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THE WHITE HOUSE
WASHINGTON

C.F.

018876CA

F0006-02

CABINET ADMINISTRATION STAFFING MEMORANDUM

DATE: Oct. 8, 1981 NUMBER: 018876CA DUE BY: n/a

SUBJECT: Cancun Meetings -- October 8, 10 a.m. and 3 p.m.

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	Baker	<input type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Allen	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Anderson	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>	Garrick	<input type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>	Gray	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input type="checkbox"/>	Beal	<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input type="checkbox"/>	<input type="checkbox"/>	Porter	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input type="checkbox"/>	<input type="checkbox"/>	Kass	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
UN	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
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Remarks: The attached material is for the 10 a.m. and 3 p.m. meetings today of the Cancun Planning Group. It has been developed by Treasury, State and USTR.

Material Filed CF Over-size Attachment # 34

AL
11/15/2019

RETURN TO: Craig L. Fuller
Deputy Assistant to the President
Director,
Office of Cabinet Administration
456-2823

Date: October 7, 1981

MEMORANDUM FOR: Secretary Regan

From: Under Secretary Sprinkel



Subject: Papers for October 8 White House Meeting on Cancun

Attached are six papers for tomorrow's meeting at the White House on the Cancun Summit. These papers were prepared by an inter-agency group (Treasury, State and STR). I believe they reflect the coordinated positive thrust we want the President to take at Cancun. The subjects are:

- 1. Global Negotiations
- 2. Economic Development
- 3. Investment
- 4. Trade
- 5. Food and Agriculture
- 6. Energy

Attachments

- cc: ✓ Mr. Craig Fuller, White House
 Mr. Mike Rashish, State
 Mr. Robert Hormats, State
 Ms. Doral Cooper, STR
 Mr. Tim McNamar
 Mr. Roger Porter
 Mr. George Cross
 Mr. David Chew
 Mr. David Pickford
 Mr. Charles Dallara (for Mr. Leland)
 Mr. Tom Dawson
 Mr. Jon Hartzell

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname						
Initials / Date	/	/	/	/	/	/

REC'D. CA OCT 08 1981

Cancun Summit and Global Negotiations

Several principles need to be kept in mind regardless of how the issue of Global Negotiations is handled at Cancun:

- The President should not be engaged in the debate on Global Negotiations between now and the end of Cancun. Rather, he should focus on the substantive views and policies of this Administration and its vision of how development is stimulated;
- The current U.S. dialogue with developing countries should be based on the realistic approach outlined by the President and Secretary Regan at the IMF/IBRD meetings and Secretary Haig at the UNGA. The emphasis should be on the positive role of the international financial institutions and the GATT;
- The Ottawa Summit Communique commits us to some process of addressing the problems of developing nations.

All of the attached options share the following elements:

- Prior to Cancun, the U.S. must make an intensive effort to ensure that our position is well understood and supported by as many Cancun participants and observers as possible. The focus of this effort should be high level contact with the other participating governments to inform them of our positions, to seek their support and to minimize the possibility of any surprises or embarrassment for the President. In addition, consultations with Congress and press briefings/interviews should be used to ensure that public (both foreign and domestic) and congressional expectations about Cancun are consistent with the positions that the U.S. will take;
- The President will make a speech prior to Cancun in which he will elaborate on the themes of his speech before the Annual Meeting of the Bank/Fund;
- The President's statement at Cancun will emphasize a positive U.S. approach to economic growth that relies upon the specialized institutions;
- There will be some sort of follow-up to Cancun, but the form of the follow-up varies under each option.

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Option I

Emphasize the Specialized Institutions
Decline to Participate in Global Negotiations in New York

The President would present his vision of how successful development proceeds and would emphasize the role of market forces in attaining this result. He would review the role of the specialized agencies in spurring development worldwide. He would outline specific plans and measures that the United States will propose in the various specialized agencies in the coming months and would underline the fact that these institutions can address the real economic concerns of the developing world more successfully than would endless rhetoric in a political forum. We can suggest follow up and review in the specialized agencies themselves, which may allay the fears of those who think this is simply a "time-buying" approach.

As far as Global Negotiations are concerned, there are two options for how and when to indicate our position:

A. The President could announce at Cancun that although the United States fully shares the hope that the development goals of all nations will be realized, we do not think that Global Negotiations will be able to provide the tangible economic benefits sought by those who propose it or;

B. The President could forego specific mention of Global Negotiations at Cancun, in favor of outlining the U.S. position more clearly in New York at November's meeting of the General Assembly. The latter position saves the President from facing potential embarrassment at Cancun.

Pro:

- This approach would be positive in that it would lay out concrete measures designed to address developing countries' real economic concerns as well as genuinely to include them in the international economic system.

- We can deliver this option. The position tracks U.S. domestic as well as international economic policy as enunciated by Administration officials, including the President, during the past nine months. The U.S. would be presenting a firm, economically sound approach to development which offers a vivid contrast to some of our past efforts in this regard.

- Although this option may cause some immediate pain, this will be of a short-term nature, and the potential adverse effects at Cancun could be mitigated through concentrated pre-conference consultations. If we agree to go along with the concept of Global Negotiations merely to keep the "dialogue" going while knowing that there is virtually nothing we can agree on or give away, we will pay a political price which will steadily escalate until the process ends. In other words, from a foreign policy point of view, this approach would cut our losses.

- Saying "no" now would be an honest statement of the U.S. perception of its economic interest and that of the global system. The most important contribution developed countries can make in spurring economic development is to restore adequate economic growth domestically. A strong international economy coupled with realistic economic policies in developing countries is the key to sustained growth in the Third World. Global Negotiations provides a rhetorical mask for developing countries to hide behind as they ignore this fact.

- All previous North/South "dialogues" have failed to achieve results, and there is no reason to think this effort will have a different outcome. In fact, given the severe economic difficulties currently faced by nearly all countries, prospects for failure are quite high. This is especially true since LDCs equate success with direct resource transfers.

- Without U.S. participation, Global Negotiations can not be launched effectively; this would remove the threat to the specialized agencies from a UNGA attempt to supervise the work of those institutions.

- There is less unity among developed countries in their views of North-South issues than has been the case previously. This would increase the chances of an unacceptable outcome from Global Negotiations.

Con:

- This position will require us to be more forthcoming on LDC issues within the GATT, IMF and IBRD in the coming year. This may involve some economic concessions that would affect trade and financial flows.

- The United States may be isolated internationally on this position and may be portrayed by developing countries, the socialist bloc and by many developed countries (including several that share our concerns) as being unresponsive to the plight of the developing world.

- There may be some negative impact in the short-run on our relations with individual developing countries.

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Option II

Emphasize the Specialized Institutions as in Option I.
Agree to Return to the Preparatory Process for Global
Negotiations Provided Minimum Conditions for U.S.
Participation are Met

Our conditions are the following:

- Protection of the competence, functions and powers of the specialized institutions.
- An agenda that addresses a limited number of global economic issues.
- A focus on the conditions for accelerating growth and on common economic problems requiring international cooperation.
- Old negotiating drafts on procedures and agenda would be discarded, and a fresh start would be made on drafting procedures and agenda.
- The Charter of the United Nations and the agreements between the UN and the specialized agencies and fora of the UN system will be respected.

Pro:

- By agreeing to continue to search for an acceptable basis for Global Negotiations, President Reagan would be spared the isolation that would occur at Cancun if he were to say "no" to Global Negotiations then.
- By establishing a set of minimal conditions for U.S. participation in the preparatory process for GN or another universal forum, the President will have preserved U.S. concern with the integrity of the specialized institutions.
- Permits the United States to be positive about discussions in the UNGA and not have to oppose a dialogue in principle.
- By keeping Global Negotiations alive at least in the short-run, we would create a more favorable environment for obtaining support for actions in the specialized institutions. If we develop enough momentum there before any breakdown of GNs, the negative impact of such a breakdown might be reduced substantially.

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Con:

- Experience to date indicates that the U.S. cannot obtain strong assurance of its conditions through negotiations on agenda and procedures in New York. There is little doubt that the central issue of the specialized institutions' integrity will have to be refought repeatedly on virtually every individual trade and financial issue.

- The Cancun preparatory process illustrates that once U.S. conditions are enunciated and accepted, they inevitably will be eroded over time, either intentionally or by oversight.

- Agreement to a post-Cancun effort to pursue Global Negotiations will be construed as a first commitment by this Administration to GNs. A subsequent decision to back out of Global Negotiations then would be portrayed as this Administration reneging on one of its "commitments" rather than reversing the previous Administration's policy.

