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62

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
243569	MEMO	DUPLICATE OF 163086; ALEXANDER HAIG TO THE PRESIDENT, RE: A STRATEGY FOR CANCUN	4	10/8/1981	B1

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October 9, 1981

MEMORANDUM FOR MR. CRAIG L. FULLER
ASSISTANT TO THE PRESIDENT
DIRECTOR,
OFFICE OF CABINET ADMINISTRATION

SUBJECT: Comment on State Department's Cancun Summit
Briefing Book

Attached are Treasury's comments on the final set of State papers for Cancun. Since most Treasury offices had an opportunity to review initial drafts we only have a few specific comments. I have attached marked-up copies of the relevant papers with our language changes in the sections on Food Security and Agricultural Development, Commodities, Trade and Industrialization, Energy and Monetary and Finance. Most of our comments represent a further refinement of previous drafts.

I look forward to receiving the finished product.

David Chew
Executive Assistant
to the Secretary

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Food Security and Agricultural Development

MAIN OBJECTIVES

1. Reassure others that the US shares their concern about the problem of hunger and malnutrition.
2. Stress that no amount of external ^{market-oriented} aid to developing nations can supplant the importance of [appropriate] agricultural policies, especially relating to prices as that provides farmers with incentives.
3. Reassure others that although foreign assistance is not excluded from our efforts to reduce federal expenditures, that food and agricultural problems will remain high on our list of priorities.
4. Urge that other nations share more in the burden of providing food and agricultural development assistance by committing themselves to more fully to multilateral efforts.
5. Encourage the development of grain reserves by other exporters and developed country importers, but state that we remain open to alternative approaches which address the problems of adequate grain reserves.

Authority: State Weiver
BY dhr NUC DATE 11/2/2019

BEAR IN MIND

1. Others may think that the US will significantly cut its financial commitment to food aid and development assistance.
2. Others may characterize our emphasis on developing nations helping themselves as an attempt to palliate a decreased financial commitment to food aid and assistance programs.
3. The International Wheat Council, an organization of wheat exporting and importing nations, should remain the international forum for discussions relating to grain reserves.

CHECKLIST

1. Stress our support of self-help efforts by developing nations.
2. State that our agricultural development assistance program will continue to focus on helping the small farmer.
3. State that the US will support developing nations' policies which will improve the performance of the private sector.
4. State that although foreign assistance is not excluded from our efforts to reduce federal expenditures, that food and agriculture will remain high on our list of development priorities.
5. ~~Encourage other nation to assume more of the obligation of providing food aid by pledging to the FAC, the IEFK, and the WFP.~~
6. Encourage the development of grain reserves by other exporters and developed importers.

U.S. STATEMENT

FOOD SECURITY AND AGRICULTURAL DEVELOPMENT

THE PRESENCE OF HUNGER IN THE WORLD IS A MAJOR CONCERN TO THE U.S. AND, I AM SURE, TO THE PEOPLE OF ALL NATIONS THAT ARE REPRESENTED HERE TODAY. OUR MEETING AT CANCUN PROVIDES US WITH AN OPPORTUNITY TO DISCUSS ASSURING REGULAR AND ADEQUATE FOOD SUPPLIES FOR THE WORLD'S POPULATION AND TO OFFER WAYS IN WHICH THE INTERNATIONAL COMMUNITY MIGHT COOPERATE MORE EFFECTIVELY IN RESPONDING TO THE NEEDS OF THE HUNGRY AND MALNOURISHED.

THE U.S. SHALL CONTINUE ITS LEADERSHIP ROLE IN THE QUEST FOR FOOD SECURITY. FIRST, THE U.S. WILL CONTINUE TO BE THE LARGEST DONOR OF FOOD AID AND THE LARGEST DONOR OF BILATERAL AGRICULTURAL DEVELOPMENT ASSISTANCE. SECOND, THE UNITED STATES SHALL CONTINUE TO ACQUIRE AND RELEASE ITS GRAIN RESERVES IN AN OPEN MARKET SYSTEM IN RESPONSE TO CHANGES IN INTERNATIONAL SUPPLY AND DEMAND. IN FACT, THE U.S. IS THE ONLY COUNTRY WHO KEEPS MAJOR GRAIN RESERVES.

