 266.

The U.S. Caribbean Basin Initiative is a major effort to achieve development in Caribbean countries through trade, private investment, and aid.⁴ Agriculture is a major sector in the economies of these countries. Involvement of the private sector is a key to its success, since government cannot bear the total cost of the development process. The U.S. Department of Agriculture has established the Agribusiness Promotion Council, made up of representatives of the private sector, to promote greater involvement of private business in the development process.

⁴ See footnote 2, Document 23.

**289. Memorandum From the Assistant Secretary of the
Treasury for International Affairs (Leland) to Secretary of
the Treasury Regan¹**

Washington, January 18, 1983

SUBJECT

Developing a Congressional Constituency for IDA

This is a follow-up on your staff meeting comments regarding the desirability of developing Congressional support for the International Development Association (IDA) on the basis of IDA recipients' economic importance to the United States.

U.S. participation in all of the MDBs has traditionally been justified to the Congress in terms of the linkage between such participation and overall U.S. humanitarian, security and economic interests. In the case of IDA, U.S. *humanitarian* interests are particularly important in that more than 80 percent of IDA's commitments have been to countries that in 1980 had per capita incomes of \$410 or less. IDA focus on the difficult development problems of Sub-Saharan Africa is also increasing.

You and other Administration spokesmen have also used Congressional testimony to point out the foreign policy and national

¹ Source: National Archives, RG 56, Records of the Office of the Under Secretary for Monetary Affairs, Subject Files relating to Meetings, Working Groups, Trips, Summits, and Currency Talks, 1/1/1981–12/31/1985, UD–13W105, 56–89–45, Box 1, January Chron 1983. No classification marking. Sent through Sprinkel. Attached but not printed at Tabs A and B are charts entitled "United States 1981 Trade With IDA Recipients" and "Direction of FY 78–82 IDA Credits."

security importance of selected IDA recipients, e.g., Kenya, Sri Lanka, Pakistan, and Sudan. In the past, we were also able to cite such former IDA recipients as the Philippines, Thailand, and Egypt. Attention has also been directed to the fact that IDA is a significant element of economic cooperation with our allies, and to the important, but difficult to quantify, linkage between development progress in the poorest countries and the political/social stability of critical regions.

While there appears to be a significant body of Congressional opinion which recognizes the importance of the MDBs to U.S. *economic* interests—and this may have been an important factor in the funding in full of the non-IDA component of the Administration's FY 83 request—the specific linkage of IDA recipients to U.S. economic interests is relatively weak. There is a marked difference between the economic relevance of IDA recipients as compared to the more advanced LDCs receiving IBRD or other hard-loan window funds, or to the recipients of IMF resources based on quotas determined by a country's economic size and importance in the world economy. The fact is that the poverty, underdeveloped resource base, and limited creditworthiness which justify IDA recipients' need for highly concessional external assistance, also make most IDA recipients very marginal players in the world economy. Moreover, the two IDA recipients who do play major roles in the world economic and political system—India and China—are also the two most controversial IDA recipients. There has been considerable opposition in the Congress, particularly among conservatives, to both the large share of IDA resources allocated to India (traditionally 40 percent, but 33 percent in FY 82) and the prospect of China becoming a significant recipient of IDA funds.

The relative unimportance of most IDA recipients to overall U.S. economic interests is illustrated by a disaggregated look at recent trade data. In 1981, U.S. exports to the 51 current IDA recipients totalled \$8.0 billion, or 3.4 percent of total U.S. exports, with exports exceeding U.S. imports from these countries by more than \$1.8 billion. However, exports to India and China accounted for two-thirds of the total, with exports to the other 49 IDA recipients totalling only \$2.7 billion or just over 1.1 percent to U.S. exports. U.S. exports to 38 pure IDA recipients (i.e. countries which, unlike the 13 current "blend" recipients, do not receive any IBRD funds) totalled \$1.5 billion or 0.6 percent of U.S. 1981 exports. These IDA-only recipients accounted for 47.5 percent of IDA commitments in FY 82.

This low level of U.S. exports to IDA recipients makes it very difficult to directly link the benefits of U.S. participation in IDA to specific Congressional districts.

An additional factor is that in comparison with other MDBs, the U.S. share of IDA procurement has been substantially below our share

of IDA contributions. This is not surprising since the types of projects IDA helps to finance generally do not require large amounts of imported equipment and many of IDA's African and Asian recipients still retain strong commercial and trading ties with former colonial powers. Efforts are continuing, however, to promote increased U.S. procurement in IDA and the other MDBs.

In sum, it will be very difficult to develop a stronger Congressional constituency for IDA based on the importance of IDA recipients to the U.S. economy.

290. Minutes of a Senior Interdepartmental Group–International Economic Policy Meeting¹

Washington, February 3, 1983, 3 p.m.

ATTENDEES

Treasury

Secretary Regan
Marc E. Leland

State

W. Allen Wallis
Richard McCormack

Defense

Fred C. Ikle

Agriculture

Seeley G. Lodwick
Alan Tracy

Commerce

Secretary Baldrige
Lionel H. Olmer

Energy

George Bradley

CIA

Henry Rowen
[*name not declassified*]

USTR

Ambassador William E. Brock
William Krist

OMB

Alton G. Keel

CEA

William A. Niskanen
Glenn Nelson

OPD

Edwin L. Harper
Roger B. Porter

NSC

Henry Nau
Norman Bailey

[Omitted here is discussion unrelated to the coffee agreement.]

¹ Source: Reagan Library, Roger Robinson Files, Subject File, SIG–IEP Meetings 01/27/1983–02/24/1983; NLR–437–6–37–12–2. Confidential. The meeting took place in the Roosevelt Room at the White House. No drafting information appears on the minutes.

Coffee Agreement

It was agreed that since we had taken such an active part in the coffee commodity discussions and given the history of this agreement, we should play this out to the end and sign the agreement. However, we should continue to stress that we take a dim view of further commodity agreements.

It was noted by Allen Wallis that we should somehow let parties know that we do not intend to negotiate another agreement. It was agreed that a working group should look into the status of our negotiations for commodity agreements and should make it clear that this Administration is opposed to any more commodity agreements.

291. Memorandum From the Chairman of the Policy Planning Council Bosworth to the Under Secretary of State for Economic Affairs (Wallis)¹

Washington, March 8, 1983

SUBJECT

Commodity Agreements

REF

Your Memorandum of January 18, 1983²

EB is sending on to you separately, and with our concurrence, a study which extensively and accurately describes and analyzes U.S. policy on specific commodity agreements in the post-World War II period.³ That study will provide the detail you have asked for on the various agreements and potential agreements.

I believe it would also be useful, however, to give you our views on the larger policy questions raised in your memorandum, admitting at the outset that it is difficult to generalize about commodities whose characteristics vary so widely.

¹ Source: Department of State, Bureau of Economic and Business Affairs, Office of International Commodities, Subject Files for 1983, Lot 86D76: E/C Commodity Policy General 1983. Unclassified. Drafted by Michael Boerner (S/P).

² Attached but not printed.

³ See Document 292.

Summary and Conclusions

The U.S. should examine skeptically on a case-by-case basis proposals for commodity agreements with price provisions (we should be more positive about purely informational exchange and market development agreements). We should refuse to join them if their economic provisions are not sound, regardless of the political merits which our membership might have. In the interests of good relations with the developing countries and in the search for workable, economically sound agreements, however, we should consider and discuss seriously proposals made by other countries with a significant share of the trade in a particular commodity.

On alternative schemes, our conclusion is that a serious examination of various proposals for providing additional compensation, whether through loans or grants, for shortfalls in commodity earnings is urgently needed. This should occur well before the convening of the UNCTAD-VI in Belgrade in early June,⁴ where the UNCTAD Secretariat's proposal will be a centerpiece of the discussion. These various proposals include the UNCTAD Secretariat proposal itself (which has serious flaws), variations of that proposal, the latest FRG proposal for a global STABEX, and yet a further liberalization of the IMF's Compensatory Financing Facility (CFF).

Past U.S. Commodity Policy

U.S. Government policy throughout the postwar period has been that free market forces should wherever possible determine international commodity prices. All previous U.S. administrations and this one as well have consistently opposed any extensive net of commodity agreements. We have said that only in particular instances, on a case-by-case basis, would we be prepared to enter into particular agreements. We are currently members of only three (coffee, sugar, rubber).

When we have joined agreements, we have tried wherever possible to insist that:

- buffer stocks rather than export quotas or other trade restrictive devices should be used as a means of stabilizing prices;
- the price bands chosen should be broad and built around the long-term market trend; and
- consumers should have an equal voice with producers in the agreements.

Our original view that financing of the agreements should be assumed by producers shifted in the mid-1970's to a position endorsing joint producer/consumer financing.

⁴ See footnote 9, Document 283.

We have refused to participate in some agreements where these conditions have not been adequately met (cocoa, the latest tin agreement). We have successfully insisted in some others that there be no substantive economic provisions (various study groups, recent versions of the International Wheat Agreement). In still others, we have worked to assure that the agreements focus on market development and not on price fixing (jute). Nevertheless, both the coffee and sugar agreements in which we participate contain controls on trade (although it could be argued on sugar that this represents no abrupt break with our historic pattern of import controls).

Why Commodity Agreements Arise

In recent years pressures have come from the developing country group as a whole (G-77) for a generalized approach to commodity agreements and income and export earnings stabilization schemes, as is evidenced by their proposals for UNCTAD-VI in June of this year (see below). These proposals are based on their view that firm management of the world economy is necessary to achieve their goal of a New International Economic Order.

But proposals for agreements on individual commodities are not always exclusively LDC-inspired, and sometimes contain elements of direct appeal to consuming countries such as the U.S:

- Some of the commodities are of strategic interest to the U.S. (e.g., tin), and we have stockpiled them. Even where absolute security of supply has not been essential, we have been concerned about adequate supplies at reasonable prices;

- Price fluctuations of some commodities (e.g., sugar) have been so great historically that both producers and consumers have had an interest in promoting greater stability in the market to improve rational economic planning and better distribution of resources; in some cases (e.g., coffee), these fluctuations have little to do with changes in consumer demand, but rather with extraneous forces such as the weather (there is an open question here as to why the markets concerned have not created their own devices to deal with instability, such as adequate buffer stocks and well-functioning forward markets);

- Frequently the agreements contain provisions on greater information exchange and transparency which are of value to the United States in creating a greater sense of reality in the commodity market concerned;

- Where the U.S. has its own domestic price stabilization and subsidy programs, international agreements can lessen our own government expenditures on domestic subsidy programs;

- As the EB paper points out, some commodities are produced in countries where these comprise the bulk of export earnings (e.g. sugar and coffee in the Caribbean); sharp price drops in these cases affect other goals in which the U.S. is interested, such as economic development, repayment of outstanding loans and political stability;

— In many cases, the governments of some of the producer countries have a strong political commitment to the agreement(s)—a good example would be Malaysia and the tin and rubber agreements. Brazil and Colombia and the coffee agreement would be another. U.S. foreign relations with these countries would be damaged by U.S. refusal to at least discuss the agreements. Such “damage” needs to be assessed carefully in each instance.

All these arguments need to be weighed by the United States in making its decision whether or not to discuss and participate in particular commodity agreements. Our conclusions will vary from commodity to commodity. Clearly the arguments against, at least on the purely economic side, are overwhelming in most cases—high start-up costs, misallocation of resources, failure to reflect changes in market forces and the resultant history of repeated failure of such agreements. They argue for an attitude of considerable skepticism in examining each proposal. Benefit/cost analyses will be needed in each instance (we discovered a few years ago, for instance, that there were substantial benefits to U.S. producers and consumers in stabilizing highly volatile copper prices, but that the costs in creating the buffer stock to stabilize prices were even higher.)

This reasoning implies the need for even more skepticism in the case of generalized commodity price stabilization schemes proposed for UNCTAD–VI by the developing countries which are based on an overall philosophy of market controls and management of the international economy. As an example, the proposal by the UNCTAD Secretariat that UNCTAD agree in Belgrade that the Common Fund (which the U.S. has signed, but not ratified) should be made operational and extended to more commodities, should be strongly opposed by the United States. In this connection, it is interesting to note that even the existing international commodity agreement organizations have refused to affiliate themselves with the Common Fund.

Alternative Schemes

As you point out in your memorandum, there are also alternative schemes for dealing with sudden drops in commodity prices and the problems they create for the producing countries. The EB paper mentions UNCTAD’s proposal for a Complementary Facility, the IMF Compensatory Financing Facility (CFF) and the European Community’s STABEX system (which is commodity-specific, and quite limited in funding). There was also a proposal by OECD Secretary-General van Lennep a few years ago for a system of stockpiles to be held by the industrialized countries, in which these countries (consumers) would decide when to acquire and when to dispose, based on their own strategic and economic considerations.

The basic issue is all of this is to determine whether in fact a real need exists for such compensation in the absence of price agreements which we would not favor (there is an additional tactical consideration here concerning UNCTAD-VI: action on compensatory financing might diffuse pressures at the Conference for direct action on commodities):

— It seems clear from studying the operation of the IMF's Compensatory Financing Facility (CFF) since its last liberalization in 1979 and of the Community's STABEX that not all shortfalls of non-energy commodity earnings are being met, even for the least developed countries. It is estimated that the IMF Facility, even after liberalization, has met only about 2/3 of the shortfalls, and the STABEX, already limited only to countries associated with the Community, ran out of funds about a year ago.

— It further seems clear that shortfalls in commodity earnings are severely disrupting the functioning of the economies of some of the smaller countries, where there is great dependence upon one or two commodities; on top of the worldwide recession and the late-70's oil price shocks, this has been a further debilitating factor in their economic performances.

The argument in favor of dealing with the problem through the IMF's Compensatory Financing Facility (CFF) is that disruption to a country's economy should be measured, not through any shortfall of earnings of a particular commodity, but rather through export earnings as a whole; if a particular commodity is important in the overall economy, its poor performance will be reflected in an overall drop in export earnings. If it is not, then the economy itself has made an adjustment in other sectors. Thus, if adequate compensation is not now available, the answer is to further liberalize the CFF (which could be done in a number of ways, but mainly by allowing countries to borrow more than 100 percent of their quotas). The IMF Facility, furthermore, exercises a watchdog role over the countries concerned, and in theory assures that their governments are taking accompanying measures to improve their economies' performances.

The arguments in favor of a commodity-specific approach are much the same as those given above concerning commodity agreements. They provide stability in a given sector. There will be greater certainty in terms of income and economic conditions in the industry, the basis for rational decision-making. This should lead to more stable prices and supplies (the latter only in the long-run, if the commodity is susceptible to the vagaries of the weather). A key issue here is the ability of the compensatory financing to find its way to the particular industry affected, since governments in the past have frequently taken the additional revenues and sidetracked them to other purposes (there is obviously also a good side to this, if the industry is one in secular decline and needs to be phased out or down).

Evaluating the alternative schemes in the light of this, we come to the conclusion that a good deal more study is needed. UNCTAD–VI will be considering the proposal of the UNCTAD Secretariat for a facility complementary to those already existing, and with very broad coverage. Some estimates of its costs run as high as \$19 billion per year, although UNCTAD itself estimates the costs at \$45 billion for 10 years. This is chiefly because most major non-energy commodities are covered with respect to *all* developing countries, whether or not they have need, and qualification is automatic once the shortfall target is reached. The only conditionality involved is that the funds be applied within the sector(s) affected.

The Germans for some years now have been proposing a global STABEX scheme. A new version has just been issued (Bonn 4918),⁵ and it seems to have some interesting aspects: it uses a basket of commodities, rather than any single one; it proposes lower shortfall limits for the least developed; it suggests that the facility be “administered by some existing institution”; it proposes *pro rata* compensation when claims on funds exceed funds available.

We have been able to discuss here only the major elements and schemes involved; there is obviously a good deal more that needs more thorough examination than either our comments or those of EB provide. In the light of the inevitable extended discussion we can expect on the item of compensatory financing at the forthcoming UNCTAD–VI, we would urge that a special group be set up within State to examine the different proposals and variations thereof to determine whether any of them might merit U.S. support at UNCTAD–VI.

⁵ Telegram 4918 from Bonn, February 25, is in Department of State, Central Foreign Policy File, Electronic Telegrams, D830133–0333.

292. Information Memorandum From the Assistant Secretary of State for Economic and Business Affairs (McCormack) to the Under Secretary of State for Economic Affairs (Wallis)¹

Washington, March 11, 1983

SUBJECT

Commodity Agreements

The attached memorandum, "The United States and International Commodity Agreements",² responds to your memorandum of January 18, 1983, on the above subject.³

As you know, I am basically opposed to our entering into any new commodity agreements, particularly those with price-affecting provisions. I look forward to an interagency review of the commodity agreements with which we are associated to determine whether we should terminate our participation in them as early as is practical.

The report which the EB staff has prepared reflects a similar position. It cautions against tightly closing the door on all possibilities of cooperation in the commodities area, however, since our national interests may on occasion benefit from participation in some arrangements. That fact will have to be clearly demonstrated in any particular instance to receive my concurrence. In this connection we are presently considering the recommendations we will make regarding participation in negotiations for an "other measures" agreement (one without any price stabilization provisions) on tropical timber and whether to sign a similar arrangement that has been negotiated for jute.

¹ Source: Department of State, Bureau of Economic and Business Affairs, Office of International Commodities Subject Files for 1983, E/C Commodity Policy General 1983, Lot 86D76: E/C Commodity Policy General 1983. Confidential. Drafted on February 24 by Joseph O'Mahony (EB/ORF/ICD), Michael Shelton (EB/ORF/ICD), Robert Pastorino (EB/ORF/ICD/ISM), Gilbert Donahue (EB/ORF/ICD/ISM), Stephen Thompson (EB/ORF/ICD/ISM), John Barcas (EB/ORF/ICD/TRP), Mark Lore (EB/ORF/ICD/TRP), and Stephen Muller (EB/ORF/ICD/TRP); cleared in EB/ORF, EB, and S/P.

² Attached but not printed.

³ See footnote 2, Document 291.

293. Memorandum From the Assistant United States Trade Representative for Agricultural Affairs and Commodity Policy (Nelson) to the United States Trade Representative (Brock)¹

Washington, March 24, 1983

SUBJECT

Commodity Policy

Thus far, this Administration has maintained essentially the same stance vis-a-vis international commodity agreements as the last two Administrations—i.e., we have indicated we will consider participation in such agreements on a case-by-case basis and we have continued to support the “Integrated Program for Commodities” (IPC) agreed to at UNCTAD IV in 1976 (even if mainly by not disavowing it). It has, of course, been made clear that this Administration is far more skeptical of the value of commodity agreements than the Carter Administration, but this has been done without great fanfare.²

Our policy on commodities is now caught up in two opposing crosscurrents, however. On the one hand, there is increasing pressure within the Administration to take a hard stance against commodity agreements on philosophical grounds. The primary sources of this pressure are Sprinkel (Treasury) and Wallis (State) although most high-level officials would at least agree with the philosophical underpinnings of their approach. This point of view manifested itself at February 4, 1983, meeting of SIG, which approved the Coffee Agreement, but at the same time, apparently agreed that we should not participate in any other agreements and, moreover, that there should be an interagency review of commodity policy (see attachment).³

On the other hand, there are pressures to “give” more on commodities in the interest of maintaining Group B unity at UNCTAD VI and avoiding a confrontation with the developing countries at that Conference. These pressures have so far come mainly from other

¹ Source: Reagan Library, Douglas McMinn Files, Subject Files, Sugar Quotas. No classification marking. Sent through Ambassador Smith. Copies were sent to Ambassador Macdonald, Whitfield, Rosenbaum, Cooper, and Murphy.

² Brock wrote in the left-hand margin next to this paragraph: “Don, I agree, B.”

³ The reference to February 4 is in error. The SIG–IEP meeting minutes section on the Coffee Agreement is attached but not printed. For the February 3 meeting minutes, see Document 290.

developed countries in international fora involved in UNCTAD VI preparation, but I suspect they will find sponsors within the Administration as we approach the Belgrade conference.

I believe that we should maintain the steady, low profile, unambitious stance on commodity policy that we have pursued over the past two years. The key elements of our position would, thus, be:

1. Case-by-case approach to individual agreements. We should restate this principle and establish its credibility by certain specific courses of action (discussed below).

2. Reaffirmation of our carefully qualified support for the IPC. This really commits us to nothing, except the case-by-case approach, as we have proven over the past seven years. But we should at least be able to sing the joys of the IPC at UNCTAD VI—i.e., join with other Group B countries in pointing out the accomplishments of this program (the Rubber Agreement and other existing commodity agreements, progress in discussions of other commodities, etc.).

If we were, instead, to embrace a hard, anticommodity agreement position, we could expect to take a great deal of flak both from the developing countries, and from our Group B “allies.” We would be accused, with considerable justification, of reneging on commitments made, and repeatedly affirmed, by the USG since 1976. We would be completely isolated at UNCTAD VI and positioned as a perfect scapegoat, giving the Europeans and the Japanese another opportunity to ingratiate themselves with the developing countries at our expense. Finally, such a stance would worsen our relations with the developing countries and possibly throw up additional obstacles to our various political, economic, and commercial initiatives involving them.

The cost of our current commodity policy—in terms of sacrifice of principle, budgetary outlays, or adverse effects on U.S. economic interests—is minimal. Consequently, I don’t believe that renouncing it in favor of an overtly hard line approach is worth incurring these adverse affects. Unless otherwise directed, I will be seeking the establishment of a USG position on commodities for UNCTAD VI along the lines described above. (A paper outlining this strategy in detail is now being prepared.) I have taken the position, incidentally, that the development of this position in the TPSC framework constitutes the review of commodity policy requested by the SIG.

In addition to the UNCTAD VI question, a number of specific decisions are now pending in the commodities area which will greatly affect the credibility of our basic position on commodity policy. In the interest of strengthening that credibility, I will, unless otherwise directed, be

seeking the following results in the interagency deliberations on these issues:

1. A decision that the USG will participate in the renegotiation of the *International Sugar Agreement*. The first conference will be held in May 1983.

2. A decision to join the *International Jute Agreement* (IJA). This is an “other measures” agreement—i.e., it concerns market development and research projects and exchange of information and does not have any price stabilization provisions. It will not require Congressional approval and will cost about \$100,000 (for Administrative expenses). It essentially meets all of the major negotiating objectives set by the United States.

A key element in the U.S. approach to the IPC has been our efforts to point discussions away from stabilization agreements towards “other measures” agreement for most commodities. Failure to join the IJA, which does basically all the things we said we wanted, will seriously undercut that approach.⁴

3. Leave open the question of whether or not the United States will participate in renegotiation of the *International Cocoa Agreement*. Renegotiation of this Agreement is likely to begin sometime in the autumn of 1983. We will face three options: (a) Don’t participate in negotiations, (b) participate but with no real intention of joining, and (c) participate with the aim of concluding an agreement we can accept. I believe we can avoid making a decision on this until after UNCTAD VI and will strive to do so.

⁴Smith wrote in the right-hand margin next to this point: “BOSS: If we can, I recommend we join this one. It’s not a stabilization agreement and costs us little in terms of our help to the very poor. Mike Smith.”

294. Memorandum From the Assistant United States Trade Representative for Trade Policy and Coordination (Phillips) to the Deputy United States Trade Representative (Smith)¹

Washington, April 18, 1983

SUBJECT

U.S. Participation in the Negotiation of a New International Sugar Agreement (ISA)

As I mentioned to you Friday,² we are running into a great deal of flak in our efforts to get approval for USG participation in the May Negotiating Conference on Sugar.³ Although no final decision has been taken within State, Under Secretary Wallis appears likely to oppose U.S. participation in ISA renegotiation. Treasury is also likely to oppose our participation; Assistant Secretary Sprinkel is the major advocate of this hardline stance on the Treasury side. In the case of both State and Treasury, the opposition stems from⁴ a philosophical aversion to commodity agreements.⁵ Incidentally, Treasury may put this issue on the agenda of the April 22 or April 28 SIG.⁶

Our failure to participate in the May Negotiating Conference would have disastrous consequences for our stance on commodities at UNCTAD VI and, in addition, would undermine our agricultural trade policy efforts. I have outlined some of the reasons favoring U.S. participation, which are well known to you, at the end of this memo.

I strongly recommend that we act quickly to ensure that a USG decision is taken to participate in the May Conference. (Our efforts will, of course, be somewhat complicated by Ambassador Brock's recusal from sugar issues.) At this point, I think we should concentrate our efforts on the State Department. Also, I believe you should call Lyng and/or Amstutz and try to enlist the support of USDA. As I see it, our options are:

1. Both you and Lyng or Amstutz could telephone Wallis and try to turn him around on this issue.

¹ Source: Reagan Library, Douglas McMinn Files, Subject Files, Sugar Quotas. No classification marking. Sent through Nelson.

² April 15.

³ An unknown hand underlined the portion of the sentence beginning with "to" and ending with "Sugar."

⁴ An unknown hand wrote in the left-hand margin: "1. Do not favor stabilization agreements. 2. But also do not favor lost opportunities to reduce U.S. domestic protection."

⁵ An unknown hand underlined the portion of the sentence beginning with "a" and ending with "agreements."

⁶ For portions of the minutes of the April 22 SIG-IEP meeting, see Documents 138 and 295. For a portion of the minutes of the April 28 SIG-IEP meeting, see Document 140.

2. Arrange for Secretary Block to send a letter to Secretary Shultz urging that the USG participate in ISA renegotiation. USTR support could be noted in this letter and, perhaps, Brock's recusation.

3. Arrange for letters from Block to Shultz and/or from you to Shultz (noting Brock's recusation).

Option 2 or 3 could either be pursued subsequent to unsuccessful discussions with Wallis, or we could skip option 1 altogether.

The key reasons why we should participate in the ISA renegotiation are:

1. A decision not to participate in the May Conference would undercut the low profile posture we are seeking to maintain on commodity policy (approved by Ambassador Brock⁷—see attached memo).⁸ It would underscore our position as a hardliner on commodity policy and render our efforts to maintain some semblance of Group B unity on commodity issues at UNCTAD VI impossible.

2. If we don't participate, we, in effect, set up U.S. sugar policy for the role of major villain on the world sugar market (now held by the EC).⁹ We would be telling other sugar exporters that we don't give a damn about their problems as long as we can protect our own producers with restrictive policies. We can expect criticism of the U.S. sugar program and of U.S. commodity policy in general to increase dramatically.

3. Given our own sugar program, it will not be very convincing to argue our devotion to the free market as the basis for non-participation in ISA negotiations.

4. Non-participation would leave us without a "cover" for deferral of action on the 301 complaint against the EC brought by U.S. sugar producers. We will be either forced to admit that we have no case or to proceed with a very lame case.

5. The ISA is not a significant burden to U.S. taxpayers or consumers. Our only budget outlay is for administrative expenses. Even if the ISA were successful, it would not maintain prices above the level dictated by our own domestic support program.

6. Non-participation is inconsistent with our cooperative overtures towards the Caribbean and Latin America.

7. A successful ISA could result in the reduction, or elimination, of U.S. restrictions on sugar imports—which would be highly desirable from an overall trade policy point of view.¹⁰

⁷ An unknown hand underlined this sentence.

⁸ Not attached.

⁹ An unknown hand bracketed this sentence.

¹⁰ An unknown hand bracketed this point in the left-hand margin.

8. There is a good chance that renegotiation of a new ISA will not be successful because of disagreements between the EC and other exporters. As the main focus will be on the division of exporter obligations, the United States will be able to assume a low-profile, sideline role in the negotiations. Consequently, it would be imprudent to volunteer ourselves, before the negotiations begin, as, scapegoats for their failure.¹¹

¹¹ An unknown hand highlighted this point in the right-hand margin.

295. Minutes of a Senior Interdepartmental Group–International Economic Policy Meeting¹

Washington, April 22, 1983, 4 p.m.

ATTENDEES

Treasury
 Secretary Regan
 Beryl Sprinkel
 Marc Leland
Office of Vice President
 G. Philip Hughes
State
 Kenneth Dam
 Richard McCormack
Defense
 Fred C. Ikle
 Donald Goldstein
Agriculture
 Alan Tracy
Commerce
 Secretary Baldrige
 Michael Liikala

CIA
 Henry Rowen
 Maurice Ernst
OMB
 Alton Keel
CEA
 Martin Feldstein
USTR
 Michael B. Smith
 Harvey Bale
OPD
 Roger Porter
NSC
 Paula Dobriansky
 William Martin
 Norman Bailey, Executive Secretary

[Omitted here is discussion unrelated to the International Sugar Agreement.]

¹ Source: Reagan Library, Roger Robinson Files, Subject File, SIG–IEP Meetings 04/28/1983–05/12/1983; NLR–487–6–44–15–1. Confidential. The meeting took place in the Indian Treaty Room at the White House. No drafting information appears on the minutes. Another portion of the minutes is printed as Document 138.

International Sugar Agreement

USTR Deputy Director Smith reported to the SIG that the United States needs to decide whether we should participate in the forthcoming meetings on an International Sugar Agreement. USTR and State strongly urged participation noting that while we are generally not favorably disposed to commodity agreements (e.g., SIG–IEP conclusions on coffee agreement),² we have little to lose from entering into these discussions.³ By not participating, we give it higher visibility than if we do participate. Furthermore, the EC is the real culprit, and some of the criticism toward the EC's common agricultural policy might be blunted if the United States were to become the scapegoat by not taking part. State also noted that these negotiations are viewed as very important by our Latin American friends. The SIG–IEP concurred with the views of State and USTR, but the Chairman did note that our general views on the undesirability of commodity agreements still holds.

[Omitted here is discussion of the Polish debt situation.]

² See Document 290.

³ In an April 28 action memorandum to Wallis recommending his approval of formal U.S. participation in negotiations for a new ISA, McCormack explained that Shultz had "consented to permit U.S. Government representatives to attend the negotiations on the new ISA, while reserving the right not to sign any subsequent agreement should the agreement not meet our minimum requirements." (Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987–1987, Lot 89D378: Memos—Staff/Departmental 1982–1985) Wallis approved U.S. participation in negotiations for a new ISA, subject to "certain understandings" about the interpretation of the negotiating instructions for the delegation outlined in an undated covering memorandum. (Ibid.)

296. Memorandum From the Assistant Secretary of State for Economic and Business Affairs (McCormack) to the Under Secretary of State for Economic Affairs (Wallis)¹

Washington, May 3, 1983

Attached you will find a letter which my staff wants you to send to Beryl Sprinkel² recommending a more forthcoming position toward a World Bank management proposal to increase World Bank lending between 1982 and 1986 from \$60 billion to \$61.8 billion (the \$61.25 billion figure in the memorandum understates the real request that is on the table).

This morning I called Jim Burnham, the U.S. Executive Director of the World Bank, to seek his views on the subject. He feels that you should not support the World Bank management request, stating that the main problem with the World Bank today is its misuse of its existing lending authority rather than a lack of sufficient capital. (For example, he says that last year \$700 million of World Bank money went to finance oil and gas development that could have easily been financed by commercial banks.) Burnham states that the management request for a \$1.8 billion increase is just the opening gun of massive campaign to greatly increase World Bank capital during the next twelve to twenty-four months. Burnham tells me that traditionally the World Bank increases its capital proportionately to increases in IMF capital. According to Burnham, by this formula proposals will be forthcoming for an increase in capital of the World Bank by \$3 billion.

Burnham notes that Clausen and others have been talking about a \$40 billion increase in World Bank capital, but feels that some of this talk is disingenuous and essentially an opening negotiating position. Moreover, the French are talking about a massive increase in World Bank lending but they do not appear to be prepared to allocate French funds for this purpose. The Japanese appear to be among the strongest proponents of a massive increase in World Bank capital. According to Burnham one of the reasons for this is because the Japanese felt slighted that they were not given a higher rating in voting power in the IMF recently and now want to upgrade their voting position in the World Bank. My guess is that the Japanese are also interested in trade

¹ Source: Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987-1987, Lot 89D378: Memos—Staff/Departmental 1982-1985. Secret; Eyes Only. Printed from an uninitialed copy.

² Not attached.

opportunities that would be created by a massive increase in World Bank capital.

I am told that if we fail to keep step proportionately to any World Bank capital increase we would lose our veto over changes in the Articles of Agreement governing conduct by the World Bank. Today it takes 81 percent of the voting shares to change the Articles of Agreement. We currently have enough voting shares to prevent that 81 percent from being achieved. But if we fail to keep step with other countries in the World Bank replenishment, we could lose this veto. Personally, and without a great deal of research on this subject, I am not sure how important it is for us to maintain a veto in practice. It would appear to be very unlikely that some other major donor would not support the United States in objecting to something which would genuinely violate the integrity of the Bank as an institution or overall Western interests—but this is something I would want to look into more closely before being definitive. We do not now have any veto over individual projects proposed by the World Bank.

The World Bank currently has a policy of only permitting lending on a scale that would permit “sustainable lending” based on the Bank’s existing capital. This keeps some annual spending discipline on the Bank as an institution. Increasing the Bank’s lending limits from \$60 billion to \$61.8 billion would violate this principle of “sustainable lending.” This is another reason why Mr. Burnham opposes our supporting this proposal.

An argument which will be made for us to increase World Bank lending will be to enable it to finance world trade on a higher level, but as long as the World Bank continues to devote significant resources to such things as oil and gas lending which are eminently bankable commercially, it appears to me that the World Bank is merely substituting for commercial lending rather than expanding world trade.

Allen, I am not an expert on this matter. It may be in the end that our views on this issue will modify as new economic evidence comes to our attention, and there is absolutely no doubt in my mind that you and I will come under fierce pressure from this building on this issue. But while I feel that you and I should keep an open mind as new evidence comes in on the merits of a capital increase for the World Bank, and constantly keep reviewing our assessment, as of today I do not recommend that you sign the attached letter drafted by the staff.

We do have enormous leverage over our Allies and trading partners if we choose to use it. For example, we could threaten to impose tougher VRA’s on the Japanese or cut back on future Bank replenishments if one were in danger of being isolated in the World Bank on a truly vital issue.

297. Action Memorandum From the Under Secretary of State for Economic Affairs (Wallis) to the Deputy Secretary of State (Dam)¹

Washington, June 3, 1983

SUBJECT

"Willingness to Discuss" STABEX, CFF, etc.

Paul Boeker and Mike Boerner are still chafing at the agreed inter-agency position that the United States will refuse to discuss export earnings stabilization schemes, other than commodity agreements, at UNCTAD. They say we should be open to discussion and should not be in a purely negative, defensive position on this issue, that we should show a "hint of flexibility," and so on. Treasury is rightly concerned that such hints will give false signals about what we are willing to do at the IMF, and will undercut its bargaining position at the IMF. There is also a risk of adding to our troubles on the Hill over getting approval of the IMF quota increase.

As a further background point, you should know that in 1980 at a meeting of the UNCTAD Committee on Commodities, the U.S. delegate took the same hardline position that is now set out in our instructions to our present delegation: "We will not participate in any discussion of the substance of this issue outside of the IMF or the Development Committee." (See attachment.)² It would give the wrong signal, and could only lead to recrimination later, if we softened this position now.

The question is, can we hold to this position in a way that helps keep a positive tone in the Belgrade Conference? Our delegation will need careful guidance on just what we can and cannot do in this respect. I propose a positive resolution that will show our concern and at the same time keep the discussion focussed on the expertise and jurisdiction of the IMF, and away from the substantive merits of the various proposals. Treasury says that it can accept this approach, though reluctantly.

¹ Source: Department of State, Bureau of Economic and Business Affairs, Investment Policy Files, 1981-1984, Lot 85D193: UNCTAD VI—Commodities. Limited Official Use. Drafted by Martin Bailey (E). A stamped notation at the top of the memorandum reads: "Mr. Dam Has Seen." A handwritten note at the top of the memorandum reads: "JC 6/6." Hill initialed the memorandum on June 15.

² The text of the U.S. delegate's statement, transmitted in telegram 13162 from the Mission in Geneva, October 9, 1980, is attached but not printed.

RECOMMENDATION:

That you approve the substance of the attached statement by our delegation tabling a resolution.³ (A full statement and resolution should be drawn up by IO in consultation with Treasury).⁴

³ Attached but not printed.

⁴ Dam approved the recommendation on June 15.

298. Memorandum From Secretary of State Shultz to the President's Assistant for National Security Affairs (Clark) and the Assistant to the President (Deaver)¹

Washington, September 20, 1983

SUBJECT

Welcoming Remarks by The President at the World Bank-IMF Annual Meeting, September 27

Don Regan has sent you a memo urging that the President deliver, as is customary, short welcoming remarks to the Annual Meeting of the World Bank group and the International Monetary Fund on the morning of September 27.² I fully support his request and his rationale.

This meeting brings together the Ministers of Finance and Central Bank Governors from every nation in the non-communist world. It is the single most important annual gathering on the international economic scene. The President, just last Saturday, said the non-aligned countries were looking to the U.S. for leadership in the wake of the KAL tragedy.³ That leadership, in economic affairs, can be best exercised through the IMF and the World Bank. The President delivered a memorable address to this meeting in 1981⁴—only the most serious and

¹ Source: Department of State, Executive Secretariat, S/S-I Records, The Executive Secretariat's Special Caption Documents, Lot 92D630: Not For The System: September 1983. No classification marking. A handwritten note at the top of the memorandum reads: "Sent to NSC and WH by S/S."

² The September 16 memorandum from Regan to Deaver and Clark is attached but not printed.

³ On September 17, Reagan delivered a radio address to the nation on the September 1 Soviet attack on KAL 007. For the text of Reagan's address, see *Public Papers: Reagan*, 1983, Book II, pp. 1295–1296.

⁴ See footnote 3, Document 267.

pressing scheduling problem should interfere with his doing so again this year.

Our foreign policy efforts in the developing world are largely economic. We rely on the IMF and the World Bank to carry the ball for economic reforms based on market forces and free enterprise. As Don says, the President's absence would be interpreted widely as lack of support for these institutions. For foreign policy reasons, not to mention the status of the IMF quota legislation on the Hill, that impression would be most regrettable.

I join Don in urging that the President make a brief appearance at the Annual Meeting and deliver the welcoming address for the United States.⁵

George P. Schultz⁶

⁵ Reagan delivered remarks at the annual meeting of the Boards of Governors of the World Bank Group and the International Monetary Fund on September 27. For the text of Reagan's remarks, see *Public Papers: Reagan, 1983*, Book II, pp. 1362–1366.

⁶ Shultz initialed "GPS" above his typed signature.

**299. Memorandum From the Chairman Pro Tempore of the
Cabinet Council on Food and Agriculture (Block) to
President Reagan¹**

Washington, September 21, 1983

SUBJECT

Sugar

ISSUES

◦ How should the increase in the 1984 global sugar import quota be allocated among supplying countries?

◦ Should the current duty on imported sugar be reduced to the statutory minimum of 0.625 cent per pound?

¹ Source: Reagan Library, Douglas McMinn Files, Subject Files, Sugar Quotas. No classification marking. A stamped notation at the top of the memorandum reads: "Received SS 1983 Sep 21 PM 7:53." Another stamped notation reads: "CM 177."

A decision on the first issue is needed as soon as possible so that individual country quota shares can be allocated in advance of the new sugar quota year which begins on September 26. There is no decision deadline for the second issue.

BACKGROUND

On August 23, the members of the Cabinet Council on Food and Agriculture agreed to the following aspects of the 1984 sugar price support program:²

- The FY 1984 sugar market stabilization price (MSP) will be established initially at a level of 21.17 cents per pound with the understanding that the MSP will be reviewed on a quarterly basis as provided in a new presidential proclamation to be issued forthwith.

- The FY 1984 MSP will be defended by an import quota until the world sugar price rises to a level that permits the MSP to be defended by import fees and duties.

- A standing interagency working group will be established to reexamine the Administration's policies regarding the domestic sugar price support program and the border protection mechanisms employed to defend the program and to conduct the quarterly review of the MSP as provided for by the forthcoming presidential proclamation.

Consideration of the remaining issues pertaining to the size of the 1984 global sugar import quota, the allocation of the quota, and the level of the duty on imported sugar was delayed until publication of the September crop production report on September 12.

On September 14, the members of the Cabinet Council on Food and Agriculture agreed that the size of the 1984 global sugar import quota should be 2.95 million short tons, 150,000 tons larger than the 1983 quota. No consensus was reached on the quota allocation and duty issues, however.³

A domestic price support program for sugar was approved by Congress and signed into law in late 1981. A sugar import quota was implemented in May 1982 when it was determined that import fees and duties alone could not maintain the domestic price for sugar at a level high enough to avoid Federal Government purchases of sugar. USDA allocated the quota among supplying countries according to their share of the U.S. market during a representative period of time.

² A copy of the minutes of the August 23 CCFA meeting are in the Reagan Library, Ralph C. Bledsoe Files, Office of Policy Development, Cabinet Councils, Other Cabinet Councils, Cabinet Council on Food and Agriculture.

³ A copy of the minutes of the September 14 CCFA meeting are in the Reagan Library, Ralph C. Bledsoe Files Office of Policy Development, Cabinet Councils, Other Cabinet Councils, Cabinet Council on Food and Agriculture.

Last spring a decision was made to reduce the Nicaraguan share of the 1984 global sugar import quota to 6,000 tons. The remainder of the Nicaraguan quota (estimated to be about 50,000 tons) will be reallocated to Honduras, Costa Rica, and El Salvador.⁴ Nicaragua has challenged the U.S. action in the GATT, and a dispute settlement panel has been established to hear the complaint. USTR anticipates that the panel will rule in Nicaragua's favor. In conjunction with the decision to reduce and reallocate the Nicaraguan quota, NSC noted the advisability of allocating part of any future increase in the global quota to the other three friendly Central American countries, Panama, Guatemala, and Belize.

Earlier this month, the Administration announced a redistribution of a 1983 sugar import quota shortfall of 50,000 tons. The shortfall was redistributed in a manner consistent with U.S. GATT obligations, that is on a nonpreferential basis according to the representative period formula used to allocate the annual global quota.⁵

DISCUSSION

Quota Allocation

Some parties recommend that the 150,000 ton increase in the 1984 global sugar import quota be allocated as follows: 50,000 tons would be allocated on a preferential basis to Panama, Guatemala, and Belize; the remaining 100,000 tons would be allocated in a nondiscriminatory fashion to the remaining supplying countries, excluding Nicaragua. These parties state that this allocation scheme would provide Panama, Guatemala, and Belize with much-needed foreign exchange and domestic economic benefits while maintaining a large nondiscriminatory element which would benefit other supplying countries, except Nicaragua.

Others recommend a nondiscriminatory allocation of the full quota increase. Proponents of this position claim that any preferential allocation scheme violates U.S. GATT obligations, subjects the U.S. to

⁴ In a May 4 memorandum to Clark, McMinn and Sapia-Bosch provided the recommendations of the Department of State's Sugar Task Force on how best to implement Reagan's February decision to reduce and reallocate Nicaragua's FY 1984 sugar quota. The first recommendation was to reduce the quota to 6,000 short tons. The second recommendation was to reallocate Nicaragua's quota to Honduras, Costa Rica, and El Salvador. McFarlane initialed approval of the Task Force recommendations. (Reagan Library, Douglas McMinn Files, Subject Files, Sugar Quotas)

⁵ In an August 26 memorandum to Clark, McMinn recommended that the NSC inform USTR orally that the FY 1983 sugar shortfall be reallocated in a nondiscriminatory fashion. Clark approved the recommendation on August 31. (Reagan Library, Norman Bailey Files, International Economics File, Trade Policy (07/09/1983–10/21/1983); NLR-25-8-12-4-4)

successful challenges by a host of GATT members, e.g. Australia and the Philippines, undercuts the Administration's advocacy of trade liberalization, and offends our traditional allies in support of free trade. They also assert that a preferential allocation would exacerbate the credit problems experienced by countries like Brazil and would upset the Philippines and Thailand, countries that you will be visiting in the near future.⁶

Duty Reduction

With respect to the duty issue, some parties advocate reducing the sugar import duty from the current level of 2.8125 cents per pound to the bound minimum rate of 0.625 cent per pound. With the enactment of the Administration's Caribbean Basin Initiative (CBI), 68 percent of U.S. sugar imports in FY 1984 will enter duty-free under the Generalized System of Preferences (GSP) program. These parties state that reducing the duty would take into account the concerns of the remaining non-GSP sugar exporters (Brazil, Thailand, Australia, South Africa) and would constitute a beneficial gesture in advance of your trip to Thailand and the Philippines. These parties claim that the duty reduction would be a trade liberalizing feature that would mitigate to some degree the negative impact of a preferential allocation of the quota increase. They also believe that the duty reduction would provide some relief to debt-ridden countries like Brazil. Finally, they point out that the current duty is unnecessary to defend the domestic sugar price support program as long as an effective quota system is in place.

Others oppose reducing the duty emphasizing that such action amounts to back door foreign aid for the countries that are currently paying the higher duty. Proponents of this position point out that the duty reduction would result in a revenue loss of as much as \$50 million, something that cannot be treated lightly during a period of record budget deficits. Proponents of this position also assert that the duty reduction would lessen the effect of the special treatment accorded to targeted countries under the CBI and GSP and would send the signal that the U.S. was not committed to moving to a border protection mechanism of import fees and duties to defend the domestic sugar price support program.

OPTIONS

1. How should the 150,000 ton increase in the 1984 global sugar import quota be allocated among supplying countries?

a) *Allocate 50,000 tons on a preferential basis to Panama, Guatemala, and Belize; and allocate the remaining 100,000 tons on a nonpreferential basis to all other supplying countries, excluding Nicaragua.*

⁶ Reagan visited Tokyo November 9–12 and Seoul November 12–14, but not Thailand or the Philippines.

Advantages:

- Would provide Panama, Guatemala, and Belize with much needed foreign exchange and domestic economic benefits.
- Would complement the earlier reallocation of the Nicaraguan quota to Honduras, Costa Rica, and El Salvador.
- Would accommodate U.S. policy in Central America without unduly jeopardizing the interests of all remaining supplying countries except Nicaragua.

b) Allocate the full 150,000 tons on a nonpreferential basis to all supplying countries, excluding Nicaragua.

Advantages:

- Would reinforce the Administration's advocacy of trade liberalization.
- Would avoid exacerbating the credit problems experienced by countries such as Brazil.
- Would avoid upsetting the Philippines and Thailand in advance of your trip to these countries.

2. Should the current duty on imported sugar be reduced to the statutory minimum of 0.625 cent per pound?

a) Reduce the sugar import duty to 0.625 cent per pound.

Advantages:

- Would take into account the concerns of remaining non-GSP sugar exporters.
- Would constitute a beneficial gesture in advance of your trip to Thailand and the Philippines.
- Would constitute a trade liberalizing action that would lessen the negative impact of a preferential allocation of the quota increase.
- Would provide some relief to debt-ridden countries like Brazil.

b) Do not reduce the sugar import duty.

Advantages:

- Would avoid providing back door foreign aid to countries currently paying the higher duty.
- Would prevent a revenue loss of as much as \$50 million dollars.
- Would retain the effect of the special treatment accorded to targeted countries under the CBI and GSP.
- Would signal that the U.S. is committed to moving away from quotas and toward a border protection mechanism of import fees and duties to defend the domestic sugar price support program.

DECISION

Issue 1: How should the 150,000 ton increase in the 1984 global sugar import quota be allocated among supplying countries?

_____ Option A: Allocate 50,000 tons on a preferential basis to Panama, Guatemala, and Belize; and allocate the

remaining 100,000 tons on a nonpreferential basis to all other supplying countries, excluding Nicaragua.

Supported by: NSC, State, and Defense; OMB defers to State.

_____ Option B: Allocate the full 150,000 tons on a nonpreferential basis to all supplying countries, excluding Nicaragua.⁷

Supported by: USTR, Agriculture, Treasury, and Commerce.

Issue 2: Should the current duty on imported sugar be reduced to the statutory minimum of 0.625 cent per pound?

_____ Option A: Reduce the sugar import duty to 0.625 cent per pound.

Supported by: NSC, State, CEA, and Defense.

_____ Option B: Do not reduce the sugar import duty.⁸

Supported by: USTR, Agriculture, Treasury, Commerce, and OMB.

⁷ Reagan initialed and placed a checkmark by Option B.

⁸ Reagan initialed and placed a checkmark by Option B.

300. Memorandum From Secretary of the Treasury Regan to President Reagan¹

Washington, October 6, 1983

SUBJECT

Results of the 1983 World Bank/International Monetary Fund (IMF) Annual Meetings

The 1983 Annual Meetings of the World Bank and International Monetary Fund which concluded last week were highly successful, with the U.S. achieving its major objectives. The atmosphere at the meetings was much improved from last year, with greater confidence that global economic problems are manageable and that progress is

¹ Source: Reagan Library, Roger Robinson Files, Chronological File, Robinson Chron 1983; NLR-487-10-4-11-4. Confidential.

being made in restoring a healthy world economy. Your welcoming address received widespread praise,² and your strong, unequivocal endorsement of the IMF served to allay concerns about U.S. support for the institution. Your remarks should help provide the momentum necessary to obtain Congressional approval for the quota legislation.

The improved atmosphere at the meeting reflected broad recognition that the global economic recovery is underway, led by the strong U.S. expansion, and that progress is being made in resolving the debt and liquidity problems of developing countries.³ The indisputable evidence of a growing U.S. economy with low inflation provided an effective rebuttal to criticism of U.S. economic policies, although concerns remain that the size of our current and future budget deficit could push interest rates back up and threaten the recovery.

Our success in reviving the U.S. economy is giving others greater confidence that for them, too, increased reliance on market forces and disciplined economic policies are the only lasting solution to current difficulties. As a result, I sensed an increased determination on the part of other industrial and developing countries to undertake the difficult but necessary adjustment measures required to get their economic houses in order.

During the Annual Meetings, I met with the Finance Ministers of the major Summit countries and IMF Managing Director de Larosiere to follow-up on the Williamsburg Summit agreements to enhance economic convergence.⁴ Although de Larosiere shared the concerns of the others regarding the strong dollar and our budget deficits, he acknowledged that a major factor underlying the dollar's strength was our success in getting inflation down and revitalizing the U.S. economy. I stressed that we were making every effort to reduce budgetary expenditures, and that raising taxes would run the risk of aborting the sustained recovery which we all desire. I also made them aware of the recent downward revisions in our projected deficits.

These consultations have proved to be useful in encouraging policies that reduce disparities in economic performance among the major industrial countries, and we are considering ways to develop this consultation process further. In addition, we had a very preliminary discussion on possible ways of improving the international monetary system,

² See footnote 5, Document 298.

³ An unknown hand underlined the portion of this sentence beginning with "and" and ending with "countries."

⁴ The Williamsburg Summit took place May 28–30. For documentation on the Summit, see the International Debt compilation of this volume. Documentation is also scheduled for publication in *Foreign Relations*, 1981–1988, vol. XXXVI, Trade; Monetary Policy; Industrialized Country Cooperation, 1981–1984.

following-up on the Williamsburg discussions in this area. During the coming months we will be considering potential study topics in this area which might be pursued by the major industrial countries.

The decisions on major IMF policy issues reached by the Interim Committee are being interpreted widely as a major victory for the U.S. position on the need to conserve IMF resources. The Interim Committee compromise on the level of IMF lending in 1984 limits access to IMF funds next year for most countries at roughly current levels, while providing the possibility for somewhat larger amounts to countries experiencing serious economic difficulties and prepared to take strong corrective measures. I believe that this agreement will strengthen the revolving character of IMF financing, encourage increased prudence in IMF lending policies, and provide greater assurance to the Congress that U.S. funds are being used effectively and efficiently.

Issues dealing with the World Bank's lending operations, particularly the Seventh Replenishment of the International Development Association (IDA VII), were also discussed thoroughly. There is still considerable international disappointment at the level of U.S. funding we envision for IDA VII, although other World Bank members now have a better appreciation of our budgetary and Congressional constraints. We underscored our willingness to continue working constructively with members on negotiation of a World Bank Selective Capital Increase, and on the International Finance Corporation's funding requirements. More fundamentally, we reinforced the importance we attach to improving the quality of World Bank lending which we believe must be linked to sound, market-oriented domestic policies which encourage private enterprise.

On the margins of the Annual Meetings, there was significant progress in developing a financing package to support Brazil's new adjustment program. We obtained agreement in principle from other major governments to join us in a \$2.5 billion package of official trade credits and guarantees for Brazil. At the same time, Brazil's commercial bank creditors have agreed in principle to a new \$6.5 billion medium-term loan.⁵

Donald T. Regan⁶

⁵ An unknown hand highlighted this sentence in the left-hand margin.

⁶ Regan signed "Don" above his typed signature.

301. Minutes of a Senior Interdepartmental Group–International Economic Policy Meeting¹

Washington, November 23, 1983

[Omitted here is discussion of export credits and the debt crisis; see Document 152.]

U.S. Participation in IDA VII

Regan recalled the history of IDA VI, pointing out that the Administration had assumed responsibility for its predecessor's generous commitment. Recent funding has been about \$950 million per year. The IBRD initially spoke of an \$18 billion figure for IDA VII, later reducing the number to \$16 billion. This is much more than is feasible for us. Everyone is trying to pull us up from \$9 billion (i.e. a \$750 million annual U.S. appropriation for three years). State believes \$9 billion is inadequate. If we compromised at \$12 billion, we would have to get \$950 million from the Congress,² the precise number we have been having trouble with. *Regan* went on to note that we need a position for a December 9 IBRD meeting.

On congressional attitudes, *Regan* noted that Hatfield, Mathias, Percy and some others say \$750 million is too low. The Republican leadership, on the other hand, is negative on IDA. *Leland* added that leading conservatives, including Kasten and Kemp think they have a deal at \$750 million. They know that is the number in the budget.

Wallis agreed that the Hill problem is real, but stressed that all other donors want a higher number. He stressed that the need for a larger replenishment is strong. *Stockman* elaborated on the mood in Congress, arguing that a high IDA figure gives the Democrats leverage over security assistance. Do we want them running our foreign policy?

McPherson said the reality is that we need both Republicans and Democrats to pass our foreign aid program. Compromise between security assistance levels and IDA levels is inevitable. He said he did not wish to argue for a particular number. The IBRD is doing good work. It's on the cutting edge in Africa, using structural adjustment loans to encourage policy change.

¹ Source: Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987–1987, Lot 89D378: Chron File–November 1983. Secret; Sensitive. Drafted by Doris Lamb (EB).

² According to a different set of meeting minutes, Wallis noted that "Shultz believes that a U.S. contribution on the order of \$950 million would be desirable." (Reagan Library, William Martin Files, NSC Chron File, NSC Chron 12/02/1983–12/11/1983; NLR-348-9-44-2-6)

In response to a question from Brock about IDA's effectiveness, *Wallis* pointed out that we considered the overall program worthwhile. At the level of individual projects or loans, there were bound to be some that were better than others. So far as the Hill is concerned, he said that IDA is part of the price we pay for the security assistance appropriations.

Porter said his contacts at the IBRD thought the Bank could make do with \$9 billion. The effect would be to fund only the best projects. He, too, mentioned commitments to individuals in Congress to a \$750 million figure. Finally, he said that we have been using that number with other countries. The wise and prudent course is to stay where we are and stand by what we have said.

Regan read a letter from the U.S. IBRD Executive Director, Jim Burnham, critical of IDA and recommending a \$750 million U.S. commitment (Burnham letter attached).³

Regan said we should have an NSC debate before December 9, based on a paper which would state that most SIG participants prefer \$750 million.⁴ He said we could test Hill attitudes again, but that he personally doubted we could get more than \$750 million. One alternative for the negotiation would be to tell the other participants that we are willing to commit to \$750 million, but are willing to get more if we can. *Regan* said he was trying to keep faith with State on this issue. *Leland* squeezed in the remark that \$750 million will be our number for obligation purposes. *Brock* said we should not mislead other donors about our possibilities.

³ Attached but not printed.

⁴ See Document 302.

302. Memorandum From Secretary of the Treasury Regan to President Reagan¹

Washington, November 30, 1983

SUBJECT

Approval of U.S. Funding for IDA VII

The International Development Association (IDA) is the World Bank affiliate which makes highly concessional loans (long-term and low interest, often referred to as "soft-loans") to the world's poorest countries. Negotiations among the member countries for a seventh replenishment of IDA (IDA VII) are now at a decisive stage, and considerable international attention is focused on the amount of the U.S. participation in the replenishment. You will recall that we inherited a very generous IDA VI commitment from the previous Administration of \$3.24 billion over a three-year period, or \$1.08 billion per year. We couldn't get that amount through Congress but did get an average of \$772.5 million per year in FY 81-84. We still owe \$150 million for FY 84.

Since December 1981, our budget has included \$750 million as the *annual* U.S. contribution to IDA VII. We have told IDA members that \$750 million annually is the maximum to be expected from the United States, and many donors and recipients are still vigorously pressing for a larger U.S. contribution. Your fellow heads of government at Williamsburg pressed you to be generous on IDA VII,² hinting at a contribution at least equal to the last two years (\$945 million per year) and hopefully as much as \$1 billion per year. Tom Clausen has also talked to you along the same lines. Various other heads of government have mentioned this to you as they met with you in bilateral sessions here in Washington.

The U.S. position on IDA VII was reviewed by the SIG/IEP on November 23.³ Although the State Department and George Shultz personally favor a somewhat higher level,⁴ the strong consensus of the SIG was that annual IDA contributions should not exceed \$750 million. There are two key reasons for the \$750 million limit:

¹ Source: Reagan Library, Roger Robinson Files, Chronological File, Robinson Chron 1983; NLR-487-10-11-14-3. Secret.

² See footnote 4, Document 300.

³ See Document 301.

⁴ See footnote 2, Document 301.

(1) Such a funding level could, if efficiently managed, meet the needs of the poorest and least creditworthy IDA recipients, particularly Sub-Saharan Africa. This level would also quicken the pace of India's "maturation" to other World Bank lending programs on "harder" or more near-market terms. It would also minimize the increase in IDA funding for the PRC who will be eligible for IDA VII money. While both countries have low per capita incomes, China in particular is very creditworthy and can get access to other sources of finance.