- A decision in the Spring of 1982 that our conditions for GNs could not be met might set off a negative reaction among the Group of 77 that would damage our efforts to obtain participation by the LDCs in the preparation for the GATT Ministerial in late 1982.

- In a formal sense, these conditions could be easily met. Except for a "clean slate" on draft texts, the conditions specified are largely identical to those of the previous Administration.

Option III

Emphasize the Specialized Agencies and Establish a Work Program for Them Under The Supervision of A Cancun Followup Group. Delay Decision On Global Negotiations.

It would be agreed at Cancun that the personal representatives of the Cancun participants would meet in 3-4 months to prepare a "curriculum" for the IMF, IBRD, GATT and FAO. Representatives of these organizations would be invited to participate in this process. The curriculum would consist of a series of issues to be considered by each institution, and each institution would submit a report on its respective issues to the Cancun group within 9-12 months. In the meantime, we would attempt to stall GN discussions in New York on the ground that any agenda for GN would be much better if it had the benefit of the specialized institutions' reports.

Pro:

- This would be a concrete step to move the discussions into the specialized institutions that are our preferred venue for addressing issues of international economic cooperation.

- We would be providing a positive alternative to Global Negotiations rather than simply being negative. Thus, the President would not be isolated at Cancun yet would not have made any commitment on Global Negotiations.

- We would have enlisted the prestige of the Cancun 22 in backing an approach that puts the specialized institutions at center stage.

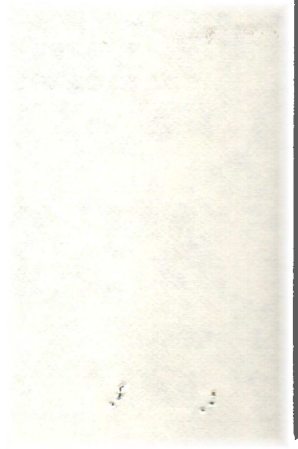
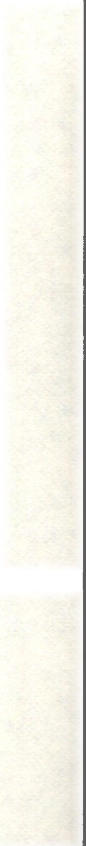
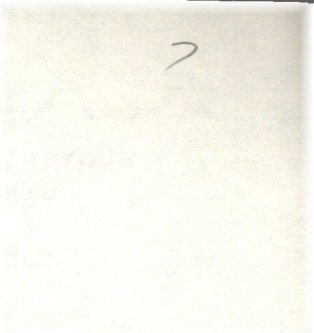
Con:

- Negotiations about the specialized institutions' "curriculum" very likely would encounter difficulties about how much direction outside entities should give to the deliberations of the specialized institutions. This is why Global Negotiations failed last year. (Note: all Cancun participants are not members of all specialized institutions; e.g., Algeria, Saudia Arabia, PRC, Venezuela and Mexico are not members of GATT).

- This approach does not provide an explicit U.S. response to the question of U.S. participation in Global Negotiations. The question will arise in November in the form of a UNGA resolution on GNs.

- The Group of 77 may reject this approach as inconsistent with their concept of what is needed, namely, integrated discussions across issues and control by a universal forum.

- This approach does not provide a venue for discussing energy issues, nor does it draw non-members of the institutions (especially the socialist countries) into the discussions.



Development Policy: A Framework for U.S. Approach at Cancun

I. The framework for the United States overall approach to development issues at Cancun should be that long term, non-inflationary growth depends upon (a) adoption of appropriate domestic policies by developing countries; (b) mobilization of internal (private sector) resources which constitute the vast majority of production; and (c) recognition that external resources generated via trade, investment and capital flows are more important than official development assistance for most countries.

II. The basis for this framework is that external resources play a complementary role in promoting economic growth and development.

For example:

- Gross Domestic Investment accounts for about 25% of oil importing LDCs Gross Domestic Product while external capital flows were approximately 3.9% of GDP (1980), implying a contribution of only roughly 15% of total investment;
- In 1980 exports (\$52.0 billion), net private loans (\$36.9 billion) and net direct investment (\$8.6 billion) combined to provide all LDCs with external resources of \$97.5 billion, compared to total official development assistance of \$21.7 billion.
- Private medium and long-term commercial loans to oil importing developing countries grew from \$3.4 billion in 1970 to \$27.5 billion in 1980, increasing from 37% to 50% of total net capital flows; ODA's share of total net capital flows declined from 34% to 29%.

THE UNIVERSITY OF CHICAGO

DEPARTMENT OF CHEMISTRY

PHYSICAL CHEMISTRY

LABORATORY

CHICAGO, ILL.

1950

REPORT OF THE PHYSICAL CHEMISTRY LABORATORY

FOR THE YEAR 1950

EDITED BY

ROBERT M. MAYER

AND

WALTER D. HAMILTON

CHICAGO, ILL.

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- In 1980 official development assistance to middle income oil importing developing countries was only 0.8% of their Gross National Product; for low-income oil importing countries ODA was 2.8% of their Gross National Product or about 86% of net capital flows.

III. A development policy based upon sound, market-oriented domestic and international economic policies can bring practical benefits to both developed and developing countries, has a proven record of success, is realistic, and is one on which the United States can deliver. This policy is grounded on economic rationale and assumes an integrated policy approach across economic sectors and activities, including trade, investment, energy, agriculture, as well as foreign assistance. Recognition by developing countries of the importance of getting their own economic houses in order and pursuing policies to make efficient use of scarce resources represents a major shift from "resource transfer" proposals which have characterized the dialogue with developing countries to "resource generation" measures.

In addition to specific U.S. approaches in trade, investment (including co-financing), energy and agricultural areas (covered in other papers), the overall U.S. economic policy toward development could be pursued by:

- Emphasizing the role of multilateral development banks and the International Monetary Fund to provide economic advice to developing countries to follow market oriented principles. In particular, these institutions can advise countries to pursue suitable trade and exchange rate

policies; to critically assess the role, size, and resource use of the public sector; and to encourage pricing and subsidy policies which reflect market signals.

- Underscoring the need for developing countries themselves to adopt domestic economic policies which promote savings and investment, maximize efficient utilization of scarce resources via allocations by market forces and achieve effective balance of payments adjustment.
- Concentrate more bilateral aid, including technical assistance, to those countries adopting policies which mobilize their domestic resources and promote healthy private sector growth. For example, countries which remove or reduce trade, foreign exchange, or investment controls and encourage private capital investment should be encouraged and reinforced through our bilateral programs.
- Actively support and encourage greater attention to capital markets projects by the MDBs, particularly the IFC, designed to mobilize a developing country's domestic financial resources for development projects. This would be complementary to other international activities which are designed to attract additional foreign and domestic funds, e.g., via co-financing or providing an insurance cover, or to improve the climate for private foreign investment such as by a general agreement on guidelines for international investment (see Investment Paper for more detail).

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-- Seeking a more energetic implementation of World Bank graduation policy and accelerate movement of borrowers from soft to hard loan World Bank windows to allow greater concentration of the Bank's resources on the countries most in need.



Investment

Increased investment in developing countries, in response to market forces and commercial incentives, can greatly help those countries' economic growth. It is essential to create an overall economic and political environment conducive to both domestic and foreign investors. Conversely, an excessive tax burden, unnecessary regulation, and uncertainty as to host government behavior can stifle a potentially productive investment climate, particularly for foreign sources of capital.

Therefore, a major element of the U.S. approach to encouraging development on a market-oriented basis, one aimed at augmenting the flow of private resources, is to encourage a wide variety of possibilities for improving the investment environment in LDCs.

The U.S. Record

The United States has in the past been a major provider of private investment capital to developing countries:

- o In the period 1976-78, U.S. investors supplied 47 percent of the \$9.6 billion of OECD country direct investment in LDCs. This compares with 13 percent from the United Kingdom, 11 percent from Japan, 9 percent from West Germany, 4 percent from Canada, and 3 percent from France.
- o At the end of 1976, the stock of U.S. direct investment in developing countries was \$43.1 billion, or 50 percent of the OECD total; this compared to 13 percent for the United Kingdom, 6 percent for Japan, 7 percent for West Germany, 4 percent for Canada, and 6 percent for France. By 1980, U.S. direct investment in LDCs had risen to \$56.2 billion, about one-fourth of total U.S. direct investment abroad.
- o U.S. banks intermediate a large share of commercial bank financing to LDCs, accounting for 40 percent of outstanding claims on LDCs at the end of 1980 from the BIS reporting area.

