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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20508

ACTION

July 7, 1987

SIGNED

MEMORANDUM FOR GRANT S. GREEN, JR.

FROM: JOSE S. SORZANO

SUBJECT: Letter from Uruguayan President Representing
Cartagena Group to Venice Summit Participants

We have a State Department draft reply to a letter the President of Uruguay has sent to President Reagan regarding the Venice Summit. We believe the Treasury Department and USTR should review the State draft response before we process this correspondence further.

for New
Farrar concurs.

RECOMMENDATION

That you forward your memorandum at Tab I.

Approve Disapprove

Attachments

Tab I Memo to Treasury Department
Tab A Letter from President Sanguinetti
Tab B State Department's Draft Response

Prepared by:
Jacqueline Tillman

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

C.F.

July 8, 1987

475381

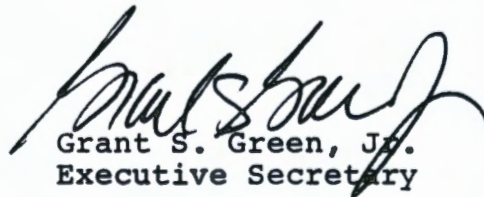
F0006-12

MEMORANDUM FOR MR. ROBERT B. ZOELICK
Executive Secretary
Department of Treasury

MR. JAMES FRIERSON
Chief of Staff
U.S. Trade Representative

SUBJECT: Letter from Uruguayan President Representing
Cartagena Group to Venice Summit Participants

Attached are a translation of a letter to the President from Uruguayan President Sanguinetti in his capacity as Secretariat pro tempore of the Cartagena Consensus, regarding the Venice Summit and a draft response prepared by the State Department. The NSC would appreciate a quick turnaround on your agency's review of the proposed reply to President Sanguinetti.


Grant S. Green, Jr.
Executive Secretary

Attachments

- Tab A Letter from President Sanguinetti
- Tab B State Department's Draft Response

A

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DEPARTMENT OF STATE
DIVISION OF LANGUAGE SERVICES

(TRANSLATION)

LSNO. 122336
AKB/RHC
Spanish

President of the Oriental Republic of Uruguay

Montevideo, May 25, 1987

Mr. President:

Once again, at another summit of the seven major industrialized countries, I am addressing you in our capacity as Secretariat pro tempore of the Consensus of Cartagena and on behalf of the Presidents of Argentina, Brazil, Colombia, Chile, Ecuador, the Dominican Republic, Bolivia, Mexico, Peru, and Venezuela. I do so in order to convey to you the views of our governments on recent occurrences involving the international economy, not only because these occurrences have profound repercussions on the development of each and every one of the economies of Latin America and the Caribbean, but also because we know that, if the recessionary trends that have characterized the vast majority of our countries in this decade are not reversed, they will become a considerable obstacle to the orderly and stable growth of the world economy.

Once again we are deeply concerned to note that many of the external factors that have hindered the sustained recovery of

His Excellency Ronald Reagan,
President of the United States of America,
White House,
Washington, D.C.

the region in past years persist and in some cases are even becoming more serious. On the one hand, contrary to initial forecasts, the growth rate anticipated for the majority of the OECD countries has not been attained. On the other hand, following a promising decline, there is currently a troubling upward trend in interest rates, which in any case have remained considerably higher, in real terms, than their historical levels. This is a serious problem for the developing countries, owing to the largest drop since the pre-war period in the prices of basic commodities, which continue to represent these countries' main source of foreign exchange, the upsurge in protectionist measures in the industrialized countries, and the scarcity of new external financing, which some indicators show will be even less available in the near future.

Furthermore, some countries have had to deal with additional problems owing to the damage caused by natural disasters, which have even further aggravated their economic situation and payment capacity.

Despite these unfavorable external and internal situations, we have spared no effort in adjusting our respective economies to prevailing and anticipated circumstances. These efforts, measured in terms of reduction in standard of living and transformation of productive structures, have been monumental in past years, and have served to avoid breakdowns in the international financial system, which would have been prejudicial to everyone.

Unfortunately, these profound adjustments were insufficient in the face of the negative pressures imposed by the

international environment on our economies. Their social cost has been so great that it even threatens to jeopardize the recent trend toward pluralistic and democratic societies.

