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WITHDRAWAL SHEET

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Collection Name	WHITE HOUSE OFFICE OF RECORDS MANAGEMENT (WHORM): SUBJECT FILE	***Withdrawer***	DLB 11/18/2019
File Folder	FO006-02 (018874) (9 OF 19)	***FOIA***	F16-011 BIERGANNS
Box Number			69

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
243589	PAPER	DUPLICATE OF #243570; RE: ENERGY	4	ND	B1
243590	PAPER	DUPLICATE OF #161535; ENERGY DEVELOPMENT IN DEVELOPING COUNTRIES	1	ND	B1
243591	PAPER	WORLD BANK "ENERGY AFFILIATE" AND EXPANDED ENERGY LENDING	1	ND	B1
243592	PAPER	DUPLICATE OF #161533; LOPEZ PORTILLO WORLD ENERGY PLAN	1	ND	B1

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Commodities, Trade &
Industrialization

COMMODITIES, TRADE AND INDUSTRIALIZATION

Objectives:

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

-- To underline the strong U.S. record in trade with developing countries.

-- 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:

Trade:

World trade now approaches $2 trillion, of which the LDCs account for about one fourth. Access to developed country markets is a priority concern of developing countries. While LDC overall exports have grown faster than the world average, they are concerned about high barriers to certain of their key exports.

The U.S. record: We annually absorb 26 percent of non-OPEC developing contry exports to the world and 50 percent of their exports of manufactured goods. More than one quarter of our imports are from the non-OPEC developing countries, which is nearly as much as we import from Japan and the European Community combined. In 1980, the U.S. imported $113.5 billion from LDCs, 51 percent of which entered duty-free. U.S. imports from developing countries, especially from the more advanced ones, have expanded more rapidly than the rest of our trade. We have restrictions affecting some key LDC exports, notably textiles.

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 economies of many of the developing countries represented at Cancun are characterized by planning and import substitution rather than reliance on market forces. Other LDCs, not present at Cancun, have adopted lower trade barriers and have had dramatic success in expanding their exports. Trade is of critical importance not just to the largest trading countries (e.g., Korea, Brazil, Mexico) but also to some of the poorest countries in the world.

The EC and Japan have generally low tariff barriers, but maintain extensive non-tariff barriers that affect LDC exports, particularly in the agriculture sector.

Past round of trade negotiations, which have resulted in substantial liberalization have centered on GATT, whereas UNCTAD's deliberations have produced few practical results. The Brandt Commission's report emphasized several factors with which we agree, notably the importance of trade for developing countries and the need for a safeguards code. However, we disagree with its assertions that protectionism has greatly increased, that recent tariff reductions have hurt the developing countries by eroding their trade preferences under GSP, that structural adjustment is a problem only for developed countries, and that UNCTAD and GATT should be melded into a new international trade organization. In our view, GATT has been a remarkably adaptable organization, and will be able to meet the challenges to the trading system in the 1980s.

Views of Cancun participants: Our commitment to maintain open markets gives us important common ground with the other Cancun participants and particularly the developing countries. However, many developing countries do not share our emphasis on GATT as the proper forum for trade liberalization, and would like to give more weight to the more LDC-oriented UNCTAD. Mexico, not a GATT member, will be particularly unenthusiastic about GATT.

Most Cancun participants want to include trade in global negotiations. Brazil has charged that U.S. support for the GATT Ministerial is primarily motivated by a desire to avoid global negotiations.

Structural Adjustment:

Some developing countries will 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, as well as reduction of barriers which concern them.

International Commodities:

Commodity prices have historically fluctuated widely, though the trend in real prices has been downward for the past thirty years. Many developing countries, including such Cancun participants as the Ivory Coast and Bangladesh, 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 problems of unstable export earnings, even though attempts at regulation have had little success. 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 (e.g., natural rubber, coffee, sugar) if they help stabilize market prices rather than replace market with artificial prices. Moreover, we have supported expansion of the IMF Compensatory Financing Facility (CFF) which provides financing to countries experiencing payment difficulties due to temporary shortfalls in export earnings arising from factors beyond their control. The key development need 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 proud of our record in maintaining an open market. The rapid growth in exports from non-oil developing countries to the U.S. is an indication of our success in this regard.

-- 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 is the most effective solution to commodity market problems.