Increasing Investment

Augmenting the flow of foreign investment capital to LDCs rests primarily on improving the openness and stability of their domestic environment and, to a lesser extent, on the possibility that various intermediaries can broaden the universe of potential investors and reduce perceptions of risk to those investors. There are several avenues for improving the investment climate including:

1. Investment Insurance and Guarantees.

A major constraint to the flow of direct investment to the LDCs is investor's perceptions of high political risk. Political risk insurance currently available from public and private sources could be augmented multilaterally to produce higher flows of investment to the developing world, especially for high-risk, high-cost energy and minerals exploration projects.

A multilateral insurance arrangement, such as a International Investment Insurance Agency (IIIA), within the framework of the World Bank or its affiliate, the International Finance Corporation (IFC), could substantially reduce a major disincentive to investment in LDCs. Tying such an insurance arrangement to the World Bank could significantly increase its effectiveness since the potential loss of World Bank funding should prove a powerful deterrent to expropriation.

World Bank President Clausen offered, in his annual meeting statement, to join in an effort "to see if such a mechanism can be established." Secretary Regan stated, in response, that we shared Clausen's interest in the concept and supported "prompt examination of its potential."

At the same time, we would expect the U.S. Overseas Private Investment Corporation (OPIC) to work more closely with private sector insurance companies on a project-by-project or regional basis. Private insurers are increasingly interested in entering the political risk field and could benefit from OPIC experience and cooperation.

We would also support exploring further the feasibility of multilateral partial guarantees for private lending to developing countries on the "threshold" of reliable access to private capital markets. Such a scheme is currently under review in the IBRD/IMF Development Committee Task Force.

2. Increased Cofinancing and Other Private Financing with the Multilateral Development Banks.

We support World Bank President Clausen's intention (announced at the recent annual meeting) to "increase substantially" the level of private cofinancing with the World Bank (over the past two years, 40 projects totalling \$3.5 billion), in the next several years. We will work with the Bank to achieve it; regional MDBs need to do more also. The IBRD/IMF Development Committee's Task Force on Non-concessional Flows is also developing cofinancing ideas and has made several useful suggestions for broadening the Bank's financing base with participation sales and "loan pass-through certificates."

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3. Enhanced International Finance Corporation (IFC) Cofinancing and Other Activities.

The International Finance Corporation plays a unique catalytic role in fostering private sector debt and equity financing of investment in LDCs (without host-country guarantees) and is significantly increasing the size and diversity of its program. The bulk of IFC-backed projects (about 75 percent of a total of \$3.3 billion in FY 81) are privately financed in LDCs from domestic and external sources. We expect to work with the IFC, and encourage others to do likewise, to enhance its role and effectiveness in mobilizing private sector resources. This may include program innovations, developing new financing instruments, efficiency improvements within the IFC, and a broadened advisory program on capital markets development in LDCs.

4. General Agreement on Investment.

To provide some overall framework of guidelines for cooperation and conflict resolution on international investment and related national policies, we would endorse early exploration of the prospects for a multilateral agreement analogous to the GATT under which countries could, to some extent, harmonize investment policies and negotiate mutually beneficial improvements in those policies.

The World Bank has offered to take the lead in such an effort, and we would support that offer enthusiastically. Some preliminary work has already taken place in the Development Committee's Task Force on Private Foreign Investment, and the World Bank will soon begin a follow-up study of "performance requirements".

5. Tax Measures.

We support an early and thoroughgoing analysis of the extent to which external investment in LDCs may be hindered by disincentives arising either from characteristics of, or differences between, U.S. and foreign tax systems and structures-- with a view to identifying whether there are tax measures which might increase the prospects for economic, market-oriented investment from both external and domestic sources in LDCs. While we are not endorsing specific measures yet, we would be willing to have a concentrated examination and discussion with other capital-exporting countries and capital-importing developing countries-- in some ad hoc or institutional setting--of possible new arrangements and measures.

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COMMODITIES, TRADE AND INDUSTRIALIZATION

The United States is committed to an open world trading system which will provide all countries an opportunity to strengthen and diversify their economies. Trade can provide a strong engine for growth both in developed and developing countries. Increased exports lead to an increase in production, employment and development. They likewise lead to a greater integration and influence in the world trading system.

The United States recognizes the important contribution made by trade in spurring economic activity in many developing countries and we provide the largest market for imports from these nations. Export earnings often provide the primary source of funding for development. They are also vitally important for financing imports of food and other basic necessities. The United States is committed to continue efforts designed to ensure that developing countries are more fully integrated in the international trading system and are able to derive increased benefits from it.

We are committed to a strengthened multilateral trading system as embodied in the GATT. In that regard, the United States is ready to work closely with its developed and developing country trading partners to prepare for a GATT Ministerial in 1982. This Ministerial will lay the groundwork for greater liberalization, strength, and discipline in the international trading system. One important focus of the Ministerial's efforts will be the increased participation of developing countries in the GATT

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system on the basis of growing benefits and responsibilities. Active participation in the GATT will give developing countries the best means to influence the evolution and management of the international trading system.

Commodities account for more than half the export earnings of those developing countries which do not export petroleum. The United States recognizes the important role that commodities play in the economic development of many countries, and cooperates with producers and consumers in a good number of commodity organizations. The key to revitalized commodity markets, however, is a healthy international economy and as we restore growth worldwide over the next several years we can expect commodity export earnings to increase substantially.

TALKING POINTS ON CANCUN TRADE OPTIONS

I. The U.S. objective in the trade discussions at Cancun should be (1) to demonstrate the leadership role that the U.S. plays in liberalizing the international trading system, (2) to push North-South discussions on trade in the direction of pragmatic steps to strengthen the GATT system in ways that encourage the further adoption of market-oriented, outward-looking policies by developed and developing countries.

II. The U.S. has an excellent record of providing market access to the exports of developing countries. We should not hesitate to point out that record. For example:

- In 1980, 51 percent of U.S. imports from the developing countries entered duty-free.
- Our GSP program is the most open and responsive of all the donors' programs. GSP duty-free imports have increased three-fold since 1976 and are expected to reach \$9 billion in 1981.
- The U.S. absorbs half of all the manufactured goods that are shipped to the industrialized countries from LDCs.
- In the past two years alone, the non-OPEC LDCs earned more from exports to the U.S. (\$114.5 billion) than the entire Third World has received from the World Bank in 36 years.

III. A strengthening of the GATT, including its continued adaptation to the growing participation of developing countries in international trade, is the most meaningful action that can be taken on behalf of LDC trade in the early 1980s.

- The establishment of a strong discipline on safeguard actions would provide major, concrete encouragement to LDCs that outward-looking trade policies will not be undermined by arbitrary protectionist actions by developed countries. The U.S. position on safeguards is closer to the LDC position than are the positions of other developed countries. We should push on this at Cancun.
- Further liberalization of industrial nations' trade regimes is most likely to be achieved in the context of reciprocal, multilateral negotiations within GATT.
- Increased North-South trade depends upon further trade liberalization by developing countries, especially the advanced developing countries. The GATT provides an

opportunity for such LDC trade liberalization to be linked with trade liberalization in developed countries, thereby increasing the incentives for both groups to liberalize.

- The proposed GATT Ministerial offers an excellent opportunity in the immediate future to promote system-strengthening steps of special interest to developing countries (e.g., safeguards). The U.S. could seize the initiative at Cancun by proposing that free and open trade be the focus of the GATT Ministerial and by announcing that the U.S. will launch an extensive round of consultations with all countries, including developing countries, in preparation for the Ministerial's agenda.
- The U.S. could assert its leadership role even more vigorously at Cancun by announcing that the Administration will support the extension of GSP in some form beyond its scheduled termination date in 1985.
- Ability to deliver on our commitments is essential to maintaining our credibility on trade leadership. For this reason, it would be very dangerous to make commitments at Cancun on issues having extremely high domestic political sensitivity which might prove impossible to fulfill. Significant changes in the MFA, for example, would conflict with President Reagan's campaign pledge not to relax the existing degree of protection on textiles.
- Trade's contribution to development can be intensified by complementary private investment, development assistance and technology sharing. At Cancun we should point out that we are prepared to cooperate with other developed nations and with developing countries in such an integrated approach. In fact, we already have begun such an effort in the Caribbean region.