It should be recalled that in 1986 more than half the countries had negative growth rates per inhabitant once again--in some for the fifth consecutive year--and that in most of the others recovery was slow and, above all, precarious. Under these circumstances, it cannot be said that the favorable performance of the economies of some countries constitutes or ensures a sustained reversal of the recessionary trends of previous years. It is very likely that Latin America will enter the next decade with standards of living similar to or lower than those it had at the beginning of the 1980s.

Among the main obstacles to better performance of the economies of the region is--and we must reemphasize this--the debt problem. As recent events show, not only has no solution been found but the problem is getting worse, despite the fact that there has been considerable progress in acknowledging joint responsibility for managing and solving the debt problem as well as the need to approach it in the context of policies of growth and positive and non-recessionary adjustment. From this viewpoint, the aforementioned prevailing conditions of the world economy have resulted in a situation whereby for the vast majority of countries of the region it is simply impossible to grow, invest, and simultaneously comply with the terms of servicing their heavy foreign debts.

Efforts planned in recent times to promote a greater flow of public and private funds have not been carried out or have not reached the levels necessary to sustain a volume of investments and a reasonable rate of growth.

On the contrary, the massive transfer of financial resources abroad, which in terms of interest alone sometimes involves amounts upward of five percent of gross national product, has continued. This is an unsustainable phenomenon which must be reversed as soon as possible. It has already forced some countries to take measures designed to limit such transfers.

Furthermore, we feel it is essential to emphasize that the problem of foreign indebtedness, in terms not only of its causes but also of its consequences, affects us all. The paralysis of growth and, especially, the steep drop in imports which the indebted countries have been forced to endure are now a significant factor in the obstacles to world economic expansion and, more specifically, to the economic expansion of the industrialized countries.

Therefore, innovative solutions are required that make the attainment of minimum growth rates for per capita income, protected from constant changes in interest rates and sudden fluctuations in terms of trade, a central issue in the negotiations of individual cases. Only a climate of reasonable security and long-term stability for the solution of the debt problem can offer the conditions on which we can continue our adjustment programs, provide for more investment, and achieve acceptable goals for growth.

Owing to the magnitude of the problem, any increase in financial flows that does occur will not be sufficient to solve the debt problem. Parallel and coordinated action is required, which must necessarily entail an adjustment of debt service to the real payment capacity of the debtor country, real reductions in the nominal interest rates in order to realign them more closely with actual historical levels, a separation of existing and future debt, the increasing elimination or limitation of bank intermediation margins, flows of new capital to reverse the transfer of resources, long-term rescheduling of maturities, and a determined commitment to the objectives of trade liberalization and expansion which will ensure our repayment capacity. ||

In regard to this last course of action, in 1986 in Uruguay a process of multilateral negotiations was initiated within the framework of GATT, intended to halt and reverse the growing protectionist trends and to establish, for the sake of the continuous expansion of commercial exchange at the world level, an international trade order more straightforward than the present one and more predictable and favorable to growth, offering opportunities to the developing countries to improve their participation in such trade. Nevertheless, the atmosphere that prevailed at the Punta del Este meeting apparently did not succeed in avoiding an increase in measures that limit trade in one way or another, and the Uruguay Round will have to be initiated under none-too-promising

circumstances, without the successful implementation of even an effective system of preserving the status quo and then gradually dismantling trade barriers.

All these phenomena are extremely disturbing inasmuch as they challenge and openly compromise the success of the refinancing agreements that were negotiated and threaten our development and adjustment efforts.

Mr. President:

The debt problem is only one component--albeit certainly a fundamental one--of the great challenge to the development and modernization of our countries. It is one of the many problems of which we are fully aware and for which we are not, in any case, shirking responsibility. But it is not exclusively our problem, and it cannot be limited to its financial dimension. It is a fundamental determinant of our dynamic connection with the growth of the world economy in which we wish to participate for the benefit of all. It is also an unavoidable aspect of the series of imbalances that characterizes the world economy and prevents the resumption of sustained growth, at more satisfactory rates for all, industrialized and developing countries alike.

If some lesson can be drawn from what has happened in recent years, it is the decisive role of policy coordination in alleviating international economic imbalances like the ones your countries generate. It is urgent that this experience be extended to other issues and new partners.