-- We believe that industrialization of developing countries can best be encouraged by an open world trading system.

Pitfalls to Avoid:

-- Negotiations on structural adjustment or redeployment: Government-to-government negotiations cannot accelerate structural adjustment. This task is performed by the market.

-- Commodity prices: The problem of price stabilization, which the LDCs want to emphasize, is really secondary to the problem of their low export earnings and need to diversify exports.

-- Protectionism: In general, the U.S. is among the most open markets in the world, average post MTN tariff on all LDC exports is 5.7 percent. However, trade barriers are higher in certain sectors of great importance to LDCs (e.g., textiles).

-- Export Credits: Many developing countries want the developed countries, and particularly the U.S. to offer more export credits at lower interest rates. In our view, export credits should serve commercial objectives, not economic development of less developed countries.

2

Multifiber Arrangement (MFA)

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

Response:

1. 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 providces 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.

International Commodity Agreements and the Common Fund

Criticism: The U.S. has been uncooperative in the negotiation of international agreements designed to stabilize the price of commodities that are important foreign exchange earners for developing countries. In those commodity organizations in which the U.S. is a member, it obstructs price range increases needed by producers to cover increased costs of production. The U.S. also seems to be moving away from its commitment to join the Common Fund.

Response:

1. The United States generally favors trade in commodities through free and open markets. Nevertheless, the U.S. has cooperated with international organizations on a wide range of commodities.

2. The U.S. can support price range adjustments for commodities only when such changes can be justified by long term price trend and existing market conditions.

3. The U.S. signed the Common Fund Agreement on November 5, 1980. Further steps will be taken provided that a sufficient number of suitably structured commodity agreements are prepared to associate with the Fund.

4. Renewed growth in the U.S. and other industrialized countries should help restore demand for many raw materials and is expected to increase the income of developing nations that export commodities.

Facts: The track record of international commodity agreements in stabilizing prices has not been good. Nevertheless, many developing countries will continue to press for strong commodity agreements.

In those commodity organizations where the U.S. is a member, we have been at times under political pressure to agree to prices above the long term free market trend. Our position has led to some friction with countries that are politically and strategically important to us, such as ASEAN tin producers.

The U.S. was dissatisfied with the results of the recently concluded tin and cocoa price stabilizing agreements. Though we have been urged to join these agreements, we have decided not to participate since these agreements do not effectively balance producer and consumer interests.

The Common Fund is designed to finance the price stabilizing operations of international commodity organizations and other measures such as research and development. It will begin operations when ninety countries holding two-thirds of the Fund's capital have ratified the Agreement. So far, only fifty six countries have signed, and eleven have ratified. The Philippines may seek to have Manila endorsed as the headquarters of the Common Fund. If the U.S. joins, it will consider this question after the Fund comes into operation.

Developing Countries in GATT (General Agreement on Tariffs and Trade)

Criticism: The General Agreement on Tariffs and Trade (GATT) is an organization created by and for the industrialized countries.

Response:

1. Developing countries have been participants in GATT since its establishment in 1948.

2. GATT has been increasingly responsive to the trade and development needs of the developing countries -- particularly in the past decade.

3. The GATT Ministerial scheduled for November 1982 offers an opportunity to address important issues in international trade of interes t to both developed and developing countries. We view the planning process for the Ministerial meeting as critical to the effectiveness of the meeting.

Facts: Of the twenty-two (22) original contracting parties who signed the General Agreement in 1948, half were developing countries. Today, some two-thirds of the eighty-six (86) GATT members are developing countries, including all Cancun participants except Mexico, China, Saudi Arabia and Venezuela.

Since 1966, the GATT as an institution has increasingly recognized and addressed the trade and development needs of the developing coungries. For example, Part IV and the Framework Agreement of GATT provide for differential treatment of developing countries and for a generalized system of non-reciprocal preferences (GSP) in trade between developed and developing countries.

A ministerial-level meeting of the GATT during 1982 was endorsed by GATT's Consultative Group of 18 (CG-18) at its June meeting. The most likely date is Novmeber 1982. We hope the GATT Ministerial will lay the groundwork for further liberalization, and integration of the international trading system.

MTN and Developing Countries

Criticism: The Tokyo Round of Multilateral Trade Negotiations (MTN) did little to reduce tariff barriers for developing countries. The nontariff agreements ("codes") do not address directly the needs of developing countries and, hence, few developing countries have signed and accepted the agreements.