IV. Pro and Con of Suggested Approach

Pro:

- The approach offers pragmatic initiatives that are in the economic interests of both developing countries and developed countries.
- The Administration can fulfill these commitments at an acceptable domestic political cost.
- The proposed GATT Ministerial provides a relatively short time-frame within which the LDCs can judge the responsiveness of the developed countries.

THE UNIVERSITY OF CHICAGO
DEPARTMENT OF CHEMISTRY

REPORT OF THE COMMITTEE ON THE
PROGRESS OF CHEMISTRY

FOR THE YEAR 1911

CHICAGO, ILL., 1912

THE UNIVERSITY OF CHICAGO
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REPORT OF THE COMMITTEE ON THE
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FOR THE YEAR 1911

CHICAGO, ILL., 1912

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Con:

- The developing country bloc is skeptical about the GATT's responsiveness to LDC trade concerns.
- The nature of the proposed trade initiatives does not lend itself to quantifying the additional resources that the LDCs will earn as a result of strengthening the GATT.

AGRICULTURE

Development Context

Food and agriculture are fundamental to the economic development of the third world. Only with increased agricultural production in the third world, with appropriate attention to food, can the food needs of the developing countries be met on a self-sustaining basis.

The United States has made food and agriculture an important emphasis of its economic assistance programs ever since their beginnings under the Marshall Plan.

Past Accomplishments

U.S. economic assistance has been instrumental in increasing third world food production. In doing so, we shared the knowledge and experience which made our own agricultural abundance possible.

--First, we helped finance agricultural research that made possible increased production at lower costs to the benefit of both farmers and consumers in the developing countries. Our scientists and financial support made critical contributions to the development of high-yielding varieties (HYVs) of Green Revolution fame. Rapid spread of these varieties in Asia, the Near East and parts of Latin America has been a major cause for food production growth exceeding population growth in these regions. For example, in 1976-77 alone, an additional 23.3 million metric tons of wheat world-wide were grown as a result of the spread of HYVs. This is enough to feed 95 million people for over one year or the entire population of a country such as Bangladesh or all of Central America for five years.

-- The U.S. has also assisted the creation and strengthening of a wide range of institutions and infrastructure that provided the complementary inputs, such as irrigation water, that made it possible to realize the potential of the Green Revolution.

-- As part of our assistance programs over the years, the U.S. has welcomed 200,000 third world students who have received training in our institutions of higher education, many in agriculture.

-- The net impact of U.S. assistance has been the creation of self-reliant food and agricultural systems in such countries as Taiwan, Korea and Brazil. Other countries approaching self-reliant status, and where U.S. assistance has played a significant role, include Thailand, India, and the Philippines.

In addition to assistance for agricultural development aimed at providing long-term food security, the U.S. has also made a major contribution to short-term third world food security. We have exported \$29 billion worth (or 267 million metric-tons) of agricultural goods under PL 480 since FY 1955, or more than 80 percent of total world food assistance during this period.

Future Approaches

Technology has a role to play in aiding developing countries to meet their food needs and much of our aid will be directed to providing the technological wherewithal. However, it is clear that technology super-imposed on an economic structure which does not allow the market to allocate resources will fail to achieve the goal of greater self-sufficiency and furthermore, could be destabilizing and harmful to the development process. We intend, therefore, to emphasize the absolute necessity for market-oriented policies and the creation of the infrastructure to permit markets and entrepreneurship to lead the way.

Within this context, our agricultural assistance programs will continue to aim at increasing food production and productive rural employment. Those programs will be designed to provide a catalyst to move the rural and agricultural sectors of developing countries toward the private money economy and to provide incentives for private initiative under free market conditions. The result will be rising agricultural productivity, self-sustaining capacity for research and innovation, and stimulation of employment-creating entrepreneurship in rural areas.

To accomplish these objectives:

- Food and agricultural production must be profitable. We would therefore encourage LDC economic policies which: (1) reduce or eliminate subsidies to food consumers; and (2) provide adequate and stable price incentives to the agricultural sector to increase production.
- New emphasis will be placed on innovative joint research and development activities undertaken through U.S. and LDC institutions.
- Greater emphasis will be given to rural credit, improved storage and distribution facilities, and roads to facilitate marketing and education.
- The U.S. should insist that recipient countries adopt a market-oriented agriculture policy, which permits prices to find their own levels without production or consumption subsidies.

It is private farmers and other entrepreneurs that will be responsible for most agricultural activity in the Third World. Their role should be strengthened in all areas, including the delivery of inputs and credit, the marketing of farm output, processing, storage, and transportation. But private farmers must be in a position to respond to unimpeded market signals if food production and agricultural development are to stand a chance of success.

While the policy initiatives and resources needed to promote agricultural development must in large part be generated by the LDCs themselves, the U.S. can help through policy advice to assure that the market plays its proper role and accelerate progress by providing technical, financial and food assistance. A major new dimension of our programs will involve the expansion of agricultural research and development through cooperative efforts between U.S. and developing country scientists and the strengthening of institutional capacities in the developing countries.

Strengthening the capacity for the LDCs to feed themselves will require the same ingenuity which produced the Green Revolution -- an excellent example of how science and technology can contribute to increased food production. Innovative research and development activities are needed to help developing countries solve their own problems. These include:

- new varieties of crops and new methods of production;
- improved irrigation systems;
- increased use of multicropping; and
- greater control of human and animal diseases.

The type of effort that is envisaged will require additional domestic and external resources to support joint research and capacity building efforts with developing countries. Given recent international interest in greater cooperation in science and technology, our resources will likely stimulate inputs by other countries far in excess of those provided by the U.S.

2

ENERGY

Development Context

- The U.S. recognizes that addressing the energy problems confronting developing countries in an economically efficient way is a key to their sustained economic growth.
- Developing countries' present dependence on oil--the oil import bill was \$74 billion in 1980, up from \$7 billion in 1973--weakens their balance of payments and threatens their future development. At the same time, their demand for traditional fuels, such as wood, is outstripping natural growth and reforestation. This intensifies the spread of the desert, the loss of topsoil, the silting of waterways, and causes declines in food production.
- Increasing LDC investment in energy can also help the U.S. Increased LDC energy supplies can help dampen worldwide pressures on energy prices.

Past Accomplishments

- U.S. bilateral programs had previously concentrated on power generation and distribution requiring significant resource transfers. These programs helped several LDC's develop rural electrification systems as well as expanded hydroelectric and other conventional power supplies. AID estimates that its rural electrification programs alone have provided electricity for over 13 million people in the Third World.
- Since 1980, bilateral assistance programs have been reoriented. Expensive power generation and distribution projects have been deemphasized in the development assistance program (but continued in some countries under the Economic Support Fund). More emphasis has been placed on technical assistance type activities, such as energy policy, assessments, and training, and renewable energy and fuelwood for rural application consistent with AID's program focus on agriculture and rural development.
- It is still too early to point to concrete results of the reoriented energy program. Energy assessments and training are leading to an increased LDC institutional capacity to understand and address their energy problems. The attention to reforestation has stimulated additional LDC investment in this area.

Future Directions

- AID plans to increase funding for energy-related activities in the years ahead, with emphasis on a mix of public and private efforts and the mobilization of LDC resources.

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Fourth block of faint, illegible text, possibly a separate section or paragraph.

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Sixth block of faint, illegible text, continuing the content.