(2) We believe a majority of Congress would not enact an increase above \$750 million. We want to avoid the funding uncertainties associated with IDA VI when the Carter Administration failed to take Congressional views into account. Obtaining Congressional approval of even a \$750 million annual contribution will require a major Administration effort. You will recall our recent efforts in behalf of another international institution, the IMF quota increase which squeaked by on the last day of the recent session.⁵

IDA VII negotiations resume on December 9 in Paris. If you approve of \$750 million per year, we will re-emphasize this longstanding U.S. position. We believe this represents a realistic but compassionate level of multilateral foreign aid. It is important that our negotiating partners recognize that this is unequivocally our final position. This amount from us will be a big disappointment to many industrialized nations, as well as the less developed countries. It means an overall increase of approximately \$9 billion for IDA over the next three years versus their hopes of \$16 billion (\$1.33 billion per year from us) and their expectations of compromise at \$12 billion (\$1.0 billion a year from us). However, we are (hopefully) going to suggest budget stringency in our FY 1985 figures. This will require domestic spending cuts particularly in social programs. It would be hard to justify an increase in multilateral bank funding. On behalf of the SIG/IEP, I request that you approve that annual U.S. contributions to IDA VII not exceed \$750 million.⁶

Donald T. Regan⁷
Chairman of the SIG/IEP

⁵ Congress passed the IMF quota/GAB increase on November 18. According to a November 28 memorandum from McCormack to Shultz, the legislation was a "major step forward," but "certain amendments to the bill may give us political trouble and the IMF financial constraint will remain tight." (Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987–1987, Lot 89D378: Chron File—November 1983)

⁶ Reagan initialed and placed a checkmark next to the "Approve" option.

⁷ Regan signed "Don" above his typed signature.

303. Memorandum From Secretary of State Shultz to President Reagan¹

Washington, December 1, 1983

SUBJECT

U.S. Contribution to Replenishment of World Bank/IDA

I want to raise with you the critical issue of U.S. support for the World Bank/IDA, which Don Regan has posed in somewhat different terms.²

The Congress remains divided on the level of U.S. contributions to IDA, as on many issues. Some oppose any contribution over \$750 million annually and favor putting any extra dollar of US aid into security assistance; others see larger U.S. contributions for IDA as the test of whether the U.S. is tending to long-term stability and growth in the Third World as well as putting out today's fires. On this issue, therefore, as on so many others, the Administration has to lead the way by defining clearly what is the fundamental U.S. interest. If we lead the Congress will respond. By appropriating \$945 million for IDA in each of the last two fiscal years the Congress has shown that we are not constrained to lower levels if we see the U.S. interest otherwise.

All other donors are willing to support a three-year replenishment of \$4 billion annually, which means a yearly U.S. contribution of \$1 billion—or \$950 million if we can lower our share this much (which appears possible). If we at this point take a final U.S. position below \$950 million, every one's potential contribution is going to come down with ours and we will be the spoiler—for our allies and the Third World. At any U.S. contribution below \$900 million annually the political repercussions from a U.S. spoiler role will be so serious as to prejudice our lead role in influencing what the World Bank does with all its resources.

After we have fought so hard for \$8.4 billion to support financial stability in the LDCs through the IMF it would be pound foolish and contradictory to cut down significantly the World Bank's potential contribution to the parallel mission of reviving LDC growth—for failure to increase our support by \$150–\$200 million annually. Given the limited instruments we have to project U.S. influence in the Third World it is equally unwise to let U.S. influence in the World Bank slide. The World Bank is the major external financier of the poorest LDCs and thus

¹ Source: Reagan Library, Roger Robinson Files, Chronological File, Robinson Chron 1983; NLR-487-10-11-5-3. Confidential. A stamped notation at the top of the memorandum reads: "83 Dec 2 A 2:35 White House Situation Room."

² See Document 302.

the major external influence on their economic policy. The Bank was our creation and is one of the most effective instruments we have for supporting our kind of open economic system and broad-based society in the LDCs. Time and again, as in our current plans for Africa, we come back to the conclusion that World Bank leadership is essential to address our clients' dire economic problems.

We need a strong World Bank and should not give up any U.S. leverage over its vital role. These requirements just don't square with a U.S. contribution to IDA's replenishment less than \$900–\$950 million annually. It would be a mistake to request a lower figure in the FY 1985 budget.

304. Memorandum From the Associate Director for National Security and International Affairs of the Office of Management and Budget (Keel) to the President's Assistant for National Security Affairs (McFarlane)¹

Washington, December 2, 1983

SUBJECT

Seventh Replenishment of the International Development Association (IDA–VII)

This is in response to your request for comments on Secretary Regan's memo to the President of November 30 on IDA.² OMB strongly supports Treasury's recommendation for a \$750 million annual funding level for IDA–VII, a recommendation recently affirmed by an overwhelming majority on the SIG–IEP. OMB believes that this final negotiating position merits the President's approval.

◦ *The \$750 million level is no breach of faith.* It simply confirms long-standing U.S. plans for IDA funding and the repeated statements of U.S. negotiators of the firm intention of the United States to go no higher.

◦ *This level represents little change from U.S. contributions to the last two replenishments over the last seven years.* The United States provided

¹ Source: Reagan Library, Roger Robinson Files, Subject File, International Finance: 11/09/1983–12/31/1983. No classification marking. Keel crossed out McFarlane's type-written name and wrote: "Bud—". Keel also crossed out his own typewritten name and wrote: "Al—".

² See Document 302.

\$800 million annually under IDA-V (1978–80), and has provided \$772 million on average under IDA-VI (1981–84).

◦ *This level is entirely consistent with U.S. development assistance strategy in which the development banks play a secondary role to a bilateral aid program which has grown substantially since 1981.*

◦ *Given likely tough funding decisions on domestic programs in the 1985 budget process, an IDA increase would be inappropriate.* The Congress is unlikely to provide the higher levels, and the increment over \$750 million would simply be applied to domestic programs in the congressional budget process.

If the NSC staff proposes to recommend an increase to the President,³ OMB believes that the issue should first be presented to the Budget Review Board in the context of the 1985 budget decision making process.

³ See Document 306.

305. Minutes of a Cabinet Council on Food and Agriculture Meeting¹

Washington, December 5, 1983, 2 p.m.

PARTICIPANTS

Block, Simmons, Lighthizer, McPherson, Porter, Leonard, Herbolsheimer, Tracy, Derham, Hennessey, Gall, Keel, McMinn, Constable, Leland, Kingon, Kreisberg, Jenkins, Neal, and Cicconi, and Ms. Constable and Risque

Mr. Leonard briefly described the background of the International Fund for Agricultural Development (IFAD),² and its mission of providing additional resources for agricultural development projects benefiting the small farmers and rural poor of the most needy countries. He then outlined the issues that required the Cabinet Council's consideration:

◦ What is the appropriate level of the U.S. FY 1985 contribution to IFAD?

¹ Source: Reagan Library, Ralph C. Bledsoe Files Office of Policy Development, Cabinet Councils, Other Cabinet Councils, Cabinet Council on Food and Agriculture. No classification marking. No drafting information appears on the minutes. There is no indication as to where the meeting took place.

² IFAD was established as a specialized agency of the United Nations in 1976.

◦ Should the U.S. participate in the negotiation of a second replenishment of IFAD?

◦ If so, what negotiating position should the U.S. adopt?

Mr. Block indicated that the question of the fate of IFAD had been raised during the recent meeting of the Food and Agriculture Organization (FAO) in Rome³ and that the U.S. had been the brunt of much criticism for its tardiness in delivering on its pledge to the first replenishment of IFAD.

Mr. McPherson explained that the original justification for IFAD was its role in securing the cooperation of OPEC countries in the funding of international assistance projects. He indicated that, to the extent that this remained a suitable rationale for U.S. participation in IFAD, the Administration should conduct itself so that the responsibility for the possible demise of IFAD rest with OPEC countries, not the U.S. To that end, Mr. McPherson suggested that the question of U.S. participation in a second replenishment of IFAD be deferred until two conditions were met: (1) agreement that the total second replenishment funding level would not be less than the first replenishment level; and (2) the commitment of the OPEC countries to maintain their current 43% share of total IFAD contributions. Mr. McPherson recommended that the U.S. devise some strategy to display its interest in fulfilling its remaining first replenishment obligations (\$90 million) so that other OECD donors would not scale down their first replenishment contributions and thereby jeopardize the future of IFAD before a second replenishment could be negotiated.

Mr. Leland agreed that the question of U.S. participation in a second replenishment should be deferred. However, he proceeded to suggest a more stringent condition for U.S. participation in such a replenishment: The OECD and OPEC countries should reverse their pledge shares, with OPEC assuming a 57% share and OECD countries a 43% share. Mr. Leland expressed his concern that the Cabinet Council was not the appropriate forum for resolving the issue of the FY 1985 funding level of IFAD. While he favored leaving the FY 1985 U.S. contribution at the \$50 million level requested by the State Department, he stressed that the matter should be decided in conjunction with budget decisions on other multilateral development organizations and U.S. bilateral foreign assistance programs.

Mr. Block noted that the President had sent a letter to President Zia of Pakistan stating that the U.S. planned to provide the balance of its total contribution under the first IFAD replenishment before the end of

³ The 22nd session of the Food and Agriculture Organization took place in Rome from November 5 to 23.

calendar year 1983.⁴ Mr. Block said that it was important not to overlook this apparent commitment on the President's part. Mr. Simmons concurred.

Ms. Constable indicated that the President's letter was not likely to raise foreign policy problems in that it did not constitute a U.S. commitment but rather an expression of current U.S. plans or intentions. She then echoed the sentiments of Mr. Leland, stressing that, in any event, the current plan for meeting our first replenishment obligation (\$50 million in FY 1985 and \$40 million in FY 1986) was reasonable in light of our funding arrearages for other multilateral development institutions of equal or greater priority.

Mr. Keel explained that Congress in the past had been reluctant to fully fund the Administration's budget requests for IFAD. He stated that OMB shared State's and Treasury's view regarding the appropriate FY 1985 funding level for IFAD and urged that the Administration be hesitant to support a second replenishment of IFAD given the overriding need to address the large U.S. budget deficit.

Mr. Block indicated that some increase—perhaps of \$10 million or \$20 million—in the pending FY 1985 budget request for IFAD was needed to avoid encouraging other OECD donors to scale down their first replenishment contributions. Mr. Kreisberg informed the Cabinet Council that major OECD donors had decided earlier in the day to draw out their first replenishment contributions, if the U.S. refused to accelerate its fulfillment of its pledge. Mr. Block also suggested that it would be wise to consult with Assistant Secretary of State Richard McCormack upon his return from the IFAD Executive Board meeting in Rome before a final decision regarding the FY 1985 funding level was made. Everyone present thought that this suggestion was in order.

Messrs. Leland and Keel stated that the FY 1985 funding level decision should be made by the Budget Review Board in conjunction with budget decisions on other international assistance programs.

Mr. Porter summarized the results of the Cabinet Council's discussion saying that there was apparent agreement that:

- The U.S. should fulfill its first replenishment pledge and that the pledge should be fulfilled via at least a \$50 million contribution in FY 1985 and a second contribution in FY 1986 that was consistent with funding requests for other international assistance accounts;
- The U.S. is prepared to discuss participation in a second replenishment of IFAD provided the OPEC countries are willing at least to maintain their current 43% share of IFAD contributions;

⁴ Not found.

◦ The specific funding level for the U.S. FY 1985 contribution to IFAD is a matter for the Budget Review Board to resolve.

No one took issue with this summary of the Cabinet Council consensus.

306. Memorandum From Roger Robinson of the National Security Council Staff to the President's Assistant for National Security Affairs (McFarlane)¹

Washington, December 6, 1983

SUBJECT

Approval of U.S. Funding for IDA VII

Dave Wigg and I have prepared the attached (Tab I)² decision memorandum from you to the President along with a request (Tab A)³ from Secretary Regan to hold the U.S. IDA VII contribution to \$750 million annually in FY 1985–87. Also attached are the following:

◦ A memo to the President from Secretary Shultz strongly arguing for a minimum contribution of \$900 million (Tab B).⁴

◦ A memo to you from Alton Keel (OMB) supporting Treasury's position (Tab D).⁵

◦ A letter to the President from Chancellor Kohl (Tab C)⁶ encouraging a U.S. pledge above the \$750 million level.

As you will note, we refrain from taking a strong advocacy position on this issue in your memo to the President, preferring to lay out the positions of the agencies as fairly as possible and limiting discussion of the NSC's views to your oral presentation to the President. The level of acrimony between Treasury and State, the long period of arduous interagency debate, persuasive budgetary and legislative considerations, and our inability to fully penetrate the extent of Byzantine

¹Source: Reagan Library, Roger Robinson Files, Chronological File, Robinson Chron 1983; NLR-487-10-11-19-8. Secret. Sent for action. The word "signed" is stamped on the memorandum.

²Not attached. The memorandum is printed as Document 307.

³Not attached. The memorandum is printed as Document 302.

⁴Not attached. The memorandum is printed as Document 303.

⁵Not attached. The memorandum is printed as Document 304.

⁶Not attached. A copy of the letter is in the Reagan Library, Executive Secretariat, NSC Subject File, [Security Assistance] Foreign Aid (December 1983).

maneuvering among the responsible players leaves us at a decided disadvantage and argues for a carefully crafted "honest broker" role for you and the NSC.

Dave and I worked closely together in canvassing the agencies and gathering relevant facts concerning the Treasury and State positions on IDA VII. This effort included double checking the Treasury and OMB positions as they appeared in this cover memo and in the memo to the President. Interestingly, Treasury backed off some of its earlier more strident assertions. In delineating this issue, we agree with the compelling foreign policy rationale for seeking a \$950 million contribution and believe that State (supported by Commerce) has the high ground on this issue for the following reasons:

- It would represent a tangible demonstration of our commitment to long-term stability and growth in the Third World during a period of serious strains caused by the international debt crisis.

- It would stimulate a multiplier effect of additional pro-rata contributions by all other donors resulting in a substantially higher overall ceiling on available IDA funding.

- This action would be enthusiastically received by the allies, the World Bank and LDC's alike which have lobbied heavily on this issue, with State, NSC and the office of the VP. (Sir Oliver Wright made a strong demarche to the VP only yesterday, and a letter from Chancellor Kohl is attached to the package to the President.)

- It would be a relatively cheap price to pay (\$150–200 million) for substantial foreign policy benefits or, perhaps more importantly, avoiding the international acrimony of stonewalling an increase in the ceiling.

- It would avoid the U.S. being fingered as the "spoiler" of the efforts of other donors to enhance IDA's financing capabilities and preclude the possibility of unjustified blame being allocated to the President by the LDC's for their own policy failures and the international community in the event a country or countries are forced into default in the coming months or beyond.

- It would be consistent with our vigilant approach to increase IMF quotas and at least not be a surprise to Congressional critics of our efforts to stabilize the international financial system.

- It would also be viewed as a logical outgrowth of our role as founder of the World Bank and IDA with the latter's principal mandate being to support open economic systems among the LDC's.

- Finally, the average contribution of \$772 million quoted by OMB is somewhat misleading. The overall pledge for 1981–84 was allocated unevenly among the annual budgets: \$500 million in 1981; \$700 million in 1982; \$945 million in 1983; and extended at the \$945 million level in the continuing resolution for 1984.

On the opposing side, Treasury takes a hardline view of IDA institutionally, questions the effectiveness of the U.S. contribution (much of which will be channeled to China and India) and raises the specter of a Congressional battle similar to that on IMF. Secretary Regan has been

out front on this matter and probably considers the outcome an important test of his credibility.

The major arguments of Treasury and OMB are as follows:

— A \$750 million ceiling on IDA VII is considered to be one element of the Hill's willingness to consider the Supplemental Appropriations Bill.

— Treasury foresees the same "out year" funding problems with a high level of IDA VII that have been incurred with IDA VI. They are still sweating out the last \$150 million appropriation under that program.

— Failure to gain assured Congressional support for increased funding for IDA VII in FY 86 and 87 would mean the potential for renewed antagonism among our allies and the Third World in coming years.

— OMB has made clear that increased IDA VII funding would be taken, dollar-for-dollar, from State's bilateral programs, contradicting Administration policy favoring a move toward bilateral, rather than multilateral, programs.

— State's FY 85 budget is presently \$600 million above OMB's target, with IDA VII support penciled in at \$750 million. An additional \$200 million resulting from acceptance of State's position on IDA VII would presumably either have to come from trade-offs in other crucial areas of foreign assistance, or require relief from the currently imposed OMB targets for foreign assistance levels in FY 85 and would probably require a Budget Review Board meeting.

— Treasury has effectively exploited State's holding back on IDA VII out of concern for exacerbating Congressional antagonism over IMF and IDA VI, portraying their "eleventh hour" request as ill-timed.

One of the key unanswered questions in this policy debate concerns the position of the Hill. Treasury asserts that two key players (Senators Kasten and Kemp) are willing to support the \$750 million level, and that going for more might jeopardize their cooperation. This view must, however, be weighed in the context of a rather poor track record of Treasury judgments concerning attitudes on the Hill as evidenced by the torturous IMF experience. State believes that strong leadership by the Administration could win the day. If properly tasked, we believe Congressional approval is probably obtainable, but even a Hill fight could be argued to be relatively less costly overall than our "playing it safe."

Finally, this issue offers an opportunity to be supportive of an initiative to which Secretary Shultz personally attaches great importance. Supporting the Shultz position in your verbal presentation to the President (win or lose) could therefore be another important building block in the State-NSC relationship. You may also wish to telephone Secretary Shultz in Europe to discuss this issue as a courtesy prior to sending the package up to the President.⁷

⁷ Shultz was in Bonn December 6–7 to meet with Kohl and Genscher and in Brussels December 7–9 to attend the NATO Ministerial meeting.

RECOMMENDATION:

That you sign the attached decision memorandum to the President (Tab I).⁸

That you telephone Secretary Shultz as a courtesy prior to sending the package to the President.⁹

Ty Cobb, Doug McMinn, Don Fortier, Bill Martin, and Fred Wettering concur.

⁸ McFarlane placed a checkmark next to the "Approve" option.

⁹ McFarlane did not indicate his approval or disapproval of the recommendation.

307. Memorandum From the President's Assistant for National Security Affairs (McFarlane) to President Reagan¹

Washington, December 7, 1983

SUBJECT

Approval of U.S. Funding for IDA VII

Issue

What should the annual U.S. contribution to IDA VII be?

Facts

The International Development Association was established in 1960 as a "soft-loan" arm of the World Bank for the purpose of lending to countries too poor to borrow from normal financial channels, including the World Bank itself. In FY 1983 it funded \$3.3 billion in interest free, 50 year loans to the world's poorest LDC's.

Attached (Tab A) is a memo to you from Secretary Regan on the above subject.² On behalf of a majority of the agencies represented on the Senior Interdepartmental Group on International Economic Policy, the Secretary requests that you approve a U.S. annual contribution

¹ Source: Reagan Library, Executive Secretariat, NSC Subject File, [Security Assistance] Foreign Aid (December 1983); NLR-753-94-6-1-1. Secret. Sent for action. Drafted by Robinson. A stamped notation at the top of the memorandum reads: "The President has seen." A stamped notation at the top of the memorandum reads: "Received SS 1983 Dec -7 PM 12:20." A copy was sent to Bush.

² Not attached. The memorandum is printed as Document 302.

to the International Development Association (IDA) of \$750 million. He believes that this amount, in conjunction with pro-rata contributions from other donors, would (1) meet the needs of the least creditworthy IDA recipients, (2) encourage a gradual rationalization of the program, and (3) represent the limit beyond which congressional approval is unlikely. A memo to you from Secretary Shultz (Tab B)³ strongly urges a minimum contribution of \$900 million annually, and argues that a lower amount would have political repercussions resulting from a U.S. “spoiler” role that would be so serious as to prejudice our leadership in influencing how the World Bank allocates its resources. Chancellor Kohl has also written to you (Tab C)⁴ requesting a U.S. contribution to IDA greater than \$750 million. In addition, Sir Oliver Wright, the UK Ambassador to the U.S., called on the Vice President yesterday with the same message. According to OMB’s position paper, State’s FY 85 budget figures are well over target, and an IDA VII funding increase would be at the expense of other bilateral programs (Tab D).⁵ Secretary Shultz asserts that after the Administration’s successful struggle over the IMF quota increase, it would be inconsistent to cut back our IDA contribution (annual FY 83–84 Congressional appropriations for IDA were \$945 million).

Discussion

Treasury, with strong support from OMB, argues that increasing IDA VII funding by trimming bilateral programs runs counter to Administration policy aimed at reducing funding for multilateral development institutions and expanding bilateral programs. In addition, Treasury believes that IDA’s procedures and lending rationale need streamlining to ensure that the least creditworthy recipients receive commensurate benefits, while the share of total “grant” resources going to the two major beneficiaries—India and China—are pared down to reflect their greater relative creditworthiness.

The debt crisis has heightened foreign sensitivities to U.S. fiscal and monetary policy and has complicated U.S. economic policy planning. Bearing in mind that policies aimed at reducing multilateral development aid were developed prior to the debt crisis, Secretary Shultz urges increased sensitivity to LDC financial and economic problems in considering U.S. policy on multilateral transfers. Commercial banks and beleaguered LDC governments are closely watching for changes in developed country policies. They may well overreact to a perceived softening or hardening of U.S. policy which, in turn, could

³ Not attached. The memorandum is printed as Document 303.

⁴ See footnote 6, Document 306.

⁵ Not attached. The memorandum is printed as Document 304.

have political repercussions in heavily-indebted LDC's inimical to U.S. interests. A reduction in the U.S. IDA VII contribution could also send a discouraging signal to the financial community, and target the U.S. as a scapegoat in the event of further deterioration in the ability of these countries to service their debt. Although there is no direct connection between the U.S. contribution to IDA and the alleviation of the debt burden of major debtors, the LDC's, our allies, the Democratic leadership and the press are likely to point to a \$750 million funding ceiling as a sign of the Administration turning its back on the poorest countries.

Neither State nor Treasury have a clear reading of the overall Congressional position on this issue. Treasury, however, reports that the \$750 million ceiling on IDA VII is considered to be one element of the Hill's willingness to consider the Supplemental Appropriations Bill. State's inaction on IDA VII stemming from concern over Congressional antagonism related to the IMF legislation and the debate over IDA VI, does not necessarily support Secretary Shultz's prediction of Congressional acquiescence to a \$900-950 million contribution.

Secretary Shultz argues eloquently for maintaining the U.S. contribution above \$900 million. In his view, this action also would (1) represent a tangible demonstration of our commitment to long-term stability and growth in the Third World, (2) *stimulate a multiplier effect of additional contributions from other donors*, (3) be enthusiastically received by the allies, the World Bank and LDC's, (4) avoid the U.S. being identified as the "spoiler" of other donor efforts to enhance IDA's capabilities, (5) be consistent with our approach to the IMF legislation and our lead role in the operations of the World Bank.

Treasury and OMB offer the following additional counterarguments: (1) Treasury foresees the "out year" funding problem with a higher level for IDA VII that has occurred with IDA VI, (we are still committed to coming up with the last \$150 million appropriation under that program), (2) failure to gain Congressional support for increased funding for IDA VII in FY 86 and 87 would mean the potential of renewed antagonism with our allies and the Third World in coming years, and (3) an additional \$200 million resulting from your acceptance of State's position on IDA VII would either have to come from trade-offs in other areas of foreign assistance or require relief from the currently imposed OMB targets for foreign assistance levels in FY 85 and would probably require a Budget Review Board meeting.

The U.S. delegation to the December 9 IDA VII meeting will be leaving for Paris on Wednesday,⁶ and a final U.S. position would facilitate the negotiations.

⁶ December 7.

*Alternatives:*⁷

| OK | No | |
|-------|-------|---|
| _____ | _____ | That you approve Secretary Regan's request (Tab A) and recommend a \$750 million cap on the annual U.S. contribution to IDA VII. ⁸ |
| _____ | _____ | That you approve Secretary Shultz's request for a minimum contribution of \$900 million. ⁹ |

⁷ McFarlane crossed out "Recommendation" and to the right of it wrote: "Alternatives:".

⁸ McFarlane added: "(supported by OMB, TREAS. et al.)". Reagan placed a check-mark by and initialed the "OK" option.

⁹ McFarlane wrote: "-OR-" between the alternatives and added: "(supported by State)" at the end. Reagan did not indicate his approval or disapproval of the alternative.

308. Memorandum From Donald Fortier of the National Security Council Staff to the President's Assistant for National Security Affairs (McFarlane)¹

Washington, December 8, 1983

SUBJECT

A Suggestion for Rebuilding Support for Foreign Assistance

Shortly before leaving State I recommended that a bipartisan commission be established to find ways to reconstitute public support for foreign assistance. I don't know if it was my idea that finally percolated to the top, or whether there were independent suggestions along the same line from multiple sources. In any event, it was only much later that I learned that such a commission had in fact been established.² I was not asked by State to comment either on its work program or composition. Perhaps then it is only my personal annoyance that causes me to feel that the project has not been managed in a particularly inspirational fashion. But for whatever reason I do in fact believe this is the case.

¹ Source: Reagan Library, Executive Secretariat, NSC Subject File, [Security Assistance] Foreign Aid (December 1983); NLR-753-94-6-20-0. Secret. Sent for information.

² On February 22, Shultz announced that he was creating the Commission on Foreign Security and Economic Assistance to review the government's foreign aid and military assistance programs. Carlucci chaired the Commission.

One thing is certain. We desperately need to do something about the foreign assistance problem. You know better than anyone how important such assistance is: to affect expectations, to signal support, to minimize our direct involvement, to build cadres oriented toward the West, to reduce opportunities for Soviet exploitation, to show the reversibility of Soviet gains, etc. I acutely remember my own sense of demoralization upon visiting North Yemen in 1980. Even in so small a country the Soviets were self-consciously out-training us by a ratio of about twenty to one. In Turkey, the Soviets have invested more in support for terrorism than we have in recent years on foreign aid. New intelligence out of Somalia suggests that Siad Barre is becoming so frustrated by the limitations of our assistance program that he is reconsidering the value of the broader bilateral relationship. The Somali case may be exaggerated; though it is symptomatic of what we may see in even larger form in the years ahead.

As harried policy makers we agonize constantly over tradeoffs at the margin, e.g., ten million dollars, more or less, grant or credit, Somalia or Sudan. The plain fact of the matter is, however, that the foreign assistance program has eroded steadily since the first crucial investments for peace and security were made in the wake of World War II. Those investments have paid handsome dividends over the last three decades, but new investments must be made for the years ahead. Just as a conservative Republican President was needed to reverse our relationship with China, the same may be true now with regard to the need to restructure American public opinion on the subject of foreign assistance.

Perhaps this is an issue for the first year of the second term rather than now. I believe, however, that there is no time like the present. I have recommended that the Speechwriters include a significant passage on foreign assistance in the State of the Union address. We would make the point that support for *foreign assistance is perhaps the foremost remaining requirement for restoring the conditions for a successful U.S. foreign policy.*

Words without examples will only carry us so far. Thus, I suggested some months ago that the President contemplate concrete action to drive home the rhetorical point we so frequently make—namely, that dollar for dollar, foreign assistance is as effective, and in many cases more so, than our own defense programs. *The specific idea was to identify a weapons system (or some specific percentage of the current defense budget) which the President would agree to delete, reduce or defer, but only as part of a Congressional deal to dramatically reconstitute the foreign assistance account.* My thought was that we would probably be obliged to take cuts in any event and that, possibly, by going a little further than was expected, we could get something truly significant for what we would be forced to give up. The gain would be a concrete one in terms of our security interests, and, yet because of the attachment many liberals have to the

economic portion of our economic aid program, it would be easier to sustain a bipartisan consensus for the deal. Ikle, Wohlstetter and others were struck by the idea when I first discussed it with them, although Fred of course only unofficially. Implementing the idea would of course be complex.

Maybe this is just pie-in-the-sky, but I think something of this magnitude will be required if we are really serious about facing up to the foreign assistance problem. I think it is frequently safer to fight battles in the large, rather than on regional, specific programs.

I suggest that you attempt to see Carlucci privately to sound him out on this idea. He not only would have the experience of the Commission's work behind him, but would also have important insights about how to make the idea work given the defense budget progress and associated bureaucratic politics. Bob Lilac and I will also give some thought to how we make better use of the product we do have from the Commission itself.

309. Paper Prepared in the Department of State¹

Washington, undated

MDBs are the Best Friends of LDC Private Sectors

Much criticism of the MDBs' performance is out of touch with current realities at those banks. In the early years of those institutions, their officers and many of the LDC officials with whom they were seeking to promote economic development had only limited experience with the growth process. Frequently, they found statist, planning oriented approaches very attractive. After several decades of experience with the development process, most MDB and many LDC officials have concluded that, regardless of what economic theorists may say, experience shows that market forces and private initiative produce more growth than state controls and economic planning.

The critics of the multilateral development banks (MDBs) who still allege that the MDBs encourage development of the public sector to the

¹ Source: Department of State, Bureau of Economic and Business Affairs, Office of International Finance and Development Files, Lot 86D112: ODF Chron—July. No classification marking. Drafted by Ronnie Woody (EB/IFD/ODF) on December 15, 1983. Sent under a June 13, 1984, covering memorandum from Gerald Lamberty (EB/ODF) to James Burnham, U.S. Executive Director of the World Bank which stated that it was done "some months ago." (Ibid.)

detriment of the private sector are wrong. In fact, the public sector investments sponsored by the MDBs are predominately for physical and social infrastructures, which would be provided by the public sectors in the United States and other developed countries. These investments help provide an environment supportive of and essential to the private sector.

MDB projects are also accompanied by policy prescriptions. Given the proven effectiveness of market forces and entrepreneurship in promoting economic growth, MDB prescriptions promote freer markets and incentives for private initiative. The proper policies can be as critical to the promotion of private sector development as the provision of dams, roads and other basic infrastructure. The MDBs, and particularly the World Bank Group (IBRD, IDA and IFC), are well positioned to promote such policies.

Finally, the MDBs play an important role in the development of financial markets in developing countries. Effective mobilization of domestic resources (savings and the like) is essential for a sustainable development effort. Here the MDBs stress interest rate and exchange rate policies to allow market forces to allocate capital. In 1983, for example, World Bank projects in Brazil, Ecuador, Korea and Mexico were designed to improve the flow of capital to small and medium enterprises.

Initially, MDB emphasis was primarily on physical infrastructure projects, such as roads, ports, railways and power networks. Through 1970, nearly 60 percent of World Bank loans were in the electric power and transportation sectors. In the 1970's there was some shift in emphasis, with more attention to income distribution. This resulted in more investment in social infrastructure, e.g., health facilities, drinking water and sewerage systems, education and housing sites and services. Cumulative lending for agriculture and rural development increased from 11 percent in 1970 to 25 percent in 1983, and lending for health and education increased from 3 percent to 5 percent in the same period. Here the emphasis has been on improving the productivity of the labor force, and the approach is best described as growth with equity.

The impact of the oil price increases of 1973 and 1979 forcibly brought to light the need for structural reform in many developing countries. As a response to this need, in 1980 the World Bank began a program of Structural Adjustment Loans (SALs). These loans are designed to provide balance of payments support to countries undertaking broad economic policy reform efforts. These loans have promoted reforms such as freer trade regimes, reduction and elimination of subsidies and price controls, divestment or greater autonomy and fiscal responsibility for parastatal enterprises, energy conservation and the like. The reform programs are tailored to the particular problems and capabilities of the recipients. SAL loans to Korea, Turkey, Jamaica and Thailand have assisted these countries in reform programs designed to vitalize their private sectors.

The MDBs, and particularly the World Bank, have been much more successful at promoting reforms beneficial to private sector development than bilateral donors. Borrowers respect the experience and knowledge accumulated by the MDBs, and see their advice as relatively apolitical. The MDBs further this perception by stressing the economic efficiency aspects of their policy prescriptions. Bilateral donors are often reluctant to discuss delicate policy issues because of concern that it will be detrimental to bilateral relations. Furthermore, other donor objectives—e.g., political, military or commercial—may prohibit placing primary emphasis on economic reform in the provision of bilateral assistance.

Paradoxically, in recent years private banks and companies have done more to increase the public sector's role in LDCs than to promote local private enterprise. The banks seek security for their loaned funds above all else, especially in these days of threatened massive defaults. The most secure borrowers in LDCs are their governments, and the banks lend mainly to central governments or state enterprises. In several recent debt crises the private banks encouraged LDC governments to extend greater controls over private LDC international borrowers, even to the point of nationalizing them.

Private investors from developed countries, especially the larger companies, increasingly have found LDC governments to be their most advantageous local partners or interlocutors. This is especially true in the smaller LDCs. Private LDC firms have proven much less satisfactory partners for foreign investors because of their small size and unwillingness to take a long-term approach to investments.

Conclusions

Changing policies in LDCs to make their economies more market oriented can only be successfully carried out if a government sees it as being in its own interest. However, the assistance and advice of an outside international agency can make these changes easier or more politically acceptable domestically.

The MDBs—especially the World Bank—have been the most active and successful at achieving such changes. Bilateral lenders naturally are reluctant for political reasons to seek to intervene in LDC domestic policies, and if they do make suggestions their involvement may prove counterproductive if they become the political target of interest groups opposed to the policy changes.

Private banks seek policy changes only when their loans are in danger of default and then usually only through the intervention of the IMF.

Consequently, the most effective proponents of free enterprise in the underdeveloped world in practice have been the international bureaucrats of the MDBs.

310. Memorandum From Richard Levine of the National Security Council Staff to the President's Assistant for National Security Affairs (McFarlane)¹

Washington, January 12, 1984

SUBJECT

Food Aid

In response to your request that we explore food and developmental aid options to feed the world's hungry, John Poindexter, Roger Robinson and I met. John asked that I develop terms of reference for an NSSD,² followed by an NSDD³ laying out how U.S. and Western aid programs could be improved to feed the world's hungry. This, of course, is no small undertaking. Hunger has been with us throughout history, and there is no "silver bullet" to eliminate it and its consequences. Since WWII, a complex structure of U.S. and Western programs has been built to deal with the hunger problem. Despite dramatic growth in the world's population, due in part—ironically—to better nutrition and health care, world food production has also risen dramatically due to the "green revolution" of new wonder grains.

The first step in conducting an NSC review of the developmental and food aid issue would be the codification of existing USG studies in this area. USDA, for instance, is now conducting a large study on the worldwide hunger issue. I would then set up a small, professional working-level group to establish the terms of reference for the study, leading to a formal NSSD with corresponding agency dedication to the review. Since I will be gone through the end of this month, I would begin this effort in early February with a view to issuing an NSSD 3 weeks thereafter. The completion time for the study would be 2 to 3 months.

The whole area of global hunger has actually been the subject of numerous studies, but perhaps with concerted interagency effort some fresh and relative approaches could be found. Potential strategies, however, may require increased funding.

¹ Source: Reagan Library, David Wigg Files, Unfolded, Unfolded Subject File, Food Aid. Confidential. Sent for action.

² For the text of National Security Study Directive 1-84, "U.S. Third World Hunger Relief," February 27, 1984, see *Foreign Relations*, 1981-1988, vol. XLI, Global Issues II, Document 218.

³ For the text of National Security Decision Directive 143, "U.S. Third World Hunger Relief: Emergency Assistance," July 9, 1984, see *Foreign Relations*, 1981-1988, vol. XLI, Global Issues II, Document 221.

Apart from the NSSD, there is the more immediate question of increasing food aid to those countries—principally in Africa—now experiencing a severe drought.⁴ An additional \$100–200 million in P.L. 480 would be, unlike the \$1 billion figure proposed earlier, of some real benefit to these people. However, we should realize that the current size of our food and developmental aid programs was shaped through the budget process where these issues were fought out. In most cases, the Administration selected the “high option” on these food aid funding issues. To now evince support for more food aid funding will send a very curious message to the bureaucracy and knowledgeable members of the Hill, and intensify requests from the international community. For instance, in a recent “off-the-record” conversation with USDA Under Secretary Amstutz, he expressed wonderment at the fact that we were even considering increasing food aid, given the fact that his budget requests for loan guarantees were recently trimmed by billions. I say all this not to be a spoiler; I just want to give you a full picture of the departure that a new food aid initiative would be from recent deliberations.

If the President desires to take immediate steps to combat the hunger problem, a \$100–200 million P.L. 480 program, as an FY 84 supplemental program, should be considered. This supplemental would bring our FY 84 program up to our requested FY 85 program level of \$1.7 billion. USDA might have some alternative food aid approach, such as credits, to do much the same thing. Certain OMB staffers have alternative approaches stressing greater private sector participation in concessional grain export financing. Thus, in order to speedily move ahead to address the present issue of the severe drought in Africa, I believe we should ask that the President approve our tasking the SIG–IEP to review such a P.L. 480 supplemental, or its equivalent, on a 2-week turnaround. The SIG–IEP’s report could then be considered at a BRB meeting you could convene. A complicating factor to increased P.L. 480 funding would be its impact on domestic program growth, or foreign assistance cuts when the Hill reviews it.

Messrs. Robinson and Wattering concur.

RECOMMENDATION

That you sign the attached memo to the President.⁵

⁴ For documentation on U.S. policy toward the African famine crisis, see *Foreign Relations, 1981–1988*, vol. XLI, Global Issues II, Documents 203–259.

⁵ McFarlane did not indicate his approval or disapproval of the recommendation. Attached but not printed at Tab I is the undated memorandum to the President. Attached but not printed at Tab A is an undated memorandum from McFarlane to Regan.

311. Memorandum From Secretary of State Shultz to President Reagan¹

Washington, January 30, 1984

SUBJECT

The Carlucci Commission Report on Security and Economic Assistance

You are tentatively scheduled to meet briefly on February 21 with Frank Carlucci's Commission on Security and Economic Assistance, which includes 26 members of Congress, as well as leaders from industry, labor, and private interest groups.²

The Commission was formed a year ago at my request.³ Its purposes were to review comprehensively our foreign assistance programs, to make recommendations on how we could better use our scarce resources, and to find ways to generate greater congressional and public support for these critical tools of our foreign policy. The Commission submitted its report to me last November.

The Commission's report has been thoroughly reviewed and analyzed within the State Department, AID, and other concerned agencies.⁴ Steps are already being taken to implement a number of the recommendations, including greater use of the private sector and free market forces as vehicles for social and economic development. Also, our FY 1985 foreign assistance budget request includes proposals to increase the level of concessionality in military assistance, and to begin a major new program initiative in Africa that is designed to encourage and reward countries that are making the right moves toward structural economic reform.⁵

You should be aware, however, that I do not intend to implement two of the Commission's most controversial recommendations: a major reorganization that would create a new foreign assistance coordinating agency; and establishment of an executive-legislative Consultative Group. Although we will not be implementing these recommendations,

¹ Source: Reagan Library, Executive Secretariat, NSC Subject File, Security and Economic Assistance, Commission on (Carlucci Commission) (January 1984); NLR-753-96-2-2-2. Secret.

² For the text of Shultz's remarks presenting the Commission's report to Reagan on February 21 and the text of Reagan's remarks in response, see *Public Papers: Reagan, 1984*, Book I, pp. 241-243.

³ See footnote 2, Document 308.

⁴ *The Commission on Security and Economic Assistance: A Report to the Secretary of State* (Washington, D.C., 1983).

⁵ Documentation on U.S. policy toward economic reform in Africa is scheduled for publication in *Foreign Relations*, 1981-1988, vol. XXVII, Sub-Saharan Africa.

we will be strengthening existing coordination and consultative mechanisms in ways that will be responsive to the legitimate concerns of the Commission.

A third recommendation, proposing a White House conference on foreign assistance, would better serve the Administration's interests after the fall elections and I am therefore deferring further consideration until that time.

Your meeting with the Commission members, to which the Congressional leadership has been invited, provides a valuable opportunity to strengthen bipartisan support for foreign assistance, a real need that the Commission's report has properly underscored.

312. Letter From President Reagan to the Chairman of the Independent Commission on International Development Issues (Brandt)¹

Washington, April 17, 1984

Dear Mr. Chairman:

I am writing to thank you, Edward Heath and Shridath Ramphal for your recent letter on the seventh replenishment of the International Development Association (IDA VII).² I was pleased to hear that an agreement was reached by the IDA Deputies on January 14, and hope that the Executive Directors of the World Bank will soon forward the resolution to their Governors for approval.

I was asked to review the United States contribution to IDA VII before the meeting of the IDA Deputies in Paris last December.³ I concluded that the level of \$750 million per annum proposed by the U.S. Deputy in Tokyo last July would preserve the role of IDA in the poorest countries and allow IDA to continue to make a significant contribution to development, especially if the funds were concentrated on those countries with limited access to alternative financing and used to encourage the pursuit of effective economic policies.

¹ Source: Reagan Library, Roger Robinson Files, Subject File, International Finance: 04/02/1984–04/23/1984. No classification marking.

² The letter, dated March 1984, is attached but not printed. The letter asked Reagan to reconsider his "earlier decision on behalf of the US not to subscribe to IDA replenishment at a level favoured by all other donors."

³ See Document 307.

As you know, the IDA VII program is scheduled to begin in July this year. Given this tight schedule, I think our top priority should be to ensure that the IDA VII resolution is adopted as soon as possible to prevent any disruption in IDA's lending program. In January, the Deputies endorsed a Canadian recommendation that the IDA VII program be reviewed in eighteen months. I assure you that the United States will approach that review with an open mind and will work constructively with other members to assess the effectiveness of the IDA program.

Should you wish to discuss the issue further, George Shultz and Don Regan would be able to meet with you at a mutually convenient opportunity.

Sincerely,

Ronald Reagan

313. Memorandum From the Under Secretary of State for Security Assistance, Science and Technology (Schneider) and the Administrator of the United States Agency for International Development (McPherson) to Secretary of State Shultz¹

Washington, undated

SUBJECT

NSC's Unilateral Decisions on Foreign Aid

During the past month, the NSC has twice presented us with decisions on the foreign aid budget. They have decided we would abandon conditions on disbursement of ESF funds for Honduras² (see attached on Honduras),³ and they have decided we would provide an additional \$20 million of FY 1985 money for Jamaica.⁴ In neither case did they

¹ Source: Department of State, Executive Secretariat, S/S-I Records, The Executive Secretariat's Special Caption Documents, Lot 92D630: Not for the System—June 1984. Confidential; Not for the System. The stamped date of June 14, 1984, 7:26 p.m., appears at the top of the memorandum. A stamped notation reading "GPS" appears on the memorandum, indicating Shultz saw it. An unknown hand wrote "Action" at the top of the memorandum. Covey also initialed the memorandum and wrote "6/15."

² Shultz underlined "Honduras."

³ Not attached.

⁴ Shultz underlined "Jamaica."

consider the position of the Department or AID on the issues or on recommendations for action.

We recognize that the NSC feels the pressure to make quick decisions that will have short term political payoff. In making such decisions, however, they are not considering the damage that will be done to other policy objectives, both short term (e.g., loss of commercial lending possibilities) and long term (e.g., future U.S. financial liabilities and the ability to achieve meaningful economic reform). Over the last four years this Administration has developed an integrated budget process which takes account of these considerations on a country-specific basis as well as in the broader context of worldwide priorities. This process has worked well. Abandoning it now for short term political gains, driven in part by state visits—or by regional bureaus dealing directly with the NSC in support of their parochial interests—can only lead to a weakening or collapse of our overall program of economic reform and will do away with the discipline of thoughtfully applying scarce resources to strategic foreign policy priorities and objectives that we have worked so hard to establish. Should the NSC take the next logical step and begin ordering reprogrammings, we will be solving one set of problems only to create others that may be more severe (a step that we heard was being considered on another issue last week).

In the Honduras case, NSC sent a paper to the President which requested decisions on foreign aid allocations without our knowledge and without including our views. When McPherson called Poindexter, he was told the NSC has the right to take any matter to the President without interested Agency input, including decision memos, and to decide how that matter will be presented. We believe this approach is a disservice to you and to the President, as well as to the established budget process. When decision memos go to the President, our position should be known.

Recommendation: That you call Bud McFarlane (and, depending on the outcome of that call, the President if necessary), stressing the importance of making foreign aid decisions in the context of not only political considerations, but broader foreign and economic policy considerations as well. In this regard, Regional Assistant Secretaries *do not* have authority to speak for the Department.⁵ (Attached are suggested talking points for your call.)⁶

⁵ Shultz wrote “done” in the margin below this recommendation.

⁶ Attached but not printed.

314. Memorandum for the Files¹

Washington, June 28, 1984

SUBJECT

State/Treasury Lunch, June 28

[Omitted here is discussion unrelated to IMF/IBRD relations.]

5. *IMF/IBRD Relations.* Since the Summit declared that there should be improved cooperation between the World Bank and the IMF,² the question was raised as to how this might be brought about. Sprinkel and Mulford said that they would object strongly to general development grants being made by the World Bank, and that the grants should be project-oriented. McCormack pointed out that many world bank projects are, at the very best, useless, and Sprinkel and Mulford both agreed. Wallis then asked how the Treasury felt about the African economic initiative and, since the Treasury people seemed to know little if anything about it, described it as a plan to provide money to help countries shift to sound market-oriented policies. He then cited as an example of the kind of thing that might be done the dilemma of the President-elect of Ecuador. Ecuador subsidizes gasoline so that it sells at thirty-five cents per gallon. Doubling the price would eliminate the government deficit, and tripling would be required to attain a market price. If the President does not act promptly after his Inauguration, probably he will not be able to act at all, or at least not go far enough. If he immediately doubles the price of gasoline, quite apart from organized political dissent, there will be numerous cases of genuine hardship. If funds were available, they could smooth over the hardship and facilitate adjustment to the new price. Sprinkel and Mulford agreed that this would be a good use of World Bank funds. In general, the upshot of this discussion seemed to indicate agreement between State and Treasury.

Allen Wallis³

¹ Source: Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987–1987, Lot 89D378: Memoranda for the Files, 1983–1986. Confidential.

² The London Economic Summit took place June 7–9. Documentation on the Summit is in the International Debt compilation of this volume.

³ Wallis initialed “AW” above his typed signature.

315. Letter From Secretary of State Shultz to the United States Trade Representative (Brock)¹

Washington, July 2, 1984

Dear Bill:

I am writing to seek your support for reducing the duty on sugar from its present statutory maximum rate of 2.812 cents per pound to the minimum rate of 0.625 cents.

This Administration's commitment to reduce trade barriers argues against maintaining the statutory maximum duty while we also maintain a system of quantitative import restraints on sugar. As you know, the present duty level plays no role in defending the domestic sugar price support system as long as quotas are in place. Moreover, almost 68 percent of our sugar imports are already entering duty free under the provisions of our Generalized System of Preferences (GSP) and the Caribbean Basin Economic Recovery Act (CBERA). However, important trading partners, such as Brazil and the Philippines, are required to absorb the higher duty level, reducing their earnings from an export commodity of considerable importance to their balance of payments positions. Consequently, this would help to remove an irritant in our trade relations with these important countries.

I hope you will agree that it is now time to redress the situation to the extent possible under the law and to reduce our sugar tariff.

I look forward to your support in this effort.

Sincerely yours,

George P. Shultz²

¹ Source: Reagan Library, George Shultz Papers, Official Memoranda (06/27/1984). Confidential. Drafted by Charles Reynolds (EB/OFP/TRP).

² Shultz signed "George" above his typed signature.

316. Memorandum From Douglas McMinn of the National Security Council Staff to the President's Assistant for National Security Affairs (McFarlane)¹

Washington, August 23, 1984

SUBJECT

Copper Import Relief

Issue

Based on a petition by our domestic copper producers, the United States International Trade Commission (USITC) has found that copper imports are injuring U.S. producers. However, the five USITC Commissioners split three ways in recommending relief to the President:

- Two voted for a *tariff* of five cents per pound for five years;
- Two voted for a *quota* of 386,000 metric tons for five years; and
- One voted *against giving any relief*.

Our copper producers, for their part, want the U.S. to negotiate *production restraints with foreign suppliers*, i.e., establish a production cartel through orderly marketing agreements (OMA).

The President must, by law, make *a decision in this case by September 14*.²

As you know, the President has the discretion to decide whether the recommendations of the USITC are in the overall national interest. He has the flexibility to grant no relief or to change the USITC recommendations. Ultimately, the key element in reaching a decision is *the weight placed on the overall economic interest of the United States versus the specific interests of our copper producers*.

U.S. Copper Industry

Demand for domestic copper is cyclical and currently depressed. Between 1979 and 1983, copper consumption in the U.S. declined from

¹ Source: Reagan Library, Douglas McMinn Files, Subject Files, Copper; NLR-369-2-17-1-1. Confidential. Sent for action. A stamped notation reads: "RCM Has Seen." Copies were sent to Fortier, Levine, and Robinson.

² A September 5 memorandum from Brock to Reagan presented three options: "Option 1: Provide import relief in the form of: (a) tariff increase of 5 cents/lb. for 5 years; or (b) a 5-year annual import quota of 425,000 short tons; Option 2: Negotiate voluntary production restraints either: (a) in the context of orderly marketing agreements under Section 203; or (b) outside Section 203 pursuant to your inherent Constitutional authority; Option 3: Provide no relief (recommended)." There was no indication of Reagan's approval or disapproval of Option 3. (Reagan Library, Douglas McMinn Files, Subject Files, Copper; NLR-369-2-19-2-8)

2.4 million tons to 2.0 million tons. To add to the problems of U.S. producers, imports during this same period rose from 9.4 percent of consumption to 25.7 percent. As a result, U.S. capacity utilization fell from 78 percent to 58 percent. Employment, concentrated primarily in Arizona and Utah, has fallen in recent months to an estimated 23,000 workers—down from approximately 45,000 in 1979.

Although further U.S. and world economic expansion will undoubtedly help our copper producers, we will continue to have higher costs than leading foreign producers because of higher U.S. labor costs and lower U.S. ore grades. U.S. copper producers, themselves, admit that even after making large investments to increase efficiency, they will not be able to produce copper as cheaply as Chile, our largest foreign supplier. Other than from Chile, U.S. imports of copper come mainly from Canada, Peru, Zaire and Zambia.

The U.S. copper industry is also made up of about 200 companies involved in the production of copper fabricated products. Employment in the fabricating sector is *about five times* greater than the producing segment (approximately 115,000 workers). These “fabricators” are adamantly *opposed* to the imposition of any import relief under our trade law. Restrictions on imported copper could create a two-tiered price for copper. This would put U.S. copper fabricators at a substantial disadvantage relative to their foreign competitors.

Imports of fabricated products do not present an unusual problem to U.S. fabricators so long as domestic and world prices of refined copper remain in relative balance. However, if domestic prices exceed world prices, U.S. fabricators lose market share to imports.

U.S. fabricators are not opposed to government-to-government negotiations aimed at restraining foreign production levels, *provided that they are conducted outside of the pending Section 201 case on copper*. They do not want negotiations (OMAs) under Section 201 because if negotiated production restraints were unsuccessful, the law requires that import restrictions be automatically applied. This would create the two-tiered price system the fabricators want to avoid.

Attached at Tab A is a table prepared by CEA³ which lays out the economic and political conditions of the key copper producing and fabricating states.

Domestic and International Considerations of Relief

◦ Granting of relief is protectionist and could create the opportunity for foreign claims for compensation or retaliation.

³ Attached but not printed is the table entitled “Copper Producers and Fabricators Summary Data.”

◦ Relief would also run contrary to the stated position of the President supporting trade liberalization and freer trade.

◦ Any effective tariff or quota relief granted to the U.S. producers could harm U.S. fabricators who employ five times the number of workers found in the producing sector.

◦ Negotiated production cutbacks (via OMAs) have the potential for aiding U.S. producers.

— Indications are, however, that Chile *would not* be prepared to negotiate such an agreement with a gun at its head.

— If negotiations were unsuccessful, the President would be required to impose tariffs or quotas.

— This would harm our own copper fabricators by creating a two-tier price system.

◦ Whatever adjustment to increased efficiency the U.S. producers would make during a relief period would still not enable them to produce copper as cheaply as Chile, our largest foreign supplier.

◦ The politics seem to weigh heavily against relief (see Attachment A).

◦ Relief would hit debt-ridden developing countries very hard.

— LDCs such as Chile, Peru and Zaire earn critical foreign exchange through copper exports.

◦ Relief would harm our bilateral relations with Chile and could lead to greater domestic political instability in that country. This has been a front-page issue in Chile for weeks and is viewed as a major test of our relationship.

RECOMMENDATION

In this import relief case, I believe the overall economic interest of the United States far outweighs the case for protection. Moreover, there is no overriding political imperative for relief. The NSC's position should be to recommend to the President that he decide *against* granting any import relief for U.S. copper producers.⁴

State, Treasury, Commerce, OMB, USTR and CEA all support the no relief option.

Messrs. Burghardt and Wettering concur.

⁴ An unknown hand indicated approval of the recommendation and wrote "See profs" below the recommendation. In an August 28 PROFS note, McFarlane wrote: "I have seen Doug McMinn's paper on copper and agree with it. When I met with Regan and Shultz in Dallas we agreed that it might present satisfactory window dressing for someone (STR) to go traipsing around to the two or three leading producers to see if we could negotiate *vra's* for a while. If not *vra's* then at least to 'gather information' which would be a guise for letting the producers let off steam (a smokescreen for us) for a couple of months. I'm not sure that is viable but Doug might listen to any such ideas sympathetically." (Reagan Library, Douglas McMinn Files, Subject Files, Copper; NLR-369-2-17-2-0)

317. Memorandum From the Under Secretary of State for Economic Affairs (Wallis) to Secretary of State Shultz¹

Washington, September 7, 1984

SUBJECT

Next Round on the International Coffee Agreement

As we prepare for the meetings in just over a week of the Council of the International Coffee Organization,² we have a revived and aggravated problem of what to do about the anti-market character of that organization. The global quota increase that we successfully pressed for last year, in line with your decision, was not big enough; the price of coffee has risen artificially this year from around \$1.25 a pound to the range of \$1.40 to \$1.55, while inventories continue to pile up in the producing countries. That directly threatens the long-term viability of the agreement. Moreover, the consequent spread between the prices of coffee sold to member countries and that sold to non-members has opened to about 60 cents a pound, violating the agreement. Furthermore, membership in what is becoming a market-rigging cartel is contrary to general Administration policy. The ICA is supposed simply to smooth adjustments to market trends.

Under these circumstances, we should be working to prevent a buildup of costs and problems like those in United States and EC farm programs, with a possible eventual collapse of the agreement. To that end, we should try more forcefully than before to shape its operation in the direction of a genuine stabilization agreement. To move in that direction will take firmness and persistence, despite your encouragement in this direction last year, because of opposition in the State Department, in other agencies, and in other governments.

A move in the right direction will mean that the global quota would have to be enlarged enough to allow the price of coffee to settle back down around its free market price of about \$1.20 ± .07. Because some people in the government want to funnel money into Central America by all possible means, this proposal will raise passionate objections and has already led to misrepresentation of the facts. Central America gets very little out of the restrictive practices of the Coffee Agreement. Even

¹ Source: Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987–1987, Lot 89D378: Chron File August 22, 1984–October 30, 1984. Confidential.

² The 42nd session of the International Coffee Council took place September 17–30 in London.

if a quota increase were to lower total coffee export earnings, at most about 12 percent of the change would fall on friendly Central American countries (and they might still gain revenues, if Brazil continues to fall short of its quota). Furthermore, a quota increase will not necessarily lower total coffee export earnings; if it does lower them, the loss will be considerably smaller than the estimates coming out of EB. A number of attempts to estimate the elasticity of demand for coffee have produced numbers that scatter around -1 to -2 for the first-year effect, and around $-.3$ to $-.7$ for the longer term effect. (The short-run effect is more elastic because of inventory changes, which we cannot separate from actual consumption. The estimates do not have high confidence.) If these numbers are correct, the earnings of coffee exporters would remain the same or *increase* in the first year of a quota increase, and then would eventually slip down to an earnings reduction around half the numbers EB gets (they assumed a fixed quantity of exports, ignoring the increases that would accompany lower prices). The billion dollars or so that the present price costs coffee consumers (in lost real income, not in expenditures, because of the demand elasticity) translates into a much smaller figure of net gain to coffee producers. Some of it is tied up in inventory accumulation, and some lost in carrying costs of inventory. It goes to friendly and unfriendly countries alike, allocated in a way that has no relation to our foreign policy objectives.

A large quota increase, moving to something like a free coffee market in the mid-range of prices, would eliminate the gap between member coffee and non-member coffee, and would on the average end the buildup of inventories. The bureaus and some other government agencies want to err on the side of too small a quota increase, when there is uncertainty, whereas the right way to go is to err on the side of making it too large. That error would not threaten the safety-net operation of the agreement at exceptionally low prices and would not impair coffee exporter revenues compared to a free market situation.

With all that in mind I think that the United States delegate to the Coffee Council should make a somewhat firmer statement about the long-term viability of the agreement than he did last year. (Then he said that the price discount for non-agreement coffee "threatens the smooth functioning of the agreement as well as the continued participation of existing members . . .") We should step it up a notch so that they notice. Reflecting last year's underestimate of the quota increase needed to prevent a price run-up, we should get a quota increase of at least two million bags above present levels. (USTR and the bureaus here want to settle for 58.2 million bags, an increase of two million over the quota that was in effect at the beginning of this coffee year, but a reduction of one million below the present level.)

We should press also for a more consumer-oriented, economic approach to setting export quotas for individual countries, rather than letting the dominant producer countries use the process for their own purposes, as they do now. This point, however, is one that in the negotiating process we might trade for a sufficient increase in the global quota; economically the global quota is what matters.

To support this position and to follow it up, we should engage in immediate and continuing persuasion of the producer countries that what we propose is in their own long-run best interests. We should emphasize that more elaborate attempts at market rigging (limits on production, controls on sales to non-member countries, etc.) are not the right way to go and the United States will not participate in them. We also need to do some persuading in the United States government, especially if failure to make progress on reshaping its operation forces us to think in terms of withdrawing from the agreement sometime later.

You may want to look over the memo that EB and the bureaus prepared,³ although it is too long, technical, and contentious to be worth much of your time. If you agree with my general approach, I will have to move quickly to press our position with other agencies (relying primarily, as before, on Martin Bailey to work with EB on follow-through) to get a timely resolution of interagency differences. It will, of course, be especially important in this case that they know that you have been briefed on the issue and are behind what I am doing.

RECOMMENDATION:

That you authorize me to work with other agencies to develop a United States position along the lines outlined above.⁴

Allen Wallis⁵

³ A copy of this proposed memorandum, dated August 31, attached but not printed, is also in the Reagan Library, George Shultz Papers, Official Memoranda (09/12/1984); NLR-775-49-72-2-7.

⁴ Shultz did not indicate approval or disapproval of the recommendation.

⁵ Wallis initialed "AW" above his typed signature. Attachment A, "The Demand Function and the Market Price of Coffee," is also attached but not printed.