Response:

1. Exports from developing countries have been enhanced by average global tariff reductions of one-third negotiated in the MTN.

2. Where possible, the United States offered deeper than formula tariff cuts in the MTN. Tariff reclassifications were made for products principally supplied by developing countries.

3. The United States made tariff reductions in the MTN without expecting full reciprocity either from the developing countries or from small suppliers.

4. The United States strongly believes the developing countries will benefit from greater Code participation. Code committees themselves are important for a discussion of trade-related problems. We encourage developing countries to utilize them for resolving trade disputes.

Facts: The Tokyo Round, concluded in Geneva in 1979, is the seventh round of multilateral trade negotiations under GATT auspices. The average U.S. tariff rate on goods imported from developing countries will now fall from 7.7 percent to 5.7 percent. U.S. industrial tariffs were cut 26 percent for developing countries; cuts covered $10 billion in shipments.

The MTN agreements include two tariff protocols and codes of conduct on technical barriers to trade (product standards), subsidies and countervailing measures, customs valuation, import licensing, government procurement, antidumping practices, and trade in civil aircraft and in meat and dairy products. Developing countries which have signed and/or accepted at least one of the agreements include: Argentina, Brazil, Chile, Dominican Republic, Egypt, Hong Kong, India, Indonesia, Israel, Ivory Coast, Jamaica, Korea, Malaysia, Pakistan, Peru, Philippines, Singapore, Tunisia, Uruguay, Yugoslavia, and Zaire.

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 scheme 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. Five advanced developing countries (Taiwan, Hong 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.

EC Trade Policy

Criticism: The EC may argue that its trade policies are more generous to developing countries than our own.

Response:

1. The US takes a higher share of its imports from developing countries than does the EC.

2. EC agricultural export subsidies are displacing more efficient producers, including LDC's from world markets.

3. A GATT panel considering complaints by Brazil and Australia has found that the Community system of export refunds constitutes a threat of serious prejudice to the interests of these sugar producers.

4. The EC subsidizes the production of virtually all agricultural commodities, spending approximately $40 billion for this purpose in 1981. By way of comparison, the US supports the production of very few items (mainly dairy), spending approximately $3 billion in 1981.

Facts: The trade benefits the EC provides to developing countries under its Generalized System of Preferences, the Lome Convention and other devices overlap to an important extent. 26 percent of our 1980 imports came from the non-oil developing countries, compared with under 10 percent for the EC. Developing countries supply 23 percent of our manufactured imports, compared with slightly over 6 percent for the EC.

The EC Common Agricultural Policy (CAP), originally designed to promote the Community's agricultural self-sufficiency, has through massive subsidies generated surpluses that are being exported on a large scale, to the detriment of more efficient producers, including LDC's. In the case of sugar, EC export practices have often been in conflict with the efforts of the International Sugar Organization to stablize world market prices at levels mutually beneficial to producers and consumers.

Energy

3 approaches
- jt efforts
- world bank
- private sector -- exclusively

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ID	*Document Type* *Document Description*	*No of pages*	*Doc Date*	*Restric-tions*
243589	PAPER DUPLICATE OF #243570; RE: ENERGY	4	ND	B1

The above documents were not referred for declassification review at time of processing

Freedom of Information Act - [5 U.S.C. 552(b)]

B-1 National security classified information [(b)(1) of the FOIA]
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ID	*Document Type* / *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
243590	PAPER DUPLICATE OF #161535; ENERGY DEVELOPMENT IN DEVELOPING COUNTRIES	1	ND	B1

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243592	PAPER DUPLICATE OF #161533; LOPEZ PORTILLO WORLD ENERGY PLAN	1	ND	B1

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1% Δ in interest rates — means $1 Billion in what non-oil less dev. countries pays.

— IMF

— special drawing rights

Monetary and Finance

Objectives

-- Present the U.S. 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 official 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.

Context

Developing countries continue to rely heavily on external financing to support their development growth; but the composition of reserve flows has changed dramatically over the years. Today the private sector accounts for over two-thirds of all financial flows to LDCs. Twenty years ago the private share was less than half of the total.