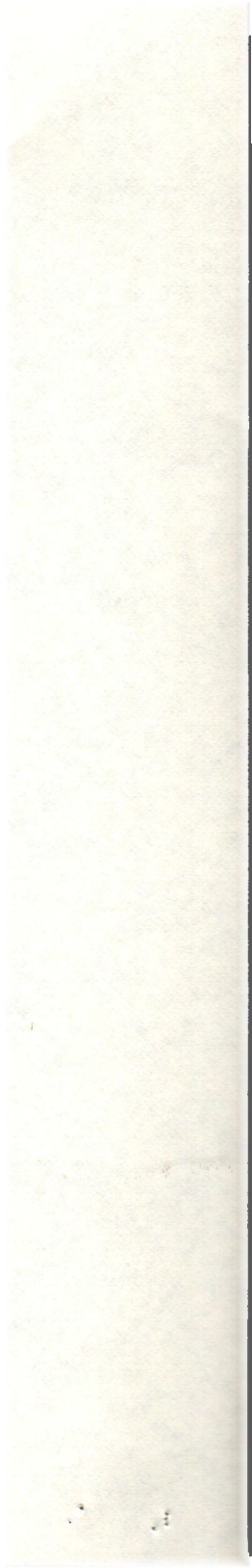
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- The U.S. believes domestic policies of developing country governments are critical to effective energy development. Energy pricing in particular must be realistic. Subsidies and price controls inhibit efforts to increase production. Sound government policies also are indispensable to the creation of a climate favorable to foreign and domestic private investment in energy production and improved energy efficiency.
- The U.S. bilateral assistance program in energy will stress technical assistance rather than resource transfers. Major emphasis will be placed on renewable energy sources such as reforestation and research and development where U.S. assistance complements the private sector; on energy assessments, planning and training; and on greater private sector involvement in conventional fuels development.
- The U.S. supports energy lending by multilateral institutions provided projects are economically viable. Such lending can accelerate LDC energy development by catalyzing private investment in energy development -- through joint project planning, co-financing, multilateral insurance, and other innovative methods. We believe these institutions can reorient their lending to increase its multiplier effect on private investment. The U.S. does not support the creation of a new energy affiliate because it believes that the same results can be accomplished by the existing institutions within their current and pledged funds by encouraging more private investments.
- The U.S. is undertaking the following to supplement already planned programs:

Mobilizing Private Sector Support -- Trade and Development Program feasibility studies for energy; the adaptation of private sector technology to developing country situations; and providing financing for developing country internships in U.S. energy companies.

Support for the Program of Action of the U.N. Conference on New and Renewable Sources of Energy -- The Conference identified specific actions to better utilize new and renewable sources of energy. In support of the Conference



program, U.S. policy emphasizes the following: new fuelwood/reforestation programs, especially research and development; an evaluation network to help determine the most attractive and economically viable applications of the new technologies; and consultative group meetings to foster increased international cooperation.

Training -- Plans for intensified energy training program for technicians from developing countries are being examined.

The first part of the report
 deals with the general situation
 and the results of the survey.
 It is followed by a detailed
 description of the methods used
 and the results of the analysis.
 The final part of the report
 discusses the conclusions drawn
 from the study and the
 implications for future research.

THE WHITE HOUSE

WASHINGTON

MEETING WITH THE CANCUN PLANNING GROUP

DATE: October 5, 1981
LOCATION: Cabinet Room
TIME: 3:00 p.m. - 4:00 p.m.

FROM: RICHARD G. DARMAN *RGD*
CRAIG L. FULLER *CF*

I. PURPOSE

The meeting has been scheduled to review our general approach to the Cancun Summit.

II. BACKGROUND/PURPOSE

The Cabinet Council on Economic Affairs is developing options for your consideration that will, following your decisions, form a Reagan administration program for promoting economic development among developing countries. The program will consist of: (a) a philosophical framework, emphasizing the importance of freer trade, an improved investment climate, and aid that encourages productive/self-sustaining enterprise; and (b) a series of particular initiatives that are consistent with this framework.

The elements of the program will be discussed with you in the next few days.

This meeting has been scheduled to discuss the broader strategic question -- essentially a procedural and political question -- of how to approach the issue of "global negotiations" at the Cancun Summit.

III. THE ISSUE FOR DISCUSSION AT THIS MEETING: HOW TO APPROACH THE QUESTION OF "GLOBAL NEGOTIATIONS"

Your advisers differ on this subject. State is preparing an options paper that may serve as a basis for discussion.

You will recall that: "the Ottawa Summit Declaration commits the summit members to "participate in preparations for a mutually acceptable process of global negotiations in circumstances offering the prospects of meaningful progress." The press release from the preparatory Cancun meeting (in which the U.S. participated) states that the Cancun Summit will "facilitate" global negotiations. Many nations now choose to interpret this as a sign or commitment that the U.S. is willing to return to the Global Negotiations preparatory meetings at the U.N.

Options, at this stage, include the following:

- State that the U.S. does not favor U.N.-sponsored "global negotiations" period -- arguing that the U.N. might be an appropriate forum for general discussion (not "negotiation"), but that a practical approach to progress must be centered in appropriate functional organizations (GATT, World Bank, etc.) and in regional organizations (e.g., Caribbean Basin). NOTE: This combination of activities could be referred to by the U.S. as an "acceptable process of global negotiations."

- State that the U.S. does not now favor a return to preparations for global negotiations at the U.N. (for same reasons as above), but that it does favor further discussion of the appropriate basis, agenda, and fora for global negotiations at a follow-on meeting of the Cancun group -- while it will also seek to advance its program for development through GATT, World Bank, regional efforts, etc.

- State that the U.S. cannot now accept "global negotiations" in the sense that has been contemplated in the U.N. preparatory sessions, but that the U.S. would be willing to resume discussions of this topic at the UNGA in exchange for the Cancun participants' acceptance of certain specified conditions. NOTE: Appropriate conditions might include:
 - o assurances that "global negotiations" agenda and procedures will protect the competence, functions, and powers of the specialized agencies and fora (GATT, IBRD, IMF, etc.);
 - o assurances that the "global negotiations" agenda will give greater considerations to the relative contributions made by all states in the areas of opening markets, improving the investment climate, and providing assistance; and
 - o assurances that "global negotiations" agenda items are to be approached in a practical spirit of shared responsibility, rather than a confrontational spirit of bloc politics.

Each of the foregoing options is less than most of the participants at Cancun will want, and less than many expect. This procedural "shortcoming" could be offset somewhat by the seriousness and coherence of the substantive Reagan approach to development that you would advance.

Your advisers seem to differ on both: (a) the political questions as to the effects one or another of these options would have at home and abroad; and (b) the practical questions as to whether or not one or another of these options would best advance your international development program.

IV. PARTICIPANTS

Secretary Haig
Secretary Regan
Edwin Meese III
Ambassador Brock
Ambassador Kirkpatrick
James A. Baker III
Michael K. Deaver
Richard V. Allen
Martin Anderson
Richard G. Darman
Craig L. Fuller
David R. Gergen

V. PRESS PLAN (White House photo only)

VI. SEQUENCE

Mike Deaver has been coordinating the preparation for the Cancun Summit. Once the group is assembled, Mike should be called upon to lead-off the discussion. The sequence would then be as follows:

3:00	Deaver	Introduction
3:05	Regan	Summary of program being developed in Cabinet Council (for <u>information only</u>)
3:15	Haig	Introduction of "Global Negotiations" Issue
to 4:00	Group	Discussion of Global Negotiations Issue

VII. NEXT STEPS

Your reactions and guidance will serve as a basis for further staff work -- and for preparatory consultations with foreign governments prior to Cancun.

AGENDA RE NORTH-SOUTH/CANCUN PREPARATIONS

(for discussion September 17, 1981)

The following topics require prompt attention:

- 1) Possible contents of a Reagan approach to International Development (see attachment A);
- 2) Possible Presidential speech prior to Cancun -- decision required as to whether/when (Sept. 29?, Oct. 14?, other) -- and relationship to Regan World Bank speech and Haig UNGA speech;
- 3) Treatment of "global negotiations" in (1) and (2) above (see latter portion of attachment 1); and
- 4) Next steps re:
 - (a) Resolution of relevant policy issues (within the executive branch), and
 - (b) Selling of Reagan program (at home and abroad -- (i) prior to Cancun; (ii) at Cancun, including consideration of bilaterals)

POSSIBLE ELEMENTS OF
REAGAN APPROACH TO INTERNATIONAL DEVELOPMENT

I. BASIC THEMES

- (A) U.S. capacity to identify with the ideal(s) of development. U.S. itself was both an underdeveloped country and a revolutionary society -- and remains true to its finest traditions as a champion of liberty and opportunity for all.
- (B) U.S. capacity for compassionate action. U.S. is unsurpassed in its record as a haven for the "poor ... huddled masses yearning to breathe free ... the homeless (and) tempest-tossed ..." -- and as a contributor of financial aid and technical assistance to other countries in need.
- (C) U.S. capacity to serve as a useful example for successful development. Idealistic rhetoric (A) and charity (B) are not enough. Self-sufficiency must be the goal. And this requires:
- (a) a favorable climate for investment;
 - (b) access to markets with potential growth;
 - (c) technical assistance;
 - (d) fair opportunities and incentives for work; and
 - (e) action programs tailored to the potential and constraints of the local/regional environment.

These are what allowed the U.S. to develop ("from the uncharted territory Columbus found ... " if speech is on Columbus Day) And these are what a program for others' successful development must be rooted in.