THE U.S. SEES FOUR MAJOR AREAS THAT MUST BE DISCUSSED IF WE ARE TO INCREASE WORLD FOOD SECURITY. FIRST, THE MOST IMPORTANT REQUIREMENT FOR WORLD FOOD SECURITY IS AN INCREASE IN FOOD PRODUCTION IN THE DEVELOPING COUNTRIES THEMSELVES. NO AMOUNT OF EXTERNAL ASSISTANCE CAN SUPPLANT THE IMPORTANCE OF ^{market-oriented} [APPROPRIATE] AGRICULTURAL POLICIES [ESPECIALLY PRICING] WITHIN A DEVELOPING COUNTRY. IN ALL COUNTRIES, FARMERS MUST ^{be provided the opportunity for} RECEIVE SOME ASSURANCE OF [AN ADEQUATE RETURN BEFORE UNDERTAKING THE INVESTMENT NEEDED FOR INCREASED PRODUCTION. *In this regard, farmers must be in a position to*

respond to unimpeded market signals. The role of the farmers and other entrepreneurs, who are responsible for most of the world's agricultural activity, must be strengthened

SECOND, FOOD AND AGRICULTURE MUST REMAIN HIGH ON OUR LIST OF DEVELOPMENT PRIORITIES FOR FOREIGN ASSISTANCE BOTH BILATERAL AND MULTILATERAL. WE BELIEVE IN HELPING COUNTRIES TO HELP THEMSELVES. BUT WE ALSO RECOGNIZE THAT SOME COUNTRIES, DESPITE THEIR OWN EFFORTS, WILL STILL REQUIRE TECHNICAL ASSISTANCE AND CONCESSIONAL AID FOR SOME TIME TO COME. OUR AGRICULTURAL DEVELOPMENT ASSISTANCE PROGRAM WILL CONTINUE TO FOCUS ON HELPING THE SMALL FARMER. THE PRIVATE FARMER IS THE KEY TO IMPROVED AGRICULTURAL PRODUCTION. FIFTY PERCENT OF THE U.S. BILATERAL AND PROGRAM WILL BE USED IN THE SUPPORT OF AGRICULTURE. THE U.S. WILL ACCORD SPECIAL ATTENTION TO SUPPORTING DEVELOPING POLICIES AND PROGRAMS WHICH WILL IMPROVE THAT PERFORMANCE AND WHICH WILL HELP MOBILIZE PRIVATE SECTOR RESOURCES FOR DEVELOPMENT PURPOSES.

INTERNATIONAL COOPERATION SHOULD ALSO EXTEND TO THE AREA OF FOOD AID. ADDITIONAL MEMBERS OF THE INTERNATIONAL COMMUNITY MUST ASSUME MORE OF THE OBLIGATION ENTAILED IN PROVIDING FOOD AID. IN PARTICULAR, WE CALL ON COUNTRIES WHO HAVE NOT DONE SO, ESPECIALLY OPEC, THE UPPER INCOME DEVELOPING COUNTRIES, AND THOSE INDUSTRIALIZED COUNTRIES WITH CENTRALLY PLANNED ECONOMIES, TO MAKE PLEDGES IN CASH OR COMMODITIES UNDER THE FOOD AID CONVENTION, THE WORLD FOOD PROGRAM, AND THE INTERNATIONAL EMERGENCY FOOD RESERVE.

THIRD, WE MUST CONTINUE TO SEARCH FOR AN INTERNATIONAL GRAINS AGREEMENT. WE KNOW THE KEY PROBLEMS OF WHO SHOULD BEAR PURCHASE AND STORAGE COSTS, OF WHAT PRICES STOCKS ARE BOUGHT AND SOLD AND FOREIGN EXCHANGE PROBLEMS OF DEVELOPING COUNTRIES.

WE MUST WORK TOWARD A SOLUTION THAT PROTECTS CONSUMER AND PRODUCER INTERESTS, RESTS ON MARKET PRINCIPLES AND PROVIDES MORE FOOD SECURITY.

FOURTH, INTERNATIONAL COOPERATION IN THE CASE OF FOOD EMERGENCIES RESULTING FROM NATURAL DISASTERS MUST BE IMPROVED.

Food Security and Agricultural Development

During discussions of food security, the assurance of regular and adequate food supplies for the world's population, and agricultural development, we will want

-- to stress that the most important element of food security is increasing developing countries' food production. To that end, developing countries should:

- adopt ^{market-oriented} (appropriate) agricultural policies, especially relating to price incentives;

- encourage involvement of both the local and foreign private sectors in food storage and marketing/distribution programs in developing countries;

-- to emphasize the US record as the largest donor of food aid and the largest bilateral donor of agricultural development assistance;

-- to state that although foreign assistance is not excluded from our efforts to reduce federal expenditures, the world's food and agricultural problems must remain high on our list of development priorities;

-- to urge other nations to share more equitably in the burden of providing food and, agricultural development assistance by calling for additional pledges to the Food Aid Convention (FAC), the International Emergency Food Reserve (IEFR), and the World Food Program (WFP);

-- to encourage the development of grain reserves by other exporters and developed importers.

-- to urge the strengthening of international disaster relief cooperation.

CONTEXT

Food security and hunger are critical development problems. Close to a half billion people, mostly in developing countries are undernourished. Almost all of the two billion population growth expected by year 2000 will be in developing countries. For these reasons, the developing countries represented at Cancun will likely seek higher external assistance to meet emergency food needs and to accelerate domestic food production.