LDC financing needs have climbed steeply. The doubling of oil prices pushed the current account deficit of the non-oil developing countries to $97 billion in 1981, nearly triple the 1978 level. LDC external debt has risen concommitantly and will approach $400 million by the end of this year. Moreover, since nearly half of this debt was contracted at variable interest rates, debt service costs have risen along with higher world interest rates. A number of developing countries have experienced severe difficulties in meeting their external financial obligations, and the LDC demand for official and private debt rescheduling is on the rise.

With few exceptions, the developing countries participating at Cancun have experienced falling growth rates and sharp deteriorations in their balance of payments situations due in part to ill-advised and inflexible domestic economic policies. Interest rate and investment controls, food and energy subsidies, and unrealistic exchange rate policies have harmed economic performance. The Cancun developing country participants want to substitute increased official financing of their deficits for difficult, but necessary internal economic adjustment measures.

Recent discussions in the multilateral financial institutions have focused on the adequacy of the IMF's and multilateral development bank's (MDB's) financial resources and LDC access thereto. The U.S. view is that IMF resources are presently adequate to meet LDC borrowing requirements, and we have encouraged the IMF to toughen its lending conditions to speed the implementation of needed economic adjustment measures. In the MDB's, the focus of debate has been on the perceived weakening of U.S. support. However, contrary to misimpressions, the proposed U.S. budget for foreign assistance, even as just revised, actually increases this year, and Congress has authorized fulfillment of U.S. pledged contributions and subscriptions to the multilateral development banks, including the International Development Association.

At the recent IMF/IBRD Annual Meetings we explained that the Administration has sought 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. International trade and investment, not official assistance, are the key stimuli to long-term, non-inflationary economic growth. Nevertheless, we recognize that official economic assistance is important, especially for poorer countries. We intend to focus our bilateral assistance on vital development constraints of food production, energy and population. We will also stress institution building, technology transfer and the central role of the private sector in development. The IMF and MDBs are well-positioned to play an important supporting role in all these areas, and in promoting the adjustment process more generally.

The developing country participants at Cancun will press for additional financial assistance -- through bilateral and multilateral channels -- by proposing specific numerical targets for aid levels and by seeking changes in international institutions (the IMF, IBRD and development banks) to increase developing countries' access to their financial resources. The developing countries also seek a restructuring of the international monetary system. Among the developed country participants, the French bear perhaps closest watching and could possibly make an initiative at Cancun on increased development assistance designed to curry favor with the LDCs. The French Socialists accept the legitimacy of LDC demands for intervention in international markets to redistribute wealth and other benefits to the South. Of the other industrial countries represented at Cancun, Sweden and Canada can be expected to show greatest sympathy for LDC demands. The West Germans and the U.K., with domestic economic difficulties of their own, and similar views to the U.S. on the role of the IMF and MDBs, can be expected to show little enthusiasm for increased aid.

KEY POINTS TO MAKE

-- 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.

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

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

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

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

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

-- 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.

Pitfalls to Avoid

USG policies/actions in the following areas may be raised by Cancun participants:

- IMF
- special drawing rights

-- High U.S. interest rates, it will be emphasized, postpone global economic recovery and raising developing country borrowing costs. Our monetary policy is not one of high interest rates, but is designed to ease inflation which adversely effects the U.S. and world economy. As inflation subsides, so too will interest rates.

-- The U.S. policy review on the multilateral development banks (MDBs) and the stretching out of U.S. financial commitments to the international Development Association are viewed as a weakening of the U.S. commitment to the international development process. However, Congress has, in fact, authorized fulfillment of U.S. pledges to the MDBs and our foreign assistance budget actually increased this year.

-- The U.S. has not accepted the concept of numerical aid targets to LDCs, while certain major donor countries (Canada, France, Japan) have pledged to meet the UN-sponsored aid target of 0.7 percent of GNP. The U.S., however, continues to be the largest single donor in absolute terms ($7.1 billion in 1980).

-- The U.S. attitude toward the pending India IMF loan may serve as a focal point for LDC discontent with the U.S. desire to toughen the conditionality of IMF loans. We have not yet taken an official position on the India loan, and have assured the Indians that their program would be judged solely on its merits. The India programs nevertheless raises fundamental questions about the role of IMF financing and has serious technical flaws as well.

2

Total Financial Flows to Developing Countries

Argument: When considering financial flows to the developing countries, it is important to look at flows from all sources.