- (D) U.S. capacity, working through appropriate institutions, to help foster self-sufficient development -- on a practical basis -- a basis that can work. Conditions that allowed the U.S. to develop successfully can best be applied to developing countries through institutions that have a practical orientation toward:

- improving the investment climate;
- increasing access to markets;
- providing appropriate technical assistance; and
- adapting to varying local and regional conditions.

It is this practical orientation which must prevail over unproductive rhetorical exercises or grandly idealistic schemes that founder on their own naivete. (NOTE: There is the option of elaborating upon what are "unproductive rhetorical exercises" and what are "idealistic schemes that founder on their own naivete.")

II. POSSIBLE ELEMENTS OF A REAGAN PROGRAM CONSISTENT WITH (D)

- to improve the investment climate:
 - o propose new "International Investment Insurance Agency" (multi-lateral, building on U.S. experience with unilateral OPIC);
 - o support increased World Bank and IFC activity as catalysts of co-financing arrangements in developing countries (perhaps offer U.S. proposal);
 - o negotiate special bi-lateral tax and investment policy agreements (trading improved investment protection arrangements for honoring developing country tax holiday/sparing arrangements under U.S. law).
- to expand markets for products from developing countries:
 - o through GATT ministerial (1982) and subsequent trade talks, seek reduction of discrimination against LDC products via:
 - adoption of a general and liberal "safeguards" code;
 - gradual reduction of certain categories of coverage under MFA (perhaps); and

- gradual dismantling of developed-country subsidies of certain tropical agricultural products (Note: requires attention to domestic sensitivities);
 - o commit to implement safeguards code under GATT;
 - o commit now to seek legislation to extend the Generalized System of Preferences (GSP -- which expires in '85), and express willingness to expand GSP coverage;
 - o in MFA negotiations, seek to maintain overall 6% growth rate while redirecting benefits from "big three" (Taiwan, Hong Kong, South Korea) to smaller and newer developing country suppliers.
- to promote and provide technical assistance:
- o (Note that most effective technology transfer is through private investment and associated technical transfers and training; hence, improving investment climate (as above) is most important key to technical assistance.) But in addition ...
 - o refocus AID resources to give greater emphasis to the development of practical and sustainable productive enterprise in developing countries;
 - o encourage the American private agricultural sector to become more involved in agricultural technical assistance in developing countries (as a market development strategy, not simply pro bono);
 - o develop a new or enhanced (Peace Corps)-type program to send technically qualified Americans abroad as part of technical assistance teams;
 - o encourage American institutions of higher education to give greater emphasis to the training of people from developing countries;

- to develop practical programs appropriately tailored to the local and regional environment:
 - o reject the artificial and simplistic division of the world into "North-South," and reject naive one-world images -- while emphasizing the diverse and pluralistic character of the 150-plus nations of the world and the need to give greater attention to opportunities for problem-solving on a regional scale;
 - o cooperate with other governments and the private sector in the development of workable regional action programs -- such as the one we (with others) have initiated for the Caribbean Basin;
 - o seek to develop other such regional action programs with interested countries and investors for other regions;
 - o (Optional: reduce participation in unproductive and distractive rhetorical exercises that suffer from either excessive ideological polarization or excessively global ambition -- concentrate on activities likely to produce meaningful results.)

III. RELATED ISSUES THAT REQUIRE ATTENTION

- Re Food: whether to renew effort toward an international wheat agreement that assures emergency relief for poor LDCs.
- Re Multilateral Development Banks (MDBs): whether to assure continued U.S. support beyond "IDA-VI" (at what level of funding expectation?); whether to increase the focus of "soft-window" funds on the poorest countries; and whether to agree to participate in replenishments of the African Development Fund and the Asian Development Fund.
- Re Foreign Aid: whether to seek Congressional support for full appropriations package earlier sought;

-- Re "Global Negotiations"

Contextual NOTE: The Ottawa Summit Declaration commits the summit members to "participate in preparations for a mutually acceptable process of global negotiations in circumstances offering the prospects of meaningful progress."

The press release from the preparatory Cancun meeting (in which the U.S. participated) states that the Cancun Summit will "facilitate" global negotiations. Many nations now choose to interpret this as a sign or commitment that the U.S. is willing to return to the Global Negotiations preparatory meetings at the U.N. Options include:

- (1) direct announcement of U.S. unwillingness to participate in Global Negotiations -- with strong statement of rationale and alternative approach;
- (2) announcement that U.S. cannot accept Global Negotiations as presently structured, but that U.S. is willing to return to New York to attempt to negotiate acceptable procedures and agenda -- (a) with a view toward stalling, or (b) with a view toward reshaping U.N.-sponsored Global Negotiations; or
- (3) fudge -- recommending follow-on to Cancun with open question as to whether or not to return to New York.

PROCEDURAL NOTE: Any of these options requires pre-Cancun lobbying by the U.S.

THE WHITE HOUSE
WASHINGTON

C.F.
018876CA
FO006-021

CABINET ADMINISTRATION STAFFING MEMORANDUM

DATE: Oct. 8, 1981 NUMBER: 018876CA DUE BY: n/a

SUBJECT: Cancun Meetings -- October 8, 10 a.m. and 3 p.m.

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	Baker	<input type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Allen	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Anderson	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>	Garrick	<input type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>	Gray	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input type="checkbox"/>	Beal	<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input type="checkbox"/>	<input type="checkbox"/>	Porter	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input type="checkbox"/>	<input type="checkbox"/>	Kass	<input type="checkbox"/>	<input checked="" type="checkbox"/>
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Counsellor	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
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CIA	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
UN	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
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Remarks: The attached material is for the 10 a.m. and 3 p.m. meetings today of the Cancun Planning Group. It has been developed by Treasury, State and USTR.

Material filed CF Coverage Attachment # 34

RETURN TO: Craig L. Fuller
Deputy Assistant to the President
Director,
Office of Cabinet Administration
456-2823

THE WHITE HOUSE

WASHINGTON

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IV. PARTICIPANTS

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✓ Secretary Regan
✓ Edwin Meese III
✓ Ambassador Brock
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VII. NEXT STEPS

Your reactions and guidance will serve as a basis for further staff work -- and for preparatory consultations with foreign governments prior to Cancun.

Reagan's Attendance at Cancun Summit Could be High-Risk Gamble for U.S.

BY CHRISTOPHER MADISON

President Reagan is showing himself as capable of surprises in the foreign policy arena as he has been in his domestic policy successes.

Next month, he will journey to the Mexican resort town of Cancun for what is being called the North-South summit, a gathering of 22 heads of state from the industrial powers—the North—and the poor and developing countries—the South.

Reagan's attendance is almost as incongruous as the summit itself is unusual. At least in its early stages, the basic predilections of the Reagan Administration haven't seemed heavily weighted toward the developing world. More important, the Cancun summit is linked indirectly to the so-called global round of negotiations, a highly politicized and rhetorical set of discussions at the United Nations that the United States, under both Democratic and Republican Presidents, has so far resisted.

Even the basic premises behind the North-South dialogue—that the world is in terrible shape and that there must be significant changes in existing institutions and policies of the developed countries, as well as a transfer of resources from North to South—are resisted by the Reagan Administration.

Instead, the Administration believes that sound economic policies in the United States and around the world, combined with an open trading system and a free flow of capital, will create new wealth in the developing countries without requiring harsh sacrifices by the industrial powers.

But Reagan is going to Cancun anyway. One school of thought holds that he will charm his 21 colleagues just as he has charmed Congress and the Western leaders at the Ottawa summit, and without

having to make any substantive concessions to the developing countries.

Indeed, Reagan isn't expected to offer much at Cancun. In preparation for the meeting, U.S. officials have stressed the Administration's hard line on the issues likely to arise.

The decision to go to Cancun is also seen as an indication of U.S. concern about the developing countries. "It's got to confound those who thought the Administration would turn its back on the Third World," said Michael A. Samuels, international vice president of the Chamber of Commerce of the United States.

But Reagan does face real risks. In the minds of many leaders of the developing countries—and even of some of the developed countries—a central purpose of Cancun is to pave the way for the long-stalled global negotiations. The Reagan Administration, which opposes the negotiations, disputes this purpose. So if Cancun centers on these talks, Reagan might feel obliged to reject U.S. participation outright. In that event, the U.S. image in the developing countries would suffer.

Some Third World experts, including some who counseled President Carter on the issue, believe Reagan will have to agree at Cancun to some future negotiations and that his refusal in advance is intended to dramatize a U.S. turnabout on the issue.