318. Action Memorandum From the Assistant Secretary of State for Inter-American Affairs (Motley), the Acting Assistant Secretary of State for African Affairs (Wisner), and the Assistant Secretary of State for East Asian and Pacific Affairs (Wolfowitz) to Secretary of State Shultz¹

Washington, September 7, 1984

SUBJECT

Coffee

ISSUE FOR DECISION:

What is the U.S. position to be at the upcoming meeting of the International Coffee Organization?

BACKGROUND:

You have received separately a memorandum from Under Secretary Wallis² proposing a stronger position for the upcoming meetings of the International Coffee Organization than the present staff-level interagency consensus. The key recommendation is that the U.S. "get a quota increase of at least two million bags above present levels". (E's memo is unclear, however, as to the base from which the two million bag quota increase is calculated.)

We agree that the US delegation should seek a major increase in the global quota. The present interagency consensus is that the initial U.S. negotiating position is to seek a global quota of 60.2 million bags, which is four million above the initial quota in 1983, and is the current level of allocation after four price-triggered quota increases this year. We agree with this position.

It is our judgement that E's position is not achievable, and that U.S. inflexibility would result in a deadlocked meeting. This would lead in three months time to a suspension of quotas, which would in effect kill the ICA. E apparently believes (see the last paragraph in attachment A to E's memo)³ that suspension of quotas is a worthy objective; we strongly disagree.

¹ Source: Reagan Library, George Shultz Papers, Official Memoranda (09/10/1984); NLR-775-49-70-4-7. Confidential. Sent through Armacost. Drafted by Janina Slattery (ARA/ECP); cleared in AF/EPS, EAP/EP, EAP and ARA. Slattery initialed for Wisner and Wolfowitz and initialed for all the clearing officials. A stamped notation reading "GPS" appears on the memorandum, indicating Shultz saw it. Covey initialed the memorandum and wrote "9/7" and "9/10."

² See Document 317.

³ See footnote 5, Document 317.

ESSENTIAL FACTORS:

Although there are a number of analytical and technical points in E's memo with which we disagree, we concur with the major elements of the analysis—1) that we have an interest in improving the functioning of the agreement so that it is more genuinely a stabilization agreement, and 2) that it is in the long-run interest of the producer countries to have a coffee agreement which reflects the market rather than tries to raise prices to artificial and unsustainable levels.

Our major differences with the Wallis analysis are 1) that we strongly believe we can best pursue these goals by remaining within the agreement, even if that requires some short-term compromises and 2) that a dissolution of the agreement at this time would have unacceptable costs both politically and economically—that would be particularly the case if the U.S. were perceived as the cause of the break-up of the agreement.

In making your decision we urge you to keep the following factors in mind:

— Commodity exports, including coffee, are an essential component of several fragile economic adjustment programs and debt servicing schemes. If the changes we seek in the operation of the ICO result in significantly lower revenues, there would be an enormous economic impact on coffee-exporting countries. Brazil, the major exporter, would be hurt the most in absolute terms, although other countries in Latin America and Africa are even more dependent on coffee exports.

— ARA is particularly concerned about the impact on Central America, where our support for decreases in coffee prices will be seen as contradictory to our political and economic commitments to the region, especially if that support extends to a willingness to bring down that agreement if we do not get our way. President Reagan's commitment to President Suazo of Honduras to work within the agreement for expanded Honduran shipments is a case in point. With more than half its countries members of the ICA, AF is similarly concerned about the impact on Africa at the time of its worst economic crisis.

— The demise of the ICO would not necessarily bring in a free market, but some sort of producers cartel would likely emerge. Seventy-three countries presently belong to the ICA, and the U.S. has been a member of the ICO for more than twenty years. The U.S. coffee industry actively supports U.S. participation in the ICO and believes that it serves its interests by helping to stabilize the often-chaotic market.

RECOMMENDATION:

That the U.S. Delegation seek improvements in the functioning of the International Coffee Agreement, including a significant quota increase as proposed by Under Secretary Wallis; however, that the Delegation be given sufficient flexibility to join in a compromise for

a quota not less than 58.2 million bags (the present staff-level inter-agency consensus) if this is necessary to continue the operation of the Agreement; and, that there is no implicit threat that we shall leave the agreement if we do not obtain our maximum position.⁴

⁴Dam disapproved the recommendation on September 11.

319. Letter From Secretary of State Shultz to Secretary of the Treasury Regan¹

Washington, September 12, 1984

Dear Don:

In our preparation for the upcoming meeting of the International Coffee Organization,² I have been struck by the fact that coffee prices have risen sharply above the middle of the agreed price range over the past year. This rise occurred despite four quota increases, ample crops and large inventories of unsold coffee. These circumstances are a clear indication that the International Coffee Agreement (ICA) is not serving its purpose of encouraging orderly adjustments to market trends, but instead is becoming *de facto* a price support device. As a further indication, non-member countries can buy coffee at 60 cents a pound less than the price member countries pay. Unless these tendencies are reversed, the ICA, like many price support arrangements, will face eventual collapse. These developments are contrary to our international economic policy.

The current draft delegation instructions proposed to the Trade Policy Staff Committee for this meeting do not, in my view, direct the delegation to take a position that would effectively bring prices back toward the midpoint of an agreed price range. The current quota level is 60.2 million bags and prices remain above the upper end of the price range. The draft TPSC instruction authorizes the delegation to accept a quota as small as 58.2 million bags. A quota at this level would not deal with the above problems, and in fact might worsen them. I am asking your support for an instruction directing our delegation to insist that

¹ Source: Reagan Library, Douglas McMinn Files, Subject Files, Coffee Agreement. No classification marking.

² See footnote 2, Document 317.

the new quota exceed 60.2 million bags. This means that the delegation will need to begin at a figure well above 60 million bags.

I believe that this position is in accordance with the price stabilization objectives of the ICA, will serve the interests of our consumers and promote increased stability in the coffee market by increasing exports and reducing the accumulation of stocks. A badly managed ICA would eventually collapse. Although many producers will resist a sizable quota increase, I believe we can credibly argue that they share with us a common interest in long-run stability of the market price of coffee.

Sincerely,

George P. Shultz³

³ Shultz signed "George" above his typed signature.

320. Memorandum From Douglas McMinn of the National Security Council Staff to the President's Assistant for National Security Affairs (McFarlane)¹

Washington, September 13, 1984

SUBJECT

Reduction of the U.S. Sugar Import Quota for Fiscal Year 1985

Under our congressionally legislated sugar program, the U.S. Government must set the size of its import quota each fiscal year. The real purpose of the quota is to defend/maintain the domestic price for sugar at a level high enough to avoid Federal Government purchases of sugar. This level is known as the market stabilization price (MSP). The MSP for FY 1985 is 21.57 cents per pound.

Essentially, three factors affect our ability to maintain the MSP:

- U.S. domestic production of sugar;
- U.S. domestic use (consumption) of sugar; and
- Imports of foreign sugar.

In FY 1985, U.S. production will be up and consumption down. As a result of this, *our FY 85 import quota is to be reduced by 400,000 short tons*

¹ Source: Reagan Library, Douglas McMinn Files, Subject Files, Sugar; NLR-369-8-9-1-4. Confidential. Sent for information. Copies were sent to Wettering, Laux, Childress, North, and Tillman.

of sugar over last year. This reduction is necessary in order to ensure that the domestic price of sugar remains at or above the MSP of 21.57 cents per pound.

A reduction in the import quota will mean a loss in export earnings to a number of important developing countries, including the Dominican Republic, Brazil, the Philippines, Honduras, El Salvador, Colombia, Costa Rica, Panama and Guatemala.

Agriculture must announce the FY 1985 quota by September 15. Therefore, Agriculture is planning a release for *tomorrow, Friday, September 14*,² after the commodity markets close (3:00 p.m.). The 400,000 short ton reduction in this year's quota has been agreed to by State, Agriculture, OMB, Commerce, CEA, Treasury and USTR, based on a review of production and usage forecasts.

Needless to say, our sugar program is a terrible piece of public policy arrived at solely on the basis of domestic politics. It is enormously expensive to U.S. consumers, is highly protectionist and adversely affects some of our most important and needy foreign partners. While there is little we can do immediately to change our sugar program, the Farm Bill will come up in 1985 and we have an opportunity in that context to try to improve the current program.

² On September 14, the Department of Agriculture announced a new sugar import quota of 2.55 million tons for fiscal year 1984–1985.

321. Letter From Secretary of State Shultz to the Director of the Office of Management and Budget (Stockman)¹

Washington, September 19, 1984

Dear Dave,

I am pleased to submit the FY 1986 integrated foreign assistance budget for your consideration and for the consideration of the President. (See Enclosure 1 for a detailed country program breakdown of the request.)²

¹ Source: Reagan Library, George Shultz Papers, Official Memoranda (09/19/1984); NLR-775-49-81-4-5. Confidential. Cleared in USAID, DOD, USDA, EAP, AF, EUR, NEA, ARA, IO, EB, and PM.

² Enclosure 1, "FY 1986 Foreign Assistance Request Levels," is attached but not printed.

As in the past three years, budget requests from the various foreign assistance agencies have been integrated into a single set of recommendations designed to maximize our ability to achieve critical foreign policy, national security and international development objectives. This year's submission has been coordinated with, and is supported by, the various foreign assistance agencies, including State, AID, Agriculture, Treasury (with regard to the MDBs), the Peace Corps and the African Development Foundation. With the exception of the levels shown herein for Turkey, the Defense Department also concurs with this submission. (For Turkey, DOD supports total levels of \$1,069 million rather than the \$939 million shown in our submission.) With this exception, all agencies agree that the 1986 request levels are the minimum necessary to carry out the President's foreign policy and are consistent with recommendations of the Carlucci and Kissinger Commissions.³ At the same time all concerned recognize the need to apply scarce budget resources to the highest priority activities.

Overall, the FY 1986 request reflects an 8.5 percent increase over the President's FY 1985 budget, net of assistance levels for Israel and Egypt. (See Enclosure 2.)⁴ Percentage increases for economic assistance (up 10.6 percent) are greater than for military assistance (up 4.2 percent) and reflect our growing concern for the economic problems that continue to face many of our friends and allies. We have been able to hold down aggregate military assistance increases by increasing grant and concessional lending, thus limiting the more burdensome Treasury rate lending. Again, we believe that this is consistent with the Administration's concern for the difficulties facing many of our strategically important partners in the management of their debt service obligations.

There are several aspects of the FY 1986 submission that require special attention.

1. *FY 1985 CR*—Since we have no FY 1985 regular appropriation bill and will be operating once again under a continuing resolution, we will have to await the results of the CR process to determine whether FY 1985 supplementals will be necessary or whether changes will be required in our FY 1986 request.

2. *Turkey*—The results of the FY 1985 CR, along with the current discussions at the United Nations, may require another look at our FY 1986 request levels for Turkey. Our current FY 1986 request

³ For information on the Carlucci Commission, see Document 311. Kissinger chaired the National Bipartisan Commission on Central America, which submitted its final report to Reagan on January 10.

⁴ Enclosure 2, "FY 1984–FY 1986 Foreign Assistance Comparison," is attached but not printed.

is based upon the assumption that Congress may hold 1985 Turkish aid levels close to those provided in 1984 (even though Turkey's real needs in our view would require a larger amount), and that the continuing problems on Cyprus make it unrealistic to ask Congress for major increases in 1986. If Congress cuts 1985 levels to below those of 1984 or if significant progress is being made on the Cyprus question, we will have to reassess what would constitute an appropriate aid request for this important NATO ally that also plays a key role in our Southwest Asia strategy.

3. *Israel and Egypt*—The attached tables do not include proposed aid levels for Israel and Egypt, the two largest recipients of foreign assistance. We believe it is mandatory that we have an understanding with the Israelis on our aid package and we will be working closely with them over the next several weeks in an attempt to reach such an agreement. At that time, we will need to pin down the related Egyptian aid levels. It is imperative that we not lock ourselves in too early in this process to projected assistance levels that are based upon hypotheses rather than negotiations and known facts. Therefore, at a later stage of the budget process we will be proposing specific levels for these two countries. We ask that you bear with us on this question and that you not use plug numbers as you conduct your budget analysis, since such figures tend to take on a life of their own and are difficult to modify later.

4. *Philippines Base Rights*—The results of the CR process and the NSSD exercise now underway may also affect the levels and mix of our Philippines proposal. The estimate herein reflects current policy to fulfill our base rights commitment.

5. *Andes Initiative*—The budget proposal contains a new initiative, designed to counter increasingly serious instability in the Andean region of Bolivia, Peru and Ecuador. To date, American foreign assistance resources have not been adequate for the difficulties—and the opportunities—we face in the Andes. Peru has a dangerous Soviet military presence, suffers from a virulent Marxist insurgency and is in the throes of its worst economic crisis in a century. In Bolivia, the Communist Party is part of the government and the country is in total economic disarray. Ecuador has a new government that wants to break the statist mold which has plagued economic growth in Latin America. Also important, the Andean region is the source of most of the cocaine entering the United States. Our FY 1986 proposal would show support for three embattled democracies and give us the wherewithal to begin to erode Soviet/Marxist gains in the region, help to preserve elected governments favorably disposed to the United States, and encourage more responsible economic and narcotics policies.

6. *Central America*—Continuation of the Central America Peace and Democracy Initiative is reflected in the request and is consistent with the recommendations of the Kissinger Commission and the Administration's five year plan.

7. *Africa*—A number of small but important new programs and program enhancements are included, in particular the second year of funding for the Economic Policy Initiative and additional assistance to Mozambique, a country that has been instrumental in our efforts to bring peace and stability to Southern Africa.

8. *PL-480*—We have made a conscious effort to hold down increases in ESF by providing additional amounts of PL-480 where possible, PL-480 being a much easier resource to get appropriated. The PL-480 Title I reserve has been increased above normal levels in order to accommodate up to \$50 million for the Philippines, funding which would be made available if an agreement on agricultural reform can be reached with the GOP. Rather than tipping our hand on possible levels, we prefer to leave the amount in the reserve and not show it as a country allocation. Similarly, we anticipate the possibility of being in need of Title I resources in order to engage in economic reform discussions with Nigeria.

9. *IO & P*—Our request shows a sizable increase in voluntary contributions to international organizations over the 1985 request level. This set of programs, popular on the Hill, continues to receive appropriations in excess of our request, often at the expense of other foreign assistance activities. We believe that if we continue to make unrealistically low IO & P requests, we will receive appropriations in excess of those shown in the attached table. By going forward with the more reasonable and programmatically justifiable level we are now proposing, we believe we can avoid excess appropriations and protect our other programs.

10. *IFAD*—If the replenishment negotiations for IFAD that are now under way prove successful, we will be requesting up to an additional \$50 million as the first installment on the second IFAD replenishment. Since the outcome of these negotiations is highly uncertain, we have not requested the funding at this time.

11. *Peace Corps*—The Peace Corps request reflects a continuation of the base program, a small number of new country starts, continuation of Jackson Plan levels and a major new food initiative in Africa.⁵ This

⁵ A reference to the recommendations of the National Bipartisan Commission on Central America, chaired by Kissinger. In a January 14 radio address on the Commission's recommendations, Reagan called the Central American initiative the "Jackson plan" for the late Senator Henry Jackson. For the text of Reagan's address, see *Public Papers: Reagan, 1984*, Book I, pp. 38–39.

popular program is an important contributor to the achievement of our overall foreign objectives.

In addition to the enclosed materials, Under Secretary Schneider's office and the various foreign assistance agencies will be providing you and your staff with additional justifications, back-up information and technical data. I look forward to working with you over the next several weeks as you develop the President's FY 1986 Budget.

Sincerely yours,

George P. Shultz⁶

⁶Shultz signed "George" above his typed signature.

322. Memorandum From David Wigg of the National Security Council Staff to the President's Assistant for National Security Affairs (McFarlane)¹

Washington, September 25, 1984

SUBJECT

Can We Develop More Effective Ways to Fund U.S. "Policy-Sensitive" Exports, to Better Focus Financial Assistance to Friends and to Better Administer Aggregate Financial Assistance Abroad?

The frustrations of dealing with Eximbank, AID, State, OMB, Treasury, etc., in attempting to gain various types of financial assistance for key allies—particularly in cases involving support to broader, critical foreign policy objectives—are known to all of us. Indeed, even the President expressed his frustration with the process when, after approving the recent \$50 million aid package for Honduras, he wrote: "there must be a less painful way to help our friends."² The President's comment could serve as an imprimatur for us to attempt to streamline and sensitize our aid and export-financing operations, to provide better, more timely support as an often critical element of U.S. foreign policy.

Our time-consuming efforts to broker such matters in the SIG-IEP, the endless parrying with Treasury, and the recent formation of the Ad

¹ Source: Reagan Library, Roger Robinson Files, Subject File, SIG-IEP Meetings 03/01/1985-03/08/1985; NLR-487-6-21-6-6. Confidential. Sent for action.

² Reference not found.

Hoc Group chaired by Bill Schneider,³ are all merely “band-aid” palliatives serving to help us limp along from crisis to crisis.

Make no mistake, poor economic conditions in a great many LDC’s—including a number of our allied “front-line” states—will continue to serve as a focus of socioeconomic/political crisis for the remainder of this decade and perhaps much longer. We can ill-afford the often misdirected, wrenching, time-consuming process of “breaking loose” funding if we are to keep friendly democracies from foundering, compete head-to-head with Soviet/Cuban assistance and compete with other OECD export credit programs. As indicated in Walt Raymond’s recent memo to you, Grenada serves as an example of AID incompetence and delay in a country that is virtually under a global microscope.⁴ Unfortunately, many other LDC governments are forming impressions of U.S. actions and follow-through on financial and economic assistance to Grenada.

Recent examples of Eximbank actions inimical to U.S. policy interests are numerous, including the Bank’s general lack of interest in Central America, resistance to finance Iraqi oil pipeline projects, Exim’s decision to fund Gulf-Angola over the objections of the NSC, and “stone-walling” the foreign policy community on Egypt’s planned El Dabaa nuclear plant. These problems extend to CCC and PL-480 programs, Treasury’s ESF bridging loans and occasionally even FMS.

I suggest we undertake, over the next few months, an internal NSC analysis of existing aid/credit programs, the related budgetary approval process and consideration of possible alternatives, as a first step toward developing more flexible, responsive programs consistent with the President’s foreign policy goals (e.g. reestablishing overall lending priorities as determined by the President to dovetail with foreign policy considerations, smoothing the process of resource allocation, reform/restructuring of Eximbank, streamlining AID, etc.). This preliminary effort might then serve as a basis for an NSSD launching a full-scale intergovernmental study to be completed by mid-1985.

Considering the importance of aid/credit decisions in U.S. foreign policy, one key goal should be to implement an NSC-controlled computerized system to track all pending international financial considerations within the U.S. government on a daily basis, and to influence deliberations to the extent necessary to ensure maximal timely support to U.S. foreign policy goals as determined by the President.

Messrs. Don Fortier, Constantine Menges, Bill Martin, Walt Raymond, Oliver North, Roger Robinson, Jackie Tillman and Raymond Burghardt concur.

³ See Document 173.

⁴ Memorandum not found.

RECOMMENDATION

That you agree with our assessment that more effective ways must be found to administer U.S. international financial assistance/credit programs and approve of the informal study to be undertaken by the International Economic Affairs Directorate of existing aid/credit programs, the related budgetary approval process and consideration of possible alternatives.⁵

⁵ McFarlane initialed his approval of the recommendation.

323. Memorandum From the Chairman of the Third World Hunger Study (Keating) to the President's Deputy Assistant for National Security Affairs (Poindexter)¹

Washington, October 22, 1984

SUBJECT

AID and the Next Reagan Administration

1. AID has an unfocussed and ineffective approach to the problems of Third World development. It has spread its resources too thinly. The main need is concentration of efforts on agricultural development, policy reform, and private investment. At present, these objectives seem no more important than a host of other objectives that AID is pursuing (e.g., mother-child health care, the role of women in development, oral rehydration, and other social welfare programs). The current AID strategy may be described as broad-based social and economic development from the bottom-rung up. Since the resources for undertaking such an ambitious program on a global scale are limited, what we're getting from AID is a kind of hit or miss do-goodism, but not the growth of income and employment which is what development mostly requires. Admittedly, AID will argue that it is emphasizing policy reform and private initiative, but these have been tacked onto a

¹ Source: Reagan Library, Executive Secretariat, NSC Agency File, Agency for International Development (03/12/1982–11/06/1983). Confidential. A stamped notation in the top right-hand of the memorandum reads: "RCM HAS SEEN." Poindexter initialed the memorandum and wrote "BUD__" in the top right-hand corner; McFarlane initialed "M" in the line beside his nickname. Also printed in *Foreign Relations*, 1981–1988, vol. I, Foundations of Foreign Policy, Document 213.

development strategy and objectives inherited from the social welfare programs of the previous administration. Until some of these Carterite-inherited objectives are shed, and AID's mission simplified, the Agency will not be able to implement effectively the approach that the Reagan Administration favors.

2. Because of the way AID has been structured, and the social-need orientation of its people, the Agency has a strong inclination to pursue diffuse social welfare priorities rather than our strategic and trade interests. Fortunately, the International Development Cooperation Agency (IDCA) has been suspended. This limits AID's power to allocate foreign assistance resources to countries according to its perception of need and worth and compels it to follow State's guidelines for the integrated foreign assistance budget. However, State often sacrifices our foreign commercial interests to other objectives and doesn't curb AID's penchant to pursue multiple objectives in the countries where it is assigned to work. In sum, the State lead is not sufficient to make AID adhere strictly to the priorities of the Reagan Administration.

3. In its first term, the Reagan Administration missed an opportunity to clarify and invigorate AID's mission. This is evident from the continuing public antipathy to foreign aid and Congressional reversion to not acting on foreign assistance appropriations except by Continuing Resolutions. However, the success of the Reagan Administration's economic policies gives us a new opportunity and enhanced credibility to initiate a foreign assistance program that will be comprehensible to the American public and consistent with our beliefs. Just as here in the United States, emphasis has to be placed on providing incentives for work and support for investment if economic growth and social well-being are to be realized. No Third World problem troubles the American people more than Third World hunger, and no form of foreign assistance has more support than food aid. Third World food emergencies have been taken care of through the President's actions on Part One of our NSC-directed study.² I am now working on "Food for Progress" as a theme for a coherent approach in support of policy reform in key countries to the benefit of our strategic and trade interests.³

Bob Keating

² For the text of the recommendations of this study, see *Foreign Relations, 1981–1988*, vol. XLI, Global Issues II, Document 219.

³ For the text of National Security Decision Directive 156, "U.S. Third World Food Aid: A 'Food for Progress' Program," January 3, 1985, see *Foreign Relations, 1981–1988*, vol. XLI, Global Issues II, Document 236.

324. Memorandum From David Wigg of the National Security Council Staff to the President's Assistant for National Security Affairs (McFarlane)¹

Washington, November 27, 1984

SUBJECT

Report of the President's Task Force on International Private Enterprise

The President's Task Force on International Private Enterprise will present its findings to the President at a White House luncheon on December 4th or 5th (Tab II).² The group was tasked by the President in 1982 to identify ways to strengthen the economies of LDCs through better use of U.S. foreign assistance to stimulate private enterprise and to promote trade and investment with the Third World. As a result of a meeting with the President in August 1983, this original mandate was broadened to include a study of foreign assistance program management and policymaking relating to international economic issues. The result is a report that is dizzying in its scope and revolutionary in some of its recommendations. The final report apparently has been withheld from the NSC for reasons discussed later in this memo. However, the principal recommendations as presented in a September 1984 draft (Tab I),³ which we received on a bootleg basis, are broken into the five categories of *U.S. Economic Policy Organization, Private Enterprise and Investment, Foreign Assistance Programs, Trade and Food Assistance*. They are as follows:

U.S. Economic Policy Organization

- The President should establish an Economic Security Council (ESC) to coordinate domestic and international economic policy. Under the leadership of an "Assistant to the President for Economic Affairs", the ESC would parallel the NSC (in terms of authority) in advising the President on all aspects of domestic and international economic policy; oversee the formulation, coordination and implementation of U.S. economic policy, including technology transfer matters and serve as the focal point for economic policy decision-making.

- As proposed, the ESC would absorb the functions of NSC's International Economic Affairs Directorate as well as those of the Cabinet Councils on Economic Affairs and Commerce and Trade. In

¹ Source: Reagan Library, David Wigg Files, Chronological File, November–December 1984. Confidential. Sent for action.

² Tab II is not attached. Reagan met with the members of the President's Task Force on International Private Enterprise on December 12. See Document 325.

³ Tab I, "The President's Task Force on International Private Enterprise: Report to the President," is not attached.

addition, it would have the Trade Policy Committee reporting to it and its functions would obviate the need for the SIG–IEP. The ESC would also absorb some of the functions and authority of various Cabinet and sub-Cabinet agencies including Treasury, Commerce, USTR, State and even Eximbank.

Private Enterprise and Investment

- The U.S., working with other governments and public and private sector entities, should establish a *Private Enterprise Institute* to advise LDCs on means to attract investment and foster trade.

- The U.S. should support a World Bank-sponsored investment guarantee program, and establish a \$500 million *Private Sector Loan Fund*; and OPIC funding and insurance capabilities should be increased.

Foreign Assistance Programs

- An in-depth management study should be commissioned to review the present foreign assistance programs and recommend appropriate changes to better distinguish between priorities and raise the effectiveness of those programs.

- AID’s Congressional mandate, its policies, programs and organization must be revised to reflect greater private sector emphasis, including increased support for various links with private business, private voluntary organizations and intermediate credit institutions.

Trade

- The U.S. must develop an aggressive, consistent trade policy that mixes aid and trade resources to better enable U.S. firms to compete in world markets.

- The U.S. should continue to press for a new round of multilateral trade negotiations, and U.S. private sector countertrade should be facilitated when in “the best interest of the United States”.

- The United States should assign highest priority to negotiations directed at stopping foreign governments from using unfair methods of subsidizing export finance. The mixed credits authority of the Export-Import Bank should be exercised by establishing a \$1 billion mixed credit fund.

Food Assistance

- The United States must better integrate its agricultural trade, food aid and domestic farm policies, and a much larger share of total foreign assistance should be food assistance.

- Food aid should be at least doubled to help avert starvation, expand developing country agricultural markets, and support private sector growth.

— Agricultural export credit programs should be significantly increased.

— U.S. food assistance should be used as an incentive for LDCs to increase agricultural production through reliance on market forces.

Discussion

The Task Force Report contains some constructive new ideas and reiterates some existing thinking regarding the role of private sector involvement in trade and investment in the Third World. However, it strays far beyond its mandate and purview in aggressively pushing a major overhaul of the National Security apparatus and Cabinet structure to better “coordinate domestic and international economic policy”. Specifically:

- The Task Force recommendation to form an Economic Security Council represents a move to scrap the present system of security-minded economic policy decision-making and replace it with a structure based on the primacy of business and trade. The authors do not give adequate justification for the need to form an ESC, and only tenuously link the proposal to their expressed concern for the state of U.S.-Third World relations (the entire focus of the study is on the narrow band of U.S. policy concerns relating to the Third World). In addition, their knowledge of the workings of the Executive economic policy bodies (especially the NSC and the SIG-IEP) and how they relate to the President appears to be woefully inadequate (they omit or misrepresent the roles and functions of numerous key players).

- Virtually all of the line functions described as part of proposed ESC activities are already performed by various agencies and coordinated by the SIG-IEP. The proposed management, coordination and advisory functions are currently performed by the National Security Advisor and his staff and by the Cabinet Council apparatus. The suggested concentration of functions and power in the hands of an “Economic Security Advisor” is unprecedented (at least to my recollection) and, in the wrong hands, could disturb our hard-fought gains in the effort to balance economic goals and national security concerns.

- The Task Force recommendation for a management study to review foreign assistance programs is consistent with an earlier NSC proposal and should be encouraged and possibly broadened to include all U.S. international financial and insurance programs. *Perhaps we can use this initiative to have the President propose an NSSD on the subject and give credit to the Task Force.*

- Task Force suggestions to form a *Private Enterprise Institute*, to establish a *Private Sector Loan Fund*, to increase OPIC funding and to activate an Eximbank mixed-credit fund are all constructive suggestions that can be referenced when meeting with this group. However,

their food assistance recommendations are consistent with—but overshadowed by—Bob Keating’s far more elaborate proposals.⁴

◦ There is incontrovertible evidence that the Task Force has attempted to circumvent Cabinet-level and NSC review of its report (except for a few select individuals) prior to its being presented to the President. According to Task Force Executive Director, Christian Holmes (in a phone conversation with me last week) their goal was to keep it out of the hands of Treasury, most of the NSC and certain other SIG-IEP members in an attempt to deliver the report to the President unchallenged (perhaps hoping for another oral commitment from the President similar to the one they received in August 1983 expanding their mandate).

Conclusion

The Task Force Report contains a number of constructive recommendations for improving the effectiveness of U.S. aid, trade and investment activities in the Third World and increasing private sector involvement in U.S. policy implementation. In accepting the Report, the President may wish to reference some of these proposals in expressing his gratitude for the undertaking. We can subsequently fold some of these ideas into ongoing efforts to strengthen our international economic policy apparatus and programs. At the same time, the Task Force strayed far beyond its mandate and capabilities in proposing a major overhaul of key elements of the Executive Branch centered around the formation of an Economic Security Council, that could—if implemented—undermine the President’s stated National Security objectives. If pressed for a response concerning this segment of the report, we urge that the President merely express his appreciation for the creative effort and indicate that he will take it under advisement (I will prepare talking points for the President’s luncheon meeting if you deem appropriate).

Don Fortier, Roger Robinson and Doug McMinn concur.

RECOMMENDATIONS

1. That you agree with this assessment of the Report of the President’s Task Force on International Private Enterprise and approve of the suggested Presidential response to its upcoming presentation at the December luncheon meeting.

2. That you approve of the preparation of talking points for the President’s use during this meeting.⁵

⁴ See footnote 2, Document 323.

⁵ McFarlane did not indicate his approval or disapproval of the recommendations. In a December 7 memorandum, McFarlane agreed to forward this memorandum and the Task Force report to Regan for his review. (Reagan Library, David Wigg Files, Chronological File, November–December 1984)

325. Memorandum of Conversation¹

Washington, December 12, 1984, 11:15–11:28 a.m.

SUBJECT

Meeting with the President's Task Force on International Private Enterprise

PARTICIPANTS

The President
Edwin Meese III
John R. Poindexter
Craig L. Fuller

Task Force Members
(List of members attached)²

Task Force Chairman *Andreas* began by stating that as businessmen, the members of the Task Force represent more than \$100 billion in annual sales, and the Report represents their considered views. He went on to say that as members of the business community, the Task Force members are against the concept of aid per se, as a long-term solution to economic development, but they recognize that aid has interim value in dealing with the global developmental problems we face.

Mr. Andreas went on to state that the Task Force believes that U.S. international economic policy decision-making is too fragmented and should be upgraded in importance to a level equivalent to that of the National Security Council. Thus, they recommend that an "Economic Security Council" be formed so that our government can "speak with one voice".

Task Force *Vice Chairman Parker Montgomery* then stated that he believed the President agreed that the best way to foster Third World development was to facilitate rapid economic growth for those countries. He added that the Task Force believes existing U.S. Government entities such as the Council of Economic Advisors are arcane and no longer effective, and that the formation of an Economic Security Council will best focus U.S. policies to support international economic growth policies, and he urged the President to accept the Task Force recommendations.

¹ Source: Reagan Library, David Wigg Files, Chronological File, November–December 1984. No classification marking. The meeting took place in the Roosevelt Room at the White House. No drafting information appears on the memorandum.

² The "President's Task Force on International Private Enterprise Task Force Members" is attached but not printed.

Mr. *Andreas* stated that Peter McPherson and his immediate staff had been most helpful, and the Task Force members were grateful for the assistance. He went on to say that the recommendations are a blue print for the next four years and hopefully will serve as a legacy for the President to leave to the Third World. Mr. *Andreas* concluded by stating that in order to avoid a looming trade war with “Socialist” governments in the West, an “economic disarmament” program is needed. However, he added, we must first be prepared to “fight fire with fire” in competing with the soft credit programs in place in these Western “Socialist” countries.

The President thanked Mr. *Andreas* and the other members of the Task Force for their efforts, adding that he couldn’t comment on the report until he had a chance to review it. He assured the Task Force members that, as he stated in Cancun,³ he is intent on assisting the Third World in its development aspirations, but he does not want to make those countries permanent wards of U.S. aid programs.

The President mentioned that the previous day he had met with Niger President, Kountche,⁴ and was encouraged to see an African leader so strongly wedded to the principles of free enterprise and entrepreneurship. The President referred to Ethiopia as an example of U.S. efforts to combine food aid with improved market prospects for better distribution to the population.

The President mentioned that during a visit on December 10, Charlton Heston showed him a sketch he had done of an 11 year-old Ethiopian boy who weighed only 16 pounds, adding that this picture was far more graphic than all the newspaper and television coverage that he had seen.⁵

Mr. *Andreas* closed by thanking the President for his call to Mother Teresa, who had earlier met with the Task Force to discuss aid to the Third World.

The meeting adjourned at 11:28 a.m.

³ See footnote 2, Document 49.

⁴ Reagan met with Kountche on December 11 at the White House. Documentation on this meeting is scheduled for publication in *Foreign Relations*, 1981–1988, vol. XXVII, Sub-Saharan Africa.

⁵ See *Foreign Relations*, 1981–1988, vol. XLI, Global Issues II, Document 228.

326. Action Memorandum From the Assistant Secretary of State for Economic and Business Affairs (McCormack) to the Deputy Secretary of State (Dam)¹

Washington, January 3, 1985

SUBJECT

The Effect of the "Freeze Plus" Budget on Our Participation in the Multilateral Development Banks

Issue for Decision

Whether to call Secretary Regan regarding the Administration's position on participation in future replenishments of the International Development Association (IDA), the Asian Development Fund (ADF), and the African Development Bank (AFDB) and Fund (AFDF)

Background

As you know, the "freeze plus" budget for 1986 and beyond, which the President presented to the Cabinet on December 5,² assumes that the U.S. will not participate in further replenishments of capital in most soft-loan affiliates of the multilateral development banks (MDBs) after our commitments under current replenishment agreements are met. While I recognize the primary importance of action to reduce our unsustainable budget deficit, I believe it would be a mistake to accept this decision as Administration policy without a thorough vetting of its potential impact on our conduct of foreign affairs.

You will recall the pronounced pressures we faced from the other major donors to these institutions when we made unilateral decisions on the appropriate timing of, and sizes for, replenishments, especially for the International Development Association (IDA). Our stretch-out of the previous Administration's pledge under the sixth IDA replenishment, from three to four years, was a topic for discussion at the 1982

¹ Source: Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987-1987, Lot 89D378: Memos to the Secretary Jan-Apr 1985. Confidential. Sent through Wallis. Drafted by Charles English (EB/IFD/ODF) on December 31, 1984; cleared in EB/IFD/ODF, EB/IFD, and EB. Quinn also initialed the memorandum and wrote "1/3." Sent under a handwritten January 4 covering note from Wallis to Dam, on which Wallis wrote: "KD, The memo we discussed on MDB's. Before this came, I already was planning to suggest to Sprinkel that the whole issue of MDB funding be reviewed. I suspect that the OMB position has a lot (not 100%) of merit even if money were abundant. AW." (Ibid.)

² No minutes for this meeting have been found.

Versailles Summit,³ and led to a promise from the President that we would seek to contribute our full pledge in no more than four years. Likewise, our decision to limit our contribution to IDA's seventh replenishment to \$750 million per year over three years (vice our \$1.06 billion/year unfulfilled pledge under IDA VI) led to numerous complaints from heads-of-state, and caused IDA to be a topic for consideration at the Williamsburg and London Summits.

I understand that either you or Secretary Shultz may be meeting with David Stockman some time in the next few days regarding the foreign assistance budget. I understand also that it has been suggested that you raise the MDB replenishment issue as one on which a final agreement should be put off until a later date. You should be aware that several events will arise in the next four to five months which will require that we address the question in depth:

— The World Bank/IMF Development Committee will meet in mid-April to discuss the critical issue of our medium- and long-term approach to the developing-country debt problem. What role the World Bank should play in addressing this issue will be of central concern. We can expect rather extreme recriminations, and charges of bad faith, if, as we expect, the U.S. decision to decline to participate in soft loan-facility replenishments is widely known by then.

— Congressional hearings on our proposed participation in the World Bank's Selective Capital Increase (SCI) and in the fourth replenishment of African Development Fund resources (AFDF IV), both negotiated last year, will be held early in this session. As the "freeze plus" budget has been circulated on the Hill, we expect MDB supporters to press for an indication of our intentions.

— Replenishment discussions for two of the affected institutions, the Asian Development Fund and the African Development Bank, are expected to begin informally at their respective annual meetings in late April and early May.

Because we will need to address this issue early in the year, I suggest that either you or Secretary Shultz call Secretary Regan before you meet with Stockman. Regan's position on the issue is unclear. On the one hand, he has told his staff that he favors reconsidering the question later in the year after the political dust has settled; on the other, he has also indicated his support for non-participation in replenishments and has characterized Secretary Shultz' position as one of tacit support for the decision as well.

³ For documentation on the Versailles Economic Summit, which took place June 4–7, 1982, see the Global Negotiations compilation of this volume. Documentation on the Summit is also scheduled for publication in *Foreign Relations*, 1981–1988, vol. XXXVI, Trade; Monetary Policy; Industrialized Country Cooperation, 1981–1984.

Recommendation:

That you call Secretary Regan to discuss the Administration's position on future MDB replenishments.⁴

⁴ Undated "Suggested Talking Points" are attached but not printed. Dam did not indicate his approval or disapproval of the recommendation.

327. Paper Prepared in the National Security Council¹

Washington, undated

*U.S. Economic Strategy Toward the Third World**Summary of the Issue*

The policies of the first term aimed at advancing Third World economic development, combined with a major push on enhanced U.S. hunger relief efforts in Africa and elsewhere, have had a significant and positive impact on U.S. relations with the developing world. Your speech to the 1984 IMF/World Bank annual meetings highlighted our sensitivity to the plight of these nations and cited some of our accomplishments in this area.² In the next four years, the largely intractable problems of the Third World will present a major challenge for U.S. policy planning and implementation, particularly as the impatience of the world's poor will continue to provide fertile ground for political instability and violent change. While some 10–15 Third World countries (the Newly Industrialized Countries or NICs, and some oil-rich states) have achieved developed country status, most of the remaining 125 or so countries are unlikely to reach this level of development for decades. Among this group, are a sizeable number of ministates (50)—with populations less than 2 million—where development options are severely limited.

Currently, there are a number of factors working to limit Third World economic development including, the slowdown in the growth rates of industrialized countries, protectionism in Europe and Japan,

¹ Source: Reagan Library, David Wigg Files, Chronological File, November–December 1984. No classification marking.

² Reagan delivered remarks at the Annual Meeting of the Boards of Governors of the International Monetary Fund and World Bank Group on September 25, 1984. The text of these remarks is in *Public Papers: Reagan, 1984*, Book II, pp. 1365–1370.

relatively weak primary commodity prices, a sharp reduction in foreign direct investment and the uncertainty of oil price movements later in the decade. In addition, a number of NICs are moving rapidly into head-to-head market competition with the U.S. and our allies in the area of sophisticated manufactured goods. As a result, these countries are increasingly able to produce strategically sensitive items that the West is attempting to control through COCOM and other export control measures.

On the positive side, changes in the economic conditions in developing countries have brought about a rather striking shift away from the more ideologically inspired policies of the 1960s–1970s, toward more pragmatic, market-oriented approaches. Years of harsh economic retrenchment, failures in experimental state planning, and imbalanced, military-oriented Soviet assistance are gradually reinforcing the view that the diversity of Western civilian aid offers better prospects for long-term economic development and political stability. This new climate, in turn, offers opportunities for the U.S. to meaningfully strengthen our ties with all categories of the developing world.

Objectives

We have a number of opportunities to promote the evolution of LDC perceptions of the efficacy of private enterprise and free market policies. Among our key objectives are the following:

- A greater focus on encouraging the trend toward a more market-oriented approach to agricultural reform as a fundamental part of our strategy toward the poorest countries.
- Identify and reward those Third World governments and leaders willing to accept and implement progressive economic policies.
- Restructure our aid, investment and trade financing mechanisms (AID, Eximbank, OPIC, etc.) to more effectively capitalize on the changing perceptions and circumstances in the developing world and to be more responsive to your foreign policy priorities.
- A new emphasis on pinpointing available technologies that can be rapidly adapted to specific LDC needs, as well as the dispatching of teams of experts to work with counterparts in the country to apply them.
- Reverse the trend of declining foreign direct investment by providing enlarged insurance and project-finance facilities.
- Continue our efforts within the multilateral financial/aid institutions to reorient their programs and policies toward a more balanced, rational use of their limited resources.

Proposed Policies

In the interest of capitalizing on the gradual surfacing of market-oriented trends in Third World economic deliberations, we believe it is timely to consider some bold, new approaches to all levels of Third World economic development. A comprehensive review should be undertaken to more clearly categorize LDC economies to assist in

defining U.S. policy initiatives and responses to both immediate and long-term development needs. As several of the economic characteristics of each category of Third World development are shared by the countries of that group, we would concentrate on designing more creative policies for all three—category I (the very poor), category II (the coping poor) and category III (those coping poor that are approaching the status of NICs). An important aspect of U.S. policy deliberations concerning categories II and III will be a vigorous effort to demonstrate the long-term bankruptcy of Soviet-style command economies and to highlight the enduring growth possibilities facilitated by private entrepreneurship and pursuit of market-oriented policies.

As Soviet aid to the Third World has generally declined substantially in recent years and is traditionally dominated by military-oriented goods, Soviet clients such as Angola, Mozambique and Ethiopia appear to be recognizing that the underpinnings of their economic future and, indeed, sustained political support are increasingly tied to civilian economic assistance, infrastructure development and access to new technologies and expertise best offered by the West. We intend to fully utilize the new technological capabilities of our Crisis Management Facility to, for the first time, catalog all U.S., as well as Soviet, aid and assistance efforts to individual countries along with category aggregates in an effort to: (1) better structure the mix of U.S. assistance programs; (2) improve the monitoring of individual country economic developments so that our policy initiatives remain dynamic; and (3) target those category II and III countries that traditionally are under a Soviet (or Soviet client-state) economic umbrella, and which are either becoming estranged or disillusioned with the lack of civilian economic emphasis and long-term hope for the future.

Other proposed policies include:

- Catapulting your forward-looking initiatives in Third World food aid into a global initiative, calling for the redirection and harmonizing of industrialized country economic assistance to improve Third World agricultural self-reliance. This “second-stage” proposal would, in turn, lead to increasingly sophisticated agribusiness initiatives in the developing world over the next few years.

- Completion of a newly initiated NSC study on major financial programs linked to U.S. foreign policy (e.g., State/AID ESF, the entire AID organization, Eximbank, OPIC, Treasury ESF, etc.), and recommendations for structural and programmatic changes to make these entities more responsive and effective in carrying out your policy priorities.

- Better utilization of existing U.S.-budgeted resources to channel greater amounts of World Bank lending into the hands of the private sectors in the Third World. The revised Foreign Assistance Act also now allows for the conversion of certain types of Third World debt to U.S. official sources to be converted to grants in local currencies which, in turn, can be used at U.S. discretion. We may wish to actively support and expand this type of program.

Your Involvement

You will have a number of opportunities to present your views and policy proposals at future economic summits and other multinational fora. For example, the “second-stage” initiatives to foster Third World agricultural self reliance could be presented at the 1985 Bonn Summit, or alternatively, at next year’s IMF/World Bank meetings.

328. Information Memorandum From the Chairman of the Policy Planning Council (Rodman) to the Deputy Secretary of State (Dam)¹

Washington, January 30, 1985

SUBJECT

Proposed Areas of State/Treasury Cooperation

In response to your request the following checklist describes areas that would benefit from State/Treasury cooperation. Please note that in some cases we do not yet have an agreed upon position within the Department. This checklist draws on contributions from EB and the regional bureaus.

A. General Economic Issues

1. Dealing with Debtor Countries

It is important that debtor countries receive similar signals from State and Treasury on our response to LDC indebtedness. Collaboration will help to counter efforts to politicize LDC debt.

2. Conditionality of Economic Assistance and Credit Programs

State and Treasury often disagree over the conditions for the disbursement of aid, including the use of CCC and PL 480 funds, with State emphasizing political and security goals and Treasury emphasizing economic objectives. This is especially important in Central America where we must balance short-term security imperatives and longer-term

¹ Source: Department of State, Bureau of Economic and Business Affairs, Files of the Planning and Economic Analysis Staff, Lot 87D73: PR 2–2 Secretary’s Breakfast Items 1985. Confidential. Copies were sent to Wallis and Armacost. Drafted by Lucian Pugliaresi (S/P), Boerner, and Barbara Griffiths (S/P); cleared in S/P. Quinn’s stamped initials appear on the memorandum.

economic and political stability. Improved collaboration between State and Treasury could move us away from a single-issue approach to foreign assistance and help us balance our objectives.

3. African Famine/Economic Development

African development has come to a halt. Per capita income is now lower than it was in 1970, and debt has risen to a level higher than many African countries can service. Recovery will require long-term structural reform which will at best take many years to achieve. There is consensus among most donors that the statist policies within Africa are the primary cause of the current economic conditions. However, cooperation is needed here to iron out a long-term and acceptable policy for providing humanitarian assistance and insuring that recipients continue with economic reform. This is especially important now because the resource flows to Africa are constricting. Issues of concern include supplemental lending to IBRD's African facility, IMF lending, economic reform and conditionality.

4. Trade and Protectionism

We need a comprehensive strategy for sustaining our free trade policies and staving off protectionist pressures. Neither Treasury nor State is the lead agency on this issue, but a cooperative approach is essential if we are to sustain the world trading system and succeed in getting our trading partners to accept a new trade round.

5. Export Controls

Congress is continuing this year to write an Export Administration Act. We need to work closely with Treasury in ensuring that our security over defense-related technology and our ability to impose controls for various foreign policy reasons are not compromised, but at the same time assure that U.S. industry is not unreasonably penalized.

6. Collapse in Oil Prices

If world oil prices collapse we will need to review our current policy. Among other issues we will have to coordinate whether extra assistance is needed for oil-exporting countries such as Mexico, and whether we should attempt to raise the minimum selling price (MSP) for oil throughout the OECD. The current price is \$7/bbl.

7. Role of Eximbank

Treasury currently is prepared to acquiesce in OMB's desire to sharply curtail Exim activity. The Department has not taken a definitive position. This is another area where strict economic criteria must be balanced against foreign policy/security interests.

8. *Commodity Agreements*

There is general agreement that commodity agreements do not provide mutual benefits for consumers and producers. However, we are likely to face pressure to continue existing agreements (e.g., coffee) and take on new ones. State/Treasury need to coordinate on a long-term strategy, for transition away from commodity agreements, that will not create widespread economic instability for some important friendly countries.

B. *Banking/IMF—Monetary Issues*

1. *Cooperation with Key European Allies*

In recent years the U.S. and its European Allies have differed on a range of economic issues. We are, however, getting closer on such issues as exchange rate stabilization and Third World debt. We can expect the high value of the dollar and U.S. interest rates to be raised by allies at the Summit. Close State/Treasury coordination on these issues will continue to be very important.

2. *Asian Development Bank*

There is a long list of issues that need immediate attention and comprehensive coordination between State/Treasury. Among these are PRC membership, Indian access to the ADB, and the U.S. contribution. As you know, S/P is concerned about excessive Indian demands on ADB resources. NEA believes India should receive loans in the range of \$100 million/yr. We will need to work closely with Treasury on PRC membership, which we favor, while ensuring that Taiwan does not lose its seat.

3. *Polish IMF Application*

State/Treasury agree that Poland's IMF application must satisfy all economic obligations for membership. However, coordination is needed to ensure that our approach to Polish IMF membership also takes account of overall U.S. policy on Poland, including the risk of political backsliding. Treasury may be inclined to argue that traditional IMF membership criteria govern and that we avoid political concerns.

4. *IMF/IBRD Quota Increase—MDB Lending*

While no one expects major accomplishments at the Spring meetings of the IMF/World Bank Interim Committee, we will have to seek ways to respond to some LDC concerns to avoid adverse results to our foreign policy interests. We and our allies disagree over quota increases for the IMF and IBRD; this issue may surface again soon. We will face pressure to increase MDB non-project lending to assist major debtors in making the appropriate adjustments to service their debt and sustain economic growth. MDB budgetary levels also will come up. We need a political strategy for managing these issues.

[Omitted here is information on country-specific issues.]

329. Paper Prepared in the United States Agency for International Development¹

Washington, February 20, 1985

Strengthened State/AID impact on development issues in the MDBs

Current Situation

— The U.S. has important interests in the MDBs. Treasury is interested in safeguarding our economic and financial concerns, and views the MDBs as banks rather than as developmental/growth institutions. State focuses on foreign policy concerns and the MDBs' global economic impact. Thus both Treasury and State look at the MDBs on a macro basis, appropriately given their missions. However, in my view we also need additional focus on developmental issues.

— Over the last several years the Treasury influence with the banks has become stronger, while that of State/AID has weakened. We do not dispute the importance of macro concerns, but we think that economic development concerns (especially as they affect small, poor countries) have not received adequate consideration in U.S. decision making. Further, we believe that we need greater ability to influence decisions at the sector and country economy level.

— AID has devoted much effort to coordinating our programs with the MDBs and Treasury. Treasury, however, does not have (nor should it have to develop) the capacity to advise under what circumstances we should proceed with a World Bank sewer project in Tegucigalpa. AID has developed a system of reviewing and commenting on MDB projects at various stages in their formulation; this scrutiny has improved the quality of MDB projects, made them more consistent with our views on development, and strengthened our substantive position in the banks. We could do much better, however, if we had a strong formal basis for what is now essentially a voluntary effort.

— We expect a number of significant development issues to be raised in the MDBs in coming months. These will include interest rates to ultimate borrowers of IDB loans (e.g., agriculture credit) where the IDB allows borrowers to pay less interest than the level of inflation. The IDB relationships to the parastatal forestry industry in Honduras is

¹ Source: Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987–1987, Lot 89D378: Memos—Staff/Departmental 1982–1985. No classification marking. Wallis wrote at the top of the paper: “from Peter McPherson, 20 Feb 85, For AW only.” A stamped notation reads: “WAW Has Seen.”

troublesome. The sectoral details of the World Bank's policy dialogue with the Philippines is of great importance. There are issues such as these in country after country.

— The current procedure allows us to address these interests to a limited extent, but issues would certainly be far more effectively dealt with if we strengthened the approach. Too often State/AID's development concerns have been raised with insufficient substantive content or in an uncoordinated fashion.

Proposed Change

— We think this problem could be addressed by the Secretary's appointing one individual to serve as the State/AID spokesman on the MDB *development* issues.

— The designation of a Counselor or Special Representative or Coordinator for the Secretary on MDB Development Issues would result in more active coordination and more effective State/AID impact on developmental questions.

— In view of my background and interest in this area, I propose that I be given this responsibility. To avoid any possible bureaucratic concerns, I could be so named in a personal capacity, not as the AID Administrator.

— In this way I could speak for both State and AID on MDB development issues, and then our views on these issues would have greater impact than is currently the case.

— The change could be brought about with no real disruption to existing bureaucratic structures and relationships. Political and other issues usually focused on by State would continue to be dealt with in the offices that deal with them now. Treasury would continue with their current responsibilities and concerns, probably strengthened by greater substantive support.

330. Letter From Secretary of State Shultz to Secretary of the Treasury Baker¹

Washington, March 16, 1985

Dear Jim:

State and Treasury have had a number of sharp disagreements on how to handle MDB loans. Your staff quite properly examines proposed loans from an economic perspective. We in State have a particular responsibility to look at foreign policy considerations as well.

From time to time these foreign policy considerations will clash with the economic merits of the loan. When this happens, we need to work together more effectively to develop an agreed U.S. position. In addition to the question of whether a particular loan should be opposed, the form of opposition, i.e., whether by an abstention or no vote, can have important foreign policy implications that have to be taken into account.

During my recent trip to Ecuador, for example, the newly elected President, Leon Febres-Cordero, expressed his concern to me over the negative U.S. vote on the Inter-American Development Bank loan for the Daule-Peripa energy and irrigation project.² While State and Treasury agreed that the economics of the project were not sound and it did not merit our support, an abstention, rather than a no vote, might well have better served our interests. It would have shown a more positive attitude to constructive developments in Ecuador while still making clear we did not support that loan.

In that regard, I am encouraged by Treasury's willingness to consider a multi-year rescheduling of government debt for Ecuador. This would be the first such multi-year arrangement by the Paris Club creditors and would reflect our shared view that Ecuador's shift to an emphasis on the free enterprise economy should be encouraged.

We need to work together more closely to assure that we better integrate our economic and foreign policy interests in connection with MDB votes. I suggest we ask our staffs to consider ways in which this might be done more effectively.

Sincerely yours,

George P. Shultz³

¹ Source: Reagan Library, George Shultz Papers, Official Memoranda (03/16/1985); NLR-775-51-76-5-7. Confidential. Drafted by Harry Kopp (ARA) and Richard Smith (EB/IFD) on March 15.

² The Ecuador trip was discussed in a March 15 action memorandum from Constable and Michel to Shultz. (Reagan Library, George Shultz Papers, Official Memoranda (03/16/1985); NLR-775-51-76-6-6)

³ Shultz signed "George" above his typed signature.

331. Report Prepared by the Under Secretary of State for Economic Affairs (Wallis)¹

Washington, undated

Hans Tietmeyer, the West German Sherpa and Chairman for this year's summit preparations, began our 10-hour discussions² by stressing that he understood that the most recent text of the thematic paper³ was still too long. He said that he had tried to incorporate into the most recent draft the comments that were made by delegations at the last preparatory session in Berlin.

Sir Robert Armstrong (the British Sherpa) intervened to say that he thought that the current German paper was very good, but that now was the time to concentrate heavily on the conclusory sections, and to attempt to delete or shorten the background sections. Allen Wallis seconded this approach and asked that we concentrate on the conclusions.

[Omitted here is discussion of the world economic background, employment in industrialized countries, current accounts, and exchange rates.]

Developing Countries

There were a few comments by delegations (primarily the Canadians and Japanese) on the need to improve the tone of this section. They emphasized that not all poor countries are performing poorly and that the Asian NICs should be singled out as examples of what can happen when countries institute efficient economic policies.

The major part of the discussion on developing countries centered on the role and resources of the World Bank. Ostry of Canada emphasized that the current German text did not capture nor raise the medium-term nature of development—adjustment and growth. She said in the longer-term the role of the World Bank should envision a shift from project lending to adjustment. In her view, what is important now is not new resources for the Bank, but reassessing its goals and objectives. The Italians and French supported the Canadian view, but stressed that increased resources were needed immediately for the Bank. Obe of Japan said that we need to study the question of a capital

¹ Source: Department of State, Bureau of Economic Affairs, Office of Economical and Agricultural Affairs Files, Official Economic Summit Files, 1975–1991, Lot 93D490: Bonn Summit 1985. Confidential. Sent under an April 1 covering memorandum from Wallis to Shultz.

² The March preparatory meeting of the Sherpas for the Bonn Economic Summit took place March 23–25. The Summit was held May 2–4, 1985.

³ Not attached.

increase, but what needs to be done immediately is to increase the efficiency of the Bank itself—programs and personnel. Sprinkel reiterated that the United States could not agree to join in any consensus endorsing a capital increase for the Bank. He cited our own budgetary constraints, as well as the great difficulties already encountered in trying to move the Bank into a greater adjustment role. Sprinkel did say that the United States was prepared to accept some increase in World Bank program lending over the current 10 percent level.

Tietmeyer summed up by noting that there was consensus that the World Bank must play a major role in the next stage of the debt situation. However, there was continuing disagreement over what that role should be and whether the Bank's resources should be increased. Tietmeyer said that, for the time being, this whole question would remain bracketed.

The discussion on Africa established a consensus on the language of the German draft. The United States (McMinn) suggested some editorial changes to make the tone more positive, as well as to clarify concepts such as "a strategy for long-term food security." All of our suggestions were accepted.

We raised again in more detail the U.S. position on the need for greater developed country cooperation and coordination in such areas as food aid assessments and agricultural research networks. There was general agreement on the need for Summit country technical representatives to discuss further what might be done in this area.

Attali said that President Mitterrand would propose some actions on emergency food aid at the Summit (e.g., an early warning satellite system, a transport task force, a coordinated IFAD program to fight "desert creep"). Tietmeyer asked that the French provide him with a paper explaining in further detail what they may propose at Bonn in May.

[Omitted here is discussion of trade, energy, and other issues.]

332. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Mulford) to Secretary of the Treasury Baker¹

Washington, April 8, 1985

SUBJECT

The World Bank's Multilateral Investment Guarantee Agency: The Next Step

For the past couple of years the World Bank has been working on a proposal for a multilateral investment insurance entity which would insure investors against non-commercial risks such as currency transfer risk, expropriation, and war. Following extensive discussions in the Executive Board and consultations with member countries, the Bank has drafted articles of agreement for a Multilateral Investment Guarantee Agency (MIGA) and is requesting the Executive Board to consider on April 9 whether to proceed with formal negotiations to establish the MIGA. We recommend that Treasury seek SIG-IEP agreement that the United States proceed to negotiations.

Rationale for a MIGA: The United States believes that in the long run direct investment can make an important contribution to the development process and has urged developing countries to be open to private flows. Secretaries Regan and Shultz have supported World Bank efforts to develop a MIGA proposal because the concept is consistent with the Administration's private sector approach to development.

The potential benefits of a MIGA cannot be fully quantified in advance. Nonetheless, a well-constructed MIGA that is financially sound, leads to policy reform in LDCs, and facilitates investment protection and dispute settlement could be a positive force in facilitating foreign direct investment flows to developing countries.

U.S. objectives: For the United States a well structured MIGA would include the following important features: a clear mandate to encourage policy reform in developing countries; a close link with the World Bank; a dispute settlement system with automatic subrogation and arbitration; a conservative financial structure; a decision making structure relating votes to financial contributions; and limitation of insurance coverage to foreign direct investment and to investments in developing countries. It will be very difficult to achieve these objectives; many LDCs may find our terms unacceptable.