Responses:

1. Concessional development assistance to the LDCs accounts for less than 38% of the total resource flows to these countries.

2. Direct investment, banks, bonds, and export credits account for over half the resource flows to the LDCs.

3. Private US capital flows to the developing countries nearly equaled US bilateral assistance to these countries in 1980, and over the last four years averaged twice US bilateral assistance.

4. US voluntary agencies provide 10% of the US capital flows to the developing nations.

Facts: As can be seen from Table I (attached), official development assistance on concessional terms to the LDCs amounted to $32.7 billion in 1980 or less than 38% of their total receipts.

Direct investment, the banking sector, bond lending, and private and official export credits amounted to $45 billion in 1980, 52% of th total LDC resource receipts.

In 1980 total net flows from the United States were over $13.8 billion (see Table II attached. Of this amount, US bilateral assistance of $4.4 billion barely exceeded US private capital flows to the LDCs of $4.3 billion. In 1977-1980, US private capital flows to the LDCs averaged $7.7 billion, or more than twice the average of $3.7 billion for US bilateral assistance during those four years.

US voluntary agencies provided flows of $1.3 billion to the LDCs in 1980.

TABLE I

Total Net Resource Flows to Developing Countries From All Sources in 1980

Official Development Assistance	$32.7 billion
DAC* Bilateral	17.6
OPEC Bilateral	6.1
CMEA Countries**	1.8
Other Countries Bilateral	0.2
Multilateral Agencies	7.0
Non-Concessional Flows	$54.0 billion
Multilateral	5.0
Direct Investment	9.2
Bank Sector	19.0
Bond Lending	2.0
Private Export Credits	12.7
Official Export Credits	2.1
DAC* Other Official	0.8
Other***	3.1
CMEA Countries**	0.1
Total Receipts	$86.7 billion

SOURCE: Draft 1981 OECD Development Cooperation Review, Statistical Annex
NOTE: Most figures are estimates

* DAC: Development Assistance Committee members are US, France, FRG, Japan, UK, Netherlands, Canada, Sweden, Belgium, Australia, Denmark, Norway, Italy, Switzerland, Austria, Finland and New Zealand

** USSR and Eastern Europe

*** including Ireland, Luxembourg, Spain, Yugoslavia, India and Israel

TABLE II

Net Flow of Financial Resources from the United States to Developing Countries and Multilateral Agencies in 1980

Bilateral Assistance	\$ 4.366 billion
Multilateral Assistance	\$ 2.772 billion
Total Official Development Assistance	\$ 7.138 billion
Other Official Flows	\$ 1.112 billion
Total Official Flows	\$ 8.250 billion
Voluntary Agencies	\$ 1.301 billion
Private Capital	\$ 4.301 billion
Total Net Flows from US	\$13.852 billion

SOURCE: Draft 1981 OECD Development Cooperation Review, Statistical Annex

U.S. Contributions to the MDBs

Criticism: The United States is backing away from its support of the MDBs.

Response

1. A great deal has already been accomplished in support of previously negotiated arrangements. Authorization legislation has been obtained for the full $12.8 billion request for U.S. subscriptions and contributions to the MDBs.

2. Appropriations were obtained for first installments to IDA VI and the African Development Bank (AFDB). Work is still proceeding on Administration requests for FY 1982.

3. We continue to see a major role for the banks:

   a) as a provider of financial inputs that private sources would not or could not provide,

   b) as a catalyst for mobilizing private sector resources, and

   c) as a source of sound economic policy advice.

Facts: Authorizations enacted for the full Administration request of $12.8 billion include: $3.24 billion for IDA VI; $8.8 billion for the World Bank General Capital Increase; $345 million for the Inter-American Development Bank (IDB) shortfall; and $67 million for the African Development Fund (AFDF) shortfall. The legislation established ceilings on IDA appropriations, however, which stretch the U.S. contribution over at least four years.

An FY 1981 supplemental appropriation included $500 million for the first installment to IDA VI and $18 million for the first U.S. installment to the AFDB, which cannot be used until non-regional membership is ratified by regional members.

At the end of September, the Congress passed a Continuing Resolution providing funding for foreign assistance and related programs at last year's levels. However, work is also proceeding on a final bill for the Administration's FY 1982 request (see attached table). We have agreed not to provide funding for IDA under the current Continuing Resolution, which expires November 20, but will do so if the Continuing Resolution is prolonged indefinitely.