'STERILE DEBATE'

The history of the North-South dialogue and the U.S. policy toward it has been one of twists and turns. The roots go back to the mid-1970s at the United Nations, where the developing countries began banding together under several banners to press for economic concessions from the United States and other Western economic powers. One was the Group of 77, a coalition of developing countries

organized in 1964 (and now numbering more than 100); another was the Non-Aligned Countries, a group whose origins were in the 1950s and the Cold War, and many of whose members are also in the Group of 77.

According to Roger D. Hansen in *Beyond the North-South Stalemate* (McGraw-Hill, 1979), one of the first significant meetings of the developing countries was the fourth conference of the Non-Aligned Countries in Algiers in 1973. There, the group first turned its attention to the economic goals that had been set for the developing world by the United Nations Conference on Trade and Development at a series of meetings since the 1960s.

The Algiers meeting ended with a call for a "new international economic order," a phrase that has become the principal rubric of the North-South dialogue. The conference also recommended a special session of the General Assembly to consider the U.N. role in fostering economic development.

The first such special session, in 1974, produced a "declaration on the establishment of a new international economic order" and a "program of action" that has been the South's primary agenda ever since.

The agenda calls for changes in existing North-South relations on trade, foreign aid, foreign investment and technology transfer. It also recommends significant changes in institutions such as the World Bank and the International Monetary Fund, or even new institutions to replace them.

Because adoption of the agenda would entail a significant shift of power and resources from the industrial countries to the developing ones, it has generated considerable controversy and debate, but little action.

A breakthrough seemed possible in

September 1975 when the United States, through Secretary of State Henry A. Kissinger, committed the U.S. government to a "constructive effort" to help the developing countries.

"So let us get down to business," Kissinger said in a U.N. speech delivered for him by Daniel Patrick Moynihan, then the U.S. representative to the United Nations. "Let us put aside the sterile debate over whether the new economic order is required or whether the old economic order is adequate. Let us look forward and shape the world before us. Change is inherent in what we do and what we seek. But one fact does not change: that without a consensus on the realities and principles of the development effort, we will achieve nothing."

Several of Kissinger's proposals have been adopted since then, particularly by the International Monetary Fund. And since 1975, the General Agreement on Tariffs and Trade (GATT) has completed another round of trade negotiations that resulted in significant trade liberalization, an important event for developing countries.

But the "sterile debate" has, if anything, intensified. Throughout the late 1970s, the developing countries continued to push for a formal global round of negotiations at the United Nations to discuss the new international economic order.

The Carter Administration, notwithstanding its sympathetic posture toward the Third World, resisted, and the result was a deadlock at the end of the General Assembly in September 1980.

According to Guy Erb, who served on Carter's National Security Council staff, the major sticking point was the South's demand for a transfer of some power from the World Bank, the International Monetary Fund and the GATT, which the industrial countries controlled by virtue of their wealth, to the United Nations, where power rests with the South because of its greater number of countries.

Carter, like other U.S. Presidents be-

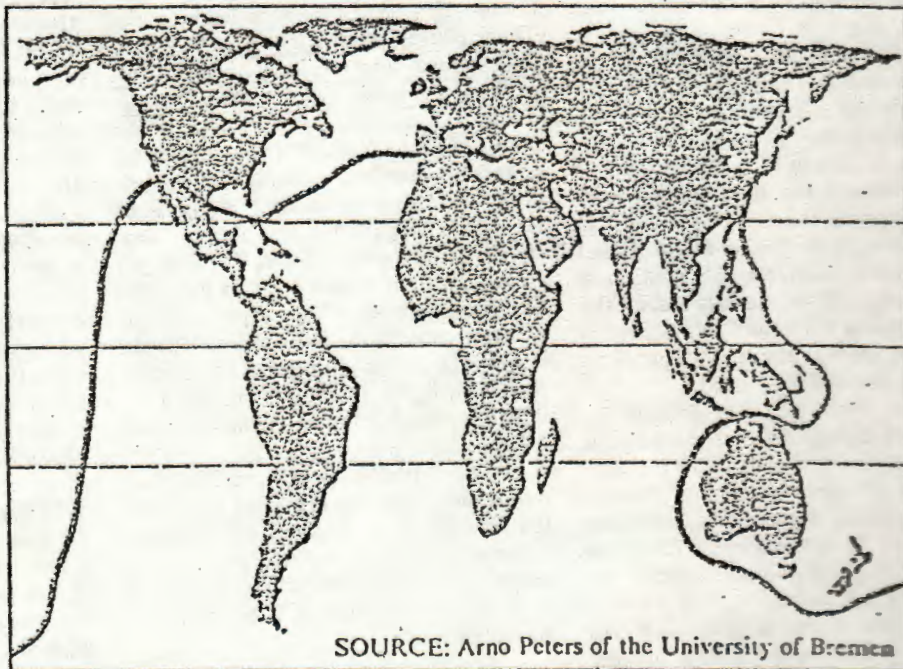
fore him, had no choice but to resist any such shift in power, Erb said.

TO THE SUMMIT

Some diplomats and foreign policy specialists hope the Cancun summit will provide an opportunity to move beyond the sterile debate of the past because neither side will have an obvious advantage.

The idea came from the Brandt Commission, an international panel established in 1977 to study world development issues. At the end of 1979, the commission, chaired by former West German Chancellor Willy Brandt, produced a gloomy report, "North-South, A Program for Survival," that contained many of the proposals put forth in the various versions of the new international economic order. Its staff, significantly, came from both North and South.

"At the beginning of the 1980s," the report said, "the world community faces much greater dangers than at any time since the Second World War. It is clear that the world economy is functioning so badly that it damages both the immediate and the longer-run interests of all nations."



SOURCE: Arno Peters of the University of Bremen

The basic premises of the North-South dialogue are that the world is in terrible shape and that there must be significant changes in existing institutions and policies of the industrial powers, as well as a transfer of resources from these countries to the poor and developing countries.

Within the U.S. government, the report was considered a "sellout" to the South and was purposely ignored. In a recent interview, for example, Myer Rashish, undersecretary of State for economic affairs, called it "excessively hyperbolic."

As it turned out, however, the govern-

ment was receptive to the commission's call for a summit meeting, if not to its enunciation of the reasons for such a session.

A summit of 25 leaders from the North and South, the commission said, "could change the international climate and enlarge the prospects for global agreement. A summit meeting would be able to provide a new focus and a new concentration on current world problems and their possible solutions; it could provide guidelines and a new impetus for future negotiations. . . ."

Following the commission's suggestion, Canada, Mexico and Austria discussed sponsorship of such a summit meeting, and Mexico was finally chosen as the host, with Mexico President Jose Lopez Portillo and Austrian Chancellor Bruno Kreisky as the co-chairmen. Other countries attending, in addition to the United States and the three sponsoring countries, are Algeria, Bangladesh, Brazil, China, France, Guyana, India, Ivory Coast, Japan, Nigeria, Philippines, Saudi Arabia, Sweden, Tanzania, United Kingdom, Venezuela, West Germany and Yugoslavia.

The Soviet Union was asked informally whether it would accept an invitation, according to U.S. government sources. It declined.

Cuba, though deeply involved in the non-aligned movement, wasn't invited after U.S. officials made it clear that Reagan would find it impossible to attend if Cuba's Fidel Castro was on the scene.

Reagan's decision to attend is still something of a puzzle. He is said to have agreed to go as early as March, when British Prime Minister Margaret Thatcher visited Washington and pressed for U.S.

participation in the meeting. Some U.S. officials say Reagan had no choice but to accept, given the pressure in recent months from Britain, Canada and France to show some involvement in Third World affairs.

But others suggest that Reagan accepted the invitation because he was

pressed to do so by the State Department, which played a more influential role early in the Administration than it does now. The suggestion by some officials is that the decision might be different if it were made today.

CANCUN AGENDA

Once agreement was reached on holding a Cancun summit and on who would attend, the participants had to decide on a format and an agenda. This was done at a series of planning meetings over the past 12 months that culminated in an Aug. 1-2 meeting in Cancun of the foreign ministers of the summit countries. That meeting took on more than casual significance for several reasons.

In diplomacy, procedure and form are sometimes more important than substance. In the case of Cancun, a definite tug of war developed over an agenda. Should the world leaders discuss specific problems? Should they discuss the possibility of resuming the global round of negotiations at the United Nations? If 22 nations attempted to agree on a communique, what would happen?

Because they knew the answers to these questions would determine what kind of summit it would be, U.S. officials worked hard at the preliminary meeting to make the summit go their way.