¹ Source: National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Official Files of the Executive Secretariat, 1985, UD-11W, 56-88-79, Jan-Apr '85. No classification marking. Sent for action. Sent through Sprinkel, who did not initial the memorandum.

Entering negotiations does not obligate us to participate in a MIGA. There is, however, a strong presumption that if we do successfully negotiate our basic objectives we will seek Congressional authorization and funding. The cost could range from \$20 to 50 million paid in and \$150 to \$180 million in contingent guarantees.

Interagency Clearance. While generally supportive of moving to negotiations, other interested U.S. agencies—State, AID, STR, OMB, Commerce, and FRB—have requested that the issue be reviewed at the Cabinet level before the United States takes a formal position. With your concurrence, we will schedule a SIG–IEP meeting, preferably prior to the April 18–19 Development Committee meeting. If the SIG–IEP agrees, you could announce at the Development Committee that the U.S. is prepared to enter into negotiations on the MIGA. (Otherwise we would offer our usual general expressions of support for the MIGA.)

Recommendation: That you seek, through the SIG–IEP process, agreement from other agency heads that the United States should enter into negotiations on the MIGA with other interested countries.²

² Baker approved the recommendation. Minutes of this SIG–IEP meeting, scheduled for April 15 at 5 p.m., were not found. Briefing materials for the meeting are in the Washington National Records Center, RG 56, Records of the Office of the Assistant Secretary for International Affairs, 1950–1985, Meeting and Policy Files, 1979–1992, 56–10–60, Box 1, SIG–IEP Meeting—April 15, 1985. A typed note at the bottom of the page reads: “NOTE FOR SECRETARY BAKER: Should you approve a SIG–IEP on MIGA, you have from 4:00 p.m. to 5:00 p.m. free on Monday, April 15. Ed Stucky.” Stucky signed “Ed” over his typed signature.

333. Minutes of an Economic Policy Council Meeting¹

Washington, July 2, 1985, 9 a.m.

ATTENDEES

Messrs. Baker, Shultz, Block, Baldrige, Brock, Yeutter, Sprinkel, Wright, Kingon, Porter, Smith, Cornell, Gray, Robinson, Knapp, Scocozza, Low [*Laux?*], Bledsoe and Stuckey and Ms. Risque

[Omitted here is discussion of Japanese trade issues.]

2. Common Fund Agreement

Mr. Cornell indicated that we needed a decision promptly with respect to what the United States should communicate regarding the Common Fund Agreement. For the last four years the United States has not definitively closed the door on the Common Fund Agreement but also has not ratified it. Since there are no departments who favor the U.S. ratifying the Common Fund Agreement, the central issue is whether to publicly announce our intention not to ratify or to continue our present behavior.

The Council's discussion focused on the U.S. interest in the Agreement and its economic implications, the likelihood that the Soviet Union might ratify the Agreement and whether that action would be sufficient to ensure its overall ratification, and the economic effects of additional U.S. stockpile sales at this time.

The Council also discussed the voting arrangements under the Common Fund Agreement were it to be ratified and the need for further intelligence on the possible actions of other countries before reaching a definitive decision on our actions.

The Council will reconsider this agenda item after we have developed further information on the possible actions of other countries.

¹ Source: Reagan Library, Eugene McAllister Files, EPC Papers July to August 1985. No classification marking. The meeting took place in the Roosevelt Room at the White House. No drafting information appears on the minutes.

334. Letter From Secretary of State Shultz to the Director of the Office of Management and Budget (Stockman)¹

Washington, July 5, 1985

Dear Dave:

I am writing to you and to Secretary Block² about the domestic price support program for sugar now before the Congress as Title IX of the proposed Agricultural Adjustment Act of 1985. This program has important implications for our foreign relations and security interests.

Our imports of sugar are declining sharply. For 1985, our imports are estimated to be about 2.1 million tons, roughly half of what they were traditionally, before enactment of the present price support program in 1981. Some experts estimate that, if we continue our sugar support program unchanged, our imports will continue to decline and may disappear entirely by the end of the decade.

Given the disastrous condition of the world sugar market, this reduction in our imports is further weakening the already depressed economies of certain regions and countries that are strategically important to the United States. For example, sugar has long been the third largest export to the U.S. from Latin America. It is a key foreign exchange earner for the countries of Central America and the Caribbean, and for such major debtor countries as Brazil and Argentina.

I know that sugar is a very difficult and many-sided issue, and that our program is not the primary cause of the disarray in the world sugar economy. Indeed, to a large extent, our program is a response to the distortions caused by other countries, including the EC's agricultural subsidies. I fully understand the importance of sugar to the U.S. agricultural community. I also fully realize that the Administration must look at any possible revision of this program in the light of overall farm policy and the impact on budgetary and other economic goals. At the same time, the way we structure our sugar program for the remainder of this decade will have a major impact on many countries important to the U.S.

We have a major national interest in revitalizing the economies of the strategically important Caribbean Basin and in continuing to

¹ Source: Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987-1987, Lot 89D378: Memos to the Secretary August 2-September 27, 1985. No classification marking. Drafted by Slattery on June 5; cleared in ARA, EB/TRP, H, EAP/EP, AF/EPS, and AF, and in draft in EB/OFP. Copies were sent to Baker, Baldrige, Smith, McFarlane, and Casey.

² An identical letter was sent to Block on July 5. (Ibid.)

provide export opportunities to those countries which are struggling to repay their external debts. The contraction of the U.S. sugar market, and the continued downward pressure on world sugar prices, could mean a continuation of major economic, and hence political, stress in these countries. The need for U.S. economic assistance, especially balance-of-payments support, will likely increase, and the arguments for extending that aid will become more compelling. Similarly, access to the U.S. market for other traditional and new exports from friendly sugar suppliers will be increasingly important.

I hope that you will keep these factors in mind as you follow the progress of the sugar portion of the farm legislation through the Congress, and as you consider other relevant economic decisions affecting these countries.

Sincerely yours,

George P. Shultz³

³ Shultz signed "George" above his typed signature.

335. Memorandum From David Wigg of the National Security Council Staff to Donald Fortier of the National Security Council Staff¹

Washington, July 16, 1985

SUBJECT

Status of Technical and Financial Assistance Proposals for Strategically Important LDCs

Per your message of last week, I wanted to give you a status report on these proposals. As I see it, there are four categories of assistance/advice we can structure for strategically important LDC's: Expert advice from newly industrialized countries (NICs); confidential state-of-the-art assistance from an investment banking contractor(s); innovative U.S.G. financial and commodities aid and export of readily available U.S. public-sector technical services.

¹ Source: Reagan Library, David Wigg Files, Subject File, LDC Debt. Confidential. Sent for information. Copies were sent to Poindexter, Martin, Covey, Burghardt, Robinson, Tillman, North, and Stark.

When put together in a package, these four (and perhaps other) forms of aid/advice could provide a potent force for rational policies and political stability.

Advice from the NICs

The NICs represent the hope of every developing country in the competitive world economy. When it comes to discussing politically tough questions, such as allowing foreign direct investment and rationalizing domestic economic policies, LDC governments are more likely to respond to NIC advice than to recommendations from Washington. I suggest we approach Singapore, Taiwan and South Korea and ask them to form various groups of technical experts which we can choreograph with other forms of assistance. This could be done under the rubric of Pacific Basin cooperation. The NICs would benefit in the form of trade, banking, shipping and other potential market access and new commercial links.

We could send NIC teams to selected amenable countries where the advice is likely to be well received and implemented. Their successes would attract others.

Special Investment Banking Services

As we ponder the problems confronted by many strategic LDCs, certain patterns emerge that require the problem-solving techniques employed (or potentially employable) by investment bankers on individual projects in the U.S. and abroad: How best to leverage limited resources, both domestically and through international trade; what mix of policies should be employed to rationalize economic decision-making and to preserve domestic stability while meeting the demands of international creditors; how to most effectively tap the developed country public and private sectors for financial assistance. Even in the form of alternative scenarios, such advice would be a huge improvement over what these governments work with now.

Central America and the Caribbean, Peru, Egypt and others could all benefit significantly from such assistance, particularly if it could be provided confidentially. We should discreetly approach the major investment banks to discuss possibilities for structuring such services as a close-hold element of U.S. assistance packages.

Innovative Aid

Clearly, the distribution of cash through AID's ESF is inadequate to address the balance of payments problems faced by many strategic LDCs. It also presents too many opportunities for abuses and mismanagement. Innovative aid and advice is the order of the day in

an increasingly resource-strapped world. For example, in a meeting Monday² with the Guatemalans, in which they singlemindedly pressed for \$140 million in cash to fill a projected payments gap, I suggested that as they approach the Japanese and West Europeans, that they think in terms of critical commodities imports as being interchangeable with cash (oil, agricultural needs, chemicals, etc.) and be able to offer various concrete commodities options as alternatives to facilitate foreign assistance where cash is not an option. The Nicaraguans have been doing this for years under the tutelage of Soviet Bloc and Western advisors. Even the USG could possibly be of some assistance in terms of moving commodities outside of the traditional programs (CCC, P.L.-480, etc.) if, for example, we could hire the services of the commodities trading side (Philipp Brothers) of Phibro-Salomon Investment Bankers. The fact that the Guatemalans admitted that they had not considered such a presentation, speaks for itself.

A second example would be the structuring of a package of U.S., IADB and World Bank funding to shift rural Peruvians out of Coca production (nearly half of this production ends up in the U.S. as cocaine) and into productive agricultural activity. President-elect Garcia's top priority is to upgrade the rural economy, and a billion-dollar (or whatever size) multilateral program aimed at stemming U.S. drug imports could well cool Garcia's ardor for a confrontation over debt, and yet—with the focus on drug-related programs—would not set a precedent in debt rescheduling that could be exploited by other Latin countries. State's approach is to merely tell the Peruvians that we are open to suggestions for programs. This is simply not creative or aggressive enough to effect a shift in Garcia's policies. There are many more possibilities. Per Jim Stark's efforts, the whole FMS program needs an infusion of flexibility if we are to avoid losing customers, allies and lots of cash. Regarding one of the most important elements, the USG "official" policy against barter trade *must* be reconciled in the FMS program with the financial imperatives of Third World allies.

Conscious effort to introduce more creativity and flexibility into our financial aid packages is mandatory if we are to preserve friendly democracies and keep up with the ironically, ever-flexible Soviets. The Soviet-Peruvian-Nicaraguan barter switch/debt repayment deal is a shining example of what the competition can do.

²July 15.

Public Sector Technical Services

My experience with Los Alamos Labs has convinced me that we are overlooking a valuable resource in our own backyard.³ Advice and technical assistance from the Lab System coupled with the tremendous range of services that could be tapped throughout the government (CIA, Energy, Agriculture, Interior, Health and Human Services and literally dozens of other repositories of expertise and technical capabilities) would significantly strengthen and deepen our aid potential. Where the budgeted resources of many of these agencies are underutilized, or increased program size would allow savings through economies of scale, we could target a very small percentage of each agency's budget as supplementing our AID programs, on an "extraordinary" basis, as a constructive response to the unprecedented needs of our Third World AID recipients. The qualitative improvement in our AID effort would be a multiple of the increased cost.

As examples of possible programs:

- [1 paragraph (3 lines) not declassified]
- The Los Alamos program in Central America is only a tiny glimpse of what is possible with efficient utilization of the U.S. Lab system's capabilities;
- At the urging of Ambassador Jordan, a Los Alamos team will be going to Peru in September to explore possibilities for a similar effort there. President Garcia has expressed enthusiasm for visiting Los Alamos prior to the UNGA (perhaps in October). I can envision a global web of interaction of the Labs with strategic LDCs in scientific and other fields where the U.S. has no peers.

The theme that runs through all of this is that there are potentially many somewhat unorthodox, yet practical approaches to helping to reduce North-South and U.S.-LDC tensions over economic issues; to build enduring, positive links with these countries that simple cash will never accomplish, and to elevate the rationale for dealing with heretofore seemingly intractable problems of strategic LDCs to a level where viable solutions begin to crystallize.

³ In the effort to assist Latin America, in 1985, USAID funded a \$10.2 million program of natural resource development for Central America based at Los Alamos National Laboratory. The Laboratory's role was to provide technical assistance and establish strategies for effective energy and mineral development in Central America.

336. Memorandum From Roger Robinson of the National Security Council Staff to the President's Assistant for National Security Affairs (McFarlane)¹

Washington, July 18, 1985

SUBJECT

EPC Meeting on Friday, July 19, at 3 p.m. in the Roosevelt Room

We received notice this morning that an EPC meeting will be held tomorrow at 3 p.m. on the following three agenda items:²

1. Implementation of the President's Section 301 Citrus Decision
2. Multifiber Arrangement Negotiations
3. Common Fund

[Omitted here is information not related to the Common Fund.]

Common Fund

The ideas motivating the Common Fund are that price-stabilizing commodity agreements are desirable and that commodity organizations can borrow more cheaply as a group (from one another and commercially) than as individual entities. The Common Fund's intent then is to facilitate the financing of price-stabilizing buffer stock agreements and to help mobilize funding of "other measures" to improve the market position of commodities. To this end, the Common Fund's First Window is designed to lend money to the buffer-stock operations of associated commodity agreements. The sources of the funds would be pooled assets of associated agreements and funds borrowed commercially.

The Fund's Second Window would finance commodity projects aimed at improving structural conditions in commodity markets and at enhancing the competitiveness of commodities.

Entry-into-force requires ratification by 90 countries accounting for two-thirds of \$470 million of direct contributions (to be used as collateral to secure commercial borrowing), and 50 percent of \$280 million of voluntary contributions to the Second Window. As of the end

¹ Source: Reagan Library, David Wigg Files, Subject File, Economic Policy Council (5 of 11). Confidential. Sent for action. Copies were sent to Fortier and Wigg.

² According to a July 18 memorandum from Porter to the Economic Policy Council, the agenda for the July 19 meeting was revised to no longer include a discussion of the Common Fund. (Reagan Library, Roger Robinson Files, Subject File, Economic Policy Council (EPC) 07/09/1985–07/21/1985; NLR–487–2–23–11–2). Discussion of the Common Fund was deferred to a July 31 meeting of the Economic Policy Council. For minutes of this meeting, see Document 337.

of June, 85 countries had ratified the Common Fund, accounting for 51 percent of direct contributions. The Second Window requirement for entry into force has already been met. The last deadline for entry into force was January 1, 1984; this deadline was not met but it has been extended *de facto*.

The U.S. position has been that we would consider taking steps to ratify the Common Fund Agreement when several eligible commodity agreements are prepared to associate with the Common Fund. This position is based on the premise that the Common Fund makes no sense without commodity agreements able to associate with it. The United States has declined to pledge resources to the Second Window of the Fund and our position is not affected by arguments that the Second Window should be allowed to operate even if the First Window never does. The United States has also rejected the notion that we should ratify because other countries have done so.

The options paper attached (Tab II)³ lays out three courses of action: (1) ratify, (2) reject ratification and (3) no change in present position. At the last EPC meeting, the discussion concerned that the U.S. position should be hinged, in large part, on what the Soviet position is likely to be.⁴ [less than 1 line not declassified] the discussion was discontinued. Although the results of the Agency's findings are not reflected in the EPC paper, the U.S. position should be promulgated on the basis of mitigating the risk of U.S. embarrassment if the Common Fund is ratified even without U.S. participation—thereby potentially providing the Soviet Union with a symbolic/public affairs victory among Third World nations. The answer to which option best serves U.S. interests will have to be determined in the course of the EPC discussion. In my view, it is only the Soviet angle to this issue that engages NSC's interest as it is technically not particularly relevant to us.

[Omitted here are information and recommendations not related to the Common Fund.]

That you approve our support for a position on the Common Fund which best mitigates the risk of a Soviet symbolic/public affairs gain among Third World nations.⁵

³ The options paper on the Common Fund is not attached. A copy of the options paper is in the Reagan Library, Roger Robinson Files, Subject File, Economic Policy Council (EPC) 07/09/1985-07/21/1985; NLR-487-2-23-6-8.

⁴ See Document 333.

⁵ McFarlane did not indicate approval or disapproval of the recommendation. He wrote underneath the recommendation: "But also which leans closest to pressure toward market principles and away from commodity agreements generally."

337. Minutes of an Economic Policy Council Meeting¹

Washington, July 31, 1985, 2 p.m.

ATTENDEES

Messrs. Baker, Block, Baldrige, Yeutter, Sprinkel, Whitehead, Darman, Burnley, Wright, Kingon, McAllister, Oglesby, Cornell, Driggs, Holmer, Khedouri, Mulford, Smart, Whitfield, Wigg, Cohen and Stucky

1. *Common Fund*

Mr. Cornell, noting that the Council had reviewed the issue of whether the U.S. should join the Common Fund at an earlier meeting,² explained that the question remaining is, should the U.S. publicly announce an intention not to ratify the Common Fund Agreement.

Several members of the Council spoke in favor of announcing our intentions not to ratify, with the possibility of encouraging other nations to follow our lead. Others expressed concern that U.S. vagueness might be interpreted as disingenuousness,³ particularly by the developing nations.

The Council also discussed the possibility of the Soviet Union ratifying the Common Fund Agreement and the likely effect that would have on U.S. interests.⁴

Decision

Secretary Baker asked the Executive Secretary to poll later each member of the Council as to whether the U.S. should publicly announce a decision not to ratify the Common Fund Agreement or maintain the current policy of leaving the possibility of U.S. ratification open.

[Omitted here is discussion of U.S.-EC steel negotiations.]

¹ Source: Reagan Library, David Wigg Files, Unfolded, Unfolded Subject File, Economic Policy Council (EPC). No classification marking. The meeting took place in the Roosevelt Room in the White House. No drafting information appears on the minutes.

² See Document 333.

³ An unknown hand underlined the phrase: "U.S. vagueness might be interpreted as disingenuousness."

⁴ An unknown hand underlined this sentence and drew an asterisk in the left-hand margin.

338. Note From the Under Secretary of State for Economic Affairs (Wallis) to Secretary of State Shultz¹

Washington, August 3, 1985

Dear George:

Thanks for the Volcker statement on cooperation between the IMF and the IBRD.² This is an idea which we in State have been pushing for about two years. To begin with, any mention of structural adjustment loans by the IBRD generated tantrums in the Treasury people. Apparently SAL's have had a bad record of just disappearing without a trace. In fact, there is a 10% ceiling on the amount of IBRD lending that can be in SAL's.

When we got the point to sink in that the adjustments should be essentially the kind that the IMF insists on, and that Volcker recommends in this statement, Treasury came around. With their effective assistance we were then able to get this into the Summit statement at Bonn (and, if I recall correctly, also at London).

Both the IMF and the IBRD react positively to remarks about better coordination. It is hard to claim much practical result yet, and this is something that should be kept in mind when a new term of the World Bank presidency comes up.

Allen Wallis³

¹ Source: Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987-1987, Lot 89D378: Memos to the Secretary August 2-September 27, 1985. Confidential. A blind copy was sent to McMin.

² The statement by Volcker is *ibid*.

³ Wallis initialed "AW" above his typed signature.

339. Memorandum From David Wigg of the National Security Council Staff to the President's Assistant for National Security Affairs (McFarlane)¹

Washington, August 15, 1985

SUBJECT

The Common Fund Agreement

At the conclusion of the July 31, 1985 Economic Policy Council meeting, the Secretary of the Treasury asked that each member of the Council be polled regarding their preferred option for addressing the question of whether the U.S. should ratify the Common Fund.²

During its discussions of the issue, the Council developed three options:

Option 1: Ratify the Common Fund Agreement.

Option 2: Publicly reject ratifying the Common Fund Agreement

Option 3: Continue our current policy of publicly leaving the possibility of the U.S. ratifying the Common Fund Agreement open.

Background

Per my July 31 memo to you, (Tab I)³ STR believes it is time to move decisively on this issue as we are under diplomatic pressure to ratify the Agreement. At present, ratifications have reached the point where U.S. ratification (15.7 percent share of direct contributions—\$74 million, of which \$25 million initially paid in) would bring the Fund into force. Ratification by the United States would complete the two-thirds threshold and sufficient ratifications to reach the required 90 would follow in the wake of U.S. ratification. West Germany is expected to announce its ratification soon. Among other major countries, only the Soviet Union has not ratified; it *may* do so soon; if other communist countries also ratify, the Common Fund could enter into force without the United States.

The reasons for U.S. objections, however, have not been altered. The commodity agreements that could potentially join (cocoa, natural rubber and tin) are not currently eligible to do so, and will require significant modifications before becoming eligible.

¹ Source: Reagan Library, David Wigg Files, Chronological File, August 1985. No classification marking. Sent for action.

² See Document 337.

³ Attached but not printed.

Interagency State of Play

From the EPC discussions, (Tab II),⁴ it was clear that a number of agencies favored the rejection option in order to remove diplomatic pressure on us to sign on. Secretary Shultz supported the “no change” option, which I also argued for on the reasoning that while the issue is “live” the possibility exists for some sort of diplomatic or political tradeoffs with the proponents. The counterargument was that with no action, later rejection would appear disingenuous, particularly by developing nations. Since it was unanimously agreed that we will *not* ratify the agreement, I am persuaded that we should go ahead and make a declaration to that effect, before the Soviets can develop anti-U.S. propaganda capitalizing on our intransigence on the issue.

Jack Matlock, Gaston Sigur, Howard Teicher, Jackie Tillman and Phil Ringdahl concur.

RECOMMENDATION

That the NSC vote to have the U.S. declare its intention *not* to ratify the Common Fund Agreement (Option 2).⁵

⁴ Attached; printed as Document 337.

⁵ McFarlane initialed the “Approve” option.

340. Telegram From the Department of State to the Embassy in Grenada¹

Washington, August 15, 1985, 1000Z

242130. Quote. Subject: U.S. Decides Not To Ratify Common Fund.

1. The interagency Economic Policy Committee has decided that the U.S. Government will not ratify the Common Fund agreement. We do not, however, intend to announce this decision in Washington. We recognize that the degree of interest in capitals on this issue may vary. Except as directed below, therefore, posts may exercise their discretion on whether to take the initiative in conveying this message to the appropriate levels of their host governments or whether to use it for purposes

¹ Source: Department of State, Central Foreign Policy File, Electronic Telegrams, [no D number]. Limited Official Use. Sent for information Immediate. A repeat of telegram 242130 to all diplomatic posts; Paris for OECD, the Mission in Geneva, and USUN, August 7. Drafted by Gilbert Johnson (EB/ICD); approved by Thomas O'Donnell (EB/ICD).

of replying to inquiries. Posts in all OECD capitals are requested to inform host governments. OECD Paris, Geneva, and USUN should inform appropriate officials. Moscow should inform Soviet officials in course of discussions of other business. Where posts believe that degree of interest warrants an initiative, host government reactions should be reported.

2. Background

We realize that a decision by the U.S. not to participate in the Common Fund will be received negatively in many countries, some of which may attempt—inaccurately—to characterize the U.S. as unsympathetic to the needs of commodity-dependent LDCs. We appreciate these countries' hopes for the Common Fund. At the same time, we cannot avoid the conclusion that the Fund would be unable to fulfill these hopes because it would be unable to perform its principal function: serving as the least costly means of supporting a number of economically-sound commodity agreements. Experience has shown that these agreements often produce fewer benefits and more problems than are promised. Only three such price-influencing agreements with internationally-controlled buffer stocks currently exist—for rubber, cocoa, and tin. (The coffee agreement, while designed to influence prices, does not utilize internationally-controlled buffer stocks—the type of agreement the Fund was designed to help finance). The U.S. is a member of only one of these—rubber. We do not realistically anticipate the development of additional economically-sound agreements and do not wish to continue to hold out false hopes for U.S. ratification of an arrangement that appears neither useful nor necessary.

3. Posts should attempt to present the U.S. decision in the most constructive possible light, stressing in particular that the Common Fund cannot realistically provide solutions to the problems of low returns to producers from the export of primary commodities, and that, through its substantial support of international financial institutions, the U.S. is doing what it can to address commodity issues in a meaningful way.

4. Talking Points:

— The U.S. fully realizes that commodity exporters have borne a heavy burden caused by low world prices for many raw materials over a sustained period of time. Moreover, we are sensitive to the problems this situation presents to many raw material producers and exporters. At the same time, we do not believe the Common Fund could provide any relief—it would only create false expectations and additional disappointments.

— When the Common Fund agreement was being negotiated during the 1970s, the U.S. agreed that if creation of a number of economically-sound price-affecting commodity agreements proved feasible, it might be desirable to finance them through a Common Fund. The Fund was

intended to reduce the total financial commitments of member nations in support of stockpile operations from what they would be otherwise.

— Subsequent experience has demonstrated that there are very few commodities for which economically-sound agreements designed to limit the wider swings of their prices around their long-term price trends are possible. Despite considerable joint efforts in recent decades by UNCTAD members—including the United States—to develop economically sound and useful agreements, only three agreements with internationally-controlled buffer stocks have been negotiated and continue to function: cocoa, tin and rubber. The U.S. is associated only with the natural rubber agreement, having previously concluded that the tin and cocoa agreements were not economically sound. Thus, a sufficient number of economically-sound agreements have not developed to enable the Fund to effectively perform its proposed principal function.

— As for the Common Fund's proposed second account, the U.S. believes its intended function of financing programs such as commodity research and development can be provided by existing institutions or, in some instances, by special arrangements such as have been developed for jute and tropical timber.

— Entry into force of the Common Fund would entail world-wide commitment of dols. 300 million to an institution which would not be able to make effective use of the funds.

— Under these circumstances, the U.S. has decided that a Common Fund would not be able to fulfill the role envisaged for it in international commodity trade and has therefore decided not to undertake the processes associated with ratification.

Shultz. Unquote.

Whitehead

341. Memorandum From the Chairman of the Third World Hunger Study (Keating) to the President's Assistant for National Security Affairs (McFarlane) and the President's Assistant for National Security Affairs (Poindexter)¹

Washington, August 16, 1985

SUBJECT

Development Assistance and Private Enterprise: When Will the Reagan Revolution Begin?

The purpose of this memorandum is to call attention to one of the major unmet goals of this Administration—encouraging Third World economic growth through the private sector—and to suggest the options which remain available to effect real change within the next three years. More than ever we are at a turning point. The time remaining for a decision and effective initiative is running out.

Summary

The President at Cancun in 1981 articulated a positive program of action for economic development which underscored the need to encourage Third World growth through the private sector. On March 17, 1980, the President stated that “for too long at official levels we have been apologetic about, if not downright hostile towards, American capitalism as a model for economic development . . .”² At a time when economic policies in the Third World (and industrial nations) are shifting towards market-oriented approaches, the growing American economy driven by the private sector, and the developing countries which have copied the American model, provide irresistible examples impelling significant changes in Third World economies. Thus the President’s goals as spelled out at Cancun were timely and have the potential of delivering international economic growth through the stimulation of private enterprise. The strategy and mechanisms for carrying out the goals are, however, flawed, and the President’s program remains unfulfilled.

¹ Source: Department of State, Executive Secretariat, S/S-I Records, Official Correspondence of Deputy Secretary John C. Whitehead, July 1982–Jan 1989, Lot 89D139: JCW—Memos To/From other agencies 85. No classification marking. A stamped notation reads: “Aug 26 1985, J.C.W. has seen.” Whitehead wrote at the top of the memorandum: “Peter McPherson, Can we talk about this?”

² Reagan delivered a speech to the Chicago Council on Foreign Relations on March 17, 1980. A copy of the speech is in the Reagan Library, 1980 Transition Papers, Foreign Policy (Richard Allen), [Foreign Policy Advisory Board—Meeting 11/21/1980—Participant Binders—Allen].

The changing economic circumstances in the Third World not only create a new context for political and economic relations, but also present an unprecedented opportunity to strengthen the West's position relative to that of the Soviet Union.³ Many Third World leaders now recognize that rigid Marxist-Socialist models will not yield economic and industrial growth. Increasingly concerned with the "politics of economics" and not the "politics of Socialism", they look to market-oriented approaches to rebuild shattered economies and are just beginning to initiate practical policies which will gain momentum over the next 10 years. The Soviets have few real resources to counter these economic and political trends. Unable to provide much of a growth market for Third World exports or much in the way of economic assistance, they are at a distinct disadvantage in a system of free trade where the West and the Third World are inextricably tied together by the mutuality of economic interests. In addition, Soviet economic and financial constraints over the next 10 years will make Moscow increasingly less able to compete in non-military sectors. These converging economic forces give us opportunities to enhance U.S. security interests in key Third World countries, if we take advantage of them.

AID, as currently structured, has shown over the past 4½ years that it is incapable of carrying out the President's mandate of encouraging real economic growth through private initiative. Although its resource transfers may support short-term political stability, its overwhelmingly government-to-government economic assistance is helping perpetuate centralized economic controls which stifle private enterprise and retard or stop real economic growth. AID's limited understanding of the private sector is demonstrated by loans and programs which show little positive correlation with private sector growth, and its lack of interest in private initiative is evidenced by the fact that almost none of the AID budget for foreign assistance (ca. \$13 billion per year) goes to the private sector. Moreover, at a recent meeting of the State Department's Subcommittee on Food, Hunger and Agriculture in Developing Countries, AID officials stated that the private sector efforts of AID have not been strongly supported internally and that another decade would be needed to institute the needed shifts in emphasis towards private enterprise (AID's Bureau for Private Enterprise is an underfunded, largely ignored appendage). These and other considerations make it clear that AID is inadequate to the fundamental long-term task of fostering the role of private enterprise in the process of Third World economic development. What is urgently needed is a transfer of resources away from AID to an environment which understands

³ *Economic Forces for Change in the Third World*, NI 84-004, December 1985 (C). [Footnote is in the original.]

the private sector (e.g., an expanded OPIC or a U.S. International Development Corporation). Unless the Administration is prepared to do this, the President's Cancun goals will not be fulfilled. (AID's legislation and institutional orientation reflect the dominance of the humanitarian aspect of development assistance and it seems reasonable that AID should continue to be predominantly a humanitarian institution.) End of Summary.

THE CHANGING ECONOMIC CIRCUMSTANCES

Socialist systems which have dominated the economies of developing countries for several decades have failed to achieve economic growth. They have emphasized urban development at the expense of the countryside and its agriculture, driving farmers into mere subsistence. Central planners set up inefficient state enterprises at enormous expense, bankrupting their economies. Times got tougher in the seventies. Two oil hikes, two recessions, accumulated debt and high interest rates all made development more difficult. With the failure of producer cartels and OPEC's current problems, developing countries now realize they have less collective power than earlier imagined.

Looking for ways out of their economic difficulties and assistance for their nation-building needs, developing countries have finally perceived that the Soviet Union and its client states are dismal examples of agricultural and industrial productivity. Unable to supply much economic assistance, the Soviet Union has had to bind them to its side with supplies of surplus military equipment. Meanwhile, western development agencies built ponderous bureaucracies at home and abroad to administer rural welfare to the poorest of the poor, without contributing to economic growth.

In this dark landscape, there is light and it comes from an expanding American economy which stands as a model and pulling engine for world economic growth. Among developing countries, those with the most open economies and closest ties with the United States (e.g., the ASEAN countries) have most effectively overcome the last decade's adverse economic circumstances. Technologies from US-sponsored research are opening a new era of productivity for Third World farmers. Because of oil conservation, OPEC's cartel has been broken with the prospect that developing countries can now afford pesticides, fertilizers and fuel for irrigation and machinery. Underneath the surface of state regulation, burgeoning "second economies" are breaking open old controls, causing centrally directed economies to change. Third World leaders, once enamored of Socialist models, are now betting on market-oriented policy changes in four critical areas:

- agricultural prices;
- marketing reform and liberalization;

- input supply and distribution;
- private sector involvement in agriculture and industry.

THE CHALLENGE OF THE INTERIM PERIOD

Third World governments, once dominated by Socialist economic systems, are now attempting to liberalize their economies and make them more efficient. They have agreed to policy reforms stipulated by the IMF, and have made progress towards better economic and financial management. However, the actual implementation of critical policy measures, loans and projects has slipped in many of these countries. This means that even longer periods of economic austerity must be endured before healthier economies can evolve, in some instances up to five years.

We must also reckon with the political vulnerability of Third World leaders who have taken the hard policy decisions. While setting in motion new reform measures which will yield positive results several years hence, these leaders must simultaneously contend with urgent political and social pressures exacerbated by the interim period of economic hardship. If not handled properly, such pressures could derail efforts to restore economic growth and create the kind of instability which the Soviets so skillfully exploit with their warehouses filled with cheap weaponry ready to be dumped on a vulnerable developing country at a moment's notice.

THE SPECIAL CASE OF AFRICA

The land is dying in many parts of Africa. South of the steadily encroaching Sahara desert, 29 of the world's 36 poorest nations require emergency aid to ward off famine. Hunger and malnutrition now threaten over 14 million people. A drought far worse than anything hitherto experienced in the region, plus the instability of regimes and their ill-advised policies, has badly damaged agricultural production driving farmers into mere subsistence. Peasants cut down trees at an alarming rate for money to buy food, rain is not recycled, and irrigation is deteriorating. Moreover, in spite of epidemics and high infant mortality, population pressures are among the greatest in the world with net annual gains of three percent or more, or about a 20 million increase in population a year.

Problems of this magnitude cannot be addressed effectively by the current AID policy of broadly based development from the bottom rung up—a generalized welfare approach which fritters away scarce resources. It is necessary, of course, to send food to feed the starving (the President last year approved the Keating-group's ten recommendations

for achieving more rapid response to Third World food crises).⁴ But helping the landless poor with health, education and other social problems, however laudable, will not solve the underlying structural problems of agriculture stagnation nor produce badly needed fundamental changes and economic growth, particularly during the transitional period to more market-oriented economies. What is needed is a reallocation of available resources on a rational basis to strengthen food-producing capacity, a rigorous approach to agricultural policy reform, and most importantly the motivation of the private sector to provide agricultural inputs, food processing, storage and marketing.

THE U.S. BUSINESS PERSPECTIVE

Over the past six weeks, I have met with influential business leaders in an effort to determine how they viewed Administration efforts to stimulate private enterprise in the Third World. Their reactions may be summarized as follows:

1. US business leaders credit President Reagan with clearly perceiving and articulating the role of the private sector in Third World development. However, they do not feel any more involved in Third World development issues and the possibilities for private sector involvement because of Administration actions than they did 4½ years ago. (Several of them liked the new State Department Subcommittee on Food, Hunger and Agriculture which was created through a recommendation of the Keating-group Third World Hunger Study.)

2. In general, these business leaders do not believe that there has been a just return on the taxpayers' investment in Third World private sector programs within our federal bureaucracies. They feel that the bureaucratic response to an issue like Third World private sector involvement is, "How can I use this issue to raise my agency above the others, to increase funds under my control and to augment my staff?" Thus, the emphasis in Government seems to them to be not on what counts—production, economic growth and return on investment—but on expanded programs and increased budgets.

3. They feel that if the Administration is really serious about the private sector becoming the motor for Third World development, then the federal bureaucracies (particularly AID) must better understand the dynamics of international business. There must be far greater awareness of what the private sector requires in order to function effectively overseas. Furthermore, if the Administration really believes that US business concerns are part and parcel of US security concerns, then US international businessmen should have

⁴ See footnote 2, Document 323. See also *Foreign Relations*, 1981–1988, vol. XLI, Global Issues II, Document 221.

greater access to the foreign policy process. Too often intermediaries such as academics, consultants, and lobbyists speak on behalf of the business community to government officials rather than the business leaders themselves.

4. They want a more focussed approach which would permit elements of the private sector to weigh-in on issues directly affecting their effectiveness overseas (for several of them, the great virtue of the Reagan Administration review of the Law of the Sea Treaty was that it opened a previously closed foreign policy process to the ideas and concerns of businessmen most directly concerned with the proposed treaty decisions). Should this take place, then there would be a clearer commitment to business priorities overseas, and improved liaison with the business community at home.

THE IMPLICATIONS FOR U.S. POLICY

The changing economic circumstances in the Third World not only create a new context for political and economic relations, but also present an unprecedented opportunity to strengthen the West's position relative to that of the Soviet Union. In a system of free trade, the United States and the developing nations are inextricably tied together by the mutuality of economic interests. Strengthening these ties is the growing American economy driven by its private sector which is impelling changes in the economies of both the industrial and Third World countries. President Reagan recognized the importance of the American economic model as an agent for change in his March 17, 1980, speech where he said, "for too long at official levels we have been apologetic about, if not downright hostile towards, American capitalism as a model for economic development . . .". The President then brought this point forcefully home at the Cancun Summit in 1981 when he articulated a positive program of economic development which underscored the crucial role of the private sector in Third World economic development.

Although budgetary constraints require cuts in our development assistance, economic growth in the United States and the Free World is creating private investment capital that, if properly encouraged, could help turn around the economies of developing countries. Third World leaders are increasingly aware of this and recognize that their countries' economic salvation lies in the West, with the East providing little in the way of credible nation-building alternatives.

The Soviet Bloc has few real resources to counter the economic forces exerting pressures for change in the Third World. It is not able to provide much of a growth market for Third World exports. The supply of Soviet oil to favored developing countries will diminish with faltering domestic production and increasing needs at home. Domestic shortages of goods and skilled manpower will limit commodity and

project aid. Foreign exchange stringencies will severely restrict hard currency loans. In sum, Soviet economic and financial constraints will make Moscow even less inclined to accept costly new burdens like Cuba and Vietnam. In trimming outlays throughout their empire, they also must pare economic support for client states. Under these circumstances, the Soviet Union over the next 10 years will rely more heavily on shipments of arms to sustain its influence in the Third World.

An immediate challenge to U.S. foreign policy is to have Third World leaders stay on course in redressing their economies and not yield to short-term political expediency at the expense of their country's future economic interests. At this point in history, we have, in many Third World countries, a major sunk investment in the form of World Bank loans, IMF stand-by arrangements and commercial financing that will be lost if policy changes are not upheld and economic growth renewed. In this context, we need new initiatives to support policy reform and private sector enterprise to help bridge the gap between economic stagnation and recovery. We need as well more innovative measures to promote pricing policies which reflect market forces in order to foster efficient allocation of resources (e.g., decontrol of farmgate prices, termination of price controls on industrial products, and lifting ceilings on interest rates). An example of the latter is the Keating-group "Food for Progress" proposal to help reduce the food risk to Third World governments undertaking agricultural price and policy reform.⁵

Another urgent requirement is the need to blunt the current policy drift in AID which is counter to many of the President's private sector objectives. This will require (a) shifting the focus of development resources and programs toward more rigorous policy conditionality and self-sustaining economic growth, and (b) transferring resources from AID to another new institution (an expanded OPIC or a U.S. International Development Corporation) which would be better able to carry out the President's mandate of promoting economic growth in Third World countries through direct involvement of the U.S. sector and support of indigenous private enterprise.

CONCLUSIONS AND RECOMMENDATIONS

In its first term, the Reagan Administration missed an opportunity to make AID an effective instrument of development assistance. However, the success of the Administration's domestic economic policies now enhance its ability to generate a program of development assistance and international private investment which American people can understand and the American Congress can support. At the same time,

⁵ See footnote 3, Document 323.

a complex of factors has given us another chance to promote economic growth, strengthen political relations, and advance US security interests in key Third World countries. We cannot afford to let the occasion slip by again. The reasons why may be set forth as follows:

— By continuing to move virtually all US aid from US bureaucracy to foreign bureaucracy without involving the private sector, we are helping perpetuate centralized economic controls in key LDC countries which stifle private enterprise and retard or stop real economic growth.

— By continuing to provide economic assistance that is overwhelmingly government-to-government, we are placing the security of strategic pieces of real estate in jeopardy (e.g., the Philippines and Subic Bay).⁶ Political resistance is inevitable when people realize that centralized economic controls will not give them a stake in the economy nor yield industrial and economic growth.

— By continuing to channel our foreign assistance through LDC central governments, we are denying ourselves an unprecedented opportunity to take advantage of economic forces for positive change in the Third World which would strengthen the West's position relative to the Soviet Union.

In examining AID, we have found the agency excessively layered with minute subdivisions of labor which do not result in increased productivity. We have asked the following questions:

a. Are the "four pillars" of development, as interpreted by AID, the right ones?

b. Are financial resources targeted at the priority areas of opportunity?

c. Are personnel resources deployed in a rational manner consistent with priority tasks?

d. Does current AID policy formulation effectively support U.S. foreign policy, national security and trade interests?

e. Are AID programs, other than emergency relief, comprehensible to the American public and Congress?

f. Is AID decision-making plugged into an analytical framework which examines all foreign assistance instrumentalities in terms of objectives and trade-offs?

g. Has AID succeeded in promoting private enterprise in Third World nations?

The answer to each of the above critical questions is in large part "no". If AID were to be restructured in order to seize new opportunities in the Third World and realize the goals of the Reagan Administration, it would first be necessary to regroup available resources into the areas which matter most: agricultural development, policy reform and private sector initiatives. A proper analytical framework would

⁶ See Keating memo to VADM Poindexter, *The Security Considerations of AID*, 8 July 1985. [Footnote is in the original.]

be required to ensure that foreign policy, national security and trade interests were properly meshed. Then it would be necessary to revitalize AID as an organization by further integrating it into the Foreign Service, attracting new talent, and rewarding productive work with career incentives.

There would, however, be considerable resistance within AID to these required changes and considerable time would be needed for their implementation. This would be particularly true of private sector initiatives, and in this respect we are in agreement with the conclusions of the Peterson Commission in 1972, the Reagan Transition Team in 1980–81, the Carlucci Commission of 1982, a subcommittee of the President's Task Force on International Private Enterprise in 1984, and others, that AID is the wrong institution to carry out the private sector mandate. These groups proposed that resources be transferred from AID to an environment which understands the private sector (e.g., an expanded OPIC or a US International Development Corporation). Unless the Administration is prepared to do this, the President's Cancun goals will not be fulfilled. (AID's legislation and institutional orientation reflect the dominance of the humanitarian aspect of development assistance, and it seems reasonable that AID should continue to be predominantly a humanitarian institution.)

In order to implement the Administration's commitment to market-oriented economic development in the Third World and the supporting role of U.S. private investment, the following specific step is recommended:

— The issuance of a Special Executive Order directing that the President's Cancun goals be implemented with modalities established for stimulating U.S. private sector investment and indigenous private enterprise in the Third World. This executive order would also mandate that an improved institutional capacity be developed for support of private enterprise in the Third World involving reorganization and transfer of AID private sector responsibilities to a more appropriate institution. The executive order would then name a new director of the International Development Cooperation Agency (IDCA) to carry out the mandate.

(The AID Director is currently Acting Director of IDCA.)

342. Memorandum From the President's Assistant for National Security Affairs (McFarlane) to Secretary of State Shultz and Secretary of Defense Weinberger¹

Washington, August 23, 1985

SUBJECT

Foreign Assistance Initiative (U)

Recent Congressional action has created major problems for our foreign assistance programs, and will deeply cut into the funds available for key allies. I have discussed the issue with the President and he is firmly committed to a robust foreign assistance program as a vital element of national security and foreign policy. The President made this point publicly when he signed the Foreign Assistance Bill just before leaving Washington.² He has, therefore, directed that we commence initiatives on several fronts to rebuild and revitalize our foreign assistance. These will encompass the following: (S)

— *A major interagency review of U.S. global security assistance policy.* This study will examine our overall national security goals for security assistance, the effectiveness of our current programs, and the growing problem of FMS debt. The study will make recommendations which should form the basis for a more dynamic long-term redirection of our foreign assistance efforts. We should set forth a series of goals, e.g., expansion of IMET, coordinated foreign assistance commitments with other donors—such as Italy recently proposed for Somalia, and so on, which could be implemented as a phased approach over the next two years. The NSC will distribute the Terms of Reference of this study within the next two weeks.³ (S)

¹ Source: Reagan Library, David Wigg Files, Unfolded, Unfolded Subject File, Foreign Assistance Allocations. Secret. An unknown hand wrote on the memorandum: "Received in S/S-I on 8/3[portion missing] at 1445. clw."

² Reagan signed into law the International Security and Development Cooperation Act of 1985 (P.L. 99-83) on August 8 at the White House. In his remarks, Reagan expressed disappointment in the reduction of security assistance support levels and recognized the "lack of enthusiasm for foreign aid" which made "the job more difficult." He concluded by stating: "We have to make the people aware that these programs are the most effective instruments we have for a more secure international environment, and I hope that we can all work together in the months ahead to reinvigorate the program." For the text of Reagan's remarks at the signing ceremony, see *Public Papers: Reagan, 1985*, Book II, p. 982. For the text of Reagan's statement on signing the International Security and Development Cooperation Act of 1985, see *Public Papers: Reagan, 1985*, Book II, pp. 983-984. According to the President's Daily Diary, Reagan traveled to California on August 11. (Reagan Library)

³ Not found.

— *Build public and Congressional support and consensus for a more robust foreign assistance program.* We must identify specific cases where we have been unable to exploit developing opportunities or where U.S. foreign policy objectives have been damaged by inadequate funding levels and inflexible procedures. We must also identify areas where foreign assistance has averted crises and illustrate by facts and statistics benefits to the U.S. economy. This should be a very concrete presentation—based on intelligence and other supporting evidence—that we can use in private high-level consultations on the Hill. Ultimately, we must be able to show that, even in a period of deficit spending, foreign assistance is worth the price. We may want to consider better ways of presenting this point in a coordinated national security budget. (S)

— *Assess effects of Congressionally imposed cuts.* We must make an immediate damage assessment of what the authorization bill cuts will mean with specific examples of the impact for our important programs. (S)

— *Seek a supplemental.* In conjunction with this assessment, we must develop a near-term legislative strategy for seeking additional funds to meet the immediate needs of key strategic countries. We must also determine our approach for funding the FY–87 budget submission. (S)

— *High-level supervision.* Finally, a special Foreign Assistance Steering Group will be established under the aegis of the NSC⁴ to monitor the evolution of the broader phased program for rebuilding security assistance, as well as for ensuring the active coordination of our near-term legislative efforts to redress the existing imbalance. (S)

I know you share my concern over the reductions mandated by the latest Congressional action. I am convinced that the integrated approach outlined above combining immediate near-term actions with a longer term strategy for future expansion is the best way to achieve our goals. (S)

Robert C. McFarlane⁵

⁴ An unknown hand underlined the portion of the sentence beginning with “a special” and ending with “NSC.”

⁵ McFarlane signed “Bud” above his typed signature.

343. Memorandum From Richard Levine of the National Security Council Staff to the President's Assistant for National Security Affairs (McFarlane)¹

Washington, September 10, 1985

SUBJECT

EPC Meeting on Sugar Quotas

The EPC will meet on Wednesday, September 11, at 4:00 p.m., to consider the issue of sugar quotas.² The President must announce the exact quotas by September 15.

My previous memorandum to you on sugar (Tab III)³ explains the background of the sugar issue. Briefly, because of declining demand, quotas for imported sugar have been cut back so that farmers have an economic incentive to sell into the marketplace rather than repay their loans to the Commodity Credit Corporation (CCC) with their sugar crop. This program was designed by Stockman to minimize U.S. budget costs, but, in fact, the sugar program has severely hurt the CBI countries and has substantially increased the cost of sugar to the U.S. consumer.

The options paper for the EPC meeting is at Tab II.⁴ It is generally an excellent paper. (Note: Since there are a number of different ways to price out agricultural programs, you should use the numbers in this options paper.)

As the paper explains, the President must make one fundamental decision before September 15: should he lower the quota (which will hurt CBI countries and U.S. consumer interests), or should he maintain the current quota (which will surely anger farm state Senators and cost the USG about \$250 million)?

For reasons I will explain, I believe that you should strongly argue in favor of maintaining the current quota.

If the President does decide, however, to lower the quota, he may try to take certain actions to limit the effects of such action on the CBI and other countries. The President could attempt to create an offsetting "Sugar Adjustment Fund" to channel money back to the CBI countries for agricultural development, or he could attempt to allow a large

¹ Source: Reagan Library, Stephen Danzansky Files, International Trade Subject Outline, I. (F) General—Identification 1985–1988; NLR-733-1-11-2-2. Confidential. Sent for action. Copies were sent to Danzansky and Burghardt.

² See Document 344.

³ Tab III is not attached. A copy of the August 29 memorandum from Levine and Burghardt to McFarlane is in the Reagan Library, Stephen Danzansky Files, International Trade Subject Outline, I (F) General—Identification 1985–1988; NLR-733-1-11-1-3.

⁴ Tab II is attached but not printed.

quantity of sugar into the United States, that would otherwise be barred by the quotas, by having it refined into fructose syrup by a private firm as this syrup is not covered by the quotas.

The EPC paper thus presents four options. My informal pulse of the agencies reveals the following tentative positions:

| Option 1 Lower Quota | Option 2 Maintain Current Quota | Option 3 Offsetting Fund | Option 4 Allow in Sugar for Syrup |
|----------------------------|---------------------------------------|--------------------------------|---|
| USDA Chief of Staff? | NSC CEA OPD Treasury | USTR State | |

(OMB's position has not been set at the time of this memo.)

Although the above table might look as if the decision is weighted towards maintaining the current quota or creating the adjustment fund, USDA has a disproportionate voice on this issue, and, although I have no direct knowledge of the Chief of Staff's position, a number of agencies, notably USTR and State, feel that the White House will be compelled to lower the quotas because of congressional pressure. Thus, they feel the best thing the Administration can do for the CBI countries under the circumstances is to create an offsetting fund. In fact, I think that the Chief of Staff and White House Congressional Liaison have not yet formed a set opinion on this issue.

Going through the options, the reasons why Option 2 is our best choice is as follows: Option 1 would be a disaster for the Central American sugar-exporting countries. The economic impact of another sugar quota cut would hurt these countries more than the CBI has helped. As the paper points out, DR stands to lose \$60 million; El Salvador, \$12 million. The instability such an action would cause would surely make any budgetary savings seem trivial by comparison. Lower quotas will also cost U.S. consumers up to \$400 million.

Option 2, although sure to be unpopular with certain influential legislators, will preserve the current export earnings of sugar-exporting countries and save the U.S. consumer up to \$400 million over option 1. Sugar growers will still be receiving loan rates from the USG, payable in sugar, that are many times the world market price and higher than the cost of production. Congress cannot veto the President announcing the maintenance of the current quotas. Congress may try to enact legislation, possibly through the Farm Bill, to lower the quota. This option would cost the USG about \$250 million because CCC loans would be repaid in sugar and not cash, but this cost will probably be more than offset by consumer savings and, in the context of our multi-billion farm program, the cost of this option is by no means excessive.

Option 3 would allow a lowering of the quota, but set up a new line item account to reimburse poor nations for 75 percent of their lost sugar earnings.

This is a “Rube Goldberg” approach if ever there was one:

- Under the guise of agricultural development aid, this program would push countries to develop alternative crops to sugar, *but* the clear reason for this market diversification plan is that the USG artificially supports its own inefficient sugar producers. This is blatant hypocrisy and would be seen as such.

- This program would set the example of establishing a U.S. aid program to reimburse other nations for restrictive U.S. trade policies.

- It has high budget costs associated with it, but *no* consumer savings.

- The program runs directly counter to our aid philosophy in that it denies revenue to the private sector in developing countries by decreasing their sugar exports while it channels aid money back to the governments of such countries, which is highly inefficient.

- The Hill may not support this fund.

Option 4, the fructose syrup option, from a policy standpoint, has much to commend it. Politically, however, this option is not doable since such syrup would compete with corn-based sweeteners. Senator Dole and senior Hill leadership will block any attempt to create competition to corn-based sweeteners.

Noting the complexity of this issue, I recommend the following course of action:

- (1) That you strongly support the maintenance of the current quotas at the EPC meeting.

- (2) That you discuss the merits of this position and the problems associated with Option 3 (the offsetting fund) with Secretaries Shultz and Baker and Ambassador Yeutter *before* the EPC meeting.

- (3) That you note at the EPC meeting the important point that a position that the President presents to the Hill must be based on our best policy. An Administration can, however, accept Hill policies that are far less perfect. Thus, at a later date, the Administration could press for an offsetting fund if the Hill overrides the President, and mandates lower quotas.

RECOMMENDATION

That you adopt the three-point strategy noted above, and that you use the attached talking points (Tab I) at the EPC meeting.⁵ (Note: CIA is preparing a paper on the effects of lower sugar quotas on CBI countries. I will pass this to you as soon as I receive it.)⁶

⁵ Tab I is attached but not printed. McFarlane did not indicate his approval or disapproval of the recommendation.

⁶ Not found.

344. Minutes of an Economic Policy Council Meeting¹

Washington, September 11, 1985, 4 p.m.

ATTENDEES

Messrs. Baker, Block, Baldrige, Yeutter, Sprinkel, Wright, Whitehead, Taft, Ford, Burnley, McFarlane, Kingon, McAllister, Ogelsby, Amstutz, Brashear, Driggs, Levine, Low [*Laux?*], McMinn, Mulford, Stucky, and Wallis

1. *Multilateral Investment Guarantee Agency*

Mr. Mulford provided a status report on the Administration's efforts to enter into a joint arrangement to create the Multilateral Investment Guarantee Agency (MIGA). He stated that the purpose of MIGA is to improve the investment climate in developing countries. The agreement that the U.S. will vote on at the IMF meeting in Seoul has been shaped to accommodate the major U.S. concerns.²

1. MIGA would have close ties to the World Bank. The World Bank chairman will serve as ex officio chairman of the MIGA Board.

2. Clear and effective dispute settlement arrangements are assured.

3. Decision making will be based on a voting system which relates voting powers to financial contributions.

4. MIGA is committed to carry out its activities in accordance with sound business and prudent financial practices.

5. MIGA insurance coverage will be restricted to economically sound projects.

Mr. Mulford stated that steps to ensure U.S. membership in MIGA will include consultations with Congress.

The Council's discussion focused on whether the current proposed MIGA charter is as tightly restricted as was described at the senior interagency group-international economic policy (SIG-IEP) meeting at which U.S. membership was approved.³ Secretary Baker noted that the charter cannot be written to specify all the kinds of guarantees to be offered; this must be done through the voting procedures. Mr. Mulford explained that voting was based on financial contributions and that the initial membership is 5 developed countries and 15 developing

¹ Source: Reagan Library, Eugene McAllister Files, Sugar—Folder 2. No classification marking. The meeting took place in the Roosevelt Room at the White House. No drafting information appears on the minutes.

² In a September 9 memorandum to Baker, Mulford outlined his concerns with the way the MIGA was developing and the ways it was adjusted to meet U.S. goals. (National Archives, RG 56, Official Files of the Executive Secretariat, 1985, UD-11W, 56-88-79, Box 57, [No folder title])

³ See Document 332. Minutes of a SIG-IEP meeting on April 15 were not found.

countries. Countries indicating interest in joining MIGA include Korea, China, India, smaller Latin American countries and African countries.

2. The Farm Bill

Secretary Block offered a brief review of the current status of the farm bill. The House Agriculture Committee has enacted several very troublesome amendments, including those that would further distort the market decision making-process, provide export subsidies, and enact tariffs. Mr. Wright noted that the farm bill would cost \$55 billion, much more than the \$34 billion assumed in the budget resolution. He stated that the Agriculture Committee is keeping down the cost of the bill through accounting gimmickry, including pushing costs into out-years and relying on unrealistic economic assumptions.

3. Report of the Working Group on Sugar

Mr. Amstutz explained that the 1981 farm bill⁴ established a loan rate of 18 cents per pound for sugar, while the world price of sugar is 3 cents per pound. The difference was to be maintained through quotas and fees, with the current mechanism being a quota. The 1985–86 quota must be established by September 15.

He noted that U.S. domestic sugar demand is dropping, in part because of the growth of low cost sugar substitutes. U.S. sugar demand has declined by 2.2 billion tons, while demand for sugar substitutes has increased 2.8 billion tons.

Mr. Amstutz stated that the current quota is 2.55 million tons for a 14-month year. Reevaluating the current supply and demand projections would lower the quota from 2.55 million tons on a 14 month basis to 1.03 million tons on a 10 month basis. This action, however, would have serious international implications. Lowering the quota would reduce Caribbean Basin Initiative (CBI) countries foreign exchange earnings by \$124 million and the earnings of all developing countries by \$234 million. However, maintaining the current quota would cost the U.S. Government \$260 million in budgetary outlays. He noted that major reform of the sugar program, which does not appear likely, would not alter the current quota options.

The Working Group on sugar developed four options for the Council's consideration:

1. Reduce the quota to 1.03 million tons, which would balance projected demand and supply.
2. Maintain the current quota level during a 10-month quota year, which would be the equivalent of 1.82 million tons.

⁴ Reference is to the Agriculture and Food Act of 1981 (P.L. 97–98), signed into law on December 22, 1981.

3. Mitigate the effect of a lower quota on the CBI countries by establishing a “sugar adjustment fund” to offset 75 percent of the export earnings of CBI and other developing countries with per capita income of less than \$1,500.

4. Reduce the quota to 1.03 million tons, but mitigate the impact on CBI countries by announcing that 1.5 million tons may be imported at the world price for refinement in the U.S. as fructose sugar.

Ambassador Yeutter endorsed option two—maintaining the current quota level—in the interest of national security. He stated that the option of permitting sugar to enter the U.S. to be refined as fructose was not viable as it would meet strenuous opposition from domestic corn producers. And the idea of establishing a sugar adjustment fund, while helping the CBI countries, was more complicated than simply maintaining the quota.

Mr. Sprinkel stated that the sugar program was a highly inefficient program costing consumers in the excess of \$4 billion, \$3 billion more than the amount received by the beneficiaries of the program, domestic sugar producers. In the long term, Mr. Sprinkel stated, the only answer is to reform that program.⁵ In the short term, he argued, the best approach would be to maintain the current quota. Mr. Sprinkel also noted that this approach would transform the hidden costs of the sugar program into more obvious on-budget costs.

Several other council members expressed support for maintaining the current quota. Mr. Whitehead suggested a token reduction in the current quota level to signal sugar-producing developing countries of the conditions in U.S. markets.

Decision

The Economic Policy Council unanimously agreed to recommend to the President that he maintain the current quota, with a token reduction to 1.72 million tons.⁶

⁵ In a September 11 memorandum to Whitehead on the upcoming EPC meeting on sugar quotas, Wallis communicated the Department of State's position on the sugar support program, which supported Sprinkel's statement at the meeting. Wallis wrote: “Our primary goal at State (as well as in the rest of the Executive Branch) must be to reform or eliminate the entire sugar support program.” (Department of State, Files of the Under Secretary of State for Economic Affairs, W. Allen Wallis, Chrons; Memo to the Secretary/Staff and Departmental/Other Agencies; Memos to the Files; White House Correspondence, 1987–1987, Lot 89D378: Chron—September 1–15, 1985)

⁶ The Economic Policy Council communicated its recommendation to Reagan as “Option 2” in a September 11 memorandum. Reagan initialed his approval of “Option 2: Maintain the quota for FY 1985–1986 at the current level (1.82 million tons adjusted for the 10 month quota year) with a token reduction to 1.72 million tons.” (Reagan Library, Eugene McAllister Files, No folder)

345. Letter From the Deputy Secretary of State (Whitehead) to Secretary of the Treasury Baker¹

Washington, September 16, 1985

Dear Jim:

I have always been an enthusiastic supporter of the World Bank. It is generally perceived around the world as a U.S. institution, headquartered in Washington and with a U.S. Chairman. With its ability to leverage its capitalization and with our relatively small equity participation, we get a very big “bang for our bucks” from our periodic capital contributions.

Last week I had lunch with Tom Clausen, Ernie Stern and Moeen Qureshi at the Bank. They expressed their mutual concern at the lack of enthusiastic support from the Administration and particularly at our lack of enthusiasm for IDA support and Bank capital increases.

As you know, Don Regan was never very enthusiastic about the Bank. I understand that last year in his speech at the Bank meetings he said something to the effect that the U.S. was not convinced that the Bank needed more capital.² Tom feels that this statement, whether or not it was accurate, indicated a negative attitude which is hurting the U.S. image within the Bank and in broader international circles.

I promised Tom that I would urge you to include a more positive statement in your speech in Seoul this year.³ While I don't believe you can say that the U.S. believes that the Bank needs more capital now, I do believe you can say that “the Administration will support an increase in the Bank's capital when the time comes that it is needed.”⁴ This is not a real commitment because it leaves in your hands the determination of need, but it is a statement that would be most

¹ Source: National Archives, RG 56, Official Files of the Executive Secretariat, 1985, UD-11W, 56-88-79, Box 65, Classified Document Receipt, Sept '85. Confidential; Personal; Eyes Only.

² Regan addressed the Interim Committee of the International Monetary Fund on September 22, 1984. See Hobart Rowen, “U.S. Interest Rates on Way Down, Regan Predicts to IMF Panel,” September 23, 1984, *Washington Post*, p. 20.

³ Baker delivered a speech on October 8 at the annual meeting of the Boards of Governors of the World Bank Group and the International Monetary Fund in Seoul. He announced the Baker Plan in the speech. See Document 192. For further documentation on the Baker Plan, see the International Debt compilation of this volume.

⁴ Baker highlighted this sentence and placed a checkmark in the right margin.

constructive in terms of morale at the Bank and image around the world.

I hope I'm not butting into something that's none of my business.
With warm regards,
Sincerely,

John C. Whitehead⁵

⁵ Whitehead signed "John" above his typed signature.

346. Letter From Secretary of State Shultz to the Acting Director of the Office of Management and Budget (Wright)¹

Washington, September 17, 1985

Dear Joe:

I am pleased to submit the FY 1987 integrated foreign assistance budget for your consideration and that of the President. With the exception of those programs identified in the footnote, the enclosed table contains detailed recommendations for new budget authority for all foreign assistance progress.²

As in past years, the FY 1987 foreign assistance budget has been coordinated with the Departments of Defense and Agriculture, the Agency for International Development and the Peace Corps. Except for one minor, essentially technical difference in P.L. 480 that is discussed below, all participants in the process support the recommendations contained herein.

This year's budget submission (net of off-budget FMS) totals \$16.8 billion, an increase of \$786 million over the FY 1986 request and \$664 million over the OMB planning guidance. Given the nature of the threats we face in our FY 1986 appropriations and our increasing national security concerns in strategic regions throughout the world, we view this budget request for economic and security assistance as

¹ Source: Reagan Library, George Shultz Papers, Official Memoranda (09/29/1985); NLR-775-53B-33-4-6. Confidential. Drafted by Robert Bauerlein (T); cleared in AID/PPC, AF/EPS, ARA/ECP, EAP, NEA/ECON, EB/ODE, PM/SAS, S/P, DOD/DSAA, Peace Corps, USDA, and in substance in EUR/RPM. Bauerlein initialed for all clearing offices and agencies.

² Not attached.

the minimum required to carry out the President's highest priority foreign policy objectives.

Detailed justifications for each part of the foreign assistance program will be submitted to OMB through the usual channels. I would like to comment briefly, however, on five specific items.

— *Philippines Military Assistance*—The attached request includes \$50 million in grant MAP and \$50 million in concessional FMS for the Philippines.³ The Departments of State and Defense would both like to make the Philippine military assistance program all MAP, given the enormous needs of the Philippine armed forces, the growing threat they face and the severely depressed state of the Philippine economy. We recognize, however, that such a proposal could not be successfully defended in the Congress without major improvements and reforms within the Philippine armed forces. Should such changes occur, we intend to propose an amendment to our FY 1987 request that would shift the \$50 million in concessional FMS to MAP. Such a shift would not increase overall budget totals.

— *Central America*—The FY 1987 request includes minimum levels of economic assistance for Central America that are consistent with the recommendations of the National Bipartisan Commission on Central America. I feel strongly that our request to the Congress should contain such levels in order to underscore the priority we attribute to the Central America Initiative, and to give substance to our plans to reorient our policy dialogue with the Central American republics in order to accelerate the process of economic recovery in the region.

— *P.L. 480*—State, AID and Agriculture worked closely on the preparation of the P.L. 480 request and support the increased levels contained herein.⁴ P.L. 480 remains a valuable market development/economic development/foreign policy program that has strong popularity in the Congress. Because of the lateness in arriving at final decisions in the integrated budget process, Secretary Block's budget request will contain program levels that are slightly different than those contained in the attached. These differences are not significant and can be addressed as the budget process moves forward.

— *Guaranty Reserve Fund (GRF)*—No funds for replenishing, the GRF are included in this request. P.L. 99-83⁵ requires that the President prepare and transmit to the Congress within 90 days after the date of enactment of the act (by 8 November 1985) a report of the history of FMS financing and recommendations on replenishing the GRF. The Department of Defense is now preparing this report. After we reach a

³ Not attached.

⁴ Not attached.

⁵ See footnote 2, Document 342.

better understanding of the alternatives available to us for dealing with the GRF problem, we will discuss them with OMB staff.

— *International Fund for Agricultural Development (IFAD)*—We have not included a request for a contribution to IFAD since agreement has not yet been reached on a second replenishment. If such an agreement is reached, we will amend our request accordingly. We believe that we are close to an agreement and that it may come as early as October.

Our current assessment of the FY 1986 appropriations process has led us to conclude that an FY 1986 supplemental is inevitable. We will, of course, continue to push for appropriations as close to the President's request as possible. The Budget Resolution and the House Appropriations Committee's reported bill, however, make our chances poor for achieving adequate levels. If the HAC levels, or anything close to them prevail, we will not be able to meet mandated earmarks, base rights commitments, requirements in front line and military access states and high priority Central America programs, much less be able to provide minimum funding for the numerous small but strategically important security and development programs around the world. As soon as possible after we know what our FY 1986 appropriation levels will be, therefore, we will prepare for your consideration a supplemental appropriation request.

Finally, in his August 23, 1985, memo to Secretary Weinberger and me, Bud McFarlane encouraged us to consider a more robust foreign assistance program, one that would be designed to achieve the level and mix of resources we believe are necessary to meet U.S. needs and those of our partners.⁶ I share Bud's concern. Even at the levels contained in the attached, and which are still subject to Congressional action, we are losing opportunities to protect and solidify the major foreign policy achievements of this Administration.

Over the next several weeks, the State Department, working through the integrated foreign assistance budget mechanism with the other foreign assistance agencies, will prepare a submission reflecting this more robust approach. In this submission we will propose and justify specific country levels and a strategy for presenting the program to the Congress.

As always, the Department of State and the other foreign assistance agencies are prepared to answer any questions on this request and will provide additional detailed materials as required over the next several weeks. I look forward to working with you throughout the fall as you consider this extremely important part of the President's overall agenda.

Sincerely yours,

George P. Shultz⁷

⁶ See Document 342.

⁷ Shultz signed "George" above his typed signature.

347. Letter From Senators Jesse Helms, James McClure, Jeremiah Denton, Steven Symms, Strom Thurmond, and Mack Mattingly to President Reagan¹

Washington, September 18, 1985

Dear Mr. President:

We are writing to request an overhaul of our foreign assistance efforts.

As you know, we conservatives have had a profound skepticism historically of foreign assistance. In economic terms we have viewed our efforts as little more than thinly disguised welfare for the Third World.

As you said on March 17th, 1980,² "for too long at official levels we have been apologetic about, if not downright hostile toward, American capitalism as a model for economic development . . ." You brought this point forcefully home at the Cancun Summit in 1981 when you pointed out that our real treasure was our economic system, not our financial resources. Reasonable people here and in the Third World applauded your commitment and began to prepare for the promised economic revolution.

AID has failed totally, however, to deliver on these promises. This is especially disappointing since it is a time when throughout the Third World there is a real desire for market oriented development. AID today offers little more than rhetoric, so your sound concept of economic development remains unfulfilled. This is a tragedy for two main reasons:

- * It threatens U.S. long-term political and security interests.

- * It deprives America and the Third World of opportunities for real economic growth through increased trade and investment.

We disburse well over \$10 billion a year in foreign assistance with virtually all of this going to or through the local governments. Almost none goes to the indigenous private sectors. This allows bureaucracies to grow and assures that resources will be used for political purposes which work to perpetuate the regime in power. While this may be desirable from our own perspective in the short-term, it is a prescription for disaster in the long run. Such policies weaken the private sector which has proven itself to be the only sector of the economy which can stimulate self-sustaining economic growth and which can balance the power of the state in pre-democratic societies.

¹Source: Reagan Library, David Wigg Files, Chronological file, October 1985. No classification marking.

²See footnote 2, Document 341.

AID both sets our economic development policy and establishes the means by which it is carried out. We do not dispute AID's role in humanitarian assistance nor minimize the legislative limitations which constrain AID's activities. However, AID's Bureau for Private Enterprise is underfunded and largely ignored. The private enterprise efforts of the other AID bureaus are rarely effective and frequently seem to have little to do with stimulating true privately driven economic growth.

There is no reason that this should be so, as other Western governments have successful programs aimed at the private sector which work in parallel with their assistance programs.

We believe the U.S. should pattern its development efforts after the successful model of some other Western countries. Your Task Force on International Private Enterprise suggested that the U.S. establish such an institution by modifying OPIC's present charter and allowing OPIC to manage our presently budgeted economic development resources.³ We support this idea.

In addition, we see it as critical that our official development policy be set by an institution separate from any one of our functional institutions. At present the positions of Administrator of AID and Director of the International Development Cooperation Agency are filled by the same person.

While conservatives were opposed to the formation of IDCA in 1979, we now believe, retrospectively, that the high level of complexity of our foreign assistance efforts strongly suggests that we should have an IDCA director divorced from the day-to-day considerations of running a multibillion dollar relief and assistance agency.

Both these suggestions could be implemented quickly. We feel strongly this would restore the momentum for true change in the Third World which you promised early in your first term.

We stand ready to help.

Sincerely,

**Jesse Helms
Jim McClure
Jeremiah Denton
Steve Symms
Strom Thurmond
Mack Mattingly**

³ See Document 324.

348. Telegram From the Department of State to All Diplomatic Posts¹

Washington, October 16, 1985, 0017Z

317345. Subject: Multilateral Assistance and the Environment. For Ambassadors and AID Principal Officers from the Acting Secretary and AID Administrator. Ref: State 2974 (Notal).²

1. Summary—There is growing public and congressional sentiment that the USG should exert greater influence on projects financed by the multilateral development banks to reduce their adverse environmental impacts. Your personal involvement is requested to ensure that we are responsive to this concern, and in a manner which recognizes the potential political sensitivities of this issue in host countries. End summary.

2. The United States has historically been the world leader in shaping and supporting international development assistance efforts, utilizing both bilateral and multilateral channels. Despite ups and downs of our economy over the years, support for such assistance has remained a strong constant.

3. We have learned that the development process must be based on solid foundations if it is to result in real progress. In recent years these foundations have come to include the capacity of the environment and natural resource base (soil, forests, etc) to sustain development over the long term. The adverse impacts on development of misuse of the environment and mismanagement of natural resources have been well documented. Not only do they include the reduction of anticipated benefits in the developing countries, but the direct and indirect costs to the donor nations are wide-ranging. The influx into the U.S. of economic refugees from ecologically devastated Haiti or the emergency relief costs of famine in Ethiopia are telling examples.

4. While concern about the environmental aspects of international development assistance had been largely focused on the policies and

¹ Source: Department of State, Central Foreign Policy File, Electronic Telegrams, D850736–0796. Unclassified. Drafted by Paul Glasoe (OES/ENR); cleared by Negroponte (OES), Michelle Bova (S/S), Richard Benedick (OES/E), Bill Long (OES/ENR), Ruth Van Heuven (S/S-O), James Tarrant (EUR/RPE), Richard Derham (AID/PPC), Robert Beckham (ARA/ECP), R. Banque (Treasury/IDB), P. Daley (AF/EPS), John Riddle (EB/ODF), Robert Cekuta (NEA/ECON), Robert Duncan (EAP/EP), and Edmund Kelly (H); approved by Armacost.

² Telegram 2974 to all African diplomatic posts, all American Republic diplomatic posts, all Near Eastern and South Asian diplomatic posts, and all East Asian and Pacific diplomatic posts, January 4, is in Department of State, Central Foreign Policy File, Electronic Telegrams, D850009–0544.

practices of bilateral donors in recent years, attention has now been shifted to the multilateral development banks (MDBs) and U.S. responsibilities thereto. In 1980 the major multilateral development institutions adopted a "Declaration of Environmental Policies and Procedures Relating to Economic Development" in which they committed themselves to promote environmentally sound development. However these high principles have not always guided specific activities of these institutions.

5. Over the last three years a series of congressional hearings has been held on the environmental policies and practices of the MDBs. (See reftel, being repeated to those not originally addressed.) One of the results was a directive to the Department of State to play a more active role, in cooperation with AID and Treasury, in promoting improved integration of environmental considerations into MDB projects.

6. Recently, the House Appropriations Committee, in its report on the FY 1986 Foreign Assistance Appropriations Bill, urged the USG to oppose any MDB loan which "results in the use of natural resources at an unsustainable level, endangers species survival . . . (etc.)." And, on September 18, Senator Kasten threatened in a hearing to "use the appropriations process" to move the MDBs faster toward more environmental sensitivity. Responding to congressional concern, the World Bank suspended on environmental grounds earlier this year disbursements on a large loan for highway construction in the Brazilian Amazon.

7. This heightened interest in the environmental and resource management implications of development is thoroughly justified. While USAID is widely recognized as the world leader among bilateral donors in promoting environmentally sound, sustainable development, we must now do all we can to promote similar forward-looking development policies and practices among the multilateral development institutions.

8. In recent months State and AID have been working with Treasury and others to develop an effective strategy for addressing this need. It is very clear that we must exert influence in the early stages of project development if we are to (1) ensure that environmental considerations are effectively integrated into the project design; and (2) minimize the potential for bilateral friction likely to occur when we are required to speak out against a particular loan when it comes up for final approval. (This happened earlier this year in relation to a large IDB loan when our request for additional environmental safeguards just prior to a final vote created a predictable stir.)

9. Action requested—Developing country addressees.

In order to help us develop and implement an effective politically-sensitive strategy, we ask you to do the following:

In countries which borrow from one of the major multilateral development institutions, assure that your staffs give serious heed to the request (State 2974) for early reporting on the environmental implications of prospective MDB projects. Close contact with visiting MDB missions and resident staff should assist in this process. To help put our review of MDB projects into context, please also report on the environmental issues your host government considers of high priority.

In all developing countries, please use your personal influence, and that of your staffs, to maintain constructive dialogues with host government officials on this matter. We should attempt to heighten awareness that development which does not integrate careful attention to wise resource management will be more costly and potentially less productive in the long run; and also help design necessary safeguards.

10. Action requested—developed country addressees.

OECD members recognized the importance of linking environmental assessment and development assistance in a recommendation adopted by the OECD Council last June. ECE governments are working on a project to expand usage of environmental assessments. Such interest can hopefully serve as a solid basis from which to approach the practical environmental implications of MDB activities, and we wish to provide encouragement and support whenever possible. Consequently, in developed countries which, along with the U.S., are funders of the MDBs, we would welcome your assessment of how the U.S. might most effectively engage your host government in complementary unilateral efforts and/or coordinated approaches in multilateral fora aimed at influencing MDBs more effectively to integrate environmental considerations in their lending activities. Thoughts from any other posts on this subject would, of course, also be appreciated.

11. If any post desires background materials on the general issue of the environment and development, or specifically on how we are seeking to influence the MDBs, please slug your requests: "Attention State OES/ENR and AID/PPC."

Shultz

349. Memorandum From the President's Assistant for National Security Affairs (Poindexter) to the Chief of Staff to the President (Regan)¹

Washington, December 11, 1985

SUBJECT

Foreign Policy Aspects of the Proposed Farm Bill

Secretary of State Shultz has raised a number of major foreign policy concerns with the farm bill (State memo at Tab A).² Secretary Shultz, the Department of Agriculture and the Office of Management and Budget have described those concerns to appropriate leaders of the House and Senate and have argued for elimination of the offending provisions from the 1985 Farm Bill. At this critical juncture, both the Secretary and I feel that the President should not support a new farm bill if it contains the following particularly destructive elements:

— *No net cost provision for sugar.* This would amount to a reversal of the President's recent sugar decision³ and have the deleterious effect of drastically reducing sugar quotas for CBI countries and the Philippines. Such a measure would dangerously destabilize the economies of many strategic countries in order to provide greater benefits for some U.S. producers and to allow moderate budget savings.

— *A requirement that the Administration spend \$2 billion on the export enhancement program.* Although the Administration committed itself to this program last May, a requirement that it be funded at this level over three years denies the Administration needed discretion in administering this complex program. Although the Administration previously agreed to spend *up to \$2 billion*, mandated spending levels will deny us the ability to target the program to countries where there is clear evidence that other producers are subsidizing their exports. If this program is not managed in a highly disciplined manner, it could cause significant harm to a number of our most important international relationships. USDA also informs us that it would be almost impossible to fund the program at the \$2 billion level without extending subsidies to the USSR or impacting Thailand on rice.

— *The use of 416 authority and CCC commodities.* Mandatory levels for 416 grants for short-term humanitarian assistance would be contradictory in nature since humanitarian, emergency related assistance should be the result of a demonstrated need rather than a target. Such

¹ Source: Reagan Library, Stephen Danzansky Files, Subject File, Africa (Debt Strategy); NLR-733-9-4-12-1. Confidential. A copy was sent to Miller.

² Attached but not printed is Tab A, a December 10 memorandum from Platt to McFarlane.

³ See footnotes 5 and 6, Document 344.

targets could lead to inefficiencies in the AID programs, mismatches of food types to needs and depressed prices for farmers in affected countries. The use of 416 authority for "Food for Progress" funding would be less efficient than using P.L. 480 authority. The barter provisions for petroleum or strategic materials would be used to procure materials and oil *above* Presidentially established goals. The Administration has embraced barter on a case by case basis only when it can be demonstrated that it is more "efficient and effective" than open market transactions.

— *Provisions on ethanol imports.* Like the sugar provisions, such provisions would disrupt the exports of friends like Brazil and be contrary to GATT while it largely favors a single domestic producer. The suggested stockpile for ethanol is not needed from a national security standpoint.

— *Prohibitions on US Agricultural Development Assistance.* This would prohibit US aid to countries which export agricultural commodities competing with U.S. products. Another provision would seek to curtail funding to multilateral development banks under similar conditions. Such language would be difficult to implement and might severely harm sub-Saharan African countries.

— *Dairy promotion language.* This would involve the U.S. in subsidized commodity export sales to the detriment of non-subsidized exports and world prices. This provision could severely impair our relations with New Zealand.

These elements must be substantially modified by the conferees. Of course, the high cost of the proposed bill, given our budget targets, may also create pressure for further inappropriate reductions in the Defense budget.

In order to assist State, USDA and OMB in changing or removing the noted provisions from the farm bill, the NSC at the behest of the agencies is calling and writing House and Senate members to alert them to the foreign policy problems. If appropriate changes are not made, however, foreign policy concerns would strongly argue against the acceptability of the farm bill.

350. Memorandum From the Administrator of the United States Agency for International Development (McPherson) to the Deputy Secretary of State (Whitehead)¹

Washington, December 23, 1985

SUBJECT

The World Bank

The World Bank has often, in effect, encouraged public sector growth. An important reason for this is that the Bank requires government guarantees for all of their loans. The result of this requirement is that most loans go to public enterprises.

Attached is a description of the problem and a proposal that the Bank make at least some loans without the government guarantee.

Attachment

Paper Prepared in the United States Agency for International Development²

Washington, undated

**THE WORLD BANK AND THE PRIVATE SECTOR:
THE NEED FOR FLEXIBILITY CONCERNING
GOVERNMENT GUARANTEES**

Problems Caused by Government Guarantee Requirement

Of the \$14.5 billion lent by IBRD/IDA in FY 1985, the overwhelming majority of resources went to LDC governments or other public sector entities. Although some of these funds were later on lent to the private sector, they were first channelled through a government entity which made the major decisions about their allocation and use. *A major reason almost all IBRD/IDA funds went to public borrowers was the Bank's requirement that all of its loans carry a government guarantee.*

¹ Source: Department of State, Executive Secretariat, S/S-I Records, The Executive Secretariat's Special Caption Documents, Lot 92D630: No folder title. No classification marking. Not for the system. Whitehead wrote in the top right-hand corner of the memorandum: "PMcP, I agree with this approach. Some kind of dividing line needs to be established between the IBRD and IFC private sector loans though. What should we do to propose it? Should we talk to Baker or Clausen? J."

² No classification marking. No drafting information appears on the paper.

It was this concern that led the Asian Development Bank to decide a few weeks ago to adopt an experimental program of limited lending *without* a government guarantee. *It is now the time for the World Bank to show similar flexibility.* (The Inter-American Development Bank and the African Development Bank have similar guarantee requirements which should also be reviewed.)

For many years the standard answer on this issue has been that the World Bank's affiliate, the International Finance Corporation (IFC), could finance those projects for which a government guarantee was not feasible or desirable. However, the IFC is by far the junior member of the Bank Group (total lending and equity investments in FY 1985 of under \$1 billion), and is heavily focused on relatively small (the average IFC investment is \$7 million), highly leveraged projects. *Therefore, the IFC is often not an appropriate source of financing for several kinds of projects which receive large amounts of World Bank funding. Unfortunately, these projects are frequently the very ones for which government ownership is not appropriate.*

These projects often include:

- Financial intermediaries which supply capital for medium and long-term lending to private firms.
- Firms supplying social services such as health care, family planning services, and training.
- Utilities such as electric companies, telephone companies, gas pipelines, and transportation entities (railroads, urban transit).

As long as large amounts of IBRD/IDA resources are available for loans for such publicly owned entities, but not for their privately owned counterparts, the World Bank will continue to be a force that encourages public ownership. This is true even though the record is now clear that public ownership, perhaps especially in LDCs, is often uneconomical.

For those countries eligible for IDA, IDA's very concessional loans are usually the most attractive foreign financing available. *In other words some small and poor countries may now be in the position of expanding their public or publicly supported sectors more than they would otherwise choose in order to receive the very attractive IDA financing.*

The reasons the IBRD/IDA has always required a government guarantee for loans are fairly simple. (This requirement is stipulated by the World Bank's charter but not that of IDA, although as a matter of policy IDA has always required such a guarantee as well.) The requirement for a government guarantee does the following:

(1) *Facilitates and simplifies Bank lending.* The Bank reduces its risks and is therefore able to lend for more innovative projects. It also makes project appraisal work easier and certainly requires less intensive post-project completion monitoring.

(2) *Reassures financial markets and hence facilitates Bank borrowing.* For the Bank's hard window the government guarantee provision increases

the value of the Bank's portfolio in the eyes of bond rating agencies and potential bond buyers. This, of course, contributes to the financial markets' overall perception of the financial quality of World Bank bonds.

Could the Government Guarantee Requirement Be Eliminated For Some or All of These Loans?

The legal or financial obstacles are surmountable.

In the case of IBRD (but not IDA) a change in the charter would be required. This would require a favorable vote of 80% of the voting shares and would need to be carefully orchestrated to avoid requests for other charter changes. However, based on the ADB precedent, *it appears reasonably likely that a well designed and probably limited size program of lending without government guarantees could gain the support of most members.*

It should first be noted that IBRD's current outstanding portfolio is now \$41 billion. Therefore, if the amount of IBRD lending without a government guarantee initially is kept to a limited size, there should be minimal effect on financial market perceptions of portfolio soundness.

As to IDA, *there should be relatively few problems with eliminating the government guarantee requirement for IDA lending since it is based on donor contributions rather than capital market borrowings.*

As is to be done at the Asian Development Fund, private borrowers could receive IDA funding on near commercial terms, unless the innovative nature of the project or some other reason justified subsidized financing for the private borrower. The Bank's staff, of course, will need to conduct particularly careful feasibility and risk assessments of projects to avoid embarrassing defaults.

For both IBRD and IDA, there are a number of measures which could be taken to greatly reduce the risk of loss. Guarantees could be provided by other private entities such as local or foreign commercial banks. Various other forms of security (e.g., mortgages on property) could be obtained, and the Bank could set aside a special reserve fund for losses under this program. This fund could be financed by special charges for unguaranteed loans or by existing Bank net income.

In formulating a new program of lending to the private sector without government guarantees precautions would also need to be taken to assure that loans were not being substituted for otherwise appropriate commercial financing.

351. Telegram From the Department of State to Secretary of State Shultz's Delegation¹

Washington, January 10, 1986, 0526Z

Tosec 10170/8633. From Allen Wallis. Subject: The U.S. Sugar Program.

1. During your meeting with Beryl Sprinkel on this year's economic report, you suggested that sugar would make an excellent case study in microeconomics and the functioning of markets. Keith Maskus of EB/PAS has developed a "school note" along those lines for the CEA's consideration. The text is repeated below for your information (unfortunately the graphs cannot be transmitted with current technology). Doug McMinn has spoken to Beryl Sprinkel who appears to favor its inclusion in the economic report of the President, if he finds it satisfactory.

2. The United States protects the incomes of its raw sugar producers through a program whose central feature is a domestic support price far above the world price. This program has raised domestic production of sugar and sugar substitutes but lowered consumption and imports. The reduction in imports, in conjunction with similar sugar protection in Europe, has imposed losses on many less developed countries. The program is a classic example of the inefficiency inherent in protecting a domestic industry at the expense of consumers and most foreign exporters.

3. As shown in figure 1, the world sugar price has fallen dramatically since 1981. By imposing successively tighter import quotas on raw sugar since 1982, the United States has maintained a price of approximately 20 cents a pound to protect its domestic growers. These quotas have been used to minimize costs to the federal budget but have shifted the costs to the U.S. private economy. Domestic consumption of raw sugar has fallen while, as shown in figure 2, U.S. raw sugar output has remained firm, even rising ten percent between 1983 and 1986. In addition, production of sugar substitutes has risen, and imports have fallen.

4. The economics of this policy are simple. Without a quota, and ignoring transport costs, the United States would import sugar at the world price. The import quota, imposed to protect raw sugar producers, raises the domestic price and lowers the world price. Such a policy

¹ Source: Department of State, Central Foreign Policy File, Electronic Telegrams, [No D Number]. Limited Official Use; Immediate. Drafted by Martin Bailey (E); cleared by Carl Cundiff (EB/TDC/OFP), Marshall Casse (EB/PAS), William Dewald (EB/PAS), Fredi Bove (EB), Ann Hollick (EB/TDC/OT), Denis Lamb (EB), McMinn (EB), James Bindenagel (S/S-O), and Richard Mueller (S/S); approved by Wallis.

in recent years has in fact directed resources into both beet and cane production which became more profitable relative to alternative farm outputs. This allocation is costly because it sacrifices production that would have had higher value in world markets than the domestic sugar output displacing it. Consequently, it could have been used to increase the total value of goods available for domestic use, a waste that is the essence of economic inefficiency. On the demand side of the market the artificially high domestic sugar price induced less consumption of raw sugar. Together, the domestic output and consumption responses restricted the quantity of U.S. imports, forcing a reduction in the world price. In turn, this has tended to reduce sugar production in the rest of the world. Thus, the U.S. quota has shifted production from low-cost export producers (most in less developed countries) to high-cost domestic producers.

5. Two further impacts of the program may be noted. First, it has encouraged greater imports of processed foods containing inexpensive foreign sugar, harming U.S. food processing firms. Second, it has encouraged greater domestic production of alternative sweeteners. These substitutes may be profitably produced and sold at prices below the domestic sugar price, so consumption has shifted from sugar to other sweeteners. As shown in figure 2, for example, there has been a 37 [percent?] increase in domestic output of corn sweeteners since 1982 in response to a substantial rise in demand. Because consumption shifted from raw sugar to other sweeteners, it has been necessary to reduce the quota in order to maintain the 20 cent raw sugar price. This has forced further reductions in the world price and output. In 1986 the domestic price was more than three times the world price. Figure 2 shows that domestic output of substitutes has continued to rise and imports have continued to fall. In fact under the current program the United States is expected to import no sugar at all in two years.

6. The costs to consumers of achieving self-sufficiency in sugar—a product in which the United States lacks a comparative advantage—are huge. To illustrate, current U.S. consumption of raw sugar is around 8 million tons, worth 3.2 billion dollars at the support price of 20 cents a pound. If the United States were to dismantle its sugar program, it is reasonable to expect that U.S. and world prices would converge at about 10 cents a pound. It would cost only 1.6 billion dollars to buy the same 8 million tons for U.S. consumption. The rest, approximately 1.6 billion dollars at 1986 levels, is purchasing power sacrificed for sugar protection. The actual sacrifice is more than this because lower sugar prices would allow greater consumption and reduce expenditures now diverted into sugar substitutes. Of the 1.6 billion dollars, nearly 1.3 billion dollars supports current U.S. production of 6.3 million tons. The remaining 300 million dollars are lost as an economic windfall to particular foreign exporting firms that are allowed to sell sugar in

the U.S. market at the domestic price. This windfall arises from a decision to transfer the revenues that would have been generated under an equivalent import duty to foreign producers in partial compensation for declining imports. Nevertheless, this windfall does not change the incentives to reduce output and employment in less developed countries. Instead, it merely creates special interests that expend resources in competing for export licenses.

7. The excessively high domestic price of sugar is a testament to how uncompetitive the domestic industry is. The ultimate irony is that without a market-oriented reform, U.S. producers themselves will eventually be squeezed out of the market by the production of sugar substitutes unless the government chooses to buy raw sugar and dump it on world markets.

Armacost

352. Letter From Secretary of the Treasury Baker to the President of the International Bank for Reconstruction and Development (Clausen)¹

Washington, January 13, 1986

Dear Tom:

I am glad we had the opportunity to discuss the upcoming replenishment for the International Development Association (IDA VIII). As you suggested in that meeting,² I have outlined below what we consider to be the necessary elements of the replenishment.

I want to emphasize again that the policy changes we are seeking are critical to the character of U.S. participation in the replenishment. Gramm-Rudman³ totally changes our budgetary environment. Competition for resources over the life of IDA VIII will be stronger than ever and it will be extremely difficult to justify funding IDA even at current levels in the absence of sharp policy changes in the program.

¹ Source: National Archives, RG 56, Executive Secretariat, Records of the Office of the Secretary of the Treasury, Correspondence Files, 1986, UD-13W, 56-89-13, Box 34, Dept and Agen s/IBRD '86. No classification marking.

² No record of the meeting has been found.

³ Likely a reference to the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), also known as the Gramm-Rudman-Hollings Act, which Reagan signed into law on December 12, 1985.

The specific policy changes we are seeking are:

- lending terms that move toward reducing the grant element, i.e., a reduction of maturity and grace periods and an increase in interest charges;
- a lending program that emphasizes and supports directly the private sector;
- a larger proportion of the total lending program dedicated to policy based lending—particularly in Sub-Saharan Africa; and
- a larger IDA share for Sub-Saharan Africa.

With these policy changes, I believe a replenishment in the \$9 to \$12 billion range may be feasible.

In addition, for any replenishment, we would insist that the funds in excess of \$9 billion be earmarked for lending to Sub-Saharan Africa in conjunction with lending from the IMF Trust Fund. We also would insist that the proportion of the \$9 billion base of IDA VIII that corresponds to the portion of the IDA VII replenishment dedicated to policy-based lending in Sub-Saharan Africa be earmarked through the same mechanism for Africa. The IMF Trust Fund, the IDA policy-based lending and, hopefully, the Special Facility for Sub-Saharan Africa have precisely the same objective, and logically should function in a cooperative program for these countries.

The stronger focus on Sub-Saharan Africa and close cooperation with the Fund that are embodied in this approach along with the other suggested changes would permit the U.S. to enter into IDA VIII replenishment discussions with a much stronger position domestically. A replenishment in the range of \$9 billion to \$12 billion would be much more likely to be achieved as a result.

As you are aware, the policy changes we are seeking in IDA and more generally the direction we wish IDA to follow are a reflection of the changes we are seeking in the World Bank. They are not mutually exclusive or separable; and they are consistent with our overall policy toward the IFIs.

With regard to the Bank we are seeking:

- a greater focus on the 15 debtor countries;⁴
- a major expansion of structural and sector adjustment lending where there is a demand from countries;
- more of the Bank's lending program should be tranching in order to monitor performance better;
- a relaxation of the portfolio concentration guidelines for selected debtor countries;
- an improvement in the pace of internal procedures for processing loans without sacrificing loan quality;

⁴ The Baker Plan included a list of 15 debtor countries; see Document 196.

- increased and continued coordination and cooperation with the IMF and with regional MDBs;
- a stronger push by the Bank to get major debtor countries to move toward market oriented economic policies, i.e. fair but strong conditionality which will not be compromised;
- suspension of lending for non-performance of lending conditions; and
- strengthened Bank staff for handling this type of lending.

We recognize some of these changes will not be easy; but they are essential. We also understand that some are in the process of being made; but the pace of those changes appears to be extremely measured. A failure to act much more quickly could very well jeopardize the program that we have all agreed is needed.

Beyond these immediate concerns we need to begin thinking about and developing additional concepts to buttress and extend the new debt initiative.⁵ For example, more imaginative use of devices or programs such as co-financing, integration of the IFC into the program, Bank lending to private institutions and deposit-taking by the Bank are ideas we may wish to examine.

In closing let me again emphasize the critical need for the Bank to make the changes outlined above as quickly as possible. I hope that you share this view and will continue to press for these changes.⁶

Sincerely,

James A. Baker, III⁷

⁵ See the International Debt compilation of this volume.

⁶ In a September 26 memorandum to Dam on the round of IDA replenishment negotiations which took place from September 23 to 25 in Washington, McMinn reported that the U.S. had "achieved all of its major objectives in the negotiations." These objectives were: "a hardening of IDA lending terms"; "a firm policy statement on agricultural lending"; and "a replenishment that will total at least \$11.5 billion." (Department of State, Executive Secretariat, S/S Files, 1986 Official Office Files, Action/Briefing/Information/Through Memoranda,/Chron Files/Memoranda to the Secretary Handled by (E) Economic Affairs Allen Wallis, Lot 89D156: Through Memoranda, September 1986) In a December 16 memorandum to Baker, Mulford reported that IDA Deputies had concluded agreement on an approximately \$12.5 billion IDA VIII on December 15. According to Mulford, IDA and IBRD management credited the United States for the size of IDA VIII and praised U.S. officials for their hard work and leadership. (National Archives, RG 56, Executive Secretariat, Records of the Office of the Secretary of the Treasury, Correspondence Files, 1986, UD-13W, 56-89-13, Box 30, Memos to the Secretary, International Affairs, Nov-Dec '86)

⁷ Baker signed "Jim" above his typed signature.

353. Summary of a Meeting¹

Honolulu, February 1, 1986

1986 Economic Summit
Second Sherpa Meeting (Honolulu)
January 31–February 2, 1986

I. Sherpas and Assistants in Attendance

United States

Mr. W. Allen Wallis
Under Secretary of State for Economics

Dr. David Mulford
Assistant Secretary of the Treasury

Mr. Stephen Danzansky
Senior Director of International Economic Affairs, National Security
Council

Republic of France

Mr. Jacques Attali
Special Adviser to the President

Mr. Jean Vidal
Director General of the Division of Economic & Financial Affairs,
Ministry of External Relations

Mr. Daniel Lebeque
Director General of the Division of Treasury, Ministry for the Economy,
Finance and the Budget

United Kingdom

Sir Robert Armstrong
Secretary of the Cabinet

Mr. Rodric Braithwaite
Deputy Under Secretary, Foreign Commonwealth Office

¹ Source: Reagan Library, Stephen Danzansky Files, International Trade Subject Outline, VII (G) 3.b. Tokyo Summit—Sherpas—Meetings—Honolulu 1986; NLR-733-5-26-1-3. Secret. There is no indication as to where in Honolulu the meeting took place. No drafting information appears on the summary.

Sir J. Geoffrey Littler
Second Permanent Secretary, HM Treasury

Federal Republic of Germany

Dr. Hans Tietmeyer
State Secretary, Ministry for Finance

Dr. Alois Jelonek
Director General, Department of the External Economic Policy
Development Assistance & European Economic Integration,
Federal Ministry of Foreign Affairs

Dr. Lorenz Schomerus
Director General, Department of the External Economic Affairs,
Federal Ministry of Economics

Japan

Reishi Teshima
Deputy Minister for Foreign Affairs

Tomomitsu Oba
Deputy Minister of Finance

Nobutoshi Akao
Counsellor in the Bureau of Economic Affairs in the Foreign Ministry

Kunio Miyamoto
Deputy Director General, Coordination Bureau, Economic Planning
Agency

Republic of Italy

Ambassador Renato Ruggiero
Secretary General of the Ministry of Foreign Affairs

Dr. Mario Sarcinelli
Director General of the Treasury, Ministry of the Treasury

Prof. Antonio Pedone
Economic Councilor, Presidency of the Council of the Ministries

Canada

Dr. Sylvia Ostry
Ambassador for Multilateral Trade Negotiations

Mr. Bernard Drabble

Associate Deputy Minister, Department of Finance

Mr. David Wright

Director General of the Economic Affairs Bureau, Department of
External Affairs

Commission of the European Communities

Mr. Pascal Lamy

Head of Cabinet of the President of the Commission

Mr. Herman Posthumus-Meyjes

Director General for European Cooperation at the Ministry of Foreign
Affairs of the Kingdom of the Netherlands

Mr. Leslie Fielding

Director General for External Relations at the Commission

II. Agenda Outline

[Omitted here are the schedule of events and discussion of subjects
other than commodities.]

Session IV

COMMODITIES

— Reishi Teshima presented his personal paper on Commodity Problems² which he characterized as “most serious” for developing countries in light of their monoculture (dependency upon a limited number of commodity exports for income) and need to service growing debt under conditions of high interest rates and European countries’ weak economic recovery.

He seemed to agree that one element of the Common Fund for Commodities Agreement, namely, the price stabilization (buffer stock) concept was not a useful idea, but suggested consideration or reconsideration of element two: “other measures” which call for a research and development fund to assist in minimizing price fluctuations through better seed, processing and distribution.

U.S.—Mr. Wallis stated that the record shows that attempts to control or stabilize commodity prices work to the disadvantage of both producing and consuming countries. Teshima’s paper refers to benefits to more stable prices to both groups, but there is no evidence that stable prices would be better for either in the long run.

²Not found.

— Price movements are necessary to signal changes in supply and demand conditions. Attempts to suppress them lead to serious misallocation of resources, and are not sustainable for any length of time. Short-run “successes” in suppressing market signals, such as unrealistically high support prices, are undermined by reduced demand and the entry of new suppliers, leading to more drastic fluctuations in the incomes of producers than would have occurred without a stabilization agreement.

— Commodity prices have been weak in the recent recovery when measured in dollars, but not when measured in terms of other currencies. They have responded in a normal fashion to the strength of world economic activity and the expansion of world trade. This points out the most important things the Summit countries can do to improve the export earnings of primary commodity exporting countries: improve prospects for world growth and reduce trade barriers and distortions (especially in agricultural markets).

— There is no need for a new international organization to channel additional funds from donor countries to LDC's for commodity research and development. Furthermore, creating a new multilateral mechanism would revive the Common Fund price support idea—a bad idea whose time has come and gone.

Canada—Agreed that the answer was not in price maintenance or regulation. The LDC's problem is a problem of income and price is not the way to get there. The use or abuse of pricing mechanisms should not be encouraged. This raises another issue: how to deal with subsidies in developing countries as well as tariff escalation.

FRG—Felt that Teshima's paper was quite balanced. Properly reflects skepticism about common fund commodity stocks.

— Most of the EC members agree on two points:

1. The commodity problem is both lasting and structural, not merely cyclical.
2. Stability is the issue for LDC commodity producers.
3. Existing commodity agreements are too far from market realities.

— Can they be better managed? Answer uncertain.

UK—The way to help commodity producing LDC's is through OECD growth. There may be some value in price stability but most agreements promoting same generally work against markets. UK opposes cartel attempts to stabilize markets.

— To properly assess the real problem of poorer nations we must look to the income side—not the price side.

— In large part, debtor nations have done damage to themselves by embracing price mechanisms in defiance of market prices. The Summit nations should vigorously campaign for a minimum distortion of prices. Look at real pricing within the nations themselves. LDC's won't like this approach.

—Speaking of commodities, *oil* is a real problem. *We need to discuss oil at length at the next Sherpa meeting.*

—Commodities ought to be discussed in the next round of trade negotiations.

FRG—An option to think about is whether a drop in oil prices should trigger relief in the form of an IMF commodity facility.

[Omitted here is discussion of subjects other than commodities.]

354. Memorandum From the Executive Secretary of the Economic Policy Council (McAllister) to Secretary of the Treasury Baker¹

Washington, February 7, 1986

SUBJECT

Fiftieth Meeting of the Economic Policy Council—February 7, 1986

The Economic Policy Council will hold its 50th meeting at 2:00 p.m. in the Roosevelt Room.² Secretary Baldrige, John Poindexter, Jim Miller, and Clayton Yeutter will join you as principals. John Norton will represent Secretary Block; Tom Moore will represent Beryl Sprinkel; and Allen Wallis will represent Secretary Schultz.

The Council will consider two items: a report of the Working Group on Sugar and the export enhancement program. *We would like to take these issues to the President on Tuesday.*³

1. Report of the Working Group on Sugar

As a result of the new Farm Bill, the Administration is again facing a dilemma on the sugar quota. You may recall that the President approved in September 1985 the EPC's recommendations that the quota be reduced by an amount *less* than the amount necessary to balance domestic supply with demand.⁴ This angered the Hill whose intent was that the quota be used to ensure that the very costly domestic sugar program be run at no visible cost to the taxpayers.

¹ Source: Reagan Library, Eugene McAllister Files, Sugar—Folder 1. No classification marking. Copies were sent to Kingon and Darman.

² See Document 355.

³ February 11.

⁴ See footnotes 5 and 6, Document 344.

The new Farm Bill virtually removed the President's discretion in setting a quota by giving him only two options in the current year—both causing an aggregate reduction in imports of 425,000 tons—and requiring that in the out years the domestic sugar program be administered at no cost to the Government.

In signing the Farm Bill, the President stated that the Administration would seek to change the provision of the sugar program requiring a reduction in the sugar quota.⁵

The Working Group focused on: (1) mitigating the harm caused by the Farm Bill to U.S. national security interests and; (2) in the longer term, reforming the sugar program. Only one of the options can be done administratively—the remainder require legislation. The options are as follows:

Mitigating the Effect of the Sugar Quota

1. Reallocate country quotas;
2. Establish a compensation program providing CBI and other lesser developed countries with \$102.5 million in offsetting assistance (50 percent in-kind; 50 percent in cash);
3. Establish a compensation program providing \$102 million in cash;

Reforming the Sugar Program

4. Propose legislation repealing the “no forfeiture” provision of the domestic sugar program;
5. Reintroduce our Farm Bill proposal to gradually reduce the loan rate to 12 cents;
6. Propose legislation basing the loan rate on market prices; and,
7. Propose legislation controlling domestic sugar supplies.

Last night the State Department and OMB raised two new options:

A. Providing in-kind assistance to the CBI countries through the EEP and Sec. 416.

B. Purchasing sugar from the CBI countries and reexporting it to EC Third World sugar markets.

⁵In his statement on signing the Food Security Act of 1985 (P.L. 99–198) on December 23, 1985, Reagan stated that “the legislation includes several highly objectionable features that must be changed.” One of those features was “a mandatory reduction in the size of the sugar quota that threatens to severely disrupt the economics of the Caribbean Basin countries and the Philippines. This provision is inconsistent with the foreign policy objectives of our country and may also be violative of our obligations under international trade agreements.” This provision and other others that Reagan found objectionable “represent the worst in the way of policy,” Reagan concluded. “My administration will seek modifications of these programs next year.” For the full text of the statement, see *Public Papers: Reagan, 1985*, Book II, pp. 1502–1503.

Secretary Shultz supports option B which has the virtue of targeting the EC. It however also has the apparent drawback of increasing budget outlays.

OMB likes option A because it wouldn't cost anything.

The Administration is very frustrated by what Congress did in the Farm Bill with regards to sugar and the export enhancement program. Like it or not, however, we must recognize three facts:

1. We do not have any good options left with regards to sugar.
2. We are extremely unlikely to get any legislation changes to the sugar program or any funding for mitigating the effects of the sugar quota on the CBI countries; and
3. As perplexing as these Congressional policies are, there is a logic to them. We are caught up in an agricultural policy spiral with the EC. The EC subsidizes its agriculture and dumps overproduction in the world market. That dumping, in turn, affects our exports, causing U.S. stockpiles to increase. The Administration is, in a sense, caught between the Congress and the EC.

Given these facts, I suggest we change tactics and stop confronting Congress on these issues (as our choices today illustrate, we are not going to win and our responses will become increasingly feeble). Rather we should specifically acknowledge Congress' concerns, asking that the sugar question remain open to being revisited again next year. In practical terms, this approach would mean:

1. Adopting either option A or B. These may not fully offset the foreign exchange earning losses of CBI countries, but the CBI countries will benefit greatly from our textile initiative. USTR estimates that over the next decade, CBI textile exports to the U.S. would increase five to two-fold.
2. We should not seek legislation to reform the sugar program this year. We should let Congress know that we are hearing what they are saying.
3. We should aggressively pursue consultations with the EC to look at our agricultural policies (not just with regards to trade subsidies or in the context of GATT.)

Dan Amstutz, USDA Under Secretary for International Affairs and Commodity Programs, will make the presentation.

[Omitted here is information on the Export Enhancement Program.]

355. Minutes of an Economic Policy Council Meeting¹

Washington, February 7, 1986, 2 p.m.

ATTENDEES

Messrs. Baker, Baldrige, Yeutter, Wright, Whitfield, Kingon, McAllister, Svahn, Amstutz, Danzansky, Gibson, Gray, Hoffman, McMinn, McPherson, Moore, Mulford, Smart, Stucky, and Wallis, and Ms. Risque

1. *Report of the Working Group on Sugar*

Mr. Amstutz stated that per capita U.S. sugar consumption, which was roughly 80 pounds per year in 1980, dropped to 63 pounds in 1985. He explained that there were two reasons for this: the high sugar price supports and the shift to other sweeteners.

Mr. Amstutz stated that last September, the Economic Policy Council faced a choice: set the sugar quota at 1 million tons, which would have balanced domestic and international supply with domestic demand, or maintain the quota at its current level, roughly 1.72 tons, which would help the CBI countries by permitting them to export more sugar to the U.S.² He explained that the Council's decision to maintain the quota prompted Congress through the 1985 Farm Bill to require that the Administration either reduce the quota by 425,000 tons or extend the quota three months.

Mr. Amstutz stated that the Working Group on Sugar had developed two sets of options for responding to the 1985 Farm Bill. The first set was options for mitigating the harmful effects of the quota on the CBI countries; the second set was proposals to reform the domestic sugar program. He stated that the Working Group on Sugar unanimously recommended that the Administration extend the quota, rather than reduce it, because the former would not create the contractual and shipping problems that the latter would.

Mr. Amstutz briefly outlined the options developed by the Working Group:

1. Reallocate country sugar quotas;
2. Establish a compensation program of \$102.5 million financed 50 percent in cash, 50 percent in-kind;
3. Establish a compensation program of \$102.5 million financed fully by cash;

¹ Source: Reagan Library, Stephen Danzansky Files, International Trade Subject Outline, IX (A) EPC—Minutes 09/19/1985–09/20/1985; NLR-733-6-42-8-9. Confidential. The meeting took place in the Roosevelt Room at the White House. No drafting information appears on the minutes.

² See Document 344.

4. Purchase sugar from the CBI countries and reexport it with a subsidy to EC sugar markets; and

5. Provide in-kind assistance to the CBI countries through the Export Enhancement Program and the Commodity Credit Corporation.

He noted that each of these options had drawbacks. He stated that reallocating sugar quotas would create GATT problems, probably requiring the U.S. to offer compensation to nations harmed by the reallocation. He noted that the options requiring dollar funding were unlikely to be enacted because the new budgetary climate created by the Gramm-Rudman Act.³ Mr. Amstutz suggested an additional option might be to do nothing, and rely on other initiatives in areas such as textiles to assist the CBI countries.

The Council explored each of the options. Secretary Baker noted that reallocating quotas might harm several debtor nations, including Brazil and Argentina. He suggested that an additional option reallocating quotas for countries with per capita income greater than \$2,250 be developed. Several members of the Council expressed reservations about the precedent of establishing a program formally compensating foreign countries for harmful legislative or administrative actions.

Mr. Wallis noted that relying on textiles or commodity assistance to assist the CBI countries created some difficulties for the CBI domestic economies. He noted that labor may not shift as quickly from agriculture to manufacturing as we might suppose. He also noted that commodity assistance might displace domestic agricultural production.

Mr. Amstutz, in response to a question, also briefly discussed the so-called Savannah proposal.⁴ He stated that demand for sugar in the U.S. is very inelastic, and the reduction in the U.S. sugar price resulting from the Savannah proposal would probably not result in increased imports from the CBI nations.

Decision

Secretary Baker proposed that the Economic Policy Council prepare for the President's consideration three options for mitigating the effects of the sugar quota on the CBI countries.

1. Do nothing and rely on proposed textile initiatives to help the CBI countries;

2. Provide in-kind assistance through the Export Enhancement Program and the Commodity Credit Corporation.

3. Reallocate country quotas either according to countries with per capita income of: (a) \$1,150 or less or (b) \$2,250 or less.

³ See footnote 3, Document 352.

⁴ Not found.

356. Minutes of an Economic Policy Council Meeting¹

Washington, February 10, 1986, 11:15 a.m.

ATTENDEES

Messrs. Baker, Block, Baldrige, Brock, Yeutter, Sprinkel, Whitfield, Burnley, Wright, McAllister, Amstutz, Brown, Burns, Davis, Danzansky, Driggs, Gray, Hoffman, McMin, Mulford, Smart, Stucky, and Wallis, and Ms. Risque

1. *Report of the Working Group on Sugar*

Secretary Baker proposed that the Economic Policy Council consider recommending to the President that the Administration rely on textile initiatives and in-kind commodity assistance to mitigate the harmful effects of the quota reduction on the CBI countries. Ambassador Yeutter stated that the CBI textile initiative, to be presented to the President next week, would prompt additional growth of up to \$150 million a year in the CBI countries, exceeding the \$102.5 million loss attributable to the reduction in the sugar quota. Several Council members noted that the Australians are the most efficient sugar producers in the world and that reallocating quotas would harm them and encourage the CBI countries to continue to invest in sugar production, a sector in which they are less efficient than other parts of the world. The Council unanimously agreed to recommend to the President that he assist the CBI countries through the proposed textile initiative and the in-kind commodity assistance proposal.

Mr. Amstutz stated that the Working Group on Sugar had developed four options for reforming the sugar program:

1. Propose legislation repealing the "no forfeiture" provision of the domestic sugar program;
2. Reintroduce our 1985 Farm Bill proposal to gradually reduce the sugar loan rates;
3. Propose legislation basing the loan rate on market prices; and
4. Propose legislation controlling domestic sugar supplies.

He stated that option one was the most practical, option three the most philosophically attractive, and option four the most radical, representing a shift in the sugar program toward the tobacco program.

Secretary Block stated that Congress is most likely to enact option four, although he would not support it. Ambassador Yeutter suggested

¹ Source: Reagan Library, Stephan Danzansky Files, International Trade Subject Outline, IX (A) EPC—Minutes 09/19/1985–09/20/1985. Confidential. The meeting took place in the Roosevelt Room at the White House. No drafting information appears on the minutes.

that only options two and three are viable from the Administration's viewpoint, and that option two, our previous proposal, was the more logical proposal to send to Congress.

Decision

The Council unanimously agreed to recommend to the President that the Administration adopt option two, reintroduce our 1985 Farm Bill proposal to gradually reduce the sugar loan rate.

[Omitted here is discussion of the Export Enhancement Program.]

357. Memorandum From Stephen Danzansky of the National Security Council Staff to the President's Assistant for National Security Affairs (Poindexter)¹

Washington, February 10, 1986

SUBJECT

Update for EPC Meeting, 11 a.m., February 11, Cabinet Room

This will bring you up to date on the state of play re the sugar issue:

— On Friday, I attended the EPC meeting where sugar was first addressed.² I spoke on behalf of Richard Levine's recommendation that the NSC favored reallocation of sugar quotas to give preference to Caribbean nations. Mac Baldrige was very supportive and, after some discussion, Baker indicated that he might bring Treasury on board if the dividing line between countries subject to losing allocations could be set higher, i.e. from per capita incomes of \$1500 or below to \$2250 and below. Baker wanted to preserve the allocations of major debtor nations such as Brazil, Mexico, etc. The State Department was NOT in favor of allocations but rather of seeking alternative forms of compensation for CBI et al. Wallis said that in light of the seeming division between the security agencies, State would be looking at the matter over the weekend.

— Over the weekend, numerous regional bureaus made strong demands on Shultz and Wallis for preservation of their quotas in

¹ Source: Reagan Library, Stephen Danzansky Files, Chronological File, Danzansky Chron February 1986; NLR-733-20-34-8-0. Confidential. Sent for action.

² February 7. See Document 355.

lieu of reallocation.³ Hardest hit by reallocation would be Australia, Canada, Gabon, Taiwan, Uruguay and, if you go to a \$1500 per capita, Brazil, Argentina and Fiji. Especially hard hit would be South Africa which, according to Phil Ringdahl, is presently considering making some rather important changes which could easily become untracked by a U.S. announcement of a reallocation which discriminates against Pretoria. Also Australia is a problem since any discrimination could provoke retaliation and a further strain on ANZUS.

— Since reallocation is essentially GATT illegal and, for the aforementioned reasons, Shultz and Wallis decided against reallocation and notified us this morning hoping we would join in their decision. State is advocating instead an exception which provides the CBI and other lesser-developed countries commodity assistance through the Export Enhancement Program and the CCC. That would make up the shortfall in revenues lost as a result of the Farm Bill (approximately \$102.5 million in foreign exchange). In addition, the Administration would commit or recommit to support the CBI in textile promotion through:

1. Quota free access (the so-called 807 program) for CBI apparels made with fabric produced and cut in the U.S.

2. Realigning quotas in favor of the CBI countries during the upcoming Multifiber Arrangement (MFA) negotiations.⁴ This would be done by providing a “standstill” for the largest exporters (Taiwan, South Korea, Hong Kong) with their quota allocations being given to the CBI countries. These could provide revenues of over \$150 million per year, thereby ultimately exceeding sugar dollars.

— The EPC met today and endorsed that proposal⁵ and I feel that it's the best we can do at this point, given Shultz' decision over the weekend. There are real problems with reallocation both precedential, procedural and political, and without any help from State, I don't think the sentiment will allow us to prevail on the issue if we press. The EPC also agreed in that context to move immediately to prepare as a longer term strategy, a resubmission of the Farm Bill which will gradually reduce the sugar loan rate so as to eliminate deficiency payments by 1991 and thereby allow imports and market prices to prevail.

³ The Department of State discussion and explication of the regional bureau positions on this matter is in a February 8 memorandum from McMinn, Wolfowitz, Crocker, and Abrams to Shultz. (Reagan Library, George Shultz Papers, Official Memoranda (02/10/1986))

⁴ Documentation on the Multifiber Arrangement negotiations is scheduled for publication in *Foreign Relations*, 1981–1988, vol. XXXVII, Trade; Monetary Policy; Industrialized Country Cooperation, 1985–1988.

⁵ See Document 356.

— What we must ensure tomorrow is that the decision is set in a positive tone, i.e. that the President understands that we are recommending a commitment to:

1. Change the Farm Bill to eliminate the loan rate by 1991.
2. In the short term, we will help the little guys by providing them commodity in-kind assistance to make up for the shortfalls in revenue which they will experience.
3. That we will commit to help the CBI further by granting quota free access under the 807 program and realign quotas in favor of the CBI during the upcoming MFA negotiations.

— Some talking points (Tab I)⁶ and the latest data on sugar are attached FYI (Tab II).⁷

⁶ Tab I is attached but not printed.

⁷ Tab II is attached but not printed. Tab III, a memorandum from Levine regarding the February 10 and 11 EPC meetings, was not found.

358. Minutes of an Economic Policy Council Meeting¹

Washington, February 11, 1986, 11 a.m.

ATTENDEES

The President, Messrs. Baker, Shultz, Weinberger, Meese, Block, Baldrige, Brock, Regan, Miller, Yeutter, Sprinkel, Poindexter, Kingon, McAllister, Daniels, Svahn, Amstutz, Brown, Chew, Dawson, Khedouri, Danzansky, Mulford, and Stucky, Ms. Dole, and Ms. Risque

Secretary Baker stated that the Economic Policy Council was presenting three issues—textiles, sugar, and the Export Enhancement Program—for decisions by the President.² He noted that the initiatives

¹ Source: Reagan Library, Stephen Danzansky Files, International Trade Subject Outline, IX (A) EPC—Minutes 09/21/1985–09/29/1985; NLR-733–6–43–2–1. Confidential. The meeting took place in the Cabinet Room. No drafting information appears on the minutes.

² The Economic Policy Council sent a decision memorandum dated February 10 to Reagan on the sugar program. For the decision on “Mitigating the Effects of the Sugar Quota,” Reagan initialed his approval of “Option 2: Provide, at least in the short term, in-kind commodity assistance to CBI and other lesser-developed countries.” For the decision on “Reforming the Sugar Program,” Reagan initialed his approval of “Option 5: Resubmit our Farm Bill proposal to gradually reduce the sugar loan rate.” (Reagan Library, Stephen Danzansky Files, International Trade Subject Outline, IX (A) EPC—Minutes 09/19/1985–09/20/1985)

proposed by the Council would help promote the economic development of the Caribbean Basin Initiative (CBI) countries and fulfill the promise the President made to correct the deficiencies in the 1985 Farm Bill, when signing the bill.³

[Omitted here is discussion of CBI Textile Policy.]

2. *The Sugar Program*

Mr. Amstutz noted that when the President signed the 1985 Farm Bill, he stated his intention to seek remedial changes in the sugar provisions. He pointed out that since 1980 per capita consumption of sugar has declined twenty-five percent. He explained that the decline is a result of the Federal policy of supporting high domestic sugar prices, thus creating an incentive for substituting other sweeteners for sugar. Mr. Amstutz stated that because the law requires the Federal Government to balance domestic and international supply with domestic demand, the decline in sugar usage requires limits on the amount of sugar that can be imported into the U.S.

Mr. Amstutz explained that last September, the President approved the unanimous recommendation of the Economic Policy Council to establish a fiscal year quota of 1.72 million, rather than the 1 million tons that would have balanced domestic and international supply with domestic demand.⁴ He stated that as a result of the Administration's action, the Congress mandated in the 1985 Farm Bill that the quota be reduced or extended, and the sugar program operated with no forfeitures in FY 1987.

He stated that the Economic Policy Council had developed two sets of options for the President's consideration: short term and longer term approaches. He explained that the short term options were:

1. Do not try to mitigate the effects of the sugar quota, but rely on other independent initiatives to help CBI countries;
2. Provide, at least in the short term, in-kind commodity assistance to CBI countries and other lesser-developed countries; and
3. Reallocate country sugar quotas in favor of CBI and other lesser-developed countries.

Mr. Amstutz stated the Economic Policy Council unanimously recommends option 2, providing in-kind assistance. He noted that reallocating country quotas violates our obligations under GATT and would require the U.S. to provide "compensation" to adversely affected trading partners.

³ See footnote 5, Document 354.

⁴ See footnote 6, Document 344.

Mr. Amstutz reviewed the longer term options:

1. Propose legislation repealing the “no forfeiture” provision of the domestic sugar program;
2. Resubmit our Farm Bill proposal to gradually reduce the sugar loan rate; and
3. Propose legislation basing the loan rate on market prices.

He stated that the Economic Policy Council unanimously recommends resubmitting our 1985 Farm Bill proposal. Secretary Block stated that the outlook for our Farm Bill sugar proposal was not very good, but that was the best course the Administration could pursue. Several members of the Council emphasized the harm that the U.S. sugar quota inflicts on lesser developed countries that produce sugar.

[Omitted here is discussion of the Export Enhancement Program.]

359. Memorandum From Jacqueline Tillman, Raymond Burghardt, and Philip Hughes of the National Security Council Staff to the President's Assistant for National Security Affairs (Poindexter)¹

Washington, March 25, 1986

SUBJECT

Coffee and the International Coffee Agreement

The participation of the United States in the 20-year old International Coffee Agreement (ICA) is currently under review—both the economic and political consequences of renewal or withdrawal are being assessed. Participation in the agreement is confirmed by the Congress and we will have to determine our position by September.

Our understanding of the debate is that Allen Wallis at State objects in principle to commodities agreements; USTR believes this one has worked reasonably well, albeit with some problems. We and other colleagues are concerned about the foreign policy implications of withdrawal at this time to countries of significant importance to us—Central America, Colombia, etc.

¹ Source: Reagan Library, Stephen Danzansky Files, International Trade Subject Outline, II (L) Commodity—Coffee 11/19/1985–03/30/1986; NLR-733–1-45–3-4. Confidential. Sent for action.

This is a major issue in Latin America. Our withdrawal would be viewed as almost as radical a move as pulling out of the OAS. Colombian President Betancur, the new Guatemalan President and President Duarte have personally appealed to President Reagan for the US to remain in the ICA. Other demarches have been made at the ministerial and ambassadorial levels.

Doug McMinn's bureau was tasked with preparing an objective economic assessment of US participation in the ICA for Wallis. Of particular relevance is the question regarding whether or not US consumers have been hurt by our participation in the agreement. Friends in ARA bootlegged to us a copy of Doug's memo to Wallis (At Tab II).² It argues the following points:

- The agreement has by and large provided stability to coffee prices giving the producing countries substantial "income stability," a particularly valuable outcome for debt-ridden economies.
- The agreement would operate better if country quotas were adjusted to reduce the Brazilian share of total world production.
- US withdrawal would eventually result in the demise of the Agreement.

The foreign policy dimension, which is our particular concern, is compelling:

- The price and income stability that the ICA produces is essential to the fragile, new democracies in Central America.
- Colombia would interpret US withdrawal as US indifference to its interests and could respond by lowering its commitment on narcotics. (This was emphasized to me in my recent trip to Colombia.)
- Overall, coffee is of exceptional importance to more than 50 developing countries for their export earnings, and consequently for the continuation of their development programs, foreign debt repayments and social and political stability.

Since the Economic Bureau has assessed that US withdrawal now would have little economic impact in the short run and that the cost to the US of staying in the agreement for the present time is also low, we believe that we ought to encourage that the U.S. renew its participation in the Agreement for the (normal) three year period. We recommend that you suggest to Secretaries Shultz and Baker and Ambassador Yeutter (in the memo at Tab I)³ that we agree to remain in the ICA for three years and couple this decision with demarches to the LDCs for which coffee is an important commodity and the European consumers that our decision to stay in the Agreement subsequent to this renewal

² The March 20 information memorandum from McMinn to Wallis is attached but not printed.

³ Attached but not printed.

will be based on concrete work to address the problems currently affecting the ICA. This would be a good time to address these problems because the Brazilian drought has produced somewhat of a windfall for countries like Colombia and the Central Americans, and they would be able to be more objective and less emotional than if this were a more problematical period.

RECOMMENDATION

That you sign and forward your memorandum to Secretaries Shultz and Baker and Clayton Yeutter at Tab I.⁴

Steve Danzansky concurs.⁵

⁴ Poindexter initialed the “Approve” option and wrote: “Use memo as our position in TPRG & EPC.” He also drew a line from his initials to the bottom margin and wrote: “I talked to Shultz about it and I think he will suggest our position.”

⁵ Danzansky concurred and added: “with the principle but disagrees that letter should be sent to Baker et al. Recommend Admiral raise with Shultz at breakfast to get Secretary’s views. Thereafter if JMP agrees with principle, we will deal with it at TPRG and EPC—.” Below Danzansky’s comments, Burghardt wrote: “We believe strong NSC signal required *before* TPRG to assure correct decision on very important issue. Ray.”

360. Memorandum From David Wigg of the National Security Council Staff to the President’s Assistant for National Security Affairs (Poindexter)¹

Washington, March 28, 1986

SUBJECT

OPIC Management of New PL-480 Private Sector Program

Section 1111 of the Food Security Act of 1985 outlines a program of private sector stimulation through a new use of Title I, PL-480 funds. Title I food will be sold for local currencies. These currencies will then be lent by the U.S. to in-country financial intermediaries who will on-lend them to local private businesses.² This concept came from S-616 which was substantially incorporated into the Farm Bill by the Senate

¹ Source: Reagan Library, Stephen Farrar Files, 1986–1987 File, Subject File, PL-480 1986; NLR-177-1B-41-12-4. Confidential. Sent for action.

² Poindexter underlined “lent by the U.S. to in-country financial intermediaries who will on-lend them to local private businesses.”

Agricultural Committee. The bill states that “the President is authorized to negotiate and carry out agreements with friendly countries” for this program. The Senate originally designated USDA to manage the effort, but they did not feel³ able to take the lead on implementation, so management options are now being evaluated for the President by a subcommittee of the Development Coordinating Committee (DCC). By statute, at least \$100 million⁴ must be moved through this conduit to Third-World private sector companies, and not more than \$500 million. As you can see, this has the potential to serve critical function in support of our development/security interests.

The Alternatives

There are three alternatives being discussed within the DCC subcommittee chaired by George Pope, which plans to meet Tuesday, April 1 to reach a consensus:

- Program administration by AID as they are proposing to do in consultation and cooperation with other agencies
- Administration by OPIC in cooperation with other interested agencies
- Administration by private commercial banks in developing countries as is being proposed by OMB⁵

Peter McPherson is playing a very heavy-handed role in trying to secure this program for AID. Even though he fought bitterly⁶ to block it from becoming a reality, he now realizes he can only control it by absorbing it into his monolith organization.⁷ Although OPIC was put forward as a logical and efficient management option, McPherson, as Chairman of the OPIC Board, ordered OPIC President Craig Nalen to stand down and not to further pursue discussions nor make recommendations on how they would manage the program (rather blatant conflict of interest). There are many reasons why AID should not be given this program under any circumstances:

- AID has proposed a committee system for approval of the country programs and wants to delegate selection of the Financial intermediaries to the “country team” (mainly AID and State). This is a cumbersome, and typically bureaucratic approach.

³ Poindexter underlined “they did not feel” and placed a question mark in the right-hand margin.

⁴ Poindexter underlined “\$100 million” and wrote “per yr?” in the right-hand margin.

⁵ Poindexter wrote in the left-hand margin: “[illegible] couldn’t manage—no staff.”

⁶ Poindexter underlined “he fought bitterly” and wrote “Admin opposed” in the left-hand margin.

⁷ Poindexter underlined “monolith organization” and wrote “Official—skepticism—worked w/ [illegible]” in the left-hand margin.

- This program is aimed at the private sector and needs to be administered in a business-like fashion. AID is incapable of doing so.

- AID has not widely demonstrated the ability to field mission officials who are either knowledgeable of or sympathetic to commercial concerns (as of the fall of 1985, only 3 of the 72 overseas missions had submitted the requested private sector strategy statements). Who in AID is qualified to run this program?

- It is a conflict of interest to have AID personnel working this program when it has the potential to run amuck of traditional AID programs and is the antithesis of AID's approach to development assistance.

OMB's idea to use commercial banks to resale the local funds is flawed in as much as the banks have demonstrated only mixed success in effectively moving funds into private sector hands that are maximally utilized to build a developmental base. Instead, the banks tend to focus on relatively short-term turnaround of funds and large, established customers with whom they are used to dealing. The use of banks alone would thus tend to defeat the intent of the bill which is to provide broad-based financing to the widest possible range of indigenous entrepreneurs.

There are good arguments for allowing OPIC to manage the program.

- The program must be administered with an eye to both commercial viability and developmental impact. OPIC appears to provide the best institutional balance of small and large, developmental and commercial.

- Using the IFC/World Bank/CDC management model, a handful of OPIC loan officers could identify, review and qualify financial intermediaries in each country who wished to borrow the funds. These field officers⁸ could forward their recommendations to OPIC headquarters for final review and selection. OPIC could work closely with concerned agencies, but the final decisions would be their own.

- Since OPIC is already a financial intermediary, they could directly retail funds to projects as well.⁹

- This approach puts the program in a small, business-oriented institution which is not heavily bureaucratic. They can coordinate within the bureaucracy but would not be held up in an interagency or intraagency process.

- OPIC would have the latitude to lend to AID-supported financial institutions and U.S. commercial banks, depending on qualifications. Indeed, OPIC might earmark a substantial portion of the funds specifically for AID and the banks.

⁸ Poindexter underlined "field officers" and placed a question mark in the right-hand margin.

⁹ Poindexter underlined "already a financial intermediary" and "retail funds to projects" and placed a question mark in the right-hand margin.

◦ The OPIC mandate would need minor tinkering¹⁰ to enable them to perform the functions outlined above, and this could be done by Executive Order.¹¹ Making these changes and establishing OPIC as the manager of this program would appear to offer the best chance for the program's success and to meaningfully contribute to the President's goal of helping to privatize Third World economies.

We need to intervene in this process by Tuesday morning (April 1) or AID is assured of getting its way. As you will note in the recommendation, an informal Presidential decision to have OPIC manage the program is my preferred solution. We cannot, in good conscience, let AID take over this innovative program. You will be hearing from both Bob Keating and Senator Helms on this matter in the next few days. If you need to reach me to discuss this matter I will be in New Jersey [*phone number not declassified*] until Monday noon.

RECOMMENDATION

That you discuss this matter with the President informally and then call Peter McPherson [*phone number not declassified*] in his capacity as Chairman of the OPIC Board and inform him that the President has decided that OPIC will administer this program in coordination with AID and other relevant agencies, and ask him to advise Craig Nalen that he should come up with the necessary changes in OPIC's authority and a game plan ASAP to launch the program.¹²

Raymond Burghardt and Ollie North concur.¹³

¹⁰ Poindexter underlined "OPIC mandate would need minor tinkering" and placed an exclamation point in the right-hand margin.

¹¹ Poindexter underlined "could be done by Executive Order" and placed a question mark in the right-hand margin.

¹² Poindexter did not approve or disapprove the recommendation. In a June 16 letter to Helms, Poindexter explained that the administration decided to "focus decision-making for this program on the U.S. Embassy country team in the recipient country, expanded to include economic and commercial counselors." The letter is printed as Document 365.

¹³ An unknown hand wrote "not available" above Burghardt's name.

361. Memorandum From the Under Secretary of State for Economic and Agricultural Affairs (Wallis) to Secretary of State Shultz¹

Washington, April 1, 1986

SUBJECT

The International Coffee Agreement

At last we have the opportunity to stop bothering you about this, due to the coming lapse of legislative authority for customs enforcement of the International Coffee Agreement (ICA). Although you know all the facts and arguments and are probably tired of seeing them, I will summarize the reasons why I think we should withdraw from the ICA.

U.S. participation in the ICA poses a policy dilemma because this administration's market-oriented philosophy runs head-on into its concern for economic and political developments in Latin America, especially Central America. The ICA is a cartel and therefore violates our preference for free and open markets. Moreover, when the U.S. government has made exceptions for certain commodity agreements, it has generally insisted that any agreement we join should be symmetrical in its provisions affecting producer and consumer economic interests. Also, any such agreement should avoid resisting or changing average, long-run price trends. On its face, the ICA violates, or attempts to violate, both these policy imperatives. We should not accept such violations of a sound administration policy unless there are strong, valid reasons for doing so. None of the arguments in the attached memo and papers comes up with such reasons.²

On the contrary, from a long-run point of view the political considerations point toward withdrawing just as strongly as do the economic considerations. For some years we have been downplaying the "New International Economic Order", "Global Negotiations", the "Common Fund", and related ideas. Many developing countries have continued to argue that the developed countries owe it to them to transfer a big share of their wealth to them, and that commodity agreements are one of the main ways to do it. To cool off that idea, last

¹Source: Department of State, Executive Secretariat, S/S Files, 1986 Official Office Files, Action/Briefing/Information/Through Memoranda,/Chron Files/Memoranda to the Secretary Handled by (E) Economic Affairs Allen Wallis, Lot 89D156: Through Memoranda, April 1986. Confidential. A stamped notation reading "GPS" appears on the memorandum, indicating Shultz saw it. Platt also initialed the memorandum and wrote "4/1."

²The memorandum and papers are not attached.

year we announced that we would not ratify the Common Fund,³ and we have been more and more openly skeptical of commodity agreements. Withdrawing from the ICA would make it clear that we mean it, and would help to move developing country governments toward more realistic thinking. Although in the short run it means some static, in the long run it's a plus.

Here, in summary, are some of our technical findings that bear on the economics of the question.

1. The ICA has not in fact stabilized coffee prices in the past. Although it could in principle be operated so as to stabilize them, there is no reason to expect that it will in the future.

2. Over the long run, the ICA may or may not transfer income to coffee producers from consumers. Producers believe the agreement supports the price of coffee, and they are probably right. Since 1980 the prices of most major commodities have declined by one-third, whereas coffee prices have risen by almost 50%. Transfers from consumers to producers in that period have been sizeable, and both sides see these as "aid". Unlike foreign assistance, they are not conditioned on the adoption of sound economic policy or directed to specific purposes.

3. Furthermore, this aid is indiscriminate: it goes not only to our friends but also to Cuba, Nicaragua, Angola, and Ethiopia. There is also indirect aid: when the ICA does support the coffee price, producers dump some of their accumulating unsold stocks in the non-member market. The ICA at such times will subsidize the Soviet Bloc through this dumping. (A figure based on the past four years shows upwards of \$110 million a year for this subsidy. The basis for this figure, in detail, is set out in Tab 1.)⁴

4. The dumping in the non-member market draws off supplies that would otherwise be available to benefit consuming countries when there is a poor crop, if governments of the producing countries maintain unchanged incentives to coffee growers.

5. The method of allocating export quotas favors Brazil at the expense of Colombia, Central America, and other producers. (Brazil is hostile to us in in all international trade and finance matters; it is the last country we should reward in this way.) A free market would help shift production toward these more efficient producers (which we would wish to favor on other grounds, also.) That would benefit consumers both in terms of lower coffee prices on the average and in terms

³ See Document 340.

⁴ Not attached.

of more stable supply. Almost all of the variability of world supply is due to frost and drought in Brazil.

6. The ICA's pricing policy may well be contrary to the long-term interests of producers. Since 1962, when the U.S. joined the ICA, coffee consumption per capita in the U.S. has declined more than forty percent. Tea consumption, in contrast, has not changed, and soft drink consumption has more than tripled.

7. The detailed operation of the ICA makes prices vulnerable to misjudgments and deliberate manipulation by Brazil. We have tried and failed to remedy this defect.

8. Our attempts to make the ICA more market-oriented in its operation have been stymied and, after a partial success in 1984, rolled back in 1985. If we remain in the agreement after this defeat, the other members will know that they can disregard our wishes with impunity; there is therefore no reasonable hope of liberalization or technical improvement of the ICA.

One argument we hear from people in the coffee trade is that if we withdraw and bring about the collapse of the ICA, the producers will form their own cartel, as they have tried to do in the past. If that happens, the desirable shift of production from Brazil to more efficient producers will be hastened, to the long-run advantage of consumers, as happened in the past when Brazil engaged in large-scale market manipulation. Any new effort of that kind would collapse quickly, in fact is not likely to be attempted, and gives us little to fear if it is attempted.

To withdraw will clarify the Administration policy on commodity agreements and avoid the need to expend political capital to get Congressional approval of implementing legislation for an agreement we don't really want.

As you have remarked to me, if we are going to pull out, now is the time to do it. Due to the drought in Brazil, high prices have led to the suspension of quotas for what is expected to be two years or more; in the meanwhile, our withdrawal would have little or no economic effect. If we don't, the U.S. will almost certainly be stuck with the ICA indefinitely. Clayton Yeutter strongly supports withdrawal, though the rest of his agency, like this Department, opposes it. The reaction from producers, while negative, will be relatively subdued. There has been widespread press speculation regarding our possible withdrawal. We have time to present carefully and clearly our reasons for withdrawing.

I suggest that you authorize me to work with Yeutter to develop a strategy for withdrawal. However, if you do find yourself leaning

toward staying in, let's have a word about how to get the most mileage possible out of your decision.⁵

(Incidentally, the paper attached to EB's memo is one of the products of your new mini-CEA, and along with their other recent work it shows the value of having such a group. The paper is probably too detailed, technical, and inconclusive to warrant your reading it, but if you do you may also want to look at Martin Bailey's comments on it at Tab 2.⁶ You might also be interested in my speech on commodity agreements, given before the National Coffee Association in February; it is at Tab 3.)⁷

Allen Wallis⁸

⁵ On April 1, Shultz approved the recommendation of a March 31 decision memorandum from McMinn that the administration seek implementing legislation for the remaining 3 years of the ICA. McMinn argued that the political case for continuing membership in the ICA and strong foreign policy considerations made a compelling argument to remain in the agreement and seek the necessary implementing legislation. (Department of State, Executive Secretariat, S/S Files, 1986 Official Office Files, Action/Briefing/Information/Through Memoranda,/Chron Files/Memoranda to the Secretary Handled by (E) Economic Affairs Allen Wallis, Lot 89D156: Through Memoranda, April 1986) An April 17 memorandum from Baker to the Economic Policy Council communicated Reagan's decision "to continue our participation in the International Coffee Agreement and seek implementing legislation." (Reagan Library, Stephan Danzansky Files, International Trade Subject Outline, II (L) Commodity—Coffee 03/31/1986–08/04/1986)

⁶ Wallis placed an asterisk at the end of this sentence and wrote "'I urge you to read Bailey's memo at Tab 2'" at the bottom of the memorandum. Tab 2 is not attached. A copy of Bailey's memorandum is in Department of State, Executive Secretariat, S/S Files, 1986 Official Office Files, Action/Briefing/Information/Through Memoranda,/Chron Files/Memoranda to the Secretary Handled by (E) Economic Affairs Allen Wallis, Lot 89D156: Through Memoranda, April 1986.

⁷ Tab 3 is not attached. For Wallis's February 11 speech, "Commodity Markets and Commodity Agreements," see Department of State *Bulletin*, April 1986, pp. 71–74.

⁸ Wallis initialed "AW" above his typed signature.

362. Minutes of a Meeting¹

Tokyo, May 6, 1986, 10:14 a.m.–12:21 p.m.

Tuesday, May 6, 1986/Final Plenary Session

10:14 Start

[Omitted here is the beginning of the discussion of the Summit communiqué.]

Paragraph 13—

Thatcher—Has 3 amendments. Goes over text distributed.² Longstanding policies of subsidy and protection. Harms economies of many developing countries, etc. Page 9—end of sentence 4, add “We all recognize importance . . .” from text dist.

11:11

Nakasone—Asks reactions.

Reagan—Vast improvement. Supports.

Mulroney—Came with series of amendments but prefers Thatcher.

Chirac—First amendment (due to policies) Agrees. Agrees to third—recognition of importance of ag.

11:12

Does not agree re harm to LDC’s. What harms LDC’s is selfishness of developed countries in commodity price.

Thatcher—It *does*. We sell to third countries at prices below their costs. Also Australia and New Zealand harmed. Refers to Shultz statement.

11:16

Thatcher—What she suggests reflects yesterday’s discussions. Could put “wider” before protectionist.

Bangemann—Hurts economies goes too far. Say harms *ag* of many developing (Thatcher okays).

Mitterrand—Agrees with Thatcher. Australia and New Zealand not prototypes of 3rd World.

11:19

Reagan—ASEAN concern. Of major importance to them.

¹Source: Reagan Library, George Shultz Papers, Official Personal Notes of Secretary Shultz (04/01/1986 – 05/27/1986); NLR-775-23-64-3-3. No classification marking; Sensitive. The meeting was the final plenary session of the Tokyo Economic Summit and took place at the Akasaka Palace. No drafting information appears on the minutes. See footnotes 2 and 5, Document 202. Additional documentation on the Tokyo Economic Summit is scheduled for publication in *Foreign Relations*, 1981–1988, vol. XXXVII, Trade; Monetary Policy; Industrialized Country Cooperation, 1985–1988.

²Not found.

Shultz—A specific example: Philippines sugar. EC no longer imports, subsidizes and exports. U.S. still imports, but less. Price high, substitutes taking over. One area where insurgency strong a former sugar producer.

11:21

Africa sells below our costs on theirs—ruining own.

Wilson—Reads a text.

Chirac—EC does not subsidize exports of sugar. Can say harms some countries. What hurts them is selfishness of not stabilizing commodity prices.

11:22

Delors—Sugar: EC has lowered its subsidies. Buys but sells more. US has reduced purchases more.

Clark—Is Chirac saying “of some countries” or “some developing countries”

Chirac—some countries

Clark—Issue here is does it hurt dev. countries

11:26

Clark—Takes up Mitterrand to Niger—we are hurting indigenous production.

Howe—supports Clark. Would be willing to say “some developing countries” so as not to cover Australia, NZ, etc.

11:28

Nakasone—Focusing 2nd Thatcher amendment.

Chirac—What European produces as a result of subsidies is hurting DC's. We should implement a price stabilization policy. Their problem is great fluctuations in commodity prices.

Howe—Derecognition of all countries that run ag. policies that are harming DC's.

11:31

Work in many different ways to harm economies of many dev. countries.

Nakasone—Should reflect our concern for dev. countries. Would appreciate your compromise.

Chirac—Accepts, but there is hypocrisy.

11:34

Thatcher—I'll tell you about the tin council later.

[Omitted here is further discussion of the communiqué.]

363. Letter From President Reagan to Senator Pete V. Domenici¹

Washington, June 4, 1986

Dear Pete:

I am writing to underscore Secretary Shultz's recent statements on the grave implications of Congressional budget actions in the International Affairs (150) function.² As conferees begin to work on a final budget resolution for FY 1987, I hope you will take into account my concern that the funding levels under consideration risk jeopardizing all the progress we have made in the past five years. Today, we have a strong, effective foreign policy, due in large measure to the increased resources we have devoted—with bipartisan Congressional support—to international affairs. We must not reverse this situation through unwise budgetary action.

The request for the International Affairs function represents less than 2.3 percent of the entire federal budget. Out of this small fraction, we fund not only our entire foreign assistance program and the State Department's operations, but also numerous smaller programs dealing with the conduct of foreign affairs and international communications and cultural exchanges. For this relatively small share of the budget, we receive enormous dividends, chief among which is a renewed position of influence and respect internationally.

Yet, the Congress has taken this small fraction and cut it by as much as twenty-five percent. Moreover, as Secretary Shultz has pointed out, after funding our highest priority commitments to Israel and Egypt, the base rights countries, Pakistan, and Central America, and after allowing for the Congress' addition of over a billion dollars for the Export-Import Bank, the shortfall in the bulk of our foreign affairs programs is more on the order of fifty percent.

Pete, the implications of these reductions are severe. Our efforts in the fragile Caribbean countries of Haiti, Jamaica and Grenada would be undercut. Aid to the Andean countries could not continue, and our efforts to halt the production and illegal export of narcotics from this region would be undermined. Key security assistance programs with vital strategic partners such as Korea and Thailand would probably have to be terminated. Successful humanitarian assistance programs

¹ Source: Reagan Library, Stephen Farrar Files, 1985–1986 File, Subject File, Foreign Aid—Budget 06/4/1986; NLR-177-1-23-1-8. No classification marking. An identical letter was sent to Congressman William H. Gray. (Ibid.)

² A reference to press briefings and public statements made by Shultz criticizing the Congress for underfunding international affairs programs. For a summary of this effort, see Document 364.

throughout Sub-Saharan Africa and south Asia could not be funded. We would be unable to continue providing adequate assistance to moderate Arab states such as Tunisia, Morocco, Jordan and Oman, thus putting at risk our continuing efforts toward a Middle East peace. That part of our assistance which goes through the international financial and development institutions would also be severely circumscribed, calling into question our reliability in meeting commitments in multi-lateral fora.

The problem is not limited to foreign aid alone. In the wake of increasing threats to our diplomats living and working abroad, I have requested a major Embassy security enhancement initiative. We must be able to protect American lives and property abroad against terrorist activity directed at the United States.

Meanwhile, the ongoing operations of the State Department, USIA and the Board for International Broadcasting must also be funded. Reductions of the kind being discussed could result in substantial reductions in our diplomatic presence overseas which would give the impression of a United States in retreat. This is hardly the sort of posture we should be adopting in the wake of the foreign policy successes we have achieved over the past few years.

Such cutbacks in foreign affairs programs would send a signal to the world that we are retrenching just as an era of new opportunity is dawning. It would be tragic if we were to send such a signal.

In your deliberations on the budget, I ask that you bear in mind the consequences of your decisions for the policies which we have worked so hard together to implement. There must be no further cuts; to the extent possible, I ask you to explore means to reverse or at least minimize the reductions which you have already made. We must continue to pay the relatively small cost of a vital, active foreign policy which tells the world that we stand for peace, freedom and security.

Sincerely,

Ron

**364. Memorandum From the Executive Secretary of the
Department of State (Platt) to the President's Assistant for
National Security Affairs (Poindexter)¹**

Washington, June 6, 1986

SUBJECT

Senior Interdepartmental Group on International Affairs Funding for FY 1987

As directed in your memorandum of May 29,² Deputy Secretary Whitehead convened a SIG on May 30 and June 3. These meetings focused on a strategy for reversing the cuts made in the Budget Resolutions, and for dealing with the upcoming budget conference and 302(b) allocation. Subsequent sessions will address our strategy in the appropriations process.

The Budget—A Damage Assessment

The agencies represented at the SIG agreed that we have a major crisis in funding for our international affairs activities in FY 1987. Both the Senate and House versions of the budget resolution sharply reduce the President's \$22.6 billion request for Function 150. Both Senate and House rejected the President's request for a 10 percent increase over the enacted, post-sequester FY 1986 baseline and began instead with a straightlined "freeze base." The Senate then made further reductions in development assistance, Foreign Military Sales credits, foreign information activities, and the Inman Diplomatic Security Program. The House made even larger cuts from the "freeze base," reducing most programs by 4.2 percent, cutting foreign aid a further 14.4 percent, and then adding a final 2.5 percent reduction across the board. Within this smaller aggregate total for the function, however, the House allowed virtually the entire request for the Inman program and allowed substantially more for USIA and the Board for International Broadcasting (BIB) than did the Senate. Both versions included over a billion dollars for Export-Import Bank direct loans, which were not part of the Administration's request. The Senate aggregate for Function 150 is \$17.9 billion and the House total is \$17.0 billion.

Even at the higher Senate level, we would have to make significant policy choices. After funding our highest priority commitments to Israel and Egypt, the base rights countries, Pakistan, and Central America, and after allowing for the Export-Import Bank add-on, the shortfall in

¹ Source: Reagan Library, Stephen Farrar Files, 1985–1986 File, Subject File, Foreign Aid—Budget II 05/30/1986–06/26/1986; NLR–177–1–31–9–1. Confidential.

² Not found.

the rest of our foreign affairs programs is on the order of fifty percent. In economic assistance, for example, the Senate level would effectively eliminate ESF programs in Africa, South America and the Caribbean. The outlook for military assistance is equally bleak.

The Administration's Response: A Two-Track Approach

To date, the Administration has not been engaged in the Congressional budget actions. We have supported the President's request and declined to compromise with the budget committees. Underlying this approach was an expectation that the budget resolution process would never reach consensus. This may still be the case, since the House and Senate are far apart, particularly on defense spending. Now that each body has passed its own resolution, however, the numbers have assumed a certain status. Even if the budget conference fails to reach a consensus, each Appropriations Committee is likely to begin mark-ups based on its own set of 302(b) allocations derived from that body's version of the budget resolution.

The agencies represented at the SIG recommend that the Administration now become actively engaged in the budget and appropriations process. They recommend a two-track approach.

The first track would build upon the momentum which Secretary Shultz has generated to date with his press briefings and public statements criticizing the Congress for underfunding international affairs programs. We have garnered significant media attention and numerous favorable editorials and op-ed pieces by detailing the policy costs associated with recent congressional budget actions. This campaign should be pressed at the highest levels, taking as its theme the fact that we have produced a strong and vibrant foreign policy over the past five years, and now risk jeopardizing and reversing these gains through unwise budgetary action. Our strongest point will be to explain the consequences of cuts of the magnitude proposed, and to shift attention from aggregate numbers and percentages to real programs that would need to be eliminated. Each agency is providing specific examples of programs that would likely be cut, which could be used to illustrate graphically to the public and to the Congress what is at stake.

In addition, we should mobilize those constituencies and interest groups which support foreign assistance to help us make the case that funding reductions of these magnitudes are irresponsible and will make it impossible to pursue the President's basic foreign policy objectives.

The second track would seek to engage the Congressional process at each crucial decision point in order to prevent further damage to our interests.

The Budget Conference

The first decision point in the process is likely to be the budget conference, scheduled to begin this week. We have differences among the agencies represented in the SIG over what we should support in the budget conference—the Senate version is larger in the aggregate and generally superior in every account with three exceptions:

(1) the Inman Diplomatic Security Initiative—the Senate does not allow enough outlays even to accommodate the modified Inman package recommended by the Senate Appropriations Committee in the FY 1986 Urgent Supplemental.

(2) USIA—the Senate version falls \$80 million short of the 1986 freeze level—the minimum judged necessary by USIA to conduct its operations. The House version is more favorable, but still many millions below the freeze.

(3) Board for International Broadcasting (BIB)—again the House version is more favorable, although it is well below the level BIB requires to keep Radio Free Europe/Radio Liberty, Inc. from declaring bankruptcy at current exchange rates.

Our obvious approach should be to support the Senate version and seek additional outlays from outside Function 150 to cover Inman, USIA, and BIB. This would entail a functional total higher than either of the two versions, which will be difficult to achieve.

If in the end we must live within the Senate aggregate, State, AID, USIA and BIB believe that our first priority should be to maintain the integrity of our institutions. By protecting foreign affairs agency operating bases, and by continuing our security enhancement program, we preserve the underpinning of policy without which our other 150 programs could not survive under the best of funding scenarios.

DOD believes that the Inman program is of significant importance but that further cuts in budget authority for military assistance would require reductions or eliminations in funding for countries which desperately need to improve their external and internal security—to include counterterrorist forces. Such a situation could also increase the threat to Americans abroad by reducing countries' incentives and capabilities to provide adequate protection. Further, such reductions would unacceptably weaken US regional defense strategies.

The Treasury Department believes that, until the Administration prioritizes all of its foreign assistance requirements, the FY 1987 budget request of \$1.4 billion for the multilateral development banks, which translates into total MDB lending of \$23.8 billion, should be protected. Treasury and Eximbank also believe the \$300 million Fair Export Financing Program (the "war chest") is a critical element of the President's trade action program and is vital to our efforts to negotiate an end to the predatory use of tied aid credits.

With these concerns in mind, the SIG recommends a legislative strategy for the budget conference which would involve:

(1) *The immediate release of the Presidential letter to Chairmen Domenici and Gray,*³ which should attract considerable press and public attention to the foreign policy implications of reductions in the 150 function.

(2) *A Secretary Shultz phone call to Chairman Domenici* which would underscore the importance of not reducing the Senate aggregate in conference.

(3) *A Secretary Baker phone call to Chairman Gray* to encourage the House to accede to Senate level for Function 150.

The 302(b) Allocation Process

If there is an overall settlement on the budget, we will have to move quickly to ascertain what the exact 302(b) divisions of the budget resolution should be for our three subcommittees (Foreign Operations; Commerce, State and Justice; and Agriculture). At that point, our immediate task will be to ensure a fair allocation of those amounts, given the traditional propensity to poach from Function 150 accounts to benefit other programs. The key action will be *to encourage House Appropriations Committee Chairman Jamie Whitten* to allocate the full amount to each subcommittee.

The SIG recommends that *Secretary Shultz call Senate Appropriations Committee Chairman Mark Hatfield* with the same message. We do not anticipate as much difficulty in the 302(b) process on the Senate side, but feel it is important to touch base with the Chairman.

Finally, appropriate *senior Administration officials should call Appropriations subcommittee Chairmen Obey, Smith, Kasten and Rudman* to encourage them to seek a fair 302(b) process in full committee.

If There Is No Budget Resolution

The differences between the House and Senate on defense, taxes and other issues may make a settlement of the budget resolution impossible. If the conference bogs down, the Appropriations subcommittees will begin marking up based on their separate budget resolutions' notional 302(b) allocations. In the 150 area, the first likely subcommittee to do so will be the Obey subcommittee (House Foreign Operations), perhaps as early as next week. In that event, the SIG will reconvene to recommend an Administration posture for that mark-up and beyond.

Nicholas Platt
Executive Secretary

³ See Document 363.

365. Letter from the President's Assistant for National Security Affairs (Poindexter) to Senator Jesse Helms¹

Washington, June 16, 1986

Dear Jesse:

Your letters of March 31² and April 14³ regarding the new P.L. 480 Title I local currency program were extremely timely and much appreciated. My staff has used the intervening weeks to work with representatives of responsible agencies to assure that the objective of promoting free enterprise economies in the developing world—which I strongly share—is served by this new program. I am pleased to pass on the outlines of an implementation plan that I believe is faithful to this objective.

In devising the implementation plan we were guided by the principle that loan decisions should be made by intermediate financial institutions (IFI's) on the basis of business-like assessments of loan applications from the private firms in developing countries. This means that the role of the U.S. Government should be limited to (1) identifying and lending to capable IFI's, and (2) follow-up to assure that IFI's adhere to the criteria and that they repay the funds on schedule. Almost by definition, this is not a Washington-based program.

After considering a wide range of options, we have decided to focus decision-making for this program on the U.S. Embassy country team in the recipient country, expanded to include economic and commercial counselors. The country team will have responsibility for selecting the IFI's in the recipient country. The Washington role will be limited to establishing guidelines and determining the total loan allocations for individual countries. Concerning your suggestion of a possible role for OPIC, the country teams will be instructed to take OPIC experience and competence fully into account.

An innovative program such as this will bear close watching and undoubtedly some fine-tuning. I would appreciate very much your observations as we move to the implementation phase.

Sincerely,

John M. Poindexter⁴

¹ Source: Reagan Library, Stephen Danzansky Files, International Trade Subject Outline, XII (C) Foreign Assistance—Food Aid 1986; NLR-733-8-29-2-6. No classification marking.

² Attached but not printed.

³ Attached but not printed.

⁴ Poindexter signed "John" above his typed signature.

366. Telegram From the Department of State to Secretary of State Shultz's Delegation¹

Washington, June 27, 1986, 2246Z

Tosec 110272/204117. Subject: Information Memorandum: The Impact of U.S. Protectionism on Developing Countries.

1.

To: The Secretary

From: S/P—Richard H. Solomon

Subject: The Impact of U.S. Protectionism on Developing Countries

2. You asked for a rapid response assessment of the economic, political and strategic implications of U.S. protectionist measures on developing countries. The negative impact of protectionism is not limited just to those developing countries heavily dependent on foreign trade, in a single region or at any specific level of development. We find serious economic, political and strategic costs across all regions. The risk is not that U.S. protectionism will drive LDCs directly into the arms of the Soviets, but U.S. withdrawal of support for an open international trading system will encourage developing countries to return to economic approaches, and political systems, that are more compatible with Soviet practices and objectives than our own.

3. In Asia:

4. — Among all LDCs, the Asian developing countries have assumed the strongest commitment to market-oriented, export-led growth strategies. Given Asia's dependence on exports, U.S. protectionism would have high economic costs. In addition to losing U.S. markets, the Asian LDCs would also find their access to Japan and other countries restricted as these countries took "corrective measures" (restricting imports and pushing their exports in third markets) to counteract U.S. protectionism. Predatory economic policies would become the rule, as individual economies found it increasingly difficult to maintain export levels.

5. — Economic growth has provided a strong foundation for political stability within the countries of the region. In the Philippines, U.S. protectionism would seriously undermine efforts to get the economy moving, thereby strengthening the hand of the Communist insurgents and undermining popular support for President Aquino. In South

¹ Source: Department of State, Central Foreign Policy File, Electronic Telegrams, D860500-0260. Confidential; Immediate. Drafted by Sandra O'Leary (S/P); cleared by (S/P), Richard Kauzlarich (S/P) and Maura Harty (S/S-O); approved by Solomon (S/P). Shultz attended the ASEAN Post-Ministerial Meeting in Manila from June 24 to 28.

Korea, U.S. protectionism would fan anti-American sentiment, thereby complicating the process of domestic political liberalization.

6. — As a group, the market-oriented Asian LDCs have been our strongest allies in the Third World. The absence of a cooperative economic relationship would undermine collaboration on regional security issues and lessen Asian support of U.S. positions in LDC and other international fora.

7. In Latin America:

8. — The United States is the major export market for the high-debt Latin American developing countries. Protectionism would deprive these countries of the means to service their foreign debt and encourage them to consider more radical means, up to and including repudiation, for dealing with the debt crisis.

9. — We have been encouraging the Latin debtors to adopt more market oriented economic policies which will enable them to compete in world markets. If we close these markets we remove an important incentive for reform.

10. — By increasing economic instability, protectionism will also weaken domestic support for the new democratic regimes in Latin America and make it increasingly difficult for leaders such as President Sarney of Brazil to undertake important political and economic liberalizations. Among the fragile economies of Central America and the Caribbean, the economic, political and strategic consequences of protectionism would be especially damaging.

11. In Africa:

12. — Africa is beginning to turn away from statist economic models and recognize the value of market-oriented policies. The adoption of protectionist policies by the United States would signal to the Africans that the strongest economy in the world no longer believes that market-oriented policies work. The African nations would certainly revert to the failed state-directed policies of the past.

13. — The new generation of moderate leaders in Africa, such as Senegalese President Diouf, who have encouraged economic reform and adopted pro-Western positions would be severely undermined. Political instability would result.

14. In summary we see these various developments leading to:

15. — Fragmentation of the international trading system into a number of regional markets based on a dominant economy or economies (i.e., China/Japan in Asia, Brazil in Latin America).

16. — Increasingly closed economies which in turn would lead to unstable and less democratic political structures and declining economic growth.

17. — Flagging support for U.S. foreign policy objectives, particularly in the developing world, as the domestic economic benefits of close ties with the U.S. disappear.

18. — Willingness to give greater political support to other powers (including the Soviets) in exchange for access to new markets.

Whitehead

367. Memorandum From the Under Secretary of State for Economic and Agricultural Affairs (Wallis) to Secretary of State Shultz¹

Washington, undated

SUBJECT

Fixing the International Coffee Agreement

Now that we will be pushing the implementing legislation for continued participation in the International Coffee Agreement (ICA), we need to look at the most effective ways to deal with its anti-market character. Primarily, we will simply keep working in the meetings of the Coffee Council to correct the problems, in the same way that we have been doing. However, one of the most serious problems will be fixed only if we use to the fullest the potential leverage of present legislative authority for temporary unilateral suspension of quotas.

The problem of especially great concern is the sales of coffee at deeply discounted prices to non-member countries when the ICA has binding quotas. Although the amount of subsidy involved is difficult to estimate reliably, it has recently run about a hundred million dollars annually, and much of it goes to Soviet Bloc countries.² These countries then get an even larger indirect subsidy through the benefit of lowered prices in the current period of tight supplies, due to the carry-in of

¹ Source: Department of State, Executive Secretariat, S/S Files, 1986 Official Office Files, Action/Briefing/Information/Through Memoranda/Chron Files/Memoranda to the Secretary Handled by (E) Economic Affairs Allen Wallis, Lot 89D156: Memoranda for the Secretary July—August—September 1986. Confidential; Nodis. Wallis wrote at the top of the memorandum: "GPS says 'this is a good idea. Follow thru. Be sure others are on board to start with so that we can carry out threat if we make it.' Also see his note at end. AW 8/12/86."

² Wallis inserted an asterisk here and wrote at the bottom of the page: "**About double the wheat subsidy to USSR ($4 \times 10^6 \times \$13 = \52×10^6)."

supplies withheld from members earlier. This indirect subsidy will be something like \$700 million annually.

Price increases to members simultaneous with price discounts to non-members (sometimes coinciding with other kinds of market manipulation) are an egregious violation of the provisions of the ICA.³ Proposed penalties within the ICA for such discounts are unenforceable, but we have an unused legislative mandate to deal with them quite effectively. The implementing legislation positively requires a temporary suspension of quotas in response to unremedied market manipulation by two or more member countries. Using a temporary suspension of U.S. compliance with the ICA to force an end to sales at discounted prices to the Soviet Bloc would be much less drastic than pulling out of the organization, and fits the punishment to the crime. Moreover, it would improve our leverage in our attempts to correct other antimarket aspects of the ICA. It would also improve our credibility; it has been a major oversight that we have not used this approach to correct past abuses within the ICA.

There would of course be problems in the implementation, and we would have to work these out carefully. Unless you want me to handle this differently, I plan to work with Steve Danzansky and Clayton Yeutter to plan future implementation, including the criteria for invoking the above clause in our legislation, taking into account foreign policy considerations. A more complete statement of the problems we want to remedy is attached.⁴

Allen Wallis⁵

³ Wallis crossed out "simultaneous" at the beginning of the sentence, capitalized "Price," and inserted "simultaneous" between "members" and "with."

⁴ The statement is not attached. Shultz wrote in the right-hand margin below this paragraph: "Ok. I presume we would [want?] everyone to know in advance that we plan to follow through. G."

⁵ Wallis initialed "AW" above his typed signature.

368. Memorandum From the Under Secretary of State for Economic and Agricultural Affairs (Wallis) to the Ambassador to the Mission to the Organization of American States (McCormack)¹

Washington, September 17, 1986

SUBJECT

Your Memorandum of September 12 About Sugar²

My understanding is that despite efforts by the Administration it has not been possible to find any member of Congress willing to introduce modifications in the sugar program. The judgment is that there is not the slightest chance, at least for the time being, that any modifications would be approved.

The sugar provisions were introduced, as I understand it, to influence the votes of four Louisiana congressmen in favor of the 1981 tax bill. Now, however, congressmen from corn growing states oppose repeal. The reason is that the high price of sugar has driven it out of much of our market—out of the entire soft drink industry, for example—and it has been replaced by high fructose corn syrup.

I believe that neither the President nor anyone else in the Administration is oblivious to his stated desire to get Congress to modify the sugar program.³ There is no chance of that being accomplished during this Congress, however.

Allen Wallis⁴

¹ Source: Department of State, Executive Secretariat, S/S Files, 1986 Official Office Files, Action/Briefing/Information/Through Memoranda,/Chron Files/Memoranda to the Secretary Handled by (E) Economic Affairs Allen Wallis, Lot 89D156: AW—Chron, July/August/September 1986. Limited Official Use.

² The memorandum is attached but not printed. It raised the concern that sugar was a growing issue in the political relations between the U.S. and Latin American countries.

³ See footnote 6, Document 344.

⁴ Wallis initialed "AW" above his typed signature.

369. Letter From the Under Secretary of State for Economic and Agricultural Affairs (Wallis) to the Under Secretary of Agriculture for International Affairs and Commodity Programs (Amstutz)¹

Washington, September 23, 1986

Dear Dan:

Domestic processors of sugar have announced their intent to forfeit about 260,000 tons on September 30. The disposal of these forfeitures will again pose a vexing problem for the Administration.

We concurred in the recent sale of sugar to China in recognition that all of the options for disposal have serious drawbacks. In hindsight, however, the sale had a much more disruptive impact on the world sugar market than anticipated.²

The trade sources that we have consulted do not attribute the subsequent 20–25% drop in world sugar price to that transaction alone. The depressing effect on prices is considered to be due to a combination of factors: the unexpectedly low price of the sale to China; some speculation that China will re-export part of the sugar imported this year from various suppliers; and the expectation of another U.S. sale of forfeited sugar at distress prices.

We are continuing to receive complaints from sugar exporting countries. The Australians have come in to register a strong plea that the U.S. not dispose of the forfeited sugar in any foreign market. The Latin American and Caribbean sugar exporting countries, in a letter to you copied to us,³ compared U.S. policies to those of the EC. The Thai government has estimated that Thailand would lose \$192 million as a result of a lower world price. Fiji, as well, has expressed dismay that the U.S. sale

¹Source: Department of State, Executive Secretariat, S/S Files, 1986 Official Office Files, Action/Briefing/Information/Through Memoranda,/Chron Files/Memoranda to the Secretary Handled by (E) Economic Affairs Allen Wallis, Lot 89D156: Action Memoranda, September 1986. Confidential. Drafted by David Stebbing (EB/RDC/OPF/FPD) and Eleanor Kuhn (EB/TDC/OPF/FPD) on September 8; cleared in EB/TDC/OPF, EAP/EP, ARA/ECP, EB/TDC, and ARA. Lamb sent Wallis a copy of the proposed letter under a September 20 memorandum, recommending that Wallis sign the letter to Amstutz. (Ibid.)

²In a September 16 memorandum from [name not declassified] the Central Intelligence Agency to Platt, [name not declassified] explained that the August 11 USDA sale of 145,850 metric tons of raw sugar to the PRC at 4.75 cents per pound was manipulated by the Chinese. [text not declassified] within three to four days of the sale, the PRC sold exactly the same amount of sugar in the futures market at the price of 5.7 to 5.8 cents per pound, resulting in a \$3 million net profit. The sale, [text not declassified] contributed to lowering world sugar prices. The "Chinese have clearly made a killing from the US sale and would be very anxious to repeat the exercise," the memorandum concluded. (Reagan Library, Stephen Danzansky Files, International Trade Subject Outline, I (F) General—Identification [Wissman, Matthias])

³Not found.

came just as that country was about to negotiate a sale to China, and as a consequence their 50,000 tons of sugar would bring less than 5.5 cents per pound, instead of more than 6 cents previously anticipated.

I recognize that other means available to dispose of the forfeited sugar pose difficulties of their own. Nevertheless, I believe it essential to give careful interagency consideration to all of the alternatives before any decision on disposal of the sugar that may be forfeited this month.

Sincerely,

Allen Wallis⁴

⁴ Wallis signed "Allen" above his typed signature.

370. Memorandum From Stephen Farrar of the National Security Council Staff to the President's Deputy Assistant for National Security Affairs (Keel)¹

Washington, November 20, 1986

SUBJECT

Foreign Affairs Budget—Meeting with John Whitehead—Friday, November 21, 1986, 5:15 PM

The main purpose of the meeting is to reach agreement on 1987 country allocations of foreign aid so that State can send its required report to the Congress (was due last Monday, November 17). Since country allocations have direct implications for the 1987 supplemental request, however, the supplemental strategy should be discussed. Finally, you should use the occasion to discuss the outlines of the 1988 request. A summary list of the points you may wish to raise is at Tab I.²

I. 1987 COUNTRY ALLOCATIONS

We have consulted all affected NSC staffers on allocations and have received many excellent suggestions. The highest priority changes to State's proposals are identified below. A table detailing State's proposals and NSC's changes to them is at Tab II.³

¹ Source: Reagan Library, Stephen Farrar Files, 1985–1986 File, Subject File, Foreign Aid—Function 150 11/09/1986–11/30/1986; NLR-177-1A-4-5-4. Confidential. Sent for action. Sent through Danzansky, who did not initial the memorandum. A stamped notation on the memorandum reads: "Deputy Natl Sec Advisor has seen."

² Attached but not printed is Tab I, an undated summary list entitled "Key Points to Raise with John Whitehead."

³ Attached but not printed.

Central America:

◦ The biggest issue that needs to be resolved at your meeting is the initial ESF allocation for the four Central American democracies—Costa Rica, El Salvador, Guatemala, and Honduras. As the table below shows, State proposes a total of \$388M, below the 1986 level of \$407M.

ESF to Central America Democracies
(\$ in Millions)

| | | 1987 | |
|-------------|-------------|--------------|------------|
| | <u>1986</u> | <u>State</u> | <u>NSC</u> |
| Costa Rica | 121 | 85 | 85 |
| El Salvador | 177 | 180 | 176 |
| Guatemala | 48 | 56 | 58 |
| Honduras | 61 | 67 | 88 |
| | <u>407</u> | <u>388</u> | <u>407</u> |

◦ The bipartisan coalition in the House secured contra funding only because it was coupled with the assumption that the four countries would get a significant increase in ESF funding over 1986 levels. The coalition assumed approximately \$700M—the 1986 level, plus the new \$300M in the contra package.

◦ Key members of the coalition—Skelton, Chandler, Edwards, Snowe, Cheney—may withdraw their support if they perceive that the Administration is not attempting in good faith to maximize funding for the four countries in 1987.

◦ We must fund the core four at \$407. We can obtain most of the offset by reducing the Central American regional account (ROCAP) from \$25M to \$13M, with smaller cuts elsewhere in the Latin American region (see Tab II for details on changes).

Africa

◦ We should provide additional ESF funding of \$2M each for two countries that are strategically important and very helpful to U.S. national security objectives—Chad and Zaire. A cut in the Senegal level would provide an offset.

◦ We should also substantially increase the high priority African Economic Policy Reform Program (AEPRP) by making \$20M in development assistance funds available to add to the \$27.5M in ESF funds. AID central programs can be cut as an offset.

— AID will oppose using DA funds for the AEPRP because the functional accounts are not flexible enough to link to macro-economic reform. We think AID can overcome the obstacles if pressed.

— AID will oppose cutting central programs because these are used to pacify domestic constituencies, such as universities and private

voluntary organizations. The 1987 budget cuts call for a tougher approach to these constituencies.⁴

— Using DA to fund AEPRP would also eliminate a 1987 supplemental requirement.

Aid for Selected African Activities

(\$ in Millions)

| | 1986 | 1987 | |
|---------------|------|-------|-----|
| | | State | NSC |
| Chad (ESF) | 10 | 5 | 7 |
| Zaire (ESF) | 10 | 10 | 12 |
| Senegal (ESF) | 12 | 12 | 8 |
| AEPRP | | | |
| ESF | 48 | 28 | 28 |
| DA | — | — | 20 |

Indonesia

◦ Indonesia development assistance is being cut by 38%—from 64.4M in 1986 to \$40M. With very tough time now economically, this is not a good response to President Reagan's visit of last April.⁵

◦ We should restore \$10M in DA for Indonesia by cutting programs (Thailand, Bangladesh, India) an equal amount.

II. 1987 SUPPLEMENTAL

◦ State has submitted a supplemental request of \$1.7 billion. To its credit, State has attempted to prioritize its request and has grouped the request into packages addressing major themes. Attached at Tab III is a table summarizing State's request and indicating preliminary NSC and OMB marks.⁶

◦ One obvious problem with the State request is its size. Mostly by cutting out requests that were specifically rejected by Congress in its initial appropriation, NSC staff have been able to pare the request to \$1.2B, but additional cuts will require hard decisions on Central America and the multilateral development banks.

◦ While the size of the supplemental cannot be resolved at your meeting, you should indicate your concerns and urge Whitehead's support in cutting back the State request.

⁴ At the end of the sentence Keel wrote: "—in fact, will mobilize them to support larger appropriation in Congress (maybe)."

⁵ Reagan traveled to Indonesia from April 29 to May 2.

⁶ Attached but not printed.

III. STRATEGY FOR THE SUPPLEMENTAL

◦ We should carefully consider the option of including enough politically attractive elements to make Congress want to support a supplemental. While the Secretary decided early in the 1987 allocation process that he did not want to break earmarks, that decision should be reviewed in the context of the supplemental.

◦ It is possible, for example, that we could persuade the Israelis to accept temporarily diverting some of their FMS credits to other countries if restoration were sought in the supplemental. Israeli support might be obtained because:

— Its military procurement cash flow position would not be affected, since funds would be replaced and \$300M in undrawn FMS credits is available in a pinch.

— The U.S. is close to agreement on FMS debt restructuring that could reduce Israel's debt servicing burden by at least \$100M.

— Israel's reputation among other aid recipient countries would be enhanced if it were perceived as cooperating during a difficult funding squeeze.

◦ We also have informal indications that Hill staff would not react strongly to some limited use of Sec. 614 authority to break earmarks (perhaps in the \$100–125M range).

◦ By breaking earmarks, many of the most urgent—but less popular—base rights problems could be taken care of in the initial allocation while increasing the prospects for enactment of a supplemental request.

◦ Whitehead should reopen the issue with the Secretary.⁷

IV. 1988 REQUEST

◦ Attached at Tab IV is a table showing State's (and other agencies') 1988 requests for Function 150 in relation to 1986 and 1987 levels.⁸

◦ The total request (\$23.1B) is slightly above the President's 1987 request (\$22.6B), but 32% above the 1987 enacted level (\$17.4B).

◦ Foreign Aid (151 + 152) shows a similar pattern—a 1988 request 20% above the 1987 enacted level.

◦ Based on our consultations with Congressional staff, the numbers are substantially higher than anything likely to be seriously considered on the Hill, and risk making the Administration a bystander in the process.

◦ While the request should not be discussed in detail at your meeting, it would be useful to begin sensitizing Whitehead to the probable need to scale the request back.

⁷ Keel wrote in the right-hand margin: "NSC meeting."

⁸ Attached but not printed.

° One way to scale back may be to couple our budget request with proposed legislative reforms aimed at gaining additional flexibility within the Foreign Assistance Act.⁹

Lynn Sachs and Rick Saunders concur.

⁹ A December 18 information memorandum from Farrar to Keel communicated that the foreign affairs budget issues and requests for both the 1987 supplemental and the 1988 request were resolved. The memorandum provided an attached table summarizing the outcome of the resolution and stated that next steps would require the administration building support for the budget request in the Congress and private sector. (Reagan Library, Stephen Farrar Files, 1985–1986 File, Subject File, Foreign Aid—Function 150 11/09/1986–11/30/1986; NLR–177–1A–6–4–3)

371. Memorandum From Secretary of State Shultz to President Reagan¹

Washington, November 20, 1986

SUBJECT

Presidential Certification Required to Authorize Payments to Multilateral Development Banks and International Organizations and Programs

ESSENTIAL FACTORS

Section 560 of the FY 1987 Continuing Resolution prevents use of appropriated funds to finance “indirectly” any assistance to Angola, Cambodia, Cuba, Iraq, Vietnam, South Yemen, Libya or Syria unless you certify that withholding such funds is contrary to the national interest. This provision is basically political in nature but would seriously interfere with U.S. involvement in and support of multilateral development banks (MDBs). None of the MDBs has lent to Cambodia, Iraq, Libya or Vietnam in recent years; Cuba is not even a member. Lending to the others—Angola, South Yemen and Syria—over the last five years has only amounted to a quarter of one percent of total MDB lending, and only modest levels of lending are likely in the future.

Moreover, the provision also applies to U.S. voluntary contributions to international organizations and programs (the IO and P account) which provide assistance to the listed countries. During FY 1987, this

¹ Source: Reagan Library, Stephen Danzansky Files, International Trade Subject Outline, VIII (A) Debt—World Bank. No classification marking.

account will fund such UN-supported (and Congressionally-earmarked) programs as the UNDP, UNICEF, IFAD, WMO, and the IAEA which include the listed countries among the recipients of their assistance programs. Although exact amounts of such indirect assistance are not available, the total for FY 1987 could be significant. For example, UNDP has made a tentative allocation of \$2.2 million for Cuba in 1987.