FY 1982 MDB Appropriations Request

	Administration Request as Amended (September 1981)	FY 1982 Continuing Resolution
IBRD		
SCI Paid-in	49,737,752	32,788,555
GCI Paid-in	109,720,549	---
Subtotal	159,458,301	32,788,555
Callable		
SCI	(447,639,764)	(295,096,987)
GCI	(1,353,220,096)	---
GCI Companion	(30,158,750)	---
Subtotal	(1,831,018,610)	(295,096,987)
IDA	820,000,000	520,000,000
IFC	14,447,900	---
IDB		
Paid-in	46,251,201	46,251,201
Callable	(645,574,584)	(560,744,527)
Total	691,825,785	606,995,728
FSO		
1976 Replenishment (P.L. 94-302)	---	---
1980 Replenishment (P.L. 96-259)	175,000,000	175,000,000
	175,000,000	175,000,000
ADB		
Paid-in	4,961,948	4,961,948
Callable	(44,876,220)	(44,876,220)
Total	49,838,168	49,838,168
ADF		
ADF II	---	---
ADF III	111,250,000	111,250,000
Total	111,250,000	111,250,000
AFDB		
Paid-in	---	---
Callable	---	---
Total	---	---
AFDF	58,333,333	41,666,667
Total MDBs	3,911,172,097	1,832,636,105
Budget Authority	1,389,702,683	931,918,371
Program Limitation	(2,521,469,414)	(900,717,734)

OMDB

IMF Issues

Argument: The LDCs carp that IMF financing is inadequate, that their quota shares do not adequately reflect economic importance and that IMF lending terms are too stfff. The LDCs advocate the redistribution of a larger quota pie and further allocations of SDRs weighted towards the LDCs.

Response:

1. The general review of quotas now underway will be complex and difficult. Completion of the review in late 1983, as now planned, is reasonable and appropriate. We oppose a "block" (e.g. DC/LDC) approach to setting quota shares; shares should reflect countries' relative economic position.

2. The IMF, with sharply increased resources, is well placed to encourage and facilitate economic adjustment. These resources must be used prudently in support of sound programs of economic adjustment. The firm application of conditionality is thus essential.

3. Skewing the distribution of new SDRs towards LDCs (the SDR/aid link) would damage the monetary character of the SDR and undermine efforts to make the SDR an important monetary asset.

Facts: The IMF is the principal source of official financing for countries experiencing temporary balance of payments difficulties. Having substantially expanded its resources through quota increases and borrowing from official sources, the IMF is well positioned to support and lubricate the international adjustment process. It is essential that IMF resources be used prudently in support of sound adjustment programs; the U.S. has been instrumental in reversing the trend towards weakened conditionality and will work to prevent back-sliding in the future.

The review of IMF quotas now underway is scheduled for completion in late 1983. The U.S. will have to contend with strong pressure to reduce its quota/voting share. We have traditionally resisted reductions in the U.S. quota share (20 percent) below a level substantially above the veto point (15 percent) for major IMF decisions.

The LDCs have continued to push for large SDR allocations, with the distribution skewed in their favor. We and others counter that such allocations would be inflationary, would harm the credibility of the IMF, would undermine the SDR as a monetary asset and would create pressures for excessive allocations on non-monetary grounds.

Developing Country Debt Burden

Criticism: The growing level of international debt owed by developing countries is threatening the stability of the international financial system and may impede the growth and development prospects of developing countries.

Response:

1. The US does not believe that there is a generalized developing country debt problem. Our view was supported by a recent study by the IMF staff which conluded that the international financial system could adequately meet developing country financing needs over the next years without jeopadizing the stability of that system.

2. Despite the large nominal incrase in developing country debt over the last decade, when measured against the size of developing country economies and/or the level of their exports, the capability of developing countries as a group to meet this increased level of debt has changed little during the period.

3. The US recognizes that individual developing countries are experiencing debt servicing difficulties. In these isolated cases, there are well-tested multilateral mechanisms for addressing such problems in a manner which protects the stability of the system and helps the individual debtor countries to maintain progress toward their development objectives.