Along with Secretary of State Alexander M. Haig Jr., summit planners included Rashish, assistant secretary for economic and business affairs Robert D. Hormats and a special negotiator for economic matters, Charles F. Meissner. The Treasury Department was represented by Marc E. Leland, assistant secretary for international affairs.

Haig's team was optimistic on its return from the Cancun planning session. It succeeded in getting the other participants to agree that there would be no formal agenda, no final communique and no attempt at substantive negotiations. Instead, there would be an unstructured discussion of the state of the world economy and development problems.



Robert D. Hormats, assistant secretary of State for economic and business affairs: "The key to development is in the policies of the developing countries themselves."



Myer Rashish, undersecretary of State for economic affairs, says that the Reagan Administration's view on dealing with Third World countries is that "the aim should not be income redistribution but wealth creation to serve as a basis for the generation of income."

facilitate agreement with regard to the said global round of negotiations by means of achieving a real meeting of the minds. . . ."

Rashish acknowledged that the Administration would be naive to think there would be no pressure at Cancun to agree to further global negotiations. But he and others in the Administration have made it clear that they continue to oppose those talks.

In fact, some hard liners within the Administration—in keeping with ideological tradition, they are more often found at Treasury than at State—view Cancun with nothing but skepticism. In the best of circumstances, they believe, it would be difficult for the United States to emerge from the meeting unscathed, particularly if Reagan is forced to state clearly the U.S. opposition to the global talks.

"Ultimately, the South wants our money," an Administration official said of the North-South dialogue. "It's a scam. Our problem is that the whole mindset of the dialogue is objectionable. It's unreal."

A tenet of the Administration's developing policy on Third World issues is

that because the United States is trying to rely on market forces to improve the U.S. economy, there is no justification for supporting government-sponsored income transfers from the developed countries to the developing world. And yet the idea of significant resource transfers is a central part of the Third World agenda.

"What we have now is the ethos that says not development but international equity; that is redistributive rather than creative," said Rashish. The Administration's view, he said, is

that "the aim should not be income redistribution but wealth creation to serve as a basis for the generation of income."

The Administration also opposes the notion of wholesale changes in the policies and structure of the World Bank and the International Monetary Fund, the

The United States won a victory by blocking a formal link between the Cancun meeting and the resumption of the U.N. global negotiations. But the press release issued at the end of the planning meeting noted the ministers "further agreed" that "a main objective of the [Cancun] meeting would be to

All the World's Countries and How They've Grown

The World Bank classifies nations by income and type of economic system. The following is the bank's list, with gross

national product per capita for each (in 1979 dollars and in average annual growth from 1960 to 1979).

	GNP per capita Dollars	Growth %		GNP per capita Dollars	Growth %
Low-income countries	\$250	1.6%	Syrian Arab Republic	\$1,030	4.7%
Kampuchea	—	—	Ivory Coast	1,040	2.4
Laos	—	—	Ecuador	1,050	4.3
Bhutan	80	-0.1	Paraguay	1,070	2.8
Bangladesh	90	-0.1	Tunisia	1,120	4.8
Chad	110	-1.4	North Korea	1,130	3.5
Ethiopia	130	1.3	Jordan	1,180	5.6
Nepal	130	0.2	Lebanon	—	—
Somalia	—	-0.5	Jamaica	1,260	1.7
Mali	140	1.1	Turkey	1,330	3.8
Burma	160	1.1	Malaysia	1,370	4.0
Afghanistan	170	0.5	Panama	1,400	3.1
Viet Nam	—	—	Cuba	1,410	4.4
Burundi	180	2.1	South Korea	1,480	7.1
Upper Volta	180	0.3	Algeria	1,590	2.4
India	190	1.4	Mexico	1,640	2.7
Malawi	200	2.9	Chile	1,690	1.2
Rwanda	200	1.5	South Africa	1,720	2.3
Sri Lanka	230	2.2	Brazil	1,780	4.8
Benin	250	0.6	Costa Rica	1,820	3.4
Mozambique	250	0.1	Romania	1,900	9.2
Sierra Leone	250	0.4	Uruguay	2,100	0.9
China	260	—	Iran	—	—
Haiti	260	0.3	Portugal	2,180	5.5
Pakistan	260	2.9	Argentina	2,230	2.4
Tanzania	260	2.3	Yugoslavia	2,430	5.4
Zaire	260	0.7	Venezuela	3,120	2.7
Niger	270	-1.3	Trinidad and Tobago	3,390	2.4
Guinea	280	0.3	Hong Kong	3,760	7.0
Central African Republic	290	0.7	Singapore	3,830	7.4
Madagascar	290	-0.4	Greece	3,960	5.9
Uganda	290	-0.2	Israel	4,150	4.0
Mauritania	320	1.9	Spain	4,380	4.7
Lesotho	340	6.0			
Togo	350	3.6	Industrial market economies	9,440	4.0
Indonesia	370	4.1	Ireland	4,210	3.2
Sudan	370	0.6	Italy	5,250	3.6
			New Zealand	5,930	1.9
Middle-income countries	1,420	3.8	United Kingdom	6,320	2.2
Kenya	380	2.7	Finland	8,160	4.1
Ghana	400	-0.8	Austria	8,630	4.1
Yemen Arab Republic	420	10.9	Japan	8,810	9.4
Senegal	430	-0.2	Australia	9,120	2.8
Angola	440	-2.1	Canada	9,640	3.5
Zimbabwe	470	0.8	France	9,950	4.0
Egypt	480	3.4	Netherlands	10,230	3.4
Yemen, PDR	480	11.8	United States	10,630	2.4
Liberia	500	1.6	Norway	10,700	3.5
Zambia	500	0.8	Belgium	10,920	3.9
Honduras	530	1.1	West Germany	11,730	3.3
Bolivia	550	2.2	Denmark	11,900	3.4
Cameroon	560	2.5	Sweden	11,930	2.4
Thailand	590	4.6	Switzerland	13,920	2.1
Philippines	600	2.6			
Congo, People's Republic	630	0.9	Capital-surplus-oil exporters	5,470	5.0
Nicaragua	660	1.6	Iraq	2,410	4.6
Papua New Guinea	660	2.8	Saudi Arabia	7,280	6.3
El Salvador	670	2.0	Libya	8,170	5.8
Nigeria	670	3.7	Kuwait	17,100	-1.6
Peru	730	1.7			
Morocco	740	2.6	Nonmarket industrial economies	4,230	4.3
Mongolia	780	3.0	Bulgaria	3,690	5.6
Albania	840	4.2	Poland	3,830	5.2
Dominican Republic	990	3.4	Hungary	3,850	4.8
Colombia	1,010	3.0	Soviet Union	4,110	4.1
Guatemala	1,020	2.9	Czechoslovakia	5,290	4.1
			East Germany	6,430	4.7

premier financial institutions that are the target of much Third World criticism because of their power to funnel money to developing countries on terms dictated by the industrialized countries.

These institutions have been adapting over the years to the changing needs of developing countries, said State's Hormats in an interview. The fund, for example, has instituted a compensatory financing program to lend to countries particularly hit by falling commodity prices, he noted.

Developing countries would be helped by an open trading system and access to capital and to industrial markets, Hormats and Rashish said. The fund, the World Bank and the General Agreement on Tariffs and Trade have performed well, though not perfectly, in helping to achieve those aims, both said.

Hormats stated another major principle of the Administration's policy: "the key to development is in the policies of the developing countries themselves." The Administration is encouraging the World Bank in its efforts to press recipient countries to adopt free-market principles as a condition for aid, a policy long followed by the fund. (See NJ, 8/15/81, p. 1448.)

Thomas Dawson, a deputy assistant Treasury secretary for developing nations, made a similar point in hearings in July before the House Banking, Finance and Urban Affairs Subcommittee on International Development Institutions and Finance. "The primary responsibility for development policies and for economic decisions lies in the developing countries..." he said. "The [aid] flows under any foreseeable scenario for the developing world—concessional or non-concessional—are only going to be a fraction of the capital required for resource generation... The question is how we can use... the funds that are available to encourage them to follow sound policies."

"We're not going to say the status quo is fine," Rashish said. But he made it clear that U.S. policy toward the develop-

ing countries will rely heavily on the existing institutions and on private investment rather than on any massive new resource transfers.

"The curious thing is that it is the U.N. forums that have demonstrated the least success in achieving results beneficial to the developing countries," said Hormats. "One reason is that they have been based on a 'we versus they,' 'North versus South,' attitude. Cancun presents a great opportunity to get out of the 'we versus they' relationship."

Related to this is the Administration's argument