We consider that, in this same spirit and with an overview of the debt problem and its international economic environment, an in-depth debate needs to be conducted both in the multilateral forums of which we are a part and in direct relation with friendly countries like yours, so that we may jointly review the measures that affect us all and search for new initiatives that may help to solve the problems we face.

I avail myself of this opportunity of sharing these considerations with you to renew to you, on behalf of the Chiefs of State and in my own name, the assurances of my highest consideration.

[s] Julio Maria Sanguinetti
President of the Oriental Republic
of Uruguay

STATE DEPARTMENT

SUGGESTED LETTER

Dear Mr. President:

I thank you for your letter to me on behalf of the Consensus of Cartagena and the Presidents of its member countries. You voiced your serious concerns regarding developments affecting international debt and growth and suggested an in-depth discussion of these issues to seek new initiatives. I do not pretend to speak for the heads of the other six nations which joined me in Venice for this year's Economic Summit. I do, however, wish to take this opportunity to comment briefly on the important issues you have raised, including their effect on the economic future of both the developing and industrialized countries.

At the Venice Summit, the United States joined with other industrialized countries to express our views on debt and related issues. We reiterated our belief in the case-by-case approach, the necessity of economic policy reforms in the developing countries, and our support for those efforts through

His Excellency

Julio Maria Sanguinetti,

President of the Oriental Republic

of Uruguay,

Montevideo.

enhanced lending by the commercial banks and the international financial institutions, particularly the International Monetary Fund and the World Bank. We also renewed our own commitment to sustained growth in the industrialized countries and increased trade and reduction of trade barriers.

We acknowledge that there is more to be done. We have called on the commercial banks to develop a "menu" of alternative financial instruments to help assure a continuous flow of financing to developing countries. We also recognize the need for increased lending in support of reform by the multilateral development banks and are willing to seek authorization from Congress for our contribution to a General Capital Increase for the World Bank when justified by increased demand for quality lending.

Growth depends on increased involvement of Latin American countries in international markets. Uruguay played a key role in launching the new round of multilateral trade negotiations, which I firmly believe will result in mutual benefits. The United States, like Uruguay, believes in free and fair trade and is concerned about increased protectionist pressures. Certainly, we in the United States cannot sustain our substantial trade deficit indefinitely. The considerable realignment in the values of international currencies alleviates some of the protectionist pressures which result

from such an imbalance, but we look to the new round for further improvement in the international trading environment.

I also believe that the problems remaining to be overcome should not overshadow the considerable progress we have made toward our goals. As you point out, and as noted in the Venice Communique, many developing countries have made courageous efforts to set their economies on the path to sustained growth and political stability.

I am sure that the representatives of my country and yours will discuss these issues in greater depth as you suggest, at the annual meetings of the International Monetary Fund and the World Bank this fall. We are also willing to discuss them bilaterally. However, I would caution that these problems developed over several years and will take some time to resolve fully. I believe the flexible, case-by-case approach we have chosen is the correct one, and I would hope that we will be able to continue to work together to overcome the obstacles to growth and to achieve greater economic and political freedom.

Sincerely,

Ronald Reagan

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Subject: PRES LTR TO PRES SANGUINETTI *alt-3/15/2020*

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MESSAGE NO. 2500 CLASSIFICATION _____ PAGES TWO

FROM GRANT S. GREEN, JR. EXECUTIVE SECRETARY
(NAME) AW (EXTENSION) (ROOM NUMBER)

MESSAGE DESCRIPTION PRES 28 JUL LTR TO PRES SANGUINETTI

NSC# 4394

<u>TO (AGENCY)</u>	<u>DELIVER TO:</u>	<u>DEPT/ROOM NO.</u>	<u>EXTENSION</u>
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REMARKS ADVANCE CY / ORIGINAL TO FOLLOW

THE WHITE HOUSE

WASHINGTON

July 28, 1987

Dear Mr. President:

I thank you for your letter to me on behalf of the Consensus of Cartagena and the Presidents of its member countries. You expressed your serious concerns at the outset of the Venice Economic Summit regarding developments affecting international debt and growth, and suggested an in-depth discussion of these issues to seek new initiatives. I do not pretend to speak for the heads of the other six nations that joined me in Venice. I do, however, wish to take this opportunity to comment briefly on the important issues you have raised, including their effect on the economic future of both the developing and industrialized countries.

At the Venice Summit, the United States joined with other industrialized countries to express our views on debt and related issues. We reiterated our belief in the case-by-case approach, in the necessity of economic policy reforms in the developing countries, and in the necessity of support for those efforts through enhanced lending by the commercial banks and the international financial institutions, particularly the World Bank and the International Monetary Fund. We also renewed our commitment to sustained growth in the industrialized countries and increased trade and reduction of trade barriers.

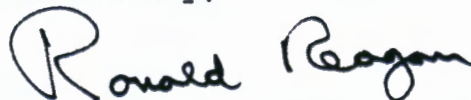
Clearly, there is more to be done. The Summit participants called on the commercial banks to develop a "menu" of alternative financial instruments to help assure a continuous flow of financing to developing countries. We also recognized the need for increased lending in support of reform by the multilateral development banks and agreed to support a General Capital Increase for the World Bank when justified by increased demand for quality lending.

Sustained growth depends on increased involvement of Latin American countries in international markets. Uruguay played a key role in launching the new round of multilateral trade negotiations. While this is a long-term effort, I firmly believe the Uruguay round will result in mutual benefits. The United States, like Uruguay, believes in free and fair trade and is concerned about increased protectionist pressures. As you know, I face considerable protectionist pressure from the U.S. Congress which I am committed to resist. Certainly, we in the United States cannot sustain our substantial trade deficit indefinitely. The considerable realignment in the values of international currencies alleviates some of the protectionist pressures which result from such a deficit, but we look to the new trade round for further improvement in the international trading environment.

I also believe that the problems remaining to be overcome should not overshadow the considerable progress we have made toward our goals. As you point out, and as noted in the Venice Communique, many developing countries have made courageous efforts to set their economies on the path to sustained growth and political stability.

I am sure that the representatives of our two countries will discuss these issues in greater depth as you suggest, at the annual meetings of the International Monetary Fund and the World Bank this fall. We are also willing to discuss them bilaterally. However, I would caution that these problems, which developed over several years, will take perseverance and time to resolve fully. I believe the flexible, case-by-case approach offers the best route to overcoming the obstacles to growth and achieving greater economic and political freedom.

Sincerely,

A handwritten signature in cursive script that reads "Ronald Reagan". The signature is written in dark ink and is positioned to the right of the typed name "Ronald Reagan".

His Excellency
Julio Maria Sanguinetti
President of the Oriental Republic
of Uruguay, Montevideo

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NATIONAL SECURITY COUNCIL DISTRIBUTION RECORD

Log Number 4394
Date July 8, 1987

Subject: Uruguayan Pres Letter re Cartagena Group

DOCUMENT CLASSIFICATION: TOP SECRET SECRET CONFIDENTIAL UNCLASSIFIED

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Bill Courtney	<u>1</u>	<u>WTR</u>	<u>A</u>
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Grant Green	<u>2</u>	<u>B</u>	<u>A</u>
Colin Powell			
Paul Thompson			
Frank Carlucci			
Grant Green			
NSC Secretariat	<u>4/3</u>	<u>7/8 AC</u>	<u>A N</u>
West Wing Desk			
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cc: VP **Baker** Other _____

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TO PRESIDENT FROM SANGUINETTI, JULIO DOCDATE 25 MAY 87
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 LEVITSKY, M 23 JUN 87

KEYWORDS: URUGUAY CENTRAL AMERICA
 OECD VENICE SUMMIT
 HS

SUBJECT: PRES SANGUINETTI LTR TO PRES RE CARTAGENA CONSENSUS NATIONS TO / OECD
 COUNTRIES FOR THEIR CONSIDERATION / VENICE SUMMIT

ACTION: PENDING STATE DRAFT REPLY DUE: 07 JUL 87 STATUS *ⓧ* FILES WH

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Marybel Batjer	_____	_____	_____
Grant Green	_____	_____	_____
Colin Powell	_____	_____	_____
Frank Carlucci	_____	_____	_____
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Lou Michael	_____	_____	_____
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West Wing Desk	<u>2</u>	_____	<u>D</u>
NSC Secretariat	_____	_____	_____

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cc: VP Baker Other _____

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87 JUL 22 P 3: 26

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Package # 4394
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Marybel Batjer			
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Colin Powell	<u>3</u>	<u>[Signature]</u>	
Frank Carlucci	<u>4</u>	<u>[Signature]</u>	<u>A</u>
Grant Green			
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Situation Room			
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NSC Secretariat			

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PRESIDENT

FROM SANGUINETTI, JULIO

DOCDATE 25 MAY 87

LEVITSKY, M

07 JUN 87

KEYWORDS: URUGUAY

CENTRAL AMERICA

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VENICE SUMMIT

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SUBJECT: PRES SANGUINETTI LTR TO PRES RE CARTAGENA CONSENSUS NATIONS TO / OECD COUNTRIES FOR THEIR CONSIDERATION / VENICE SUMMIT

STATUS: PENDING STATE DRAFT REPLY DUE: 26 JUN 87 STATUS *C* FILES WH

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Res	P 7/23	Final S.G		
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DOCDATE 09 JUL 87

KEYWORDS: URUGUAY

HS

SANGUINETTI, JULIO

SUBJECT: REVIEW OF PROPOSED RESPONSET TO PRES SANGUINETTI LTR / CARTAGENA
CONSENSUS

ACTION: APPROPRIATE ACTION

DUE: 18 JUL 87 STATUS S

FILES WH

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COMMENTS

*Combine with action 4394 add on + close out.
Tillman 20 July 87*

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THE WHITE HOUSE
WASHINGTONH7538155
F0006-12

July 23, 1987

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM:

FRANK C. CARLUCCI 

SUBJECT:

Letter from Uruguayan President Representing
Cartagena Group to Venice Summit ParticipantsIssue

To sign your letter to Uruguayan President Sanguinetti.

Fact

Uruguay is Secretariat pro tempore of the Cartagena Consensus, a group of eleven Latin American debtor nations. In that capacity, Uruguayan President Sanguinetti has written to you regarding the Venice Summit.

Discussion

In his letter, President Sanguinetti expresses his concern that lower-than-anticipated OECD growth, low commodity prices, rising interest rates and low levels of new money to debtor countries will threaten the stability of debtor countries. He suggests "innovative solutions" such as adjustment of debt service to real ability to pay, reduction of interest rate, long-term rescheduling of maturities, separation of old and new debt and trade liberalization. Your response, drafted by the State Department and reviewed by Treasury Department, USTR, and the Speechwriters, reiterates the strategy we, and the other Summit countries, have developed to deal with these issues, and acknowledge more needs to be done. Your response expresses support for expanded lending in support of structural adjustment. Cited as well is the importance of open markets to expanded trade for debt servicing and economic growth. You express our willingness to participate in bilateral and multilateral discussions about these issues in response to President Sanguinetti's request that policy coordination be broadened.

cc: Vice President
Chief of Staff

Recommendation

OK

No

That you sign your letter to Uruguayan
President Sanguinetti

Attachments

Tab A

Letter to Uruguayan President Sanguinetti

Tab B

Letter from Uruguayan President Sanguinetti

Prepared by:
Jacqueline Tillman

A

THE WHITE HOUSE

WASHINGTON

Dear Mr. President:

I thank you for your letter to me on behalf of the Consensus of Cartagena and the Presidents of its member countries. You expressed your serious concerns, at the outset of the Venice Economic Summit, regarding developments affecting international debt and growth and suggested an in-depth discussion of these issues to seek new initiatives. I do not pretend to speak for the heads of the other six nations which joined me in Venice. I do, however, wish to take this opportunity to comment briefly on the important issues you have raised, including their effect on the economic future of both the developing and industrialized countries.

At the Venice Summit, the United States joined with other industrialized countries to express our views on debt and related issues. We reiterated our belief in the case-by-case approach, in the necessity of economic policy reforms in the developing countries, and in the necessity of support for those efforts through enhanced lending by the commercial banks and the international financial institutions, particularly the World Bank and the International Monetary Fund. We also renewed our commitment to sustained growth in the industrialized countries and increased trade and reduction of trade barriers.

Clearly, there is more to be done. The Summit participants called on the commercial banks to develop a "menu" of alternative financial instruments to help assure a continuous flow of financing to developing countries. We also recognized the need for increased lending in support of reform by the multilateral development banks and agreed to support a General Capital Increase for the World Bank when justified by increased demand for quality lending.

Sustained growth depends on increased involvement of Latin American countries in international markets. Uruguay played a key role in launching the new round of multilateral trade negotiations. While this is a long-term effort, I firmly believe the Uruguay round will result in mutual benefits. The United States, like Uruguay, believes in free and fair trade and is concerned about increased protectionist pressures. As you know, I face considerable protectionist pressure from the U.S. Congress which I am committed to resist. Certainly, we in the United States cannot sustain our substantial trade deficit indefinitely. The considerable realignment in the values of international currencies alleviates some of the protectionist pressures which result from such a deficit, but we look to the new trade round for further improvement in the international trading environment.

I also believe that the problems remaining to be overcome should not overshadow the considerable progress we have made toward our goals. As you point out, and as noted in the Venice Communique, many developing countries have made courageous efforts to set their economies on the path to sustained growth and political stability.

I am sure that the representatives of our two countries will discuss these issues in greater depth as you suggest, at the annual meetings of the International Monetary Fund and the World Bank this fall. We are also willing to discuss them bilaterally. However, I would caution that these problems, which developed over several years, will take perseverance and time to resolve fully. I believe the flexible, case-by-case approach offers the best route to overcoming the obstacles to growth and achieving greater economic and political freedom.

Sincerely,

His Excellency
Julio Maria Sanguinetti
President of the Oriental Republic
of Uruguay, Montevideo

DEPARTMENT OF STATE
DIVISION OF LANGUAGE SERVICES

(TRANSLATION)

LS NO. 122336
AKB/RHC
Spanish

President of the Oriental Republic of Uruguay

Montevideo, May 25, 1987

Mr. President:

Once again, at another summit of the seven major industrialized countries, I am addressing you in our capacity as Secretariat pro tempore of the Consensus of Cartagena and on behalf of the Presidents of Argentina, Brazil, Colombia, Chile, Ecuador, the Dominican Republic, Bolivia, Mexico, Peru, and Venezuela. I do so in order to convey to you the views of our governments on recent occurrences involving the international economy, not only because these occurrences have profound repercussions on the development of each and every one of the economies of Latin America and the Caribbean, but also because we know that, if the recessionary trends that have characterized the vast majority of our countries in this decade are not reversed, they will become a considerable obstacle to the orderly and stable growth of the world economy.

Once again we are deeply concerned to note that many of the external factors that have hindered the sustained recovery of

His Excellency Ronald Reagan,
President of the United States of America,
White House,
Washington, D.C.

the region in past years persist and in some cases are even becoming more serious. On the one hand, contrary to initial forecasts, the growth rate anticipated for the majority of the OECD countries has not been attained. On the other hand, following a promising decline, there is currently a troubling upward trend in interest rates, which in any case have remained considerably higher, in real terms, than their historical levels. This is a serious problem for the developing countries, owing to the largest drop since the pre-war period in the prices of basic commodities, which continue to represent these countries' main source of foreign exchange, the upsurge in protectionist measures in the industrialized countries, and the scarcity of new external financing, which some indicators show will be even less available in the near future.

Furthermore, some countries have had to deal with additional problems owing to the damage caused by natural disasters, which have even further aggravated their economic situation and payment capacity.

Despite these unfavorable external and internal situations, we have spared no effort in adjusting our respective economies to prevailing and anticipated circumstances. These efforts, measured in terms of reduction in standard of living and transformation of productive structures, have been monumental in past years, and have served to avoid breakdowns in the international financial system, which would have been prejudicial to everyone.

Unfortunately, these profound adjustments were insufficient in the face of the negative pressures imposed by the

international environment on our economies. Their social cost has been so great that it even threatens to jeopardize the recent trend toward pluralistic and democratic societies.

It should be recalled that in 1986 more than half the countries had negative growth rates per inhabitant once again--in some for the fifth consecutive year--and that in most of the others recovery was slow and, above all, precarious. Under these circumstances, it cannot be said that the favorable performance of the economies of some countries constitutes or ensures a sustained reversal of the recessionary trends of previous years. It is very likely that Latin America will enter the next decade with standards of living similar to or lower than those it had at the beginning of the 1980s.

Among the main obstacles to better performance of the economies of the region is--and we must reemphasize this--the debt problem. As recent events show, not only has no solution been found but the problem is getting worse, despite the fact that there has been considerable progress in acknowledging joint responsibility for managing and solving the debt problem as well as the need to approach it in the context of policies of growth and positive and non-recessionary adjustment. From this viewpoint, the aforementioned prevailing conditions of the world economy have resulted in a situation whereby for the vast majority of countries of the region it is simply impossible to grow, invest, and simultaneously comply with the terms of servicing their heavy foreign debts.

Efforts planned in recent times to promote a greater flow of public and private funds have not been carried out or have not reached the levels necessary to sustain a volume of investments and a reasonable rate of growth.

On the contrary, the massive transfer of financial resources abroad, which in terms of interest alone sometimes involves amounts upward of five percent of gross national product, has continued. This is an unsustainable phenomenon which must be reversed as soon as possible. It has already forced some countries to take measures designed to limit such transfers.

Furthermore, we feel it is essential to emphasize that the problem of foreign indebtedness, in terms not only of its causes but also of its consequences, affects us all. The paralysis of growth and, especially, the steep drop in imports which the indebted countries have been forced to endure are now a significant factor in the obstacles to world economic expansion and, more specifically, to the economic expansion of the industrialized countries.

Therefore, innovative solutions are required that make the attainment of minimum growth rates for per capita income, protected from constant changes in interest rates and sudden fluctuations in terms of trade, a central issue in the negotiations of individual cases. Only a climate of reasonable security and long-term stability for the solution of the debt problem can offer the conditions on which we can continue our adjustment programs, provide for more investment, and achieve acceptable goals for growth.

Owing to the magnitude of the problem, any increase in financial flows that does occur will not be sufficient to solve the debt problem. Parallel and coordinated action is required, which must necessarily entail an adjustment of debt service to the real payment capacity of the debtor country, real reductions in the nominal interest rates in order to realign them more closely with actual historical levels, a separation of existing and future debt, the increasing elimination or limitation of bank intermediation margins, flows of new capital to reverse the transfer of resources, long-term rescheduling of maturities, and a determined commitment to the objectives of trade liberalization and expansion which will ensure our repayment capacity.

In regard to this last course of action, in 1986 in Uruguay a process of multilateral negotiations was initiated within the framework of GATT, intended to halt and reverse the growing protectionist trends and to establish, for the sake of the continuous expansion of commercial exchange at the world level, an international trade order more straightforward than the present one and more predictable and favorable to growth, offering opportunities to the developing countries to improve their participation in such trade. Nevertheless, the atmosphere that prevailed at the Punta del Este meeting apparently did not succeed in avoiding an increase in measures that limit trade in one way or another, and the Uruguay Round will have to be initiated under none-too-promising

circumstances, without the successful implementation of even an effective system of preserving the status quo and then gradually dismantling trade barriers.

All these phenomena are extremely disturbing inasmuch as they challenge and openly compromise the success of the refinancing agreements that were negotiated and threaten our development and adjustment efforts.

Mr. President:

The debt problem is only one component--albeit certainly a fundamental one--of the great challenge to the development and modernization of our countries. It is one of the many problems of which we are fully aware and for which we are not, in any case, shirking responsibility. But it is not exclusively our problem, and it cannot be limited to its financial dimension. It is a fundamental determinant of our dynamic connection with the growth of the world economy in which we wish to participate for the benefit of all. It is also an unavoidable aspect of the series of imbalances that characterizes the world economy and prevents the resumption of sustained growth, at more satisfactory rates for all, industrialized and developing countries alike.

If some lesson can be drawn from what has happened in recent years, it is the decisive role of policy coordination in alleviating international economic imbalances like the ones your countries generate. It is urgent that this experience be extended to other issues and new partners.

We consider that, in this same spirit and with an overview of the debt problem and its international economic environment, an in-depth debate needs to be conducted both in the multilateral forums of which we are a part and in direct relation with friendly countries like yours, so that we may jointly review the measures that affect us all and search for new initiatives that may help to solve the problems we face.

I avail myself of this opportunity of sharing these considerations with you to renew to you, on behalf of the Chiefs of State and in my own name, the assurances of my highest consideration.

[s] Julio Maria Sanguinetti
President of the Oriental Republic
of Uruguay