Facts: At the end of 1980, total publicized medium and long-term public debt of the non-oil producing developing countries was estimated at $280 billion, of which approximately $32 billion is owed to the US Government. In nominal terms this represents a significant increase over the 1973 level of roughly $86 billion. However, once these figures are adjusted for inflation and measured against relevant factors such as GNP growth and exports, the developing country debt situation changed very little in real terms during the 1970s. For this reason, the USG does not believe that a generalized debt problem exists for developing countries as a group. Moreover, we believe that the international financial system will be able to provide adequate resources to meet developing country financing needs in the coming years.

Clearly some countries will experience debt servicing difficulties in the coming yeaers. However, these will be isolated cases, resulting most often from the inability of debtors to adjust rapidly enough to the changing international economic environment. In these cases, there are established international procedures to handle the problem while preserving the stability of the international financial system.

US Economic Assistance Program

Criticism: The United States is failing to meet its responsibilities in providing economic assistance. The US ranked 12th among the seventeen members of the OECD in terms of the percentage of GNP allocated to official development assistance (ODA).

Response:

1. The United States will provide the largest single amount of economic assistance of any country in the world.

2. Furthermore, US ODA is but one small part of the system of transfers to developing countries -- in investment, trade, etc., our efforts are notable.

3. It is true that budget stringencies and economic problems at home will limit the growth of US assistance over the near term.

4. Therefore, we will concentrate our efforts on making our aid more effective.

5. This will be accomplished in several ways:

   a) Concentrating assistance in those countries that adopt a policy framework appropriate to domestic resources mobilization and healthy private sector growth.

   b) Emphasizing a blend of technical assistance and resource transfer that will promote the strengthening of public and private institutions in the developing countries so as to ensure self-sustaining growth.

   c) Using bilateral aid as a tool to increase private capital flows, thus augmenting total resource flows.

Facts: The US has several major bilateral budgetary instruments to support our assistance objectives and strategy: the Development Assistance accounts ($1.7 billion requested for FY 82); the Economic Support Fund (ESF) ($2.5 billion requested for FY 82); and PL 480 food aid ($1.0 billion programmed for FY 82). The FY 82 budget request calls for a 7-8 percent increase in foreign assistance.

In 1980, estimated US ODA was over seven billion dollars, over 26 percent of all the assistance provided by the OECD. US ODA in 1980 was greater than all the assistance provided by all members of OPEC combined.

Global Negotiations

UN Global Negotiations

Objectives

-- Insure that any preparatory process for global negotiations that the US may return to is new and therefore not linked to UNGA Resolution 34/138.

-- Gain agreement to the US "considerations" for return to preparatory talks on UN Global Negotiations.

-- Arrive at an understanding that personal representatives of the heads of state or government represented at Cancun should meet informally from time to time. The representatives would be of sub-ministerial rank. (The US could use such a forum as a control mechanism on the dialogue and to insure that the US "considerations" are being honored in New York.)

Context

The issue of Global Negotiations (GNs) is not included in the Summit "framework for discussions" adopted at the August 1-2 Preparatory Meeting of Foreign Ministers. However, GNs will be a key summit issue. In the letter of invitation, the eleven co-sponsors stated that "a main objective of the summit should be to facilitate agreement on GNs by achieving a real meeting of the minds and positive political impetus." All twenty-two governments agreed to use the same language in the press release issued at the end of the August Preparatory Meeting. Agreement to launch GNs is viewed by most Summit countries as a way of ensuring that the Summit is seen as a "success" in terms of satisfying developing country demands for an indication out of Cancun of movement on issues of greatest concern to them.

Proposals for GNs in the UN General Assembly are the latest manifestation of developing country diplomats -- acting through their caucus called the Group of 77 (G-77) -- to initiate a series of simultaneous negotiations on resource transfers and the restructuring of the international economic system and its institutions. It is essentially a political exercise about economic issues. The economic soundness of the demands put forward by the developing countries is secondary to the political considerations.

In 1974-75, developing countries hoped to use the power of OPEC (and other producer cartels) to force rapid implementation of the New International Economic Order. At the same time, the US and other industrial countries wanted a dialogue with the oil-exporting countries. The result was the Conference on International Economic Cooperation (CIEC).

When CIEC ended in 1977 with few results from anyone's perspective, the developing country caucus caused the UNGA to agree (resolution 32/174) that henceforth "all negotiations of a global nature relating to the establishment of the NIEO should take place within the framework of the UN system".