The implementation of this provision will do serious harm. Absent the presidential waiver authorized by the provision, we can contribute to these institutions only by “earmarking” funds such that they could not be used for the listed countries. The MDBs and various international organizations and programs, however, have determined that acceptance of contributions containing any “earmarking” provisions is contrary to their charters and that they could not accept them. The interested USG agencies concur with this view.

The limitation thus effectively prevents timely payments to the MDBs under arrangements which we negotiated in good faith with our allies after close consultations with the Congress. Failure to make payment could lead to reduced payments by others concerned about equitable burden-sharing, and sharp reductions in the lending programs of those institutions. The credit markets, which lend the MDBs upwards of \$90 billion, would perceive a failure to make payments as a withdrawal of USG support for the institutions; MDB credit standing would be severely affected. The financial viability of the MDBs, thus, would be in jeopardy. Their role in the debt strategy would be severely curtailed.

The limitation is thus contrary to our national interests. It would undermine the MDBs and particularly their lending programs, which could exceed \$23 billion a year at an annualized budgetary cost to the USG of \$1.4 billion.

The impact on the IO and P account would be similarly detrimental. The limitation would undermine IO and P-financed programs in excess of \$2 billion which cost the USG less than \$250 million annually. They focus to a large extent on such humanitarian activities as immunization of children and famine relief as well as on the IAEA nuclear safeguards program.

These programs overwhelmingly assist countries we believe are important to the conduct of our foreign policy, and which (in many cases) receive little or no bilateral assistance. It is clearly unsound policy, and contrary to the national interest, to hold those programs hostage to the less than \$50 million annually provided the countries specifically mentioned in the new provision.

RECOMMENDATION

That you certify that withholding funds to multilateral development banks and other international organizations and programs pursuant to the limitation in Section 560 of the FY 1987 Continuing Resolution

is contrary to the national interest.² (A draft certification is attached at Tab 1;³ attached at Tab 2 is the Justification which we will provide to Congress in support of this certification.)⁴

² Reagan did not approve or disapprove the recommendation. In a December 11 memorandum to Shultz, Reagan transmitted Presidential Determination No. 87-4, which states: "Pursuant to Section 560 of the Foreign Assistance and Related Programs Appropriations Act, 1987, (as enacted in Public Law 99-500), I hereby certify that the withholding of funds to multilateral development banks and other international organizations and programs pursuant to the limitation contained therein, prohibiting the obligation of funds appropriated by the Act to finance indirectly any assistance or reparations to certain specified countries, is contrary to the national interest." (Ibid.)

³ Attached but not printed.

⁴ Attached but not printed.

372. Minutes of an Economic Policy Council Meeting¹

Washington, December 5, 1986, 10 a.m.

ATTENDEES

Messrs. Baker, Lyng, Herrington, Yeutter, Miller, Darman, Sprinkel, Kingon, McAllister, Whitfield, Amstutz, Myers, Smart, Stucky, Tracy, and Wallis

[Omitted here is discussion of the report of the Strike Force on Trade.]

2. *Report of the Working Group on Sugar*

Under Secretary Amstutz explained that since 1985 the President is required to use all his authorities to ensure that the sugar program operates without cost. He explained that the only tool available for accomplishing this objective is to limit imports. He stated that the Working Group has calculated that the imports will have to be reduced from 1.7 million tons to 1 million tons in 1987 to ensure that there are no budgetary costs of the sugar program.

Mr. Amstutz stated there are two short-term issues:

1. How should the 1 million ton quota be distributed? Should we discriminate in favor of CBI countries and other LDCs? and
2. What sort of compensation can we offer to CBI countries and other LDCs?

¹ Source: Reagan Library, Stephen Danzansky Files, International Trade Subject Outline, IX (A) EPC—Minutes 10/03/1985-10/09/1985; NLR-733-6-46-3-8. Confidential. The meeting took place in the Roosevelt Room at the White House. No drafting information appears on the minutes.

He stated that there is also a longer term question: how can we reform the sugar program to address the harmful effects on the developing countries?

Mr. Amstutz stated that the Working Group recommended that the Administration not allocate the quota on a discriminatory basis, but instead provide compensation through the Section 416 program. He also stated that the Working Group recommended that the Administration forward legislation that would immediately reduce the loan rate from 18 cents to 12 cents per pound and to provide a transition payment based on 1985 production levels. He cautioned that the legislative proposal could cost as much as \$1.7 billion, but that we would have to spend Federal funds to reform the sugar program.

Secretary Lyng pointed out that when the President signed the 1985 farm bill he indicated his disagreement with the sugar program and promised to seek legislative remedies.² He stated that even spending \$1.7 billion will not assure passage of legislation.

Mr. Wallis stated that the foreign policy problems of the sugar program are hard to exaggerate. He pointed out that the Dominican Republic is heavily dependent upon sugar exports to the U.S. He noted that reallocating the quota on a discriminatory basis would create very significant foreign policy problems, particularly with Australia. He urged that the quota not be reduced on a discriminatory basis. Mr. Sprinkel expressed his support for the legislative proposal, particularly decoupling.

The Council discussed the legislative prospects for a legislative proposal. Secretary Lyng stated that the issue is one of striking the right balance between the sugar cane and beet growers. Council members stressed the importance of GATT talks on agriculture, noting that sugar is a worldwide agriculture problem.

Decision

The Council unanimously agreed to recommend to the President that he reduce the quota on a non-discriminatory basis, while offering compensation through Section 416 food assistance, and seek legislation that would immediately reduce the loan rate from 18 cents to 12 cents, while providing a transition payment based on 1985 production. The Council agreed that if the President accepted the Council's recommendation,³ the Administration would announce our intention to pro-

² See footnote 5, Document 354.

³ In a December 17 memorandum to the Economic Policy Council, Baker reported that the President had approved the EPC's recommendations. (Reagan Library, Stephen Danzansky Files, International Trade Subject Outline, I (H) General—Congress 1985; NLR-733-1-13-4-8) The recommendations were based upon the EPC December 5 meeting decision and were put forth in a December 8 memorandum from the EPC to Reagan. (Reagan Library, Stephen Danzansky Files, International Trade Subject Outline, I (H) General—Congress 1985; NLR-733-1-13-3-9)

pose legislation to reform the sugar program when the 1987 quota is announced on December 15.

[Omitted here is discussion of the report of the Working Group on Agricultural Coordination.]

**373. Letter From Senator Bill Bradley to Stephen Farrar of the
National Security Council Staff¹**

Washington, December 9, 1986

Dear Mr. Farrar:

I am aware that the “no cost” provision of the 1985 Farm Bill may require a significant reduction in the U.S. sugar import quota for 1987. I am concerned that such a reduction may have serious consequences for less developed sugar exporters, who depend on sugar exports for the hard currency so necessary for long-term economic growth.

The poorest LDCs are faced with exploding populations, inadequate industrial investment and a debt to foreign banks that numbs all hope of economic recovery. Many of these countries have new democratic governments. All are struggling to control their most threatening problem of poverty. We are in the midst of a worldwide referendum on the ability of democracy to cope with poverty and we cannot let it lose.

Many of these sugar-exporting LDC’s are our neighbors in the Caribbean and Latin America. These countries are politically and economically fragile—Honduras, Jamaica, the Dominican Republic, Panama, for example. The Philippines and the African nations such as Malawi and Mauritius also gain a needed economic boost by access to our sugar markets. For many of the sugar export-dependent LDC’s, there has been little opportunity to diversify and develop the basic infrastructure necessary for industrial development. Aside from foreign assistance, which the U.S. has steadily reduced, raw commodity exports remain the only viable source of foreign exchange revenues available to fund development and repay debt.

When the Farm Bill was debated in 1985, I proposed to lower the U.S. sugar price support level. A lower support price would have reduced domestic overproduction and subsidies which total to hundreds of thousands of dollars per sugar grower. By reducing domestic sugar output, this policy would have permitted a raising of import

¹ Source: Reagan Library, Stephen Farrar Files, 1986–1987 file, Subject File, Sugar 1986; NLR-177-1B-12-15-3. No classification marking.

quotas for the benefit of these needy LDC's and at no cost to the government. Additionally, the lower domestic prices would have helped U.S. consumers and industry, which pays the real bill for our agricultural programs. It amazes me that we can refer to our sugar policies as "no cost" when U.S. consumers spend \$3.5 to \$4.5 billion more than the world sugar price as a result. Unfortunately, my proposal was not adopted by the Senate. Consequently, our agricultural policies threaten the economic and political security of these young democracies and also penalize American consumers.

In view of the expected reduction in the 1987 quota, it is time for the Administration to reassess the policy underlying the quota to provide reasonable access to the U.S. sugar market for those LDC's that are especially dependent upon sugar exports. I urge you, as a member of the Sugar Review Group, to consider fully the impact of our policies on those sensitive developing nations. We must act to prevent further erosion of their precarious economic and political condition.

Sincerely,

Bill Bradley
United States Senator

374. Memorandum From the Under Secretary of State for Economic and Agricultural Affairs (Wallis) to Secretary of State Shultz¹

Washington, December 16, 1986

SUBJECT

The International Coffee Agreement (Cont'd)

We have a news item since you approved my suggestion for using tough tactics to end the practice of discount sales to non-member countries of the International Coffee Agreement (ICA). Despite our warnings after previous similar instances, a group of coffee exporting countries have agreed to restrict exports to firm up the price of coffee. (See Tab 1.)² Any such restriction is a direct violation of the ICA. This, time a group of Central American countries and Colombia joined with Brazil in the announced plan.

¹ Source: Reagan Library, George Shultz Papers, Executive Secretariat Sensitive (12/05/1986–12/18/1986); NLR-775-16-43-3-4. Confidential. Quinn's initials are stamped on the memorandum.

² Attached but not printed is telegram 16864 from Bogota, December 3.

Superficially it appears that the U.S. has no immediate recourse, other than withdrawing outright from the ICA. The economic provisions of the ICA are suspended, due to high prices, and furthermore, Congress has not yet acted on our request for an extension of the implementing authority. The latter means that technically we are not in compliance with the agreement ourselves, although at the moment that is either inconsequential, or more realistically is a source of leverage.

I am also concerned about the systematic drag on supply that results from the African and Latin American habit of paying coffee growers an average of less than half the world price. Unlike the rubber agreement, the ICA has no "supply assurances" provision that would permit us to question this habit, as we did (successfully) in the case of rubber. Although those governments follow that practice for most agricultural products, regardless of any international agreement, there can be no doubt that the dominant producer countries in the ICA manage the quota with a view to blocking or discouraging the expansion of supply. The present process, with its favoritism toward Brazil and the Francophone African countries, serves our political and economic interests very poorly. We should not sit still for it; we do our friends in Central America, as well as our own consumers, a disservice to the extent that we acquiesce in these practices.

Therefore, we have the following responses to the news and to the fundamentals of the ICA:

(1) ARA has privately told the governments involved that if U.S. congressional committees hear of the attempt to rig the market, we will be in for a rough time trying to justify extension of the implementing legislation. That could change, ARA said, if the other governments stopped hurting their own cause and worked with us, as suggested in President's Reagan's letters to various heads of state, to improve the ICA. However, under the present circumstances the U.S. cannot support the calling of a meeting of the ICO Council, nor attend one if called, to discuss reinstating the economic provisions of the ICA. Finally, ARA said, we are bound to take another look at our support for the extension of the implementing legislation unless the countries involved rescind their proposed export limitation. (See Tab 2.)³

(2) Assuming, as seems likely, that the producers cancel or disown their market-rigging arrangement, we will see to it that in the next round of negotiations (probably in January), our delegation insists on economic provisions that facilitate ample, reliable supplies of coffee, to the extent permitted by the scope of the present ICA. Events since the last time we tried to get such provisions have strengthened our hand, in that we will now have a much better chance of getting the needed cooperation from other consumer countries.

³ Attached but not printed is telegram 383825 to multiple Latin American diplomatic posts, December 11.

(3) In particular, we will see to it that our delegation leans hard on the producing countries to reform the quota allocation process, and in so doing to call Brazil's bluff on its threats to withdraw from the ICA. The objective is to make the allocation system more transparent and to base it on sound economic criteria, so as to minimize the damage of the combination of policies affecting supply. We will also push hard for the other reforms that we failed to get just over a year ago.

(4) Besides all this, I will want to set things in motion well in advance of the 1988 renegotiation to take a hard look at the option of ending our participation in the ICA when the present agreement expires. It is necessary to look not only at the abuses and violations we have been seeing, and at the fundamental flaws in principle of a marketing cartel. Our review of the advantages and disadvantages of continued participation needs to be realistic about how poorly such agreements work out in all respects, compared to what they are supposed to do, on paper.

Allen Wallis⁴

⁴Wallis initialed "AW" above his typed signature.

375. Information Memorandum From the Director of the United States Agency for International Development Office of Legislative Affairs (Kammerer) to the Administrator of the United States Agency for International Development (McPherson)¹

Washington, January 8, 1987

SUBJECT

LEG Daily Report

Treasury Secretary Testifies Before the Senate Budget Committee

Secretary of the Treasury James Baker testified today before the Senate Budget Committee (SBC) on the Federal budget and economic

¹ Source: Reagan Library, Stephen Farrar Files, 1986–1987 File, Subject File, "This Week in Congress" 1987; NLR-177-1B-42-6-0. No classification marking. Drafted by C. Coughlin (LEG). Copies were sent to Jay Morris, Marshall Brown, Richard Bissell, Dick Meyer, and Tom Blank.

outlook. SBC Chairman Sen. Chiles chaired the hearing and Senators Domenici, Lautenberg, Simon, Riegle, Wirth, Symms, Nickles, Rudman, Exon, Sasser, Dodd, Conrad, Kasten and Quayle attended.

Much of the hearing centered on the need to reduce the budget and trade deficits and Senators Chiles and Domenici continued to urge the Administration to negotiate early this year with Congressional leadership on a budget compromise. Secretary Baker said that he believed in consultation and negotiation, but that the President would reject any budget "summit" at which tax increases would be proposed.

Senators Nickles (R-OK) and Symms (R-ID) criticized the budget increases for the MDBs, especially at a time when U.S. agricultural subsidies are being reduced. In particular, Nickles and Symms criticized certain IDA loans (i.e., Argentina and Brazil) which they felt strengthened the competitive position of LDC farmers over U.S. farmers. Both senators suggested that the U.S. should question any future contributions to the MDBs. Secretary Baker strongly defended the U.S. support for the MDBs, but said that it was USG policy to oppose MDB loans that would result in LDC commodities competing with U.S. surplus commodities. On a philosophical note, Sen. Symms questioned why the Reagan Administration would support the MDBs, given the banks close association with the public sector in developing countries.

Sen. Dodd expressed concern about the growing Third World debt and questioned if the U.S. and the MDBs were not putting more economic demands on emerging LDC democracies than they could politically handle. Dodd said that he agreed with Baker's strong support for the MDBs. Baker expressed sensitivity to the political ramifications of urging economic reforms on developing countries, but said that they must adjust their economies to a more free market orientation. Dodd was skeptical about the role that the private sector has played in certain developing countries.

[Omitted here is discussion unrelated to multilateral development banks.]

376. Action Memorandum From the Assistant Secretary of State for Economic and Business Affairs (McMinn) to the Under Secretary of State for Economic and Agricultural Affairs (Wallis)¹

Washington, February 26, 1987

SUBJECT

Circular 175: Request for Concurrence to Enter into Negotiation of an Agreement for the Intergovernmental Producer-Consumer Forum on Copper

ISSUE

Your concurrence is required to enable a U.S. delegation to participate in negotiations for an agreement for the creation of an intergovernmental Producer-Consumer Forum (PCF) on Copper in accordance with a decision of the Trade Policy Committee.

ESSENTIAL FACTORS

In early 1986 the Trade Policy Review Group (TPRG) approved a U.S. initiative to explore the possibility of establishing a Producer Consumer Forum for copper. Following extensive contact with key producing and consuming countries, the U.S. circulated a proposal for the creation of an intergovernmental body for copper modeled along the lines of the International Lead and Zinc Study Group as a basis for discussion at the December 8–12, 1986 ad hoc meeting on copper. Although negotiations would be under the auspices of UNCTAD, we anticipate that the group would be autonomous and not answerable to any other organization. UNCTAD would have an observer role. UNCTAD will convene a meeting in Geneva in early March to determine if there is a sufficient basis to proceed with formal negotiation.² The U.S. delegation to the meeting would be headed by a representative of the U.S. Trade Representative.

¹ Source: Department of State, Executive Secretariat, S/S Files, 1987 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D155: Action Memoranda, February 1987. Confidential. Drafted by Cynthia Smith (EB/ERP/ICD/ISM) on January 15; cleared in EB/ERP/ICD/ISM, EB/ERP/ICD, EB/ERP, EB, EB/L, L/T, TPSC, L/EB, IO/E, L and M/COMP/BP. A stamped notation at the top of the memorandum reads: "WAW Has Seen." "PJC 2/26" and "BP 2/27" are written at the top of the memorandum.

² According to telegram 2797 from Geneva, March 9, the second UNCTAD ad hoc meeting on copper convened in Geneva March 2–6, where it was agreed that a "preparatory meeting should be convened in September to further discuss the objectives, functions, and nature of an intergovernmental producer-consumer forum on copper, and to elaborate the terms of reference for such a body." (Department of State, Central Foreign Policy File, Electronic Telegrams, D870184–0251)

The copper forum would be a classic commodity study group as opposed to a commodity price/supply stabilization program. As such it would have two main functions, serving as:

1. A forum for the exchange of views among governments; and
2. A means to improve copper statistics and market transparency.

The period since the early 1970's has been one of sluggish consumption growth and increasing uncertainties in the world copper market. While the United States has consistently opposed proposals that would entail direct intervention by governments in the copper market, it now believes the establishment of the Copper PCF would provide a helpful, and constructive service to the copper industry.

Membership in the PCF would be open to all countries with an economic interest in copper production, consumption, or trade.

VIEWS OF INDUSTRY

Entering into negotiations has been discussed at length with our copper industry. The industry, concerned about uncertainties surrounding the future course of the market and the sluggish demand growth and low price of copper, has strongly supported the creation of the copper PCF. Participation by industry representatives as advisors on delegations will be encouraged. There is also a great deal of congressional support for establishment of the PCF. The 28 member copper caucus has written to USTR further urging the quick establishment of such a group.

OTHER FACTORS

Copper ranks among the most valuable non-fuel primary commodities in international trade, with total exports of around \$8 billion annually. It is an essential raw material in world industry, particularly because of its role in the efficient generation and transmission of electrical energy. Mining and refining of copper constitute an important resource-based industry in both developing and a large number of developed countries, including the U.S.

An ad hoc meeting on the copper PCF took place in Geneva December 8-12. The participants agreed that they would meet in Geneva, probably in March, to see if there is agreement to begin formal negotiations toward conclusion of a PCF. Most copper producers appear to support the creation of this forum without economic provisions. Most consumer countries have also reacted positively; however, the United Kingdom continues to be opposed and this position was reinforced by the failure of the Tin agreement and the lobbying of the International Wrought Copper Council, a European association of processors.

A memorandum of law attached as Tab 1³ concludes that there are no legal obstacles to our entering into negotiations.

RECOMMENDATION

That you concur in U.S. participation in the negotiation of an agreement for the creation of a copper PCF.⁴

³ Dated February 11. Attached but not printed.

⁴ Wallis initiated the “Approve” option on February 27. According to telegram 68914 to multiple diplomatic and consular posts, March 4, 1989, the UN copper conference concluded with an agreement establishing terms of reference for an international copper study group (ICSG) on February 24, 1989. Thirty-one nations participated in the conference with only Japan refusing to agree to the final conference resolution. If asked about the group, posts were instructed to indicate “that the U.S. is pleased by the outcome of these negotiations and urges governments to join the study group.” (Department of State, Central Foreign Policy File, Electronic Telegrams, D890181–0370)

377. Information Memorandum From the Acting Assistant Secretary of State for Economic and Business Affairs (Lamb) to the Under Secretary of State for Economic and Agricultural Affairs (Wallis)¹

Washington, March 19, 1987

SUBJECT

Secretary Baker’s Testimony Before the Obey Foreign Operations Subcommittee, March 17

Jim Baker spent 2½ hours on St. Patrick’s Day testifying before Congressman Obey’s Foreign Operations Subcommittee. In attendance were Congressmen McHugh, Lewis, Porter and Gray. The meeting was cordial although some tough issues surfaced.

[Omitted here is discussion of FMS debt.]

*The Baker Plan*²

Responding to suggestions that the Plan was a bank bailout, Secretary Baker emphasized that the Baker Plan was on track. In only

¹ Source: Department of State, Executive Secretariat, S/S Files, 1987 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D155: Briefing/Information Memoranda March 1987. Unclassified.

² See footnote 3, Document 345.

18 months substantial progress had been made, particularly in four areas: economic reforms, conditional lending, commercial bank lending, and debt restructuring.

The MDBs

Secretary Baker argued strongly for full IDA, IFC, and MIGA funding in FY-88. The Administration, Baker said, would oppose any legislation which aimed at discouraging MDBs from lending for production of surplus commodities (H.R.308) as detrimental to the MDBs. He noted the US has been successful in heading off these loans already. Obey emphasized that unless the Supplemental proposal was deficit neutral, it would have no chance of passing. For that reason he agreed to fund IDA and the African Development Bank and Fund arrears (offset by EXIM cuts) but could not fund the IFC arrears.

378. Information Memorandum From the Director of the Policy Planning Staff (Solomon) to Secretary of State Shultz¹

Washington, March 31, 1987

SUBJECT

The Foreign Assistance Budget Crisis: Making The Most Of Even Less

SUMMARY. Despite our strong campaign for the President's FY 1988 foreign assistance requests, it appears almost inevitable that the crunch will get worse. We need to take a hard look at ways to make the most of our sharply reduced means. There are at least three options (which are not mutually exclusive): 1) reducing earmarks and other legislative restrictions; 2) changing the mix of our bilateral and MDB commitments; and 3) adopting new approaches for official debt restructuring. *END SUMMARY.*

Despite yeoman efforts to secure Congressional support for our foreign assistance request, prospects for an adequately funded program

¹ Source: Department of State, Executive Secretariat, S/P Records, Memoranda/Correspondence From the Director of the Policy Planning Staff to the Secretary and Other Seventh Floor Principals, Lot 89D149: S/P Chron—March 1987. Unclassified. Drafted by Marc Wall (S/P) and Russell Misheloff (S/P); reviewed by Lawrence Benedict (EB/IFD/ODF), Robert Glass (EB/IFD/OMA), Paul Daley (AF/EPS), Paul Balabanis (E), and Martin Dagata (AID); cleared by Richard Kauzlarich (S/P).

are poor. It now appears we will have to absorb further cuts, on top of those of the last two years.

We must continue the campaign with Congress and the public for support. We must also keep the pressure on the surplus countries, principally Japan, to provide more assistance. But it is essential to begin working now on practical steps for coping with the inevitable shortfalls.

Ultimately, we may be forced to scale back our foreign commitments. But before we have to face those stark choices, we need to consider the options for covering existing commitments. We believe a review within State and AID needs to begin soon, focussing on at least the following issues.

Earmarks and Other Restrictions. The Administration's proposed FY 1988 legislation includes provisions for eliminating outmoded restrictions on the use of Economic Support Funds and other appropriations. Other possibilities for making our assistance more effective include more competitive FMS pricing, setting up a revolving FMS fund, and lifting restrictions on IMET and equipment leasing. However, the overriding issue—earmarks—still has yet to be addressed.

In my memorandum to you of October 3, 1986² I proposed using the President's authority to break earmarks in FY 1987. At a meeting on October 17, you indicated that you did not favor doing so in FY 1987, but agreed that we should begin working with Congress for more flexibility in FY 1988.

Preserving existing earmarks in the face of steep reductions in total availabilities will result in unacceptable cuts in non-earmarked programs and countries. Some may have to be zeroed out entirely. While more flexibility in allocating our foreign assistance would draw fire, many in Congress understand the problem and might support an initiative at least to reduce the earmarks by the same proportion that our whole Function 150 request is cut.

Congressman Obey raised this possibility with Under Secretary Derwinski at the HAC Foreign Operations Subcommittee overview hearing on March 19, and asked for the Administration's position for the record. We need to consider this possibility now when it might be possible to work out a cooperative approach with the Congress. Otherwise, we could be forced to consider breaking earmarks for Egypt, Israel, and the base rights countries after they are written into the legislation at the levels we originally proposed. This would be much more confrontational.

Bilateral/Multilateral Mix. The MDBs are useful vehicles for U.S. assistance. They leverage scarce aid resources from other sources, and

²Not found.

they are major sources of assistance for U.S. friends and allies. We rely heavily on the World Bank to design and oversee structural adjustment programs for important aid recipients. On the other hand, we are less sanguine about the effectiveness of the regional MDBs and their lending priorities.

In view of the stark budget outlook for FY 88, it might be useful to informally discuss the appropriate balance in our support for the World Bank/IDA, bilateral programs, and the regional MDBs with the relevant Congressional committees. As with the earmarks, the prospects for reaching an amicable accord with the Congress are better now than they will be later, when the legislative process is further advanced.

Official Debt Restructuring. FMS is not the only U.S. loan program which is causing debt-servicing problems for recipients of U.S. assistance. Some U.S. friends also must service sizeable debts as a result of past economic assistance loans. We need to explore possibilities for more flexible repayment arrangements, particularly for our friends facing cuts in current and future U.S. assistance.

For example, in the current budget environment Congress may be sympathetic toward allowing low-income countries with good economic reform records to service loans made under the Foreign Assistance Act by making payments into local currency development funds. Although this approach would provide only modest debt relief, it nevertheless offers a way of providing some additional help to hard-pressed friends without new budget outlays (although budgetary reflows into the 150 account would be correspondingly reduced). Bolivia, Pakistan, and several African countries, would benefit the most.

In sounding out Congress, we should take steps to make certain that its support does not come at the expense of undermining the President's authority to carry out Paris Club reschedulings.

379. Memorandum From the Assistant Secretary of the Treasury for Legislative Affairs (Harman) to Secretary of the Treasury Baker¹

Washington, August 5, 1987

SUBJECT

Status of MDB Authorization Legislation

Action Forcing Event

Chairman St Germain wants to see greater Administration and Republican visibility in support of the MDB authorizations before he allows a full Committee markup. It is important that we honor the authorization process for as long as possible in order to avoid objections to placing the legislation in the Continuing Resolution.

Background

In recent years MDB replenishments have been authorized through annual Continuing Resolutions rather than regular order. We expect that to be the outcome this year as well.

Nevertheless, we must go through the motions of supporting the normal Congressional authorization process in case a) the Authorization Committees actually want to take a bill to the floor, or b) they acknowledge their own inability to produce legislation and thereby indicate they will not object to the Appropriation Committees using the C.R. as the vehicle for authorizing as well as funding the MDBs.

The Senate Foreign Relations Committee has reported out a bill (S.1274) that provides authorization for U.S. participation in IDA VIII, the Asian Development Fund (ADF), the African Development Bank (AFDB), and approval of the Inter-American Development Bank (IDB) capital merger. Authorization to join MIGA and to approve changing the IBRD Articles (to lower the Articles veto threshold) is not in the Senate bill. We do not believe the Committee will take the Foreign Aid Authorization bill to the floor, and do not expect them to object to the C.R. approach with the Senate Appropriations Committee.

The House Banking *Subcommittee* on International Development Institutions and Finance (chaired by Walter Fauntroy) has reported out a bill (H.R. 2403) by a 10–2 vote that authorizes all of the Administration's MDB requests. St Germain, who has never been an MDB fan, is show-boating and has probably been trying to position himself to deal with

¹ Source: Washington National Records Center, RG 56, Executive Secretariat, Congressional Files, 1987, 56–90–29, Box 39, Memos to the Secretary, International Affairs, July–Aug '87. No classification marking. Sent for action. David Malpass initialed for Harman.

you on issues of interest to him in exchange for his scheduling an MDB markup.

St Germain and his staff say they will not schedule a markup due to:

- a) lack of Administration interest in legislation (i.e., Secretary Baker has not called me on this); and
- b) lack of Republican support to the MDBs (wants to see a Floor Whip count of Republicans).

He is also saying he will object to providing the MDB authorization requests through the C.R. approach.

On substance, St Germain has no basis to argue lack of Administration interest in the MDBs, and a House Floor Count of Republicans is not necessary for him to schedule a Full Committee markup. We will deliver Republicans in Full Committee, just as we did in Subcommittee.

St Germain's resistance to holding a markup may lessen as outside issues such as FSLIC and housing progress. Nevertheless, it is now appropriate to increase the visibility of Administration support for the MDBs.

Attached at Tab A is a letter from you to St Germain that indicates the MDBs are one of your top priorities and asks him to schedule a markup early in September.² In addition, we also recommend the following to indicate visible and strong Administration support:

- A Presidential letter to all members of Congress shortly after their summer recess indicating strong support for IDA and the MDBs generally. It could be argued that the timing for such a letter, on the eve of the President's speech to the Bank/Fund annual meetings, is propitious.³

- A meeting between you and Chalmers Wylie and other Republican members of the Banking Committee, not only to demonstrate support for IDA, but to urge them to stand firm on keeping MIGA in the bill without "killer" conditions.

Depending on how this issue progresses, you may want to consider later a meeting with House Republicans. The above action suggests at least one meeting and two letters. We believe that this level of involvement is appropriate, and necessary to demonstrate Administration support for the institutions and create pressure for the authorization and appropriation process to progress.

² The August 5 letter is attached but not printed.

³ In a September 18 memorandum to Howard Baker, Baker wrote that he believed it would be worthwhile for Reagan to send a letter to members of Congress requesting support for funding the MDBs and the U.S. share of the replenishment of IDA VIII. A copy of this memorandum is in the Washington National Records Center, RG 56, Executive Secretariat, Congressional Files, 1987, 56-90-29, Box 33, White House Folder (September) '87. A draft of the letter is attached to the memorandum. Reagan addressed the joint meeting of the IMF and World Bank Boards of Governors on September 29. For the text of his address, see *Public Papers: Reagan, 1987*, Book II, pp. 1089-1094.

Recommendations:

That you sign the attached letter urging a markup and authorize sending a copy to all members of the House Banking Committee.⁴

That you approve our efforts to generate a Presidential letter in order to show broad Administration interest in these authorizations.

That you agree to a meeting with Chalmers Wylie and other Republicans on the House Banking Committee at an appropriate time in September, if necessary.

⁴ Baker initialed his approval of this and the subsequent recommendations. See footnotes 2 and 3, above. Zoellick's August 5 handwritten note below the recommendations reads: "The Secretary suggested that David Mulford handle the last function, if possible. RBZ."

380. Letter From Multiple Congressmen to Secretary of the Treasury Baker¹

Washington, August 7, 1987

Dear Secretary Baker:

Yesterday you formally asked the House Banking Committee for a markup of the multilateral development bank legislation which includes authorization for a U.S. contribution to the eighth replenishment of the International Development Association (IDA).²

We are writing to express our view that it would be inappropriate to move forward with this legislation until you and the Administration produce significant Republican support for this legislation. We do so as strong supporters of IDA and of a generous U.S. participation in IDA and the other multilateral development institutions.

As you know, the Chairman of the House Banking Committee has made clear his desire to see credible evidence of significant support for the IDA replenishment from Members of the President's own party. As

¹ Source: Washington National Records Center, RG 56, Executive Secretariat, Congressional Files, 1987, 56–90–29, Box 35, Group Letters /s/ 9/9/87, Groups Ltrs to St Germain & Nine Others Re MBD Authorization Strategy 87–54796. No classification marking. The letter is on House Banking Committee letterhead.

² In an August 5 letter to St Germain, Baker urged the House Committee on Banking, Finance and Urban Affairs to schedule a markup as soon as possible. See footnote 2, Document 379.

this letter indicates, we are all in agreement on this point. In the past, bipartisan support for multilateral development institutions has been conspicuously absent. The Administration must take responsibility for ensuring support for IDA VIII from its own party.

In your letter yesterday you commended the “successful bipartisan efforts of Walter Fauntroy and Doug Bereuter” in the adoption of the MDB legislation in Chairman Fauntroy’s subcommittee. In fact, while there was unanimous Democratic support for the measure, the Republican Members were badly divided and there was vocal opposition to the bill from certain Republican Members. Regrettably, that is frequently the pattern when multilateral development assistance is at issue.

You have stated that IDA should not fail because of a lack of commitment. We agree. We are committed to IDA, and we ask only that you and the Administration produce clear and substantial Republican support for IDA. Otherwise, there is no reasonable basis for asking us to proceed in considering a matter which you now characterize, eight months into this session, as one of your “top legislative priorities.”

In passing, let us also make an observation with respect to the other legislative priority you mentioned: the “MIGA” authorization. Again, you should be aware that the full Banking Committee and the full House have already endorsed MIGA in the Omnibus Trade Bill now in conference with the Senate. We invite your support for MIGA and the other elements of the Banking title of that bill.

Because we are deeply concerned about the lack of bipartisan support and commitment to IDA VIII, we would be willing to meet with you at your convenience to discuss how such bipartisan support can be achieved. We look forward to hearing from you about your progress in developing Republican support for an initiative which we believe to be crucial to assisting the poorest nations of the world to achieve sustained growth and provide some measure of prosperity for their people.

Sincerely,

Fernand J. St Germain
Tony Coelho
Walter E. Fauntroy
Mickey Leland
John J. LaFalce
Esteban E. Torres
Bruce A. Morrison
Charles E. Schumer
Joseph P. Kennedy II³
Kweisi Mfume

³ Kennedy signed “Joe Kennedy” above his typed signature.

381. Minutes of a Meeting¹

Washington, August 10, 1987, 4:30–4:45 p.m.

MEETING WITH CITIZENS NETWORK
FOR FOREIGN AFFAIRS

SUBJECT

Foreign Affairs Funding

PARTICIPANTS

The President

White House

State

Howard Baker

Secretary Shultz

Secretary Whitehead

Michael Deegan

OMB

Director Miller

Citizens Network for Foreign Affairs

John Costello

Andrew Goodpaster

Leonard Marks

Henry H. Fowler

Randall Teague

Melvin Laird

Alexander Trowbridge

Wallace J. Campbell

Lucy Wilson Benson

Saul Linowitz

NSC

Frank Carlucci

Robert Dean

Donald Tice

Frank Carlucci introduced the Citizens Network members as a group of distinguished Americans, all of whom have held positions of high responsibility in foreign affairs, who have undertaken a labor of love to help the President in the difficult task of obtaining adequate funding for the conduct of foreign affairs.

The *President* welcomed the opportunity to share his concerns about Congressional cuts in the foreign affairs budget. Congress has slashed foreign affairs programs by one third since 1985—far more than other parts of the budget. In fact, our foreign affairs programs cost less than two cents out of each budget dollar.

Nearly all of our foreign grant and loan money is spent right back in the United States, creating jobs and bolstering our economy. And,

¹ Source: Reagan Library, Donald Tice Files, Function 150—Citizens Network (08/06/1987–09/10/1987). No classification marking. The meeting took place in the Roosevelt Room at the White House. No drafting information appears on the minutes.

our economic development aid goes to countries in the developing world which provide 40 percent of the market for our exports. Our money spent on military assistance means our allies and friends join us in defending our—and their—security. This certainly costs a lot less than having to send American boys over there.

At the present levels set by Congress, down 15 percent from my request, we will not be able to keep our commitments to countries whose support is vital to our own national security.² But I am preaching to the choir when I talk with this distinguished group. What I want to hear is more about your efforts and plans to carry the importance of funding our foreign affairs programs to the American people. You know that in doing this you have both my gratitude and my support.

Melvin Laird said his delegation today is a group of citizens trying to alert the public to the problems of obtaining proper foreign affairs funding. Congress seems to think that because they don't hear much from their constituents about this that it is not very important. The Citizens Network has a large number of organizations throughout the nation associated with it, and the objective is to activate these groups to provide active support to funding foreign affairs. The President referred to the 15 percent cuts below his request; in fact these cuts had been made even deeper by Congressional actions over the past few days. These are reductions which cannot be allowed to stand if the United States is to fulfill the world leadership role thrust upon it. *Secretary Shultz* has given selflessly of his time in support of proper funding, and the job of the Citizens Network is to bring in the broad support which will assure the kind of funding which will allow us to play our proper role. Foreign affairs should be a part of the overall national security budget, because the proper conduct of foreign affairs is just as important to our national security as a strong military.

Henry Fowler said there is a very serious immediate problem in obtaining proper funding, but there is also a longer range problem as well. The people who have grown to maturity after the 1950s, which is a large part of our population and includes the people who are making many of the decisions in our society, have no personal experience with or knowledge of the immediate post World War II period when we funded the reconstruction of a war-torn Europe and Japan, when we formed the great organizations—like NATO and the OECD—and the international banks which contributed to making our world what it is today. Thus, they do not appreciate the responsibility which was thrust upon the United States after World War II. If they are properly informed of the vital importance to our security and economic well being of the

² See Document 378.

proper conduct of foreign affairs, they will demand that this part of our government be adequately financed so we can engage in those things which we must do in our own interest.

Henry Fowler then added, "We need your leadership, Mr. President, to help us bring these issues before the American people. So, we ask that you highlight to the workers, to the farmers, and to business, the importance of providing this support. Second, we ask that you highlight the importance to all Americans of adequate foreign affairs funding by making this the subject of one of your Saturday morning broadcasts. And third, we ask that you meet with the full leadership of the Citizens Network in the fall when we formally inaugurate our nation-wide drive to enlist the support of the American people in pressing for a level of foreign affairs funding which will protect our national security."

Carlucci said that Deputy Secretary Whitehead was playing a vital role in this effort as the spearhead, under Secretary Shultz, for obtaining proper funding. *Secretary Whitehead* said that the Citizens Network was doing a wonderful job, playing an active role in directing the attention of the American people to the importance of foreign affairs funding. The problem is a lack of natural constituency for foreign affairs, and the program the Citizens Network is developing will get across to the American people just how important it is that foreign affairs be properly supported.

Andrew Goodpaster said the same problem existed when he worked under President Eisenhower, and what the Citizens Network is doing now is very similar to what they did then. The term "network" is important, because what is needed is the stimulation of a wide network of people placed in positions where they can gain the support of the American public. The American people must be convinced that foreign affairs programs provide the best return on investment in the budget dollar.

Lucy Benson said she wished to underline what Goodpaster had said about the importance of the term network, because it was only through tying together various segments of our society in united support that we would be able to obtain the kind of funding needed for our security.

The *President* spoke of the importance of educating people about foreign affairs, saying he was horrified about a year ago to find out that a large number of juniors at a major university did not even know which side Hitler was on in World War II.

Leonard Marks related having been told by President Eisenhower, after he left office, that one of his regrets was not having been able to do more in the area of public diplomacy. In this regard, statistics are revealing: in 1983 the Soviet Union distributed world-wide some 83

million books, 23 million of them in English; in the same period the United States distributed 571,000. In Spanish language alone, the Soviets printed 11.6 million books. Now, VOA broadcasts 800 hours a month; under the present budget levels 130 hours will have to be cut, meaning the complete elimination of broadcasts to Latin America. It is the hope of the Citizens Network that the President can use his communications ability to help make the case for foreign affairs funding.

Fowler said he recalled a statement by Orwell that Hitler burned books, but Stalin rewrote them.

The *President* thanked the Citizens Network representatives for their efforts and the meeting adjourned at 4:50 p.m.

382. Letter From Secretary of the Treasury Baker to Representative Fernand St Germain¹

Washington, September 9, 1987

Dear Mr. Chairman:

Thank you for your recent letter² responding to my request that your Committee schedule a markup of MDB legislation early in September.

I am encouraged by the commitment to those institutions that was expressed in your letter. The President and the Administration very strongly support this legislative request, and your efforts to move it forward. We want to work with you to meet the commitment we have made, recognizing that some members of our own party may, as occasionally happens, disagree.

From the outset, the Administration's support for the FY 1988 MDB legislative request has been very strong. Last year I was deeply involved in consultations with OMB to formulate the Administration's FY88 budget request. The resulting request of \$1.8 billion for the MDBs and the FY87 supplemental request for an additional \$293 million would

¹ Source: Washington National Records Center, RG 56, Executive Secretariat, Congressional Files, 1987, 56-90-29, Box 35, Group Letters /s/ 9/9/87, Groups Ltrs to St Germain & Nine Others Re MBD Authorization Strategy 87-54796. No classification marking. Identical signed letters were sent to the following members of Congress: Walter Fauntroy, John LaFalce, Bruce Morrison, Joseph Kennedy II, Esteban Torres, Charles Schumer, Kweisi Mfume, Mickey Leland, and Tony Coelho.

² See Document 380.

have fully eliminated all shortfalls in U.S. funding for the MDBs. It is also important to note the bipartisan support for the MDB part of the FY87 supplemental appropriation—\$258 million, as finally approved. Republican support was particularly critical in two key Senate votes and, as you know, the Senate numbers were accepted by the House in conference.

Beginning in February of this year, I testified seven times to Congressional Committees regarding the quintessential importance of the MDBs and IDA to U.S. foreign policy and national interests. Neither my formal statements nor the verbal presentations were idle words. They were a true indication of the Administration's firm commitment to those institutions. Moreover, I met personally with Mr. Fauntroy and members of his Subcommittee in June to discuss my unqualified support for our FY88 legislative request. Mr. Fauntroy's Subcommittee subsequently endorsed the request by a strong, bipartisan vote of 10–2.

But, as you well know, other important issues have also demanded a great deal of my time and attention. These issues included the preparations for the Summit,³ a full range of Economic Policy Committee matters and my responsibilities as a member of the National Security Council. I have also had to devote considerable effort to FSLIC, the national debt ceiling, exchange rates, the trade bill, the Third World debt situation, and support for the substantial IDA funding provided in the FY 1987 supplemental appropriation. I took the time needed to address these legislative issues in the order Congress or events presented them, knowing that the MDB authorizations would remain a top legislative priority.

I am hopeful that we can have the same positive outcome in full committee that we had in subcommittee. For my part, I will seek to mobilize support for the bill among Republican members. Your letter suggests that we meet to discuss the specific steps that might be taken, and we will be contacting your staff to arrange a mutually agreeable date and time.

I appreciate your continuing to share your views and perspective with me. This matter is too important to the nation not to be a priority issue for all of us.

Sincerely,

James A. Baker, III⁴

³ A reference to the Venice Economic Summit, which took place June 8–10.

⁴ Baker signed "Jim Baker" above his typed signature.

383. Action Memorandum From the Assistant Secretary of State for Economic and Business Affairs (McMinn) and the Legal Adviser of the Department of State (Sofaer) to Secretary of State Shultz¹

Washington, October 5, 1987

SUBJECT

Transmission to the Senate of the International Natural Rubber Agreement, 1987

The report to the President (Attachment 1)² and proposed message from the President to the Senate (Attachment 2)³ have been prepared for the purpose of transmitting to the Senate, for advice and consent to ratification, the new International Natural Rubber Agreement, 1987, concluded in March 1987.⁴

The United States is currently a member of the International Natural Rubber Agreement (INRA, 1979). This Agreement entered into force in October 1980 for a period of five years. In 1985, it was extended to October 22, 1987; no further extensions are possible. Therefore, renegotiation of a successor Agreement (INRA, 1987) formally began in May 1985. The negotiations were concluded in March 1987. The U.S. delegation to that conference approved the text negotiated at that conference on an *ad referendum* basis. Since then, the Agreement has been reviewed and approved by the Trade Policy Staff Committee (TPSC). The TPSC also agreed that the United States should sign the Agreement. Jon Rosenbaum, Assistant U.S. Trade Representative, signed the Agreement in New York on August 28, 1987.

The objectives of the Agreement are to stabilize natural rubber prices without distorting long-term market trends and to ensure expanded future supplies at reasonable prices. To this end, the Agreement provides for the establishment of a buffer stock of up to 550,000 metric tons, jointly financed by producing and consuming countries.

Reflecting depressed economic conditions in the early 1980's and the general weakness of commodity prices, significant purchases were

¹ Source: Department of State, Executive Secretariat, S/S Files, 1987 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D155: Through Memoranda, October 1987. No classification marking. Sent through Wallis. Drafted by Jeffrey Cunningham (EB/ERP/ICD/ISM) and John Medeiros (EB/ERP/ICD/ISM) on September 22. Cleared in EB/ERP/ICD, EB/ERP, EB, H, L/T, and L; in substance in USTR, Treasury, IO/E, and Commerce; and in draft in M/MO and L/EBC. Illegible initials and the date "10/6" are written at the top of the memorandum.

² Attached but not printed.

³ Attached but not printed.

⁴ Attached but not printed is Attachment 3, the text of the 1987 INRA.

made in the early years of the current Agreement. Since 1985 prices have been firm, and recently some sales have been made.

The structure and provisions of the new INRA are much the same as the current INRA. However, a number of significant improvements sought by the United States and other consuming countries were incorporated into the new Agreement. These changes provide for more frequent and automatic adjustment of prices to reflect market trends. They also strengthen the financial structure of the Agreement (most importantly, by eliminating the possibility of borrowing from the Agreement).

U.S. participation in the INRA, 1987 will require Senate advice and consent to ratification of the new INRA treaty. The Administration must also obtain appropriating and authorizing legislation from Congress. USTR has lead responsibility to obtain the necessary funds, which, as in the case of INRA, 1979, will be appropriated to the President's 155 account. A request for the money to be included in the budget for FY89 has already been made. We estimate the U.S. obligation under the new Agreement will be about \$74 million. Of this amount approximately \$46 million will be covered by a transfer of U.S. assets between the old and new agreements. We calculate maximum new exposure of \$28 million.

An appropriation of \$88 million was provided for the current agreement. Of that amount, about \$53 million has been called up for buffer stock operations. The remaining \$35 million, which will not be disbursed, represents a saving to the Treasury.

If the United States does not join the new Agreement or if a new Agreement does not come into effect, the current Agreement requires liquidation of assets within three years of expiration. The receipts from that liquidation would be divided according to a formula reflecting member-country contributions.

The actual value of U.S. assets in the INRA is uncertain. If all stocks were sold at the Agreement's current selling prices, the U.S. share of the proceeds would amount to about \$55 million, somewhat more than our total contribution of \$53 million. However, given the likelihood that there would be some quality discounting and that large-scale stock disposals would adversely affect prices, a reasonable estimate of the value of the U.S. share of the stock is \$40–\$45 million.

The Agreement is consistent with our broad foreign policy objectives. Continued U.S. participation will strengthen our relations with the ASEAN countries—in particular, Malaysia, Indonesia and Thailand—which produce approximately 80 percent of total world natural rubber production. Participation is also consistent with our overall policy of

considering commodity agreements on a case-by-case basis and reflects a favorable attitude towards INRA's relative flexibility and responsiveness to market trends.

The Administration has worked closely with representatives of the Rubber Manufacturers Association and the Rubber Traders Association, both in the renegotiation of the INRA and with respect to the day-to-day operations of the Agreement. The U.S. industry generally supports continued U.S. participation in the Agreement; in particular, Goodyear—the largest consumer—has publicly expressed strong support for the Agreement.

Recommendation

That you sign the report to the President (Attachment 1).⁵

⁵ Attachment 1 is unsigned. On October 20, Reagan transmitted the International Natural Rubber Agreement, 1987, to the Senate for advice and consent to ratification. For the text of Reagan's message to the Senate, see *Public Papers: Reagan, 1987*, Book II, p. 1207.

384. Letter From the Acting President's Assistant for National Security Affairs (Powell) to Representative Tom Lewis¹

Washington, December 1, 1987

Dear Congressman Lewis:

This responds to your letter to Frank Carlucci dated October 21, 1987,² concerning imports of sugar blends. You urge that imports of sugar blend products be restricted to avoid damage to the U.S. sugar program and to the foreign exchange receipts of important sugar-producing countries.

I can assure you that we in the Administration are alert to this problem and will be considering it carefully over the next few weeks as we review options for next year's sugar import quota. We believe, however, that over the longer term increased restriction of imports of sugar and sugar-containing products is not the answer. Rather, the U.S. sugar program must be altered to bring domestic sugar prices into better

¹ Source: Reagan Library, Stephen Farrar Files, Chronological File, Farrar Chron December 1987; NLR-177-7-9-2-7. No classification marking.

² Attached but not printed.

alignment with world prices. Legislation introduced by Congressman Porter (H.R. 2017) would achieve that objective.³

Sincerely,

Colin L. Powell
*Acting Assistant to the President for
National Security Affairs*

³ A reference to the Sugar Program Improvement Act of 1987, which Porter introduced on April 8.

**385. Memorandum From the Economic Policy Council to
President Reagan¹**

Washington, December 14, 1987

SUBJECT

Sugar

The Department of Agriculture must announce by December 15, 1987, the amount of sugar that foreign countries may export to the United States. Usually the level at which we set the quota is a routine, but painful, calculation. This year, the Economic Policy Council is presenting you with two possible approaches, one of which covers only raw sugar imports, the other which covers both raw sugar and products that contain sugar.

BACKGROUND

The U.S. sugar program is pernicious. The law requires that the program be administered at “no cost” to the Government, and the only way to do that is to limit sugar imports. Each year, the quota on sugar imports has been reduced, often dramatically. For instance, in 1983, the quota was roughly 3 million tons; in 1987, the quota was 1 million tons.

— Because U.S. producers are assured 18 cents per pound, while the world sugar price is roughly 6 cents per pound, the program creates an enormous incentive for U.S. beet and cane farmers to produce more sugar.

— At the same time, the high price of U.S. sugar has caused a steady shift to artificial sweeteners. As the difference between U.S. sugar

¹Source: Reagan Library, Nancy Risque Files, Subject File, OA 19395, Sugar. Confidential.

demand and U.S. sugar production diminishes each year, there is less room for sugar imports.

The losers in the sugar program are:

- U.S. consumers, who pay roughly \$3 billion more annually than would be necessary without the sugar program; and
- Nations, such as the Caribbean Basin Initiative countries and the Philippines, that are efficient producers but whose exports to the U.S. are reduced each year.

Last year, the Administration forwarded legislation that attempted to mitigate the harmful effects of the sugar program by: (1) immediately reducing the loan rate from 18 cents to 12 cents per pound; but (2) providing a transition payment to sugar producers to help them adjust to the immediate reduction in the loan rate.² Congressional support for this reform proposal, and others, has been extremely disappointing.

ISSUES

The Economic Policy Council is presenting two issues for your consideration:

1. A recommendation to offer a new sugar reform proposal, which would not provide a transition payment to U.S. sugar producers and thus help keep the deficit down;
2. A review of two alternative approaches to setting the 1988 sugar import quota.

New Sugar Reform Proposal

The Economic Policy Council unanimously recommends that you offer a new sugar reform proposal:

- If domestic prices were 150 percent or greater of the world sugar price, the loan rate would be reduced 1½ cents per pound per year, to no lower than 12 cents per pound.
- The quota would be set at the level necessary to maintain the no-cost requirement of the sugar program.

Because the reduction in the loan rate would be more gradual, there would not be a need to provide a transition payment to sugar producers. Even though the program would continue to be administered at “no cost”, the reduction in the loan rate would diminish U.S. production and permit more sugar imports.

The 1988 Import Quota

The Economic Policy Council has identified two approaches for establishing the 1988 import quota:

1. Follow customary practice and cut the quota on a non-discriminatory, across-the-board basis, which would result in a 750,000 ton quota in 1988; or

² See Document 372.

2. Place restrictions on imports of a number of sugar-containing products, most of which originate in Canada. This would allow the sugar import quota to remain at the 1987 level, 1 million tons.

Secretary Lyng feels strongly that we should place restrictions on sugar-containing products. He offers several arguments:

- This action would permit more sugar imports and be more helpful to the CBI countries and the Philippines.

- The amount of sugar brought into the U.S. in products is growing at a dramatic rate and placing U.S. industries that use 18 cents per pound sugar as a raw material at a competitive disadvantage.

A number of Economic Policy Council members are sympathetic to Secretary Lyng's concerns, but prefer to follow the customary practice and place more stringent quotas on raw sugar, for the following reasons:

- Placing restrictions on sugar-containing products extends the sugar program to more products, to the detriment of U.S. consumers.

- Canada is a major supplier of sugar-containing products. Although we specifically reserved the right to place restrictions on sugar-containing products during the Free Trade Agreement negotiations, some segments of Canada may react badly to such restrictions.

During the discussion, several Council members expressed a desire to explore the possibility of encouraging Canada to import sugar from the CBI countries and the Philippines rather than Cuba. The Council has directed that more work be done in developing this idea.

Despite strong differences about the best ultimate approach to determining the quota, the Council unanimously agreed on an interim approach:

- Establish a 1988 quota on raw sugar only of 750,000 tons.

- Re-examine the possibility of placing restrictions on sugar-containing products after consultations with Canada regarding Cuban sugar imports and the signing of the FTA.

DECISION

The Economic Policy Council unanimously recommends that you approve the following *interim* approach to the 1988 sugar quota:

- Establish a 1988 quota on raw sugar only of 750,000 tons.

- Re-examine the possibility of placing restrictions on sugar-containing products after consultations with Canada regarding Cuban sugar imports and the signing of the FTA.³

³ Reagan initialed the "Approve" option.

In addition, the Department of Agriculture will forward a new legislative proposal for reforming the sugar program that does not contain the transitional payments to farmers.

James A. Baker, III
Chairman Pro Tempore

386. Letter From Secretary of the Treasury Baker to Representative Jamie Whitten¹

Washington, December 15, 1987

Dear Mr. Chairman:

I want to take this opportunity to explain the importance of this year's authorizations for the multilateral development banks (MDBs).

The MDBs are a key part of the President's approach to the world debt situation and are fundamental to U.S. foreign policy. The Administration believes that the MDBs play a central part in U.S. assistance programs because of these institutions' cost-sharing advantages and their substantial experience in supporting development. These institutions finance necessary development projects and promote sound economic policies that foster sustainable economic growth.

The International Development Association (IDA), the World Bank's concessional lending window, is particularly important in this regard. IDA recipients are the very poorest countries; over 96 percent of IDA lending goes to countries with annual per capita incomes of \$400 or less.

In addition to providing financial support, IDA is also a catalyst for needed economic reform. With IDA's encouragement and support, many countries have undertaken politically difficult reforms to lessen government involvement in their economies and place more reliance on the private sector. Hence, IDA's lending in support of economic

¹ Source: Washington National Records Center, RG 56, Executive Secretariat, Congressional Files, 1987, 56-90-29, Box 35, Group Letters s/ Congressional Leaders Support for IDA/MIGA Legislation, 87-58923. No classification marking. Similar letters were sent to the following members of Congress: Sidney Yates III, William Lehman, Robert Mrazek, Julian Dixon, Matthew McHugh, Charles Wilson, John Edwards Porter III, Jerry Lewis, David Obey, Silvio Conte, Mickey Edwards, William Gray III, and Jack Kemp. (Ibid.)

reforms will make borrowers more resilient and better able to promote long-term stable economic growth.

IDA is the largest component of the Administration's request for MDB funding, and is properly subject to close scrutiny. Other aspects of our FY88 authorization request are important as well. The fifth replenishment of the Asian Development Fund, a capital increase for the African Development Bank, and U.S. participation in the Multilateral Investment Guarantee (MIGA) each provide a key component of U.S. foreign policy.

I particularly want to call your attention to the importance the Administration places on securing authorization for the MIGA.² The MIGA will begin operation in 1988, with or without U.S. participation. We believe that the MIGA will encourage growth and strengthen the private sector in developing countries. Provision is made in the Senate language for the protection of workers' rights. Of equal importance, if the United States does not join, foreign firms will be able to gain greater access to potential U.S. markets abroad, U.S. jobs will be lost, and in the long run U.S. exports will be sacrificed.

The MIGA convention is also a major breakthrough in several areas. It marks the first time developing countries have agreed to settle investment disputes through provisions of international law and international arbitration. The MIGA has a clear, strong international mandate—which similar bilateral agencies such as the Overseas Private Investment Corporation do not—to promote reform of developing country investment policies. It is, therefore, important that the full appropriation be made in order for the U.S. to gain maximum influence in the institution.

In closing, I urge you to support the MDB authorizations which are included in the Senate Continuing Resolution. The valuable work of these institutions, which serve U.S. interests, requires our full backing, and I hope that you will support the action of the Senate.

Sincerely,

James A. Baker, III³

² The United States signed the Convention establishing the Multilateral Investment Guarantee Agency on June 18, 1986. In a June 16, 1986, memorandum to Baker, Mulford recommended signing the MIGA Convention at that time because of positive congressional responses to U.S. participation in the Convention. Mulford also communicated that, despite congressional support for U.S. participation in the MIGA Convention, it seemed unlikely that funds for U.S. membership would be appropriated in FY 87. On June 17, Baker approved the recommendation in the memorandum that the United States sign the Convention establishing the MIGA. (National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Correspondence Files, 1986, UD-13W, 56-89-13, Box 30, Memos to the Secretary, International Affairs, Jan-Feb '86)

³ Baker signed "Jim Baker" above his typed signature.

387. Action Memorandum From the Acting Assistant Secretary of State for Economic and Business Affairs (Larson) and the Assistant Secretary of State for East Asian and Pacific Affairs (Sigur) to the Deputy Secretary of State (Whitehead)¹

Washington, January 7, 1988

SUBJECT

Funding for the International Natural Rubber Agreement

ISSUE FOR DECISION:

Whether to authorize continued U.S. participation in the International Natural Rubber Agreement (INRA II).

BACKGROUND:

The International Natural Rubber Agreement, which came into force in 1980, is one of the few international commodity organizations that has functioned well and in accordance with U.S. interests. Renegotiation of the agreement, completed in March 1987, incorporated a number of improvements proposed by the U.S. with extension of the buffer stock operations conducted under the Agreement for an additional five to seven years.

U.S. participation in the Agreement requires budget authority to back our share of the buffer stock. Operations during the life of the first Agreement were supported by an \$88 million appropriation in FY 81. Now, although little or no additional cash is needed, the appropriation must be renewed (for \$73.6 million). This includes approximately \$45.5 million worth of rubber in the stock whose value, OMB has determined, must be reappropriated, as well as renewal of authority for \$28.1 million of the \$37 million of the previous appropriation that was never expended. The likelihood of a near-term drain on U.S. budget outlays is very small; transfer of the existing rubber and other assets held by the organization should be sufficient to fund buffer stock operations for the next few years, even if the market (now strong) should turn down.

Failure to win financial backing for the buffer stock would result in collapse of the Agreement, which cannot be renewed without the U.S., the world's largest consumer of natural rubber. We cannot ratify the

¹ Source: Department of State, Executive Secretariat, S/S Files, 1988-1989 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D154: Through Memoranda January 1988. Confidential. Drafted by Jeffrey Cunningham (EB/ISM); cleared in EB/ICD, EB/ERP, EAP/IMBS, EAP, and E. Sent through Wallis. Illegible initials and the date "1/9" are written at the top of the memorandum. Attached but not printed is an undated fact sheet entitled "INRA Budget Facts."

Agreement unless we are prepared to meet our financial commitments. Other consuming nations are taking their signals from us.

Collapse of the Agreement would seriously damage relations with ASEAN countries, of which Malaysia, Indonesia and Thailand account for over 80 percent of world natural rubber production. It would hurt our efforts to gain ASEAN support for U.S. objectives in the Uruguay Round and to strengthen economic cooperation with ASEAN through the ASEAN-U.S. dialogue.² In general the action would undermine our credibility with other signatories and could have a negative impact on our efforts in other multilateral negotiations.

A collapse could also provoke turmoil in rubber markets, as liquidation of the existing 270,000-ton buffer stock must follow, with immediate and serious effects for the economies of Thailand, Indonesia and Malaysia.

In economic terms the current Agreement has generally worked well. During the early part of the Agreement, prices were low and substantial stocks were purchased. More recently, prices have been high and, since September, a significant portion of the stocks have been liquidated, exerting a stabilizing effect on rising prices. The U.S. industry supports continued participation in the Agreement, as it improves stability in a market that has been subject to great volatility in the past.

To support continued U.S. participation, USTR requested that the necessary budget authority be included in the FY 89 budget. We now understand that OMB has determined that in order to meet the \$18.1 billion budget authority ceiling imposed by the Executive-Legislative summit, it was forced to exclude requests for “new” funds, among which was INRA II. Although in strict terms continued participation in INRA is not “new”, if the decision holds, it will mean in practical terms the end of the Agreement.

We anticipate that strong efforts to reverse this decision will also be made by USTR and other interested agencies including Treasury and Commerce.

ACTION REQUESTED:

That you authorize funding of the International Natural Rubber Agreement within the current authority and outlay ceilings.³

² Documentation on the Uruguay Round of the GATT negotiations is scheduled for publication in *Foreign Relations, 1981–1988*, vol. XXXVII, Trade; Monetary Policy; Industrialized Country Cooperation, 1985–1988.

³ Ralph Boyce checked the “Disagree” option on January 29 and wrote: “Per JCW: not possible within budget summit framework.”

388. Action Memorandum From the Acting Assistant Secretary of State for Economic and Business Affairs (Larson) to Secretary of State Shultz¹

Washington, January 12, 1988

SUBJECT

Presidential Certification Required to Authorize Payments to Multilateral Development Banks and International Organizations and Programs

ISSUE FOR DECISION

Whether to ask the President to certify, as he did last year,² that it is contrary to the national interest to prevent the USG from making payments to international institutions, due under agreed arrangements, since they cannot give advance assurance that our payments will not “indirectly” assist Angola, Cambodia, Cuba, Iraq, Vietnam, South Yemen, Libya or Syria.

ESSENTIAL FACTORS

A provision in the foreign assistance portion of this year’s Continuing Resolution (Section 554) prohibits the use of appropriated funds to finance “indirectly” any assistance to Angola, Cambodia, Cuba, Iraq, Vietnam, South Yemen, Libya or Syria unless the President certifies that withholding such funds is “contrary to the national interest.” This section was first inserted in the FY ‘87 Continuing Resolution at the insistence of Congressman Obey, who was criticized during the 1986 election campaign for supporting multilateral development bank (MDB) loans to countries opposed to U.S. foreign policies.

This provision is of particular concern to Treasury and us because, absent the presidential waiver authorized by the provision, the USG can contribute to the MDBs only by “earmarking” funds such that they could not be used for the listed countries. The MDBs, however, have determined that “earmarking” is contrary to their charters; Treasury’s General Counsel concurs with this view. For this reason, the MDBs have indicated that they would not accept contributions containing any “earmarking” provisions.

¹ Source: Department of State, Executive Secretariat, S/S Files, 1988–1989 Official Office Files for (E) Economic Affairs Allen Wallis, Through Memoranda January 1988. Unclassified. Sent through Wallis and Armacost. A stamped notation reading “GPS” appears on the memorandum, indicating Shultz saw it.

² See Document 371.

Treasury and we therefore strongly urge expeditious use of the waiver authority necessary to obligate MDB funds. Failure to make payment would jeopardize the financial viability of the MDBs and their role in debt management strategy by leading to reduced payments by others concerned about equitable burden-sharing, and sharp reductions in the lending programs of those institutions. The credit markets, which lend the MDBs upwards of \$90 billion, would perceive a failure to make payments as a withdrawal of USG support for the institutions; MDB credit standing would be severely affected.

Moreover, the provision is basically political in nature. None of the MDBs has lent to Cambodia, Iraq, Libya or Vietnam in recent years; Cuba is not even a member. Lending to the others over the last five years has only amounted to a quarter of one percent of total MDB lending, and only modest levels of lending are likely in the future.

In addition to the problems caused with the MDBs, the limitation will also apply to the U.S. contributions to multilateral programs under the Foreign Assistance Act's International Organizations and Programs (IO and P) account. During FY 1988, this account will fund such UN-supported (and Congressionally-earmarked) programs as the UNDP, UNICEF, IFAD, and the IAEA, which cost the USG less than \$250 million annually. They focus to a large extent on such humanitarian activities as immunization of children and famine relief as well as IAEA nuclear safeguards programs. Although exact amounts of such indirect assistance to the listed countries are not available, the total for FY 1988 could be significant. We believe that the impact on the IO and P account would be similarly detrimental, since these institutions also have concluded that they cannot accept "earmarked" contributions.

RECOMMENDATION

That you sign the memorandum to the President (Tab A),³ which recommends that he certify that withholding of funds to multilateral development banks and other international organizations and programs pursuant to the limitation in Section 554 of the 1988 Continuing Resolution is contrary to the national interest.⁴

³ Attached but not printed. In a January 25 memorandum to Reagan, Powell recommended that the President sign the Presidential Certification waiving the prohibition on the indirect use of U.S. funds contained in the FY 1988 Continuing Resolution. Reagan initialed the "OK" option. (Reagan Library, Stephen Farrar Files, Chronological File, Farrar Chron January 1988) On October 20, Reagan signed Presidential Determination 89-4 certifying, as recommended by Shultz, that withholding funds to MDBs and other international organizations and programs pursuant to the limitation in Section 550 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1989, was contrary to the public interest. (Reagan Library, Stephen Farrar Files, Chronological File, Farrar Chron October 1988)

⁴ Shultz initialed the "Approve" option.

389. Memorandum From the President's Assistant for National Security Affairs (Powell) to President Reagan¹

Washington, March 7, 1988

SUBJECT

Sugar Re-Export Program

The sugar program mandates that imports be restricted as necessary to maintain a high domestic price (about 18 cents/lb.). The import quota for 1988 is 25% below the 1987 level.

The 1988 Continuing Resolution contains a provision (Sec. 583) requiring USDA to import sugar at U.S. prices from the Philippines and Caribbean Basin countries, refine it, and re-export it at world prices (about 8 cents/lb.). At least 400,000 tons would be imported and re-exported under this authority over and above quota levels.

The provision, sponsored by Senator Inouye, represents an effort to shield important countries from the harmful effects of the cut in the sugar quota. The Administration opposed the Inouye provision last year as a further distortion of the U.S. sugar program. However, the provision does have the advantage of providing needed foreign exchange to vitally important countries.

Secretary Lyng has been advised by legal counsel that Sec. 583 provides neither the legal authority nor the funding to implement the program.² Aware of USDA's concerns, Senator Inouye and Congressman Murtha have asked that I bring to your attention two letters from Congressional supporters of the provision (Tab A).³ They emphasize the importance of sugar export earnings to U.S. foreign policy objectives in the Philippines and the Caribbean Basin.

In addition, Congressman Murtha has asked that I bring to your attention a letter he received from the Chairman of the Philippines Sugar Regulatory Administration asserting that the program is needed

¹Source: Reagan Library, Stephen Danzansky Files, Subject File, Sugar 11/27/1987–03/22/1988; NLR-733–13–22–6–3. No classification marking. Sent for information. Drafted by Stephen Farrar. Copies were sent to Bush and Baker.

²In a March 10 memorandum to Risque, Lyng outlined the USDA position's that it had no legal authorization to implement the program proposed by the Inouye Amendment. Lyng concluded: "From a broader policy perspective, everyone needs to be reminded that the Reagan Administration has tried to reform the current sugar program over the last several years. Implementation of the sugar reexport program would only foster a continuation of the existing sugar program." (Reagan Library, Stephen Farrar Files, 1987–1988 International Economic Affairs Directorate Outline File, Sugar 03/10/1988–03/23/1988)

³The February 20 and February 29 letters are attached but not printed.

to fight the communist threat in sugar-producing regions of his country (Tab B).⁴

USDA's legal concerns are serious and I believe should be respected. I have written to Secretary Lyng asking that he give high priority to obtaining legislation reforming the U.S. sugar program to put it back on a market-oriented basis, as you have proposed.

My responses to Senator Inouye and Congressman Murtha are at Tab C.⁵ I have endorsed the goal of supporting the Philippines and the Caribbean Basin countries while respecting the need to resolve legal questions.

⁴ The February 18 letter from Arsenio Yulo is attached but not printed.

⁵ The responses, dated March 7, are attached but not printed.

390. Action Memorandum From the Acting Assistant Secretary of State for Economic and Business Affairs (Larson) to Secretary of State Shultz¹

Washington, March 18, 1988

SUBJECT

Circular 175: Request for Authority to Accede to the 1987 International Sugar Agreement

ISSUE FOR DECISION

Whether to grant authority for the United States to accede to the 1987 International Sugar Agreement (ISA),² pending the enactment of Congressional authorization of U.S. participation in the agreement, and to sign the associated Declaration of Provisional Application (Tab A).³

¹ Source: Department of State, Executive Secretariat, S/S Files, 1988–1989 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D154: Through Memoranda March 1988. Unclassified. Drafted by J.D. Mueller (EB/TDC/OFP/FPD) on March 9; cleared in draft in IO/EX, IO/SB, L/EBC, L/T, EB/TDB/OFP/FPD, EB/TDC/OFP, EB/TDC, E, H, M/COMP/BP, D/P&R, EAP/EP, EAP, ARA/EPC, and AF/EPs. Sent through Wallis. DH initialed for Wallis. A stamped notation reading “GPS” appears on the memorandum, indicating Shultz saw it.

² Attached but not printed at Tab C is a copy of the 1987 ISA.

³ The signed copy is attached but not printed.

ESSENTIAL FACTORS

The most important issue in considering accession to the ISA is our inability for at least the next year to pay our assessment to the International Sugar Organization (ISO). Debate over this has delayed a consensus in the Trade Policy Staff Committee. All other agencies have now agreed to proceed with accession, based on an understanding that other ISO members are eager enough that we participate to tolerate our late payments.

Under Circular 175 authority granted September 3, 1987, the United States participated in the 1987 UNCTAD conference on sugar. The conference completed a new ISA to succeed the 1984 ISA, which will expire on April 1, 1988.

The new agreement, like its predecessor, is an administrative agreement with no economic provisions. It maintains the ISO, created in 1968, to collect statistics on sugar trade and provide a forum to discuss sugar issues. Exporting members value the ISO as a symbol of and forum for international cooperation on the problems of the world sugar market. U.S. participation is a statement of our desire to cooperate on those problems, and a recognition of our partial responsibility (via our domestic sugar program) for world market conditions.

United States participation is crucial to the future of the ISA. The ISA has not yet received sufficient adherences to bring it into force, and is unlikely to do so without U.S. participation. Other members believe the absence of the U.S. devalues the ISO. If the ISA does not enter force by the time the ISO's financial reserves run out in April, it is likely the ISO will be liquidated, an action which LDC sugar exporters will regard as the result of U.S. indifference to their economic problems.

As with the 1984 agreement, the U.S. will join the 1987 agreement as an executive agreement, not a treaty, and will therefore not submit it to the Senate for advice and consent to ratification. We cannot accede, however, until we obtain statutory authorization for U.S. participation. In the meantime we will apply the ISA only provisionally. The Memorandum of Law (Tab B)⁴ concludes that the Executive has adequate legal authority to conclude the agreement.

Funding of U.S. participation is a crucial issue. Under the 1984 ISA we never got intended statutory authorization for U.S. participation which would have permitted funding the U.S. contribution from the Department's Contributions to International Organizations (CIO) appropriation. We paid our contribution from the International Conferences and Contingencies (ICC) appropriation for the life of

⁴ Attached but not printed.

the agreement. As the ICC appropriation became increasingly underfunded, we had difficulty paying our contributions on time.

With the 1987 agreement, we are taking steps to improve funding prospects. In negotiating the agreement, we reduced the U.S. share of the assessment from 13% to 11%. We will pursue vigorously legislative authorization to permit funding from the CIO appropriation.

However, we must fund our contribution from the ICC appropriation until such authorization is obtained. After payment of 1987 arrearages, less than \$38,000 remains in the ICC appropriation for the ISO, against a potential 1988 assessment of \$165,000. The ISO is included in the ICC budget request for fiscal year 1989 at an approved OMB request level of \$111,000, which is far short of requirements. Prompt legislative action will permit funding from the CIO account for FY90.

Not joining would also involve expenditures. The ISO has projected that our share of liquidation costs would exceed \$180,000, more than our 1988 assessment. Also, the International Wheat Council would have to assume the full cost of some facilities it shares with the ISO, which would be passed on to us as an increased assessment.

RECOMMENDATION

That you grant authority to accede to the 1987 International Sugar Agreement, pending Congressional authorization of U.S. participation in the agreement, and sign the attached notice of provisional application of the agreement (Tab A) (recognizing, however, that available resources will be inadequate to pay fully our assessment). This recommendation has been cleared and approved by the Trade Policy Staff Committee.⁵

⁵ Shultz checked the "Approve" option on March 19. Telegram 7194 from London, March 29, reported that the 1987 ISA was brought into force on March 24 and the U.S. deposited its instrument of provisional application on March 23. (Department of State, Central Foreign Policy File, Electronic Telegrams, D880269–0217)

391. Action Memorandum From the Acting Assistant Secretary of State for Economic and Business Affairs (Larson) to Secretary of State Shultz¹

Washington, March 21, 1988

SUBJECT

U.S. Acceptance of the Convention Establishing the Multilateral Investment Guarantee Agency

ISSUE FOR DECISION

Whether to concur in U.S. membership in the Multilateral Investment Guarantee Agency ("MIGA") and sign an Instrument of Acceptance for the Convention Establishing the Multilateral Investment Guarantee Agency.

ESSENTIAL FACTORS

On June 18, 1986, you approved a Full Power authorizing the signing of the MIGA Convention.² The Agreement was signed on behalf of the United States the same day. Subsequently, the Congress enacted P.L. 100-202, the fiscal year 1988 continuing resolution, which *inter alia* authorizes the President to accept membership for the United States in MIGA, and to subscribe to 20,519 shares of the capital stock of MIGA. Funds for MIGA were appropriated in the Foreign Operations (International Financial Institution) portion of the Continuing Resolution.

MIGA is an international institution affiliated with the World Bank designed to encourage the flow of direct investment to developing countries. It will issue guarantees against non-commercial investment risks, carry out a wide range of activities to promote direct investments, and encourage sound investment policies in member countries. MIGA will promote productive investment and strengthen the private sector in developing countries, thereby encouraging long-term sustainable economic growth and development. Most importantly, MIGA will be the first multilateral institution with a clear mandate to persuade

¹ Source: Department of State, Executive Secretariat, S/S Files, 1988-1989 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D154: Through Memoranda March 1988. No classification marking. Sent through Wallis. Drafted by Russell Munk (Treasury) and Sharon Villarosa (EB/IFD/OIA) on March 7; cleared in L/EBC, EB/IFD, EB/IFD/OIA, M/COMP, L/UNA, L/T, Treasury, and L. Villarosa initialed for all clearing officials. A stamped notation reading "GPS" appears on the memorandum, indicating Shultz saw it. Klosson initialed the memorandum and wrote "3/22."

² See footnote 2, Document 386.

developing countries to accept the fundamental principles of an open investment climate.

The Department of the Treasury, which has the lead role in matters relating to the multilateral development banks, also will be taking the lead role with respect to U.S. participation in the MIGA. Under the authorizing legislation, Treasury Secretary Baker will be U.S. Governor of the Agency, and Under Secretary of State Wallis will be the Alternate U.S. Governor. The United States will have a seat on the MIGA Board of Directors to ensure the MIGA focuses on policy reform and economically sound investments.

Public Law 100–102 imposes certain conditions on U.S. participation in MIGA. The U.S. Director on the MIGA Board must propose and seek adoption of policies and procedures limiting support for projects in countries not according internationally recognized workers' rights, which are subject to trade distorting performance requirements, or which will increase productive capacity in an industry facing excess worldwide capacity. No U.S. contribution to MIGA may be made before April 30, and then not unless the Secretary of the Treasury certifies and reports to the Congress either (1) that the MIGA Board has adopted such policies and procedures or (2) that the U.S. Director on the Board will continue to seek such policies and procedures until they are adopted and failure to make the U.S. contribution will make it more difficult to achieve such policies and procedures. As indicated in the accompanying Memorandum of Law, these conditions do not operate as a bar to acceptance of membership.³

Treasury is already consulting with the World Bank on the clarifications and rule changes needed to address this statutory requirement.⁴ The MIGA Board of Directors must approve any rule changes, and the Board cannot be established until MIGA has been accepted by countries representing at least 33% of total contributions. Currently MIGA has been accepted by 26 countries contributing approximately 28 percent of the total. Participation by the United States, with a 20 percent share, will permit MIGA to commence operations and the Board to be established.

At an appropriate time this Department, in consultation with Treasury, will seek an Executive order under the International Organizations Immunities Act, as amended, designating the MIGA as

³ Attached at Tab 2 but not printed.

⁴ In a July 7 memorandum to Baker, Berger described the final steps required to join the MIGA and the strategy adopted by Treasury, after consultations with the management of the World Bank, to build consensus in favor of policies that would be similar to those in the legislation. (National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Congressional Correspondence, 1988, UD–10, 56–10–1, Box 34, Group Letters s/88, Membership in the MIGA 66981)

an international organization entitled to enjoy the privileges, exemptions and immunities provided for by that Act.

Our standard practice requires that Instruments of Acceptance be signed by the President, the Secretary of State, or the Acting Secretary of State.

RECOMMENDATION

That you approve acceptance of membership in MIGA, and sign the Instrument of Acceptance at Tab 1.⁵

⁵ Tab 1, the Instrument of Acceptance, signed by Shultz, is attached but not printed. Under the recommendation is the stamped date: "Mar 24 1988." Attached at Tab 3 but not printed is the cover page of the convention, dated October 11, 1985.

392. Memorandum From Stephan Danzansky and Jose Sorzano of the National Security Council Staff to the President's Assistant for National Security Affairs (Powell)¹

Washington, March 22, 1988

SUBJECT

Sugar

Issue

Should the NSC support implementation of the Inouye amendment?

Background

Senator Inouye attached a provision to the 1988 Continuing Resolution requiring USDA, separate from the sugar quota program, to import 400 thousand tons of sugar from the Philippines and CBI countries at U.S. prices (18 cents/lb.), refine it, and re-export it at world prices (8 cents/lb.). USDA has concluded that the provision does not provide adequate legal authority to implement the program. Inouye's objective was to shield CBI countries and the Philippines from damage caused by the 25 percent cut in the U.S. sugar import quota in 1988.

¹ Source: Reagan Library, Stephen Farrar Files, Chronological File, Farrar Chron March 1988; NLR-177-7-36-11-7. Confidential. Sent for action. Prepared by Farrar. A stamped notation on the memorandum reads: "Deputy Natl Sec Advisor has seen."

Backers of the amendment are seeking ways to enact clarifying legislation, perhaps as part of the trade bill.

We need to resolve the issue by Wednesday² morning, since ambassadors from CBI countries will be in Thursday³ to meet with you and Senator Baker.

Options

1. *Support the USDA legal ruling; do not attempt to fix the statute; channel pressure toward reform of the sugar program.* (Danzansky recommendation)

— Difficult to second-guess USDA's interpretation of its statutory authorities.

— Inouye amendment makes reform harder to achieve—piling distortions upon distortions.

— The Inouye amendment was included in the President's March 10 "pork list" of provisions in the 1988 CR that should be rescinded.

— Supporting a legal fix would favor CBI and the Philippines over other sugar suppliers, causing loud protests and GATT problems. It would also be seen as contrary to our "standstill" pledge on agriculture in the Uruguay Round.⁴

2. *Find a way to make the Inouye amendment work, if necessary through a statutory fix.* (Sorzano recommendation. Dick Childress concurs).

— While the Administration opposed this as bad public policy it is nevertheless now a statute. It is also the only tool we have to deal with a critical problem.

— The central issue is the Congressionally-mandated sugar support price which is a major problem not likely to be resolved by this Congress.

— CBI and Philippines are high foreign policy priorities. Successive sugar quota cuts are adding to economic deterioration. The foreign aid cupboard is bare.

— The amendment could provide CBI countries up to \$40 million in foreign exchange earnings in 1988; almost half would go to the Dominican Republic.

— A substantial amount would go to other hard-pressed allies in the region such as El Salvador, Honduras and Jamaica and basket cases such as Haiti.

— President Balaguer of the Dominican Republic meets with the President on Friday.⁵

State continues to accept the Administration position opposing the Inouye amendment. However, ARA favors working with Inouye to get

² March 23.

³ March 24. See footnote 2, Document 393.

⁴ See footnote 2, Document 387.

⁵ Reagan hosted Balaguer at the White House on Friday, March 25. (Reagan Library, President's Daily Diary)

immediate benefits. State is also attempting to identify USDA surplus commodities that could be made available to CBI countries.

RECOMMENDATIONS

Option 1: Support the USDA legal ruling; do not attempt to fix the statute; channel pressure toward reform of the sugar program.⁶

Option 2: Alternatively, find a way to make the Inouye amendment work, if necessary through a statutory fix.

⁶ Negroponte initialed his approval of Option 1 on March 23. Under the recommendations, he wrote: "N.B. Since White House on record as recently as 3/10, it is difficult to see how our approach could be reversed between now and tomorrow—as suggested in para 2 of Background. JDN."

393. Summary of a Meeting¹

Washington, April 6, 1988

INTERAGENCY MEETING ON SUGAR

SUMMARY

1. Reason for Meeting

To follow up on Howard Baker's commitment to Ambassadors from CBI countries and the Philippines to seek ways of reducing the near-term impact on these countries of the U.S. sugar import program.²

¹ Source: Reagan Library, Stephen Farrar Files, Chronological File, Farrar Chron April 1988; NLR-177-8-4-4-9. No classification marking. The meeting took place in the White House Situation Room. Meeting minutes were not found. The summary was sent under an April 12 covering memorandum from Farrar to Negroponte, in which Farrar requested that Negroponte approve the circulation of the paper to the agency representatives who attended the meeting.

² Baker's meeting with the Ambassadors from the Philippines and sugar-producing countries in the Caribbean Basin took place on March 24. According to a March 23 memorandum from Danzansky to Powell, the Ambassadors of the CBI countries wrote Baker on February 9 requesting a meeting "to discuss USDA's refusal to implement a new sugar re-export program intended to help their countries and the Philippines." (Reagan Library, Stephen Danzansky Files, Subject File, Sugar 03/23/1988-07/18/1988; NLR-733-13-23-1-7) The February 9 letter as well as talking points and a background paper for the March 24 meeting are attached to the memorandum. Documentation on the Caribbean Basin Initiative is scheduled for publication in *Foreign Relations, 1981-1988*, vol. XVII, pt. 1, Mexico; Western Caribbean.

2. Inouye Amendment

USDA (Chris Hicks) reported that several drafts attempting to fix problems in the Inouye Amendment to the Continuing Resolution are circulating on the Hill. The strongest contender, which could be attached to the trade bill, would require that sugar be exported under the Export Enhancement Program (EEP), thereby creating a supply shortfall that would be filled with sugar from the CBI countries and the Philippines. These fixes are not attracting sponsors because they would use EEP resources now available for other commodities, notably wheat. Even if enacted, USDA questioned whether these fixes would be sufficient to implement the sugar re-export program.

Next Steps: The Administration will continue to monitor and evaluate fixes to the Inouye Amendment and their impact.

3. Legislative Reform

USDA reported that draft legislation that would reform the sugar program by amending the Bradley bill is nearly completed. The draft would modify the Bradley bill to eliminate GATT problems by letting the import quota level rather than the domestic price be the variable. No agency believed that there is a realistic chance of obtaining legislation this year. Nevertheless, OMB and others emphasized the importance of keeping up the pressure for reform.

Next Steps: The legislation will shortly be reviewed by the EPC.

4. Sec. 416 Food Aid Compensation

USDA reported that the sugar compensation program has been discontinued because wheat and dairy products, the commodities preferred by receiving countries, are no longer available. However, USDA is prepared to look case-by-case at countries where a need might exist for available commodities, primarily corn and sorghum.

Next Steps: USDA will consider requests for using Sec. 416 in sugar-producing countries.

5. Sugar-Containing Products

USDA reviewed the background of the issue, citing growing imports of sugar-containing products as market forces work to evade the sugar quotas. USDA has authority under Sec. 22 of the Agricultural Adjustment Act to restrict imports of sugar-containing products if necessary to implement the sugar program. Imports come mainly from Canada and the European Community.

Last December, the President decided against restricting imports at the time, but agreed to re-examine the possibility of placing restrictions on sugar-containing products after consultations with Canada

regarding Cuban sugar imports and the signing of the Free Trade Agreement.³ USDA observed that the U.S./Canada FTA deals with this problem by prohibiting restrictions on products containing less than 10% sugar—far below the content level of products squeezing out sugar imports.

While all acknowledged that the U.S. will be forced to restrict imports of sugar-containing products in the future if the import quota for sugar vanishes, most agencies had serious reservations from a trade policy perspective with imposing restrictions now. In their view, broader restrictions would allow distortions to spread and diminish the pressure for reform of the sugar program. In USDA's view, restrictions on sugar-containing products are the best means for providing near-term benefits to the CBI countries and the Philippines.

Next steps: Question should be reviewed again by the EPC given the lack of consensus.

6. Cuban Sugar

State (Al Larson) reviewed the history of USG attempts to dissuade Japan, Canada, and Egypt from buying Cuban sugar. The problem with Japan and Egypt has been in finding alternate suppliers. The Philippines was not able to supply Japan when the issue was last raised. Egypt, which demands refined sugar, gets Cuban sugar refined below-cost in Bulgaria. State said that it is doing what it can to deny sugar markets to Cuba, but there is likely to be little benefit for CBI countries. John Negroponte suggested that it may be useful to study the market for Cuban sugar.

Next Steps: CIA preparing a paper on Cuban sugar trade, for inter-agency review in next 10 days or two weeks.

7. Increased Sugar Quota

State raised the possibility that the existing 750,000 ton sugar quota could be raised by 100,000 tons because of firming of sugar prices and the relative shortage of sugar.

Next Steps: USDA will study the possibility of increasing the quota.

8. Commerce Study

The Commerce Department's recent study of the sugar program⁴ was praised. All agreed that its conclusions should be used in building support for the Administration's legislative reform proposal.

³See Document 385. Reagan signed the United States-Canada Free Trade Agreement on January 2, 1988.

⁴Not found.

9. *Participants*

NSC

John Negroponte (Chair)

Steve Danzansky

Steve Farrar

Dick Childress

Kim Flower

Alison Fortier

White House

Jay Stone

State

Al Larson

Treasury

Bob Cornell

Agriculture

Chris Hicks

David Lyons

Commerce

Ralph Ives

OMB

Dave Gibbons

Joel Kaplan

Bob Bostick

AID

Jim O'Meara

EPC

Bill Maroni

394. Letter From the Director of the Office of Management and Budget (Miller) to the Under Secretary of State for Economic and Agricultural Affairs (Wallis)¹

Washington, April 7, 1988

Dear Allen:

Thank you for the information regarding the second International Natural Rubber Agreement (INRA II).² As you know, funding for INRA II was not included in the President's Budget request for FY 1989 due to the tight ceilings on the International Affairs function imposed by the Bipartisan Budget Agreement. While it is customary for OMB to take the heat from the general public for budget cuts, I hope you understand that the exclusion of INRA II funds from the budget was essentially a State Department decision. We passed back to the Department a budget allowance in excess of \$15 billion for the International Affairs programs under its control, and we would not have objected if a portion of this amount had been allocated to INRA II.

Because of the concern we have over the agreement, my staff is working closely with the interagency group, including the State Department, in exploring options which would enable us to participate in INRA II. Foremost among these options is the transfer of existing assets under INRA I to INRA II. The U.S. share of rubber stocks and cash in INRA I is valued at approximately \$50 million. Prior to the Bipartisan Budget Agreement, the interagency group agreed that the Administration would seek authorizing and appropriating legislation to enable us to transfer these assets from INRA I to INRA II.

We have reconsidered this position in light of evidence that this may not be necessary. We are planning to present the arguments for not scoring the transfer to CBO shortly. Frankly, we will have to abide by their decision. Otherwise, the Administration would risk being accused of violating the Bipartisan Budget Agreement. If CBO does not agree

¹ Source: Department of State, Executive Secretariat, S/S Files, 1988–1989 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D154: untitled folder. No classification marking. A stamped notation at the top of the memorandum reads: "Received Under Secretary's Office Apr 18 1988." A handwritten note from Martin Bailey to Wallis affixed to the front of the memorandum reads: "AW, Phil du Sault at OMB has talked to the CBO staff and is waiting for a reply on whether the buffer stock transfer requires an appropriation. OMB was more helpful than expected on this matter. Martin."

² Wallis forwarded correspondence on the INRA–II issue to Miller under a March 18 covering memorandum. (Department of State, Executive Secretariat, S/S Files, 1988–1989 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D154: Action Memoranda March 1988)

that the transfer need not be scored, we will have to consider finding offsets within function 150 to fund INRA II.

I appreciate your interest in this matter and I truly hope that an acceptable solution will be found in the near future.³

Sincerely yours,

James C. Miller III⁴

³ In telegram 186684 to Tokyo and Moscow, June 17, the Department explained that due to budget constraints it was not possible to include funding for INRA II in the President's budget for FY 1989. Executive branch agencies "have sought to overcome this difficulty through the continued use of funds appropriated and expended to support our obligations to INRA I." Significant issues arose with this proposal, but the Executive branch determined the proposal was viable and the Department had just been informed that the Congressional Budget Office had no objections to the proposal. "This concurrence means that the basic funding hurdle has been overcome," the Department concluded. (Department of State, Central Foreign Policy File, Electronic Telegrams, D880496–0668) On September 7, by a vote of 97 to 0, the Senate passed a resolution giving affirmative advice and consent to the President's proposal to ratify the INRA 1987. On November 9, the U.S. deposited its instrument of ratification for the INRA 1987 with the UN Secretary General, completing U.S. action required for full membership in the agreement.

⁴ Miller signed "Jim" above his typed signature. He wrote at the bottom of the memorandum: "P.S. Any other ideas?"

395. Memorandum From the Under Secretary of State for Economic and Agricultural Affairs (Wallis) to Secretary of State Shultz¹

Washington, April 16, 1988

SUBJECT

The International Coffee Agreement (ICA)

The main damage to U.S. consumers and to the international coffee trade due to past operations of the ICA has been the following:

1. It has created a two-tier market in which U.S. and other member-country consumers, in most years, pay artificially inflated prices for

¹ Source: Reagan Library, George Shultz Papers, Executive Secretariat Sensitive (04/14/1988–04/24/1988); NLR-775–17–38–5–7. Confidential. A stamped notation on the memorandum reads: "Treat as original." An April 19 handwritten note from Maura Harty at the top of the memorandum reads: "—See GPS comments on action memo (attached)." The April 16 action memorandum is attached and printed as Document 396.

coffee while surplus coffee is dumped at a discount in non-member countries, including the Soviet bloc.

2. It has discouraged production in friendly countries, such as those in Central America, because extra coffee produced would have to be dumped. In general, the quota system tends to freeze production patterns, which is what the present dominant producer, Brazil, intends. Market trends toward higher quality coffees, especially in the U.S., are thereby obstructed.

3. It has probably raised the overall average price of coffee paid by U.S. consumers, even after taking into account the possible price-moderating effects of extra stocks carried into years of poor crops, such as the 1985–86 drought in Brazil.

The main beneficiary of all this is Brazil, which has been able to use its dominant position to get a disproportionately large quota. Several coffee-exporting communist countries (Cuba, Nicaragua, Angola, and Ethiopia) also benefit. It is doubtful whether countries with less generous quotas, such as Colombia and most of the Central Americans, have benefitted.

Although it is theoretically possible to fix all these problems by negotiating a relatively sound new ICA, we have no assurance that it can be negotiated. That is especially true if other countries assume, possibly correctly, that the U.S. would not refuse in the end to sign an agreement with the present defects. In any case, no agreement, no matter how sound its provisions, is better than a free market. As I reported to you earlier, the NCA (the U.S. trade association of coffee roasters and dealers) recommends that the ICA be allowed to expire in 1989 and that the free market should then prevail.² Clayton Yeutter agrees with them, and so do I.

Although such a decision would generate a lot of political heat, it is the last chance in this administration to get rid of a bad agreement. Assistance to friendly countries, particularly the Central Americans, is much surer and better targeted if we give them cash through bilateral aid. Of course, it is difficult, in the present budget climate, to do what we need to in that area. It is far better to fight for that, however, than to have to negotiate indirect assistance with fifty other countries

² In a February 12 memorandum to Shultz, Wallis reported that the National Coffee Association had just voted to oppose U.S. participation in a new International Coffee Agreement. (Department of State, Executive Secretariat, S/S Files, 1988–1989 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D154: Wallis Chron, January/February/March 1988)

in the Coffee Council, dominated by Brazil, which is no friend of our economic and political interests.

Allen Wallis³

Note: This memo was drafted under the guidance of Under Secretary Wallis, but he has not been able to edit it.

Martin J. Bailey
Economic Adviser

³ Martin Bailey initialed for Wallis above Wallis's typed signature.

396. Action Memorandum From the Acting Assistant Secretary of State for Economic and Business Affairs (Larson) to Secretary of State Shultz¹

Washington, April 16, 1988

SUBJECT

International Coffee Agreement: Renegotiation

ISSUE FOR DECISION

Whether to enter into negotiations toward a new International Coffee Agreement (ICA).

BACKGROUND

The U.S. was a principal architect of the first ICA in 1962, and we have remained a member largely for foreign policy reasons. The Fourth ICA expires September 30, 1989. Formal ICO consultations on renegotiation probably will begin between the April 25–29 meeting of the ICO's governing council² and its next session in late September. The Trade Policy Staff Committee will meet April 21 to consider the following

¹ Source: Reagan Library, George Shultz Papers, Executive Secretariat Sensitive (04/14/1988–04/24/1988); NLR-775-17-38-5-7. Confidential. A stamped notation on the memorandum reads: "Treat as original." Drafted by Clayton Rubensaal (EB/TDC/OFPP/FPD) on April 13; cleared in EB/TDC/OFPP/FPD, EB/TDC/OFPP, EB/TDC, E, ARA, EAP/EP, NEA/ECON, AF/EPS, and EUR/RPE. The initials "RWM" are stamped and written at the top of the memorandum. Tab A, USTR's TPSC Paper, and Tab B, the text of the 1983 International Coffee Agreement, were not found attached.

² The ICO Council was scheduled to meet in London April 25–29.

options on how we should proceed: A) decide now to renegotiate the ICA, B) decide now not to participate in the ICA after September 1989, or C) delay a decision on whether to renegotiate.³

Coffee is an extremely important export for many developing countries of interest to the U.S. Central American and other producers' dependence on coffee export earnings is high and they consider stability in coffee prices encouraged by the ICA vital to their social and economic development. Because they acknowledge that the ICA could not function without effective U.S. participation, the ICA is an important factor in our relations with them.

Our withdrawal from the Coffee Agreement would cause the ICA to collapse because the U.S., with about 30% of the market, would no longer enforce export quota provisions. The U.S. would be blamed for disregarding the economic plight of developing countries. Many would experience an export earnings decline, which would exacerbate debt-servicing, reduce ability to import merchandise and encourage requests for additional balance of payments assistance. U.S. withdrawal would complicate the Administration's Central American, CBI and other regional initiatives.

At the same time, key consumer country governments and the U.S. coffee trade believe that serious weaknesses in the present Agreement preclude extension of the current ICA and require renegotiation. At a minimum, the following issues must be resolved to conclude an acceptable Agreement: A) supply must be made more responsive to demand for the specific types of coffee consumers prefer and industry requires; B) the incentive for producers to sell outside their quotas to non-member countries at discount prices must be eliminated.

In addition, ICA reliance on negotiated export quotas has shortcomings in terms of overall Administration policy on commodity agreements. In all other cases we have opposed economic provisions involving any restraint of trade or production. The ICA's negotiated

³ In a May 25 memorandum to Baker, Mulford reported that the TPSC had been unable to decide whether the United States should participate in renegotiation of the ICA. Treasury opposed U.S. participation in renegotiation of the ICA on economic grounds, but Mulford recommended that Treasury ultimately accede to State's position on foreign policy grounds, provided that: "(1) Negotiating instructions clearly hold U.S. negotiators to positions that would remove the worst features of the current ICA; and (2) it is understood that, if our positions prevail in the negotiations, we will be expected to join the agreement and Executive Branch approval should be routine." McPherson initialed his agreement with the recommendation and wrote: "Mr. Sec this is my position—I went through the 1983 discussions but I wanted you to see it before it went back to David Mulford." Baker wrote "*PmP*: I agree" at the bottom of the memorandum on June 6. (National Archives, RG 56, Records of the Office of the Secretary of the Treasury, Congressional Correspondence, 1988, UD-10, 56-10-1, Box 38, Memos to the Secretary, International Affairs, May/June 88)

export quotas do not fully reflect supply availability nor do they allow much adjustment in response to changing market conditions.

ESSENTIAL FACTORS

The U.S. National Coffee Association (NCA) supported U.S. participation in past Coffee Agreements but this year resolved that “the interests of the U.S. coffee consumer and industry are best accommodated by free and unrestricted trade in coffee.” The NCA Resolution also stated that, should the USG nonetheless decide to remain a member, a new Agreement must address serious weaknesses in the current ICA, i.e. discount sales to nonmembers and nonavailability of the types and origins of coffee sought by consumers. Although the U.S. trade in fact is almost equally divided on the question of continued membership, it is nearly unanimous in agreeing that, at least, solutions must be found to these two specific problems. Preliminary views of key European governments and coffee trade also emphasize the importance of tackling these issues in the renegotiation.

We have not yet sought agreement among interested bureaus, or with other agencies, on specific USG objectives for negotiations toward a new ICA. However, until ICA members formally have begun to exchange views on the shape of a new ICA, it would be premature to limit our options regarding whether or on what terms we would be willing to participate in a new Agreement. This month’s ICO Council session will provide a clearer picture of the forces at play, information on which we can base a more realistic interagency appraisal.

There is general agreement within the USG that, although future U.S. participation should not be a foregone conclusion, the importance of the Coffee Agreement to friendly producing nations requires at least a good-faith effort to make it work. Most important now is our commitment to discuss the possibility of a new ICA. Any indication that the U.S. might do otherwise would be extremely hard to defend after 25 years of U.S. support for the Agreement. In conveying a decision to enter negotiations toward a new Agreement, we would make clear our dissatisfaction over the terms of the current ICA, and our refusal at this time to consider its extension. This decision, however, would also convey our willingness to work within the ICO toward an Agreement which satisfies our industry’s needs as well as our foreign policy objectives.

RECOMMENDATION

I recommend that you support the U.S. entering negotiations toward a new ICA.⁴

⁴ Maura Harty drew a line through the recommendation, wrote “X per GPS” on the “Approve” option line and under the recommendation wrote: “The recommendation should read: ‘I recommend that you support the U.S. entering negotiations toward a sound, new ICA that eliminates present defects.’ Per Harty-Wong telecon 4/19/88.” At the end of the Reagan administration, the ICA renegotiations were ongoing and the issue of U.S. participation had not been resolved.

397. Letter From Secretary of State Shultz to Representative Mickey Edwards¹

Washington, May 18, 1988

Dear Mickey:

I am pleased to state my strong support for the Foreign Operations, Export Financing and Related Programs Appropriations Bill, 1989, as reported by the Foreign Operations subcommittee on May 5.² For the first time during my tenure as Secretary of State the majority and minority of the House Foreign Operations subcommittee have reached agreement on a bill that is acceptable to the Administration. It truly represents a bipartisan approach to foreign assistance and I support its adoption by the full Appropriations Committee and its ultimate passage by the House.

Although the bill does not meet all of the Administration's needs, which we will continue to pursue during Senate consideration, it reflects an acceptable compromise between competing interests and recognizes our commitments to friends and allies abroad. As a whole, the bill strikes a reasonable balance between our economic and security assistance programs and substantially provides the funds that are a key element in the successful conduct of our foreign policy.

This appropriations bill is extremely important to me, and I commend you and Dave Obey for the constructive role you played in the drafting of this legislation. I stand ready to assist in the effort toward House passage of the subcommittee bill without modification.

Sincerely yours,

George P. Shultz

¹ Source: Reagan Library, Alison Fortier Files, Subject File, Foreign Aid FY 1988. No classification marking.

² In a May 6 memorandum to Shultz, J. Edward Fox provided an explanation and breakdown of the bill. The memorandum is in the Reagan Library, Alison Fortier Files, Subject File, Foreign Assistance.

398. Letter From the Director of the Office of Management and Budget (Miller) to Senator Robert Dole¹

Washington, September 21, 1988

Dear Mr. Leader:

As the House and Senate prepare to go to conference on the FY 1989 Foreign Operations, Export Financing and Related Agencies Appropriations Bill, I would like to bring to your attention the Administration's concerns about Congressional action to date.

At the outset, I would like to note that both bills strike a balance between the U.S. economic and security assistance concerns worldwide and represent a highly commendable effort to produce a truly bipartisan foreign policy appropriation. At a time when U.S. leadership is more critical than ever, the bills provide the Administration with most of the basic tools with which to respond to the challenges of aggression, as well as the opportunities for peace, economic development and export promotion.

Of particular importance, the bill is responsive to the needs of the four democracies in Central America and the need to promote democracy in Nicaragua. The Administration is pleased that the House and Senate bills provide funds and authority to enable the National Endowment for Democracy to promote democracy in Nicaragua through assistance to the civilian opposition. The Administration strongly urges the conferees to adopt the Senate's higher funding level of \$2 million.

The Administration supports the Senate provision financing the General Capital Increase (GCI) of the World Bank,² a program vital to the Bank's lending in middle-income developing nations. In negotiating the GCI, the Administration secured agreement regarding the priority of World Bank policy objectives in its lending program, including environmental issues and greater reliance on market incentives. Failure to pass our legislative request would damage our national economic interests and cause us to lose substantial leadership on these and other important issues, a situation that could not be easily reversed.

The Administration opposes the Senate provision that requires that U.S. contributions to multilateral institutions be the first to be cut if a Gramm-Rudman-Hollings sequester is necessary. Support of

¹Source: Reagan Library, Alison Fortier Files, Subject File, Foreign Aid/Earmark. No classification marking. Identical letters were sent to the following members of Congress: Silvio Conte, David Obey, Mickey Edwards, John Stennis, Mark Hatfield, Jamie Whitten, Daniel Inouye, and Robert Kasten. (Ibid.)

²For documentation covering the GCI negotiations, see the International Debt compilation of this volume.

multilateral institutions is critical to the recovery of the developing world from its serious economic problems, and sequestration should not serve as the vehicle to change spending priorities in the budget.

Despite its support for several of the funding allocations in the Senate bill, the Administration is opposed to a number of the bill's restrictive language provisions. The most objectionable provision prohibits the sale of Maverick missiles to Kuwait. Enactment of this provision would necessitate termination of the sale, could result in U.S. liability for termination costs, and would seriously damage U.S. foreign policy interests in Kuwait and with the other moderate Gulf states. I understand, however, that the Administration's modifications to the sale have satisfied Congressional concerns, and that the prohibition is expected to be removed in conference. The Administration strongly urges such an outcome. Without it, it would be difficult for the President's advisors to recommend his signature of the bill.

A major problem with both bills is the extensive earmarking of funds, though this practice is greater in the Senate bill in which several bilateral aid accounts are now almost entirely earmarked. The Migration and Refugee Assistance account is also heavily earmarked in the Senate bill and, if not modified, will require extensive cutbacks in a number of critical refugee assistance programs. The Administration strongly urges substantial reduction of the number and amount of earmarkings to increase funding flexibility. By reducing the number of earmarks in the military assistance accounts and in the other foreign assistance programs, the Administration will have critically needed flexibility to allocate scarce funds to meet a larger number of priority national security and foreign policy needs. The Administration notes that the committee approval requirement in section 514 of the bill³ is unconstitutional and urges that the section be revised to preserve funding flexibility in a manner consistent with the principles enunciated in *INS v. Chadha*, 462 U.S. 919 (1983).

The Administration strongly supports the Senate's provision of \$8.1 billion for security assistance programs, which is \$26 million more than the House provided. The Administration further supports the Senate's provision of military financing in the form of forgiven loans, allowing essential flexibility at a time of overall program cuts. The Administration would not object to the inclusion of a MAP program in the bill as was proposed by the House. If this is done, however, it is extremely important that the military financing program be on an

³ Section 514 of P.L. 100-461, the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1989, reads: "None of the funds made available by this Act may be obligated under an appropriations account to which they were not appropriated without the prior written approval of the Committees on Appropriations."

all-grant basis and that the MAP component not exceed the amount requested in the President's budget.

A highly objectionable Senate provision requires 30 day notification to Congress before the Executive could consummate any sales of missiles, rockets and launchers, and artillery ammunition. This provision would impede legitimate and non-controversial sales to friends and allies and would create an onerous paperwork burden rather than enhance Congressional oversight. A study of notifications under Section 36(b) of the Arms Export Control Act (AECA) covering FY 1985–87 indicated that of 378 total cases of rockets, launchers, missiles and artillery projectiles, 73 percent of the dollar value was notified under the AECA. Only 27 percent of the dollar value would have required notification under this provision, but would have represented 343 cases worth only about \$2.1 million per case. Moreover, this new provision equates sales of ammunition with transfers of sophisticated weaponry—a premise that the Administration does not support.

The Administration also supports the House provision for IMET. The Senate bill contains a restriction that would eliminate IMET programs for eighteen countries. The Administration opposes the Senate provision. IMET has proven to be an extremely effective, low cost program that provides access to promising military officials and also provides a valuable channel of communication to both military and civilian institutions.

We are deeply disturbed by Senate action to reduce funding for the International Atomic Energy Agency (IAEA) to \$13.5 million from the House level of \$22 million. IAEA has long served critical U.S. national security and non-proliferation interests, especially its safeguards program. Failure to provide funding at the House level could seriously weaken vital U.S. interests.

Where there are differences between the House and Senate bills, the Administration urges the conferees to choose the alternative that minimizes the language and funding restrictions identified above and in the enclosure.⁴ We hope that we can work together with the bipartisan leadership of Congress to address these concerns.⁵

Sincerely yours,

James C. Miller III

Director

⁴ Attached but not printed is the enclosure, entitled "FY 1989 Foreign Operations, Export Financing and Related Agencies Appropriations Bill Objectionable Provisions."

⁵ Reagan signed the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1989, (P.L. 100–461; HR 4776) into law on October 1. For his statement on signing into law the Fiscal Year 1989 Appropriation bills, see *Public Papers: Reagan, 1988*, Book II, p. 1262.

399. Letter From Secretary of State Shultz to the Acting Director of the Office of Management and Budget (Wright)¹

Washington, October 27, 1988

Dear Joe:

This letter will serve as the formal transmittal of the FY 1990 integrated foreign assistance and State Department operations budget requests, the two central elements of the International Affairs Budget Function (Function 150). As was the case in last year's budget submission, the enclosed tables² include all programs that are a part of Budget Function 150 and reflect the requests that you have received from the other international affairs agencies. These tables have already been provided informally to your staff.

The Function 150 FY 1990 request totals \$21.5 billion in discretionary spending authority, an increase of \$3.3 billion (or 18.4 percent) over the FY 1989 enacted level. The FY 1990 request is \$1.6 billion (or 8.1 percent) over a revised OMB planning guidance of \$19.9 billion. The \$19.9 billion figure represents OMB's original guidance level adjusted to include the added costs of the President's decision to fund fully our assessed contributions to international organizations, to participate actively in new UN peacekeeping activities, and to develop a plan to make up our arrears to those organizations.

Funding for international affairs activities declined steadily between Fiscal Years 1985 and 1988. This decline occurred despite the best efforts of the President and others in the Administration, including the Office of Management and Budget, to obtain the funds necessary to pursue vigorously the President's national security and foreign policy agenda. The Bipartisan Budget Agreement (BBA) of November 1987³ was a first welcome step toward reversing the decline in the international affairs resource base.

Since it covered two Fiscal Years, the BBA constrained the level of funding we could seek for FY 1989. This proved extremely difficult for us in many critical areas. You may recall that the OMB passback on the FY 1989 budget, a passback that was within the BBA guidelines, generated almost \$2 billion in appeals. Throughout the past year, numerous

¹ Source: Reagan Library, George Shultz Papers, Official Memoranda (10/27/1988); NLR-775-31-96-1-1. Confidential. Drafted by Charles English (D/P&R) on October 26; cleared in AID/PPC, M/COMP, DSAA, and PM/SAS. English initialed for all clearing offices.

² Not attached.

³ Reagan discussed the Bipartisan Budget Agreement in his Message to the Congress Transmitting the Fiscal Year 1989 Budget on February 18. For the text of the message, see *Public Papers: Reagan, 1988*, Book I, pp. 209-218.

occasions arose that demanded additional funding. Under other circumstances, supplementals and budget amendments would have been sent forward. Since these courses of action were not possible, we lived within the limits of the BBA, and Congress has appropriated the funds accordingly. But we cannot effectively carry out the President's foreign policy agenda at these artificially low levels for yet another year.

This is the last budget request that I will submit during my tenure as Secretary of State. I believe that it is critical that the resources I request on behalf of my successor are sufficient to allow him to build upon President Reagan's hard-won foreign policy achievements. In nominal terms, the FY 1990 discretionary spending request is in fact below the level of discretionary spending that was appropriated in FY 1984. This is not an exorbitant request; it is a prudent statement of the resources our successors will need to carry out their functions and missions.

In our foreign assistance accounts, I estimate that the next Administration will need an increase of some 7.8 percent. Our successors will need to provide increased funding for our bilateral and multilateral aid programs in Afghanistan; raise our economic and security aid to the Philippines to the levels contained in the President's recent best efforts pledge, made as a result of the just-concluded bases review; and provide funding adequate to meet our base-rights pledges to such key allies as Portugal and Turkey. They must also be prepared to increase our commitment to friends in the Western Hemisphere, both to protect democracy's gains in Central America and to further the fight against drugs in South America. I am also proposing a significant increase in our security assistance program for Jordan, to assure that country's ability to continue to play a stabilizing role in the region.

In addition, within subfunction 151, pressing programmatic needs require that we increase narcotics assistance funding substantially, and that we maintain refugee assistance funding at a level close to that enacted in FY 1989, a level significantly above OMB guidance.

With regard to the Department's own budget, our need to move forward with long-delayed but critical program enhancements in such areas as telecommunications technology, information management and diplomatic security, together with our requirement to fund several urgent overseas construction and rehabilitation projects, make it necessary for me to seek an increase of some \$508.4 million over the operations budget enacted for FY 1989.

In accordance with the President's Directive of September 13,⁴ this request contains a proposal to fund our contributions to the UN,

⁴ For the text of the White House Statement on United States Funding of the United Nations, see *Public Papers: Reagan, 1988*, Book II, pp. 1161–1162.

its related agencies and other international organizations at their full assessed levels; it also begins to implement a plan to pay arrearages in our assessed contributions over a five year period. Anticipating continued success for UN and U.S. initiatives to promote peace in troubled areas throughout the world, I am also proposing that we plan substantially to enhance the level of our contributions to anticipated UN peace-keeping operations in FY 1990. I trust that you will agree that these proposals will require additional resources of a magnitude that cannot be offset elsewhere in an already severely constrained Function 150.

A few items have not yet developed to the point where we can include them in our submission. We will furnish you with estimates as soon as possible. The first is the proposed Multilateral Assistance Initiative (MAI) for the Philippines. While the structure of an MAI is still under discussion among the likely major donors (a meeting between the U.S. and Japan will take place in mid-November), and the size of the U.S. contribution is yet to be determined, the President has pledged to Mrs. Aquino that he will continue to pursue the necessary political support to assure the MAI's viability. Now that the bases review has been successfully concluded, we will have to move quickly to develop the MAI and will amend our request accordingly.

A second item of importance is the cost for reconstructing Embassy Moscow. A series of steps must be taken before budget estimates can be made final. Should those steps be completed soon, we will amend our request to include anticipated construction costs.

Third, replenishment negotiations are still underway for the International Fund for Agricultural Development (IFAD). Should these negotiations be completed before the President's FY 1990 budget is wrapped up, or should a decision be taken that intervening one-year funding is required, we will amend our request to include the U.S. contribution, which we now anticipate could range from \$26 to 41 million.

Finally, this Department and the Department of Defense are working on a possible foreign military sales financing initiative that would use partial U.S. guarantees similar to those currently being used to refinance past FMS debt. Should this program prove feasible, a joint State/Defense request will be forwarded to you for your consideration.

I look forward to working with you over the next several weeks on the FY 1990 submission.

Sincerely yours,

George P. Shultz⁵

⁵ Shultz signed "George" above his typed signature.

400. Action Memorandum From the Assistant Secretary of State for Economic and Business Affairs (McAllister) to the Under Secretary of State for Economic and Agricultural Affairs (Wallis)¹

Washington, November 10, 1988

SUBJECT

Circular 175; Request for Concurrence to Enter into Negotiation of an Agreement to Establish an International Tin Study Group

ISSUE

Your concurrence is required for U.S. participation in the negotiation of an agreement to establish an international tin study group. The Trade Policy Staff Committee has agreed that we should do so. The conference is scheduled for November 21 through December 2 in Geneva.

ESSENTIAL FACTORS

The United States had not been a member of earlier tin agreements but joined the Fifth International Tin Agreement (1976–81) and its executive body, the International Tin Council (ITC). Fortunately, we did not join the Sixth International Tin Agreement, in place since 1982. ITC efforts to support tin prices through buffer stock purchases and other market intervention led to a collapse of the London tin market in October 1985 and the organization's decline and impending dissolution, now expected to take place on June 30, 1989.

In July 1986, anticipating the demise of the ITC, the Association of Tin Producing Countries (Australia, Bolivia, Indonesia, Malaysia, Nigeria, Thailand and Zaire) proposed that an international tin study group be established to carry on only the statistical and analytical work being done by the ITC but not its market intervention functions. This proposal was considered at UNCTAD meetings in November 1986 and April 1988 in which U.S. delegations participated. At the April meeting it was agreed that the proposed study group would have no legal or administrative link with the ITC and that a negotiating conference would be held. The U.S. delegation reserved our position on whether we would participate in the negotiating conference, subsequently scheduled for November 21 through December 2 in Geneva.

¹ Source: Department of State, Executive Secretariat, S/S Files, 1988–1989 Official Office Files for (E) Economic Affairs Allen Wallis, Lot 89D154: Action Memoranda November 1988. Confidential. Drafted by Samuel Keller (EB/ERP/ECD/ISM) on November 1; cleared in EB/ERP, EB/ERP/ICD, EB, E, L/EBC, EAP/EP, EAP/IMBS, IO/IO/S, and USTR/TPSC.

This issue has important foreign policy implications. The formation of a tin study group is strongly supported by key friendly developing country producers including those in ASEAN. Malaysia, the world's largest tin producer, sees the creation of a tin study group as an essential replacement for some ITC functions and has taken the lead in ASEAN, and bilaterally, in approaching the USG on this issue. A U.S. decision against participating in the group would have a very unfavorable impact on U.S.-Malaysian relations. The Malaysians would find this hard to accept especially given our participation in other study groups involved with lead, zinc, tungsten, rubber and agricultural products. Indonesia and Thailand also strongly support the formation of a tin study group and U.S. participation in it.

The U.S. is the world's largest consumer of tin. U.S. tin consumers and traders were consulted prior to our joining in the preparatory meetings and they support continued U.S. participation in the negotiating process. Of concern to some producing countries, we are also potentially a major tin supplier; the National Defense Stockpile contains nearly the equivalent of a year's world production, most of which is in excess of current needs, and there is currently a limited disposition program underway. In this regard, one benefit of U.S. membership in a tin study group would be the opportunity it would provide for us to refocus international attention away from our stockpile disposals and toward the far more significant market impact of increasing tin production by Brazil and China.

The Trade Policy Staff Committee has agreed that the U.S. should participate in the negotiating conference but should state clearly that no decision has been made on joining a study group and that such a decision would have to take into account the availability of funds as well as the degree to which such a body would be consistent with U.S. policy regarding study groups. Although the attached Memorandum of Law² notes that, as a matter of law, a contribution can be paid from the International Conferences and Contingencies account for up to one year without any specific line item for such a contribution, that account is too underfunded to absorb such added costs. The preferable method, therefore, for handling the funding problem is for us to announce our intention to join subject to the Congress authorizing U.S. accession and appropriation for U.S. assessed contributions which would probably not be before FY 1991. Our refusal to join the Sixth ITA has given us substantial negotiating leverage—producers know we are willing to forego membership in commodity groups if they do not meet our criteria. This should enable us to ensure that the new body would be, in fact, a pure

² Attached but not printed.

study group along the lines of the International Lead and Zinc Study Group, of which we are a satisfied member.

RECOMMENDATION

That you concur in U.S. participation in the negotiation of an agreement to establish an international tin study group, with an announcement that, if the United States decides to join, actual U.S. accession would be subject to Congress authorizing U.S. membership and appropriations for U.S. assessed contributions.³

³ Wallis initialed the “Approve” option on November 17. UNCTAD held negotiations on an international tin study group in Geneva from March 29 to April 7, 1989.