At Cancun, we should emphasize the continuing strong leadership role of the US in addressing the elements of world food security: agricultural development assistance to increase developing countries' food production; food aid; and grain reserve policies. We should also stress that food and agricultural

policies and programs of the developing countries themselves are more important than external aid.

The most important element of food security is increased developing country food production. A principal constraint to improved output in most developing countries is pricing policies that subsidize the urban consumer at the expense of the farmer.

Secondly, most developing countries are handicapped by undeveloped storage, processing, distribution, and marketing capacity. The developing countries should encourage involvement of both the local and foreign private sectors in the development of their infrastructures and the development and application of agricultural technology.

Most Summit participants will at least privately support the US position that developing countries should increase food production as essential to ensuring world food security. Publicly, however, some developing countries may chastise the US for seeming insensitivity towards the hungry and call for further aid. The US should (1) recount its record as the largest donor of food and the largest bilateral donor of agricultural development assistance; (2) state that although foreign assistance is not excluded from our efforts to reduce federal expenditures, food and agricultural problems must remain high on our list of development priorities; (3) recognize that many of the poorer countries, despite efforts to integrate them into the world economy, may have to rely heavily on concessional assistance for some time to come; and (4) reiterate that the US will continue its high commitment to such aid.

Food Aid and Agricultural Development Assistance represent the second element of world food security. The US can take pride in its record as the largest donor of food and the largest bilateral donor of agricultural development assistance. The bulk of US multilateral aid is disbursed through the multilateral development banks (MDBs). In FY 1980, MDB lending for agriculture totalled \$4.6 billion, or 28% of total MDB lending. The US also makes substantial contributions to more specialized organizations, such as the Food and Agriculture Organization of the UN and the World Food Program (WFP). We have also pledged annually 4.47 million tons of food aid of a targetted 10 million tons to the Food Aid Convention and 125,000 of a targetted 500,000 tons to the International Emergency Food Reserve. Neither of these targets has been met by the international community. Bilateral aid: Roughly half of our bilateral assistance is devoted to agricultural development programs in developing countries. Our PL 480 program will provide in excess of \$1.7 billion in food aid to needy people in about 80 countries this fiscal year.

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There is no one issue within this area that any Summit participant is likely to raise as a criticism of the US. If, however, any participant should raise the general issue that the US has not been generous enough in its commitment to alleviate hunger, the US may (1) reiterate the US record; (2) state that although foreign aid is not excluded from our efforts to reduce federal expenditures, that food and agricultural problems must remain high on our list of development priorities; and (3) call for additional pledges to the FAC, the WFP, and the IEFR.

Grain Reserve Policies represent the third element of world food security. We are the only nation which acquires and releases its grain reserves in an open market system in response to changes in international supply and demand. Not only does our open market system provide full access to the foreign buyer of grain, but our market system also provides buyers for substantial and increasing quantities of developing countries' products.

At the most recent International Wheat Council meeting, the US opposed the draft proposal for a new agreement based upon an internationally-coordinated system. However, we would consider other proposals based on market-oriented national reserves. Other exporters and major importers should establish such reserves without awaiting a new International Wheat Agreement proposal. (EC governments argue that such reserves should only be established in the context of an international system. The developing countries will seek an agreement which also stabilizes prices and finances stocks in developing countries.)

KEY POINTS TO MADE

-- The United States takes pride in its leadership role in the quest for food security, the assurance of adequate food supplies for the world's population.

-- We have been the largest donor of food aid and the largest bilateral donor of agricultural development assistance.

-- Although foreign aid is not excluded from our efforts to reduce federal expenditures, food and agricultural problems must remain high on our list of development priorities.

-- We are the only nation which acquires and releases its grain reserves in an open market system in response to changes in international supply and demand. Our market system also provides buyers for substantial and increasing quantities of developing countries' products.

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-- The most important element of food security is an increase in developing countries' food production. No amount of external aid can supplant the importance of [appropriate] agricultural policies--especially related to pricing. *market-oriented*

-- Other nations should also share in the obligation of providing food aid to the world's hungry. We call on others to pledge additional food aid to the FAC, the WFP and the IEF.

COMMODITIES, TRADE AND INDUSTRIALIZATION

Objectives

— To emphasize the importance of trade and of an open trading system in the development process.

-- To convince others that the GATT is the appropriate forum in which to consider trade liberalization. In that context we are beginning preparations for the 1982 GATT Ministerial.

-- To make it clear that the U.S. has cooperated extensively with international organizations in seeking solutions to problems in commodity markets.

Context

Access to developed countries' markets is a priority concern of developing countries. The U.S. is committed to maintain open markets, to resist protectionism, and to facilitate adjustment in our economy. While we thus share common views with the developing countries in many aspects of trade policy, many developing countries do not share our emphasis on GATT as the proper forum for trade liberalization.

Mexico itself is not a GATT member. It will thus be less than enthusiastic about the GATT Ministerial as the occasion for initiating further trade liberalization. Most Cancun participants other than the U.S. want global negotiations and want to include trade in these negotiations. Some developing countries believe that U.S. support for the GATT Ministerial is primarily motivated by a desire to avoid global negotiations.

We believe that we can now make a major contribution to the global economy by restoring strong, non-inflationary growth to our economy and by permitting market forces to operate. Through continuing to resist protectionist pressures, we believe that we will provide attractive market opportunities for industrializing developing countries. We also believe that our GSP program has provided significant development benefit to the developing countries.

The developing countries will argue that the developed countries should take measures to actively promote imports from the developing countries, and to eliminate protection against their exports. Some developing countries will also argue that the developed countries should take steps to bring about the "redeployment" to developing countries of those industries in which the developed countries are no longer competitive.

Although we regard structural adjustment as desirable, in our economy it is carried out primarily by the market. We see as one of the priority issues of the GATT Ministerial the integration of developing countries into the trading system. This would entail trade liberalization in the economies of the developing countries, particularly the more advanced among them.

Commodity prices have historically fluctuated widely, though the trend in real prices has been downward for the past thirty years. Many developing countries, including several Cancun participants, are dependent on one or two commodities for most of their export earnings. These nations view regulation of international commodity markets as the most promising solution to their commodity-related problems, even though attempts at regulation have had little success. The U.S. is a member of price stabilizing agreements for tin, natural rubber, coffee, and sugar. The sensitivity of commodity prices to economic conditions in developed countries indicates that restoring non-inflationary growth will reinvigorate commodity markets.

We have joined commodity agreements if they help stabilize market prices rather than replace the market with artificial prices. Our major emphasis has been in the IMF in support of the Compensatory Financing Facility (CFF) which helps finance balance of payments shortfalls caused by decline in commodity prices. The key to development is a stable flow of foreign exchange earnings and not artificially supported commodity prices.

Key Points to Make

-- We recognize that trade plays an important role in the development process. We support an open global trading system as providing the greatest opportunities for developing countries to expand and diversify their exports.

-- We are committed to maintaining open markets, resisting protectionism, and facilitating adjustment in our economy.

-- We intend to work with others to prepare for the 1982 GATT Ministerial, which will lay the groundwork for further liberalization, strengthening, and increased discipline in the international trading system.

-- The United States has cooperated with international organizations in seeking answers to commodity problems. However, we believe that restoring strong, non-inflationary growth most effective solution to commodity market problems.

-- We believe that industrialization of developing countries will result from an open world trading system.

Moreover, we have supported expansion of the IMF Compensatory Financing Facility which provides financing to countries experiencing balance of payments difficulties due to temporary shortfalls in export earnings arising from factors beyond their control.

Generalized System of Preferences (GSP)

Criticism: Graduation of more advanced developing countries under the Generalized System of Preferences (GSP) is discriminatory, contradicts the basic principles underlying the program, and will not result in greater benefits for less advanced countries.

Response:

1. I believe that the GSP is an important element in North-South economic relations and that it has made an integral contribution to the development process in developing countries.
2. The GSP is a temporary program designed to assist developing countries in competing better with more traditional suppliers in developed country markets. Developing countries should phase out of preferential treatment as they become competitive producers of individual products, allowing less competitive supplying countries to benefit from GSP treatment on the items.
3. The GSP must serve 140 developing countries with widely different infrastructures and productive capacities. The United States introduced graduation in its GSP in order to expand trade opportunities for countries at the middle and lower ranges of economic development.
4. Our GSP ^{review procedures are} ~~is a~~ very open and transparent one, and we will continue to consider the views expressed by our developing country trading partners in administering the GSP program.

Facts: The total amount of imports receiving duty-free treatment under the U.S. GSP has more than doubled since implementation of the program, increasing from \$3.1 billion in 1976 to \$7.3 billion in 1980. ^{is an attempt to} Five advanced developing countries (Taiwan, Fong Kong, Korea, Mexico, and Brazil) have accounted for as much as 70 percent of that total in past years. Graduation of advanced developing countries from GSP duty-free treatment on a product-by-product basis should increase the share of the program's benefits accruing to the less advanced developing countries. However, the most advanced countries, particularly Brazil and Mexico, see graduation as purely protectionist. They doubt that graduation will result in a greater distribution of GSP benefits since less advanced countries generally produce a different mix of products than more advanced developing countries.

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Multifiber Arrangement (MFA)

Criticism: The Multifiber Arrangement (MFA) is a protectionist agreement which permits developed importing countries to restrict the imports of textiles and apparel products from exporting developing countries.

Response:

- I. If the MFA negotiation is raised by any Cancun participants, the United States should note that this is a crucial and very sensitive issue. As it is under intense negotiation in the GATT, the United States should point out that the Cancun meeting is not the appropriate forum for MFA discussions.

Facts: The MFA, which governs international trade in cotton, wool and man-made fiber textiles and apparel, expires on December 31, 1981. The MFA is the framework agreement that provides guidelines for the negotiation of bilateral quantitative restraint agreements between exporting developing countries and importing developed countries.

The MFA's fundamental objectives are the expansion and progressive liberalization of trade in textiles while avoiding the disruption of individual markets. It seeks to obtain for developing countries increases in their export earnings and a greater share of the world's trade in textiles and apparel.

The original MFA entered into effect in 1974 and was extended by an interpretative protocol in 1977. The forty-two signatories of the MFA, which account for roughly three-quarters of the world textile trade, have been meeting this year in the GATT Textiles Committee in an effort to renegotiate the Arrangement. Progress has been slow to date and difficult negotiations are expected as the end of the year deadline approaches. The negotiations are very sensitive and failure to renew the MFA would have very negative consequences for the entire international trading system.

The EC and LDC positions on MFA renewal are in direct conflict and the US is trying to bring the two sides together.

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World Bank Energy Lending

Criticism: The US has opposed both the proposed World Bank energy affiliate and an expansion of resources for World Bank energy lending. ✓

Response:

1. Most resources for energy investment must come from the private sector. The Bank can play an important role by complementing and catalyzing private efforts and by encouraging host governments to adopt policies conducive to private sector involvement.
2. We are unable to agree to the proposed expansion of the Bank's energy lending or to support the creation of, or participation in, the proposed new energy affiliate.
3. Improvements can and should be made in the Bank's energy lending program which, within the limits of currently pledged resources, will result in higher energy investment in the developing countries. The Bank should be encouraged to promote developing country energy development by increasing its multiplier effect on private energy investment.
4. After we have had the opportunity to see the effect of these improvements and gauge the OPEC willingness to increase its participation, we will also be able to judge what additional resources, if any, should be provided to the Bank for further energy development activities.

Facts: In response to a Venice Summit ^{request to examine its energy program} [initiative], the Bank proposed in 1980 an expansion of its FY 82-86 energy lending from \$14 to \$30 billion, to be financed by creating an energy affiliate whose capital, ^{for a large part, would come from OPEC.} ^{Many hoped OPEC would provide a larger share of the funding for the affiliate than it does for the Bank, but so far there is no indication they are willing to do so.} Since February 1981, the US has maintained the position that it cannot support the proposed affiliate. Moreover, the in-depth interagency report on the Bank energy lending program directed by the Treasury recommends that the Bank reorient its current lending activities, and questions the need for an expansion of Bank lending. While France and Canada are the only strong supporters of the affiliate among G-6 countries, there appears to be wider support in the Group for expanded energy lending. The OPEC position on the affiliate or expanded energy lending is not clear. World Bank President Clausen has given no impression he will push for the affiliate. Moreover, it appears that in response to our concerns, the Bank is attempting to expand the role of private capital investment in its energy projects.

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Authority: State / Treasury Waivers
BY: *dh* 11/12/2019

MAIN OBJECTIVES

1. Present the US approach to economic growth and development: sound domestic economic policies, along with trade, private investment, and commercial capital flows are seen as much more important than foreign assistance to long-term economic growth in most developing countries.
2. Indicate that multilateral development banks must support sound economic policies and catalyze private resources for development; our bilateral assistance will concentrate on (a) countries mobilizing their resources and promoting private sector growth and (b) food, energy, and population, with emphasis on institution building and technology transfer.
3. point out clearly that private markets must play the primary role in recycling funds from surplus to deficit countries. The International Monetary Fund's role is to promote sound programs of economic adjustment.
4. Emphasize that combating inflation should be the number one economic priority and that short-term costs, such as high interest rates, are for outweighed by the longer term benefits. Premature reflation would reduce growth.

BEAR IN MIND

1. Other countries think the United States is abandoning its development assistance responsibilities.
2. Developing countries have called for increased resource transfers, and for changes in international economic insitutions that would give them increased control. *And, specifically, convert IMF from a monetary to a resource transfer mechanism*
3. High US interest rates are perceived as postponing global recovery and raising developing countries' borrowing costs.

CHECKLIST

1. Stress that private financial markets, with supplemental efforts of existing international institutions, are handling the process of financing payments deficits.
2. Stress that developing countries need to adopt rational economic plicies and maintain a favorable investment climate. *continue to*
3. Emphasize that the inter^{national} financial insitutions must be allowed to operate in accordance with economic criteria if they are to continue to enjoy international support. *their current mandates and institutional structures*
4. Point out that Congress has authorized payments to fulfill US contributions to multilateral development banks.
5. Note that high interest rates reflect inflationary expectations, and are not Administration policy. Interest rates will recede as inflation is lowered.

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Objectives

-- Present the US approach to economic growth and development: sound domestic economic policies, along with trade, private investment, and commercial capital flows are seen as much more important than foreign assistance to long-term economic growth in most developing countries.

-- Indicate that multilateral development banks must support sound economic policies and catalyze private resources for development; our bilateral assistance will concentrate on (a) mobilizing their resources and promoting private sector growth and (b) food, energy, and population, with emphasis on institution building and technology transfer.

-- Point out clearly that private markets must play the primary role in recycling funds from surplus to deficit countries. The International Monetary Fund's role is to promote sound programs of economic adjustment.

-- Emphasize that combating inflation should be the number one economic priority and that short-term costs, such as high interest rates, are far outweighed by the longer term benefits. Premature reflation would reduce growth.

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CONTEXT

The budget restrictions in the Administration's Economic Recovery Program have attracted much international publicity and given rise to misimpressions that the US is abandoning its global 'responsibilities,' especially in providing economic assistance to developing countries. Moreover, apprehensions have been generated by our internal review of US participation in the multilateral development banks (MDBs) and the strong position taken favoring more rigorous conditions for countries receiving loans from the International Monetary Fund.

Developing countries have for years assiduously sought additional financial assistance -- through bilateral and multilateral channels -- by proposing specific numerical targets for aid levels, and by seeking changes in international institutions to ease developing countries' access to their financial resources. Recent economic conditions (petroleum price increases, inflation, rising debt burdens) have created problems for many developing countries and have spurred their efforts as they attempt to finance huge current account deficits (projected to be \$97 billion in 1981 by the IMF) in order to maintain their growth rates or facilitate adjustment to these new conditions.

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Certain major donors (Canada, France and Japan), have pledged to increase their economic assistance and have accepted (but few have met) the UN-sponsored aid target of 0.7 percent of their Gross National Product. They have also supported additional funding for certain international institutions (the International Development Association and IBRD) and the creation of an energy affiliate for the World Bank to expand its lending in this area.

The United States has not accepted the concept of numerical aid targets since they are not indicative of specific country needs or capabilities to absorb additional funding. Industrialized countries' official development assistance averaged 0.3 percent of their GNP in 1980, compared to 0.27 percent of the United States. The United States, however, continues to be the largest single donor in absolute terms (\$7.1 billion in 1980; Germany was second at \$4.0 billion).

The Administration has begun to refocus the development assistance issue by placing increased emphasis on the fact that economic development and growth are fundamentally dependent on the adoption of sound domestic economic policies which promote savings and investment, maximize efficient utilization of scarce resources, and achieve effective balance of payments adjustment.

International trade, investment and commercial capital flows of the private sector are substantially more important for most developing countries than foreign assistance to long-term, non-inflationary economic growth. The U.S. performance in this area is excellent. Our capital markets are more open than others and U.S. banks are heavily involved in loans to developing countries. Earnings of developing countries from exports to the United States alone amount to double the foreign aid from all industrial countries and the United States accounted for over half of industrialized countries' investment in developing countries over the past 10 years. ✓

We continue to recognize that official economic assistance has an important role to play, especially for poorer countries. You joined in the Ottawa Summit Communique committing Summit countries "to maintaining substantial and, in many cases, growing levels of Official Development Assistance" and to "direct the major portion of our aid to poorer countries." Contrary to misimpressions, your proposed budget for foreign assistance, even as just revised, actually increased this year, and Congress has authorized fulfillment of U.S. pledged contributions and subscriptions to multilateral development banks, including the International Development Association. We will focus our bilateral assistance on the vital development constraints of food production, energy and population. In addition, special emphasis will be placed in institution building, technology transfer and increasing the role of the private sector in development.

Developing countries must recognize that borrowing should be used to facilitate--not simply postpone--needed adjustments. To adjust to new economic conditions, compete in world markets, and attract private investment and capital flows, they must make greater efforts themselves to adopt appropriate economic policies and maintain a favorable investment climate. We will seek to channel and to those countries adopting hospitable policy frameworks which mobilize their domestic resources and promote healthy private sector growth. Furthermore, our internal assessment of the multi-lateral development banks (MDBs) concludes that the MDBs can also play an important role in advising developing countries on such policies, as well as using resources available to them to attract additional private funds for development projects.

Developing countries have sought a restructuring of the international monetary system focusing on measures to: (1) ease macro-economic policy conditions the International Monetary Fund attaches to its loans; (2) create additional international liquidity through substantial creation of Special Drawing Rights linked to development criteria; (3) increase their role in international monetary decisions; and (4) cancel debt as a means of "resource transfer". Developing countries have long argued that the international monetary system in general, and decisions of the IMF in particular, are unfairly dominated by the major industrial countries. Industrialized countries as a whole share our interest in maintaining a stable international monetary system, but often seem more willing to accommodate changes sought by developing countries (e.g. France on SDR creation linked to development).

Private financial markets have demonstrated a remarkable capacity to meet the financing needs of borrowers and lenders, and will continue to have the primary role in recycling funds from surplus to deficit countries. The supplementary role of the IMF is to use its resources to promote sound programs of economic adjustment. The success of the IMF's efforts to maintain a stable monetary system depends on ensuring that the policy conditions associated with its loans require appropriate economic adjustments and policy responses in borrowing countries. The IMF has adapted in a number of important ways to meet the changing economic circumstances and needs of its members. We welcome further adaptation to reflect changes in the relative economic positions of the Fund's members as long as the changes continue to be based on economic criteria. We have viewed efforts to radically restructure the decision-making process of the IMF, as misguided since they are likely to undermine international confidence in its ability to foster a stable monetary system. Furthermore, an allocation of SDRs at a time of ample global liquidity and high inflation is inappropriate and undesirable and would weaken confidence in the IMF as a monetary institution. A change in the basis for distributing SDRs to favor LDCs would create pressures for excessive allocations and undermine the monetary character of the instrument.

The IMF has substantially increased its resources available for lending and has expanded dramatically access to those funds. The real need is to ensure that those resources are used prudently and effectively to promote sound economic policies.

High U.S. interest rates are perceived as postponing global economic recovery and raising developing countries' borrowing costs. Our monetary policy, of course, is not one of high interest rates but is designed to ease inflation which adversely affects the U.S. and the world economy. We have embraced the fight against inflation as the highest priority of the international community, as noted in the Ottawa Summit Communique. As inflation subsides, so too will interest rates. U.S. pursuit of domestic policies to ensure a strong U.S. economy, and hence a healthy international one, will contribute much more than development assistance measures to long-term, sustainable economic growth in the developing countries.

Key Points to Make

① -- Sound domestic economic policies and the external factors of trade, private investment, and commercial capital flows are more important for most developing countries than assistance measures for achieving long-term economic growth.

③ -- Developing countries need to make greater efforts to adopt rational economic policies and maintain a favorable investment climate.

⑥ -- Multilateral development banks and other foreign assistance can play an important role in promoting sound national policies and attracting private financial resources for development.

④ -- Private financial markets are managing the recycling of surplus funds; existing international institutions play a supplemental role.

⑤ -- International financial institutions must be allowed to operate in accordance with economic criteria if they are to continue to enjoy wide international support.

② -- Combating inflation should be the number one economic priority of the international community.

⑦ -- Our bilateral assistance will concentrate on the vital development areas of food, energy and population, with special emphasis in institution building, technology transfer and increasing the private sector role.

IMF Financing and Conditionality

Criticism: The developing countries claim that the amount of financing available from the IMF is inadequate to deal with their balance of payments needs and that the economic policy conditions associated with IMF financing are excessively harsh and damaging to their development efforts.

Response:

1. With re-emergence of large balance of payments deficits and financing needs over the past few years, the IMF has moved dramatically to increase its resources and expand members' access to those resources.
2. Consequently, recourse to the IMF's financing has increased rapidly.
3. The need now is to assure that the substantial resources available to the IMF are used prudently in support of soundly designed and effectively implemented programs of economic adjustment. This is critically important for the IMF as an institution, to individual borrowing countries, and to the world in general.

Facts: The IMF is the principal source of official financing for countries experiencing temporary balance of payments difficulties. The availability of IMF financing is conditioned upon the borrower adopting economic adjustment policies that will correct its balance of payments problem and place its external position on a sustainable basis that can be financed from non-IMF sources, primarily private markets. In recent years, the IMF has substantially expanded its resources available for balance of payments financing and members' access to those resources. Quotas have been doubled since 1977 (to a total of about \$69 billion) and the IMF has borrowed significant amounts (including a recent \$9 billion loan from Saudi Arabia and \$2 billion from other countries). A member's access to IMF resources is now multiple of its quota. Consequently, the IMF's financing commitments have increased sharply and in 1981 (through July) loans are being made at an annual rate of \$16 billion, more than double the pace set last year.

The US and other major countries have become increasingly concerned that IMF supported adjustment programs have not been adequately implemented despite the substantial commitment of IMF resources. The effectiveness of the IMF's efforts to promote sound economic policies in borrowing countries is critical to the achievement of a more stable world economy and maintenance of the financial integrity of the institution. We are working with IMF management and other countries to improve IMF conditionality.

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IMF Quotas and Voting Shares

Criticism: IMF quotas do not adequately reflect the role of developing countries in the world economy. The quota (and voting) share of developing countries should be substantially increased and the deadline for completing the quota review be advanced. ✓
Should

Response:

1. The general review of quotas which is now underway will be long, complex, and difficult. We believe that the current schedule, calling for completing the review in late 1983 is reasonable and appropriate.
2. The effectiveness of the IMF in promoting adjustment and the evolving world payments situation will have ~~any~~ important bearing on the demand for IMF resources and the need for a quota increase. It would be premature to reach decisions on the size and distribution of a quota increase before assessing developments in those areas. ✓
3. The US approach to the quota review is based on the view that the IMF must remain a monetary institution which serves as a backstop for the international monetary system. The US opposes any "bloc" approach to the determination of quota shares, believing individual country quotas should reflect the member's relative position in and responsibility for the world economy.

Facts: Quota subscriptions constitute the IMF's permanent financial resources and determine the amount of financing a country can obtain when in balance of payments need. Quotas also determine voting power in the IMF. Quotas are calculated on the basis of economic criteria and are reviewed periodically. In December 1980 a major 50 percent increase in quotas became effective, raising total IMF quotas to roughly \$69 billion. ✓

A review of quotas is underway and is scheduled to be completed in late 1983. The review will examine the interrelated questions of the criteria and procedures for quota calculations, the appropriate distribution of quotas, and the overall size of the IMF. The developing countries are pressing for a larger quota (and voting) share in an effort to push through changes in IMF lending practices favorable to them, even though many developing countries already have quota shares that are unjustifiably high. A number of industrial countries are also seeking share increases. THE US will have to contend with strong pressure to reduce its own share. We have traditionally resisted reductions in the US share (at 20 percent the largest of any member) below a level substantially above the veto point (15 percent) for major IMF decisions. ✓

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Developing countries and smaller developed countries are also pressing to accelerate the quota review, pointing to the current rapid utilization of IMF resources. The US has firmly opposed any acceleration in light of the IMF's strong financial position and concern about Congressional reaction to further requests for IMF funding at a time of budgetary stringency. ✓

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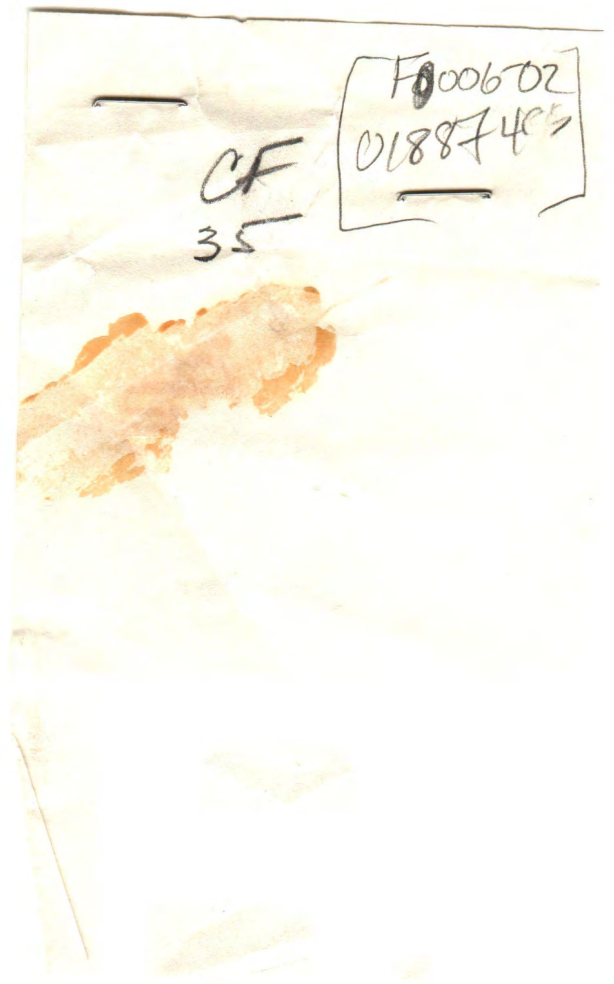
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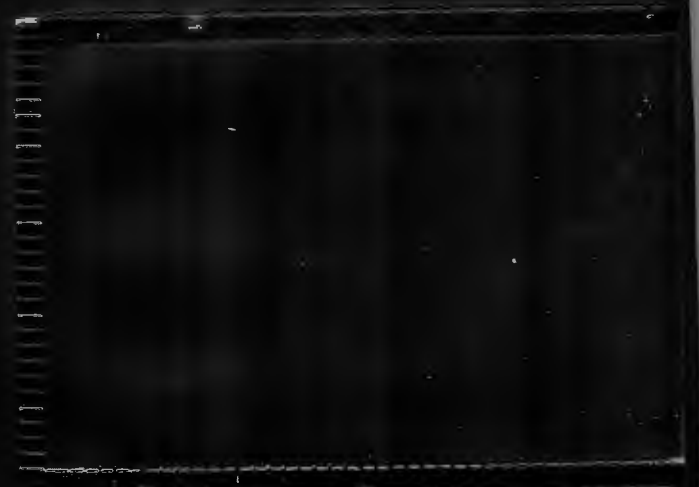
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PRESIDENT REAGAN'S PARTICIPATION

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IN

THE INTERNATIONAL MEETING ON COOPERATION AND DEVELOPMENT

CANCUN, MEXICO
OCTOBER 21-23, 1981

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Skeleton Schedule

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