The current manifestation of the dialogue is UNGA resolution 34/138 on Global Negotiations. In this resolution, the UNGA decided in December 1979 to launch GNs at a special session in September 1980 and called upon its Committee of the Whole (COW) to recommend procedures and agenda. The US joined the consensus on resolution 34/138 mainly for political reasons, but declared that "the beginning of (GNs) is subject to satisfactory and mutually acceptable completion of the preparatory process". The US statement also said that international monetary issues must be negotiated in the IMF and GATT matters in the GATT. The COW failed to reach any agreed recommendations as did the Special Session. Negotiations on procedures and agenda were suspended in December 1980.

On May 5, 1981, the US proposed that preparation of the procedures and agenda for GNs not be resumed at least until the 36th Regular Session and after the Ottawa and Cancun Summits. We said that heads of state or government would benefit at the two Summits from each other's experience and perspectives and would be in a better position to decide later about GNs.

At Ottawa the Summit countries agreed to the following language on GNs:

"We reaffirm our willingness to explore all avenues of consultation and cooperation with developing countries in whatever forums may be appropriate. We are ready to participate in preparations for a mutually acceptable process of global negotiations in circumstances offering the prospect of meaningful progress" (Emphasis added).

At present the US is isolated on the GNs issue. All other Cancun countries would readily agree to return to negotiations on procedures and agenda for GNs. The EC countries agreed publically in Luxembourg on June 30, 1981 that the Ottawa and Cancun Summits must give impetus to GNs. All EC countries have taken a consistent line since then and have pressured us to be forthcoming.

In negotiations on procedures and agenda for GNs at the UN last year the EC, Canada and Japan consistently placed themselves between the US and G-77 positions, forcing us to take the political heat for defending our mutual interests. They realize that there are certain concessions we will not make, and that they are therefore free to take more politically beneficial positions while we act as a safeguard. The two major countries which initiated the GNs proposal -- Algeria and Venezuela -- will be at Cancun. The other developing country participants will not push strongly for GNs in private but will readily make public calls for agreement on GNs at Cancun.

The US position (outlined in the "key points to make" section) is intended to satisfy the political concerns of the other participants, while maintaining the cabinet decision not to return to a preparatory process linked to Resolution 34/138. Any preparatory process we join must be new.

Key Points to Make

-- The US strongly favors the development of a cooperative strategy for global growth.

-- Such a strategy recognizes the necessity for bilateral, regional and broader multilateral consultations and dialogue.

-- The US is willing to "participate in preparations for a mutually acceptable process of global negotiations in circumstances offering the prospect of meaningful progress".

-- We believe meaningful progress could be achieved in the UNGA if the following considerations are met:

a) The talks must have a practical orientation toward identifying, on a case by case basis, specific potential for or obstacles to development which cooperative efforts may enhance or remove;

b) The talks must respect the competence, functions and powers of the UN specialized agencies upon which we all depend;

c) The general orientation of the talks must be toward sustaining or achieving greater levels of mutually beneficial international growth and development, taking into account domestic economic policies; and

d) The talks should take place in an atmosphere of cooperation similar to that which has brought us together in Cancun.

-- These considerations are reasonable. They can form the basis of mutually acceptable procedures.

-- If these consideration are agreed upon, the US will return to a new preparatory process in the UN.

-- (Make this point separately from GNs discussion.) We need to insure that the political momentum of this meeting does not fade. I suggest that we consider maintaining informal contacts at the sub-ministerial level. Perhaps we could appoint personal representatives for this purpose from our capitals.

Pitfalls to Avoid

-- Don't accept amendments to US "considerations" or extended discussions that could lead to a negotiating process;

-- Don't respond positively to the question of whether or not the US accepts the concept of Global Negotiations. Such an acceptance constitutues an acceptance of UN resolution 34/138.

-- Don't agree to launch or join Global Negotiations -- only to return to a new preparatory process.

-- Don't accept the assertion that UN Resolution 34/138 launched global negotiations even if quoted language is used. The resolution has language for all positions.

-- Don't accept the assertion that since the US joined the consensus on resolution 34/138 that we are bound by the G-77 interpretation of its language. The US, upon joining the consensus, made a formal statement with interpretations which differ significantly from those of the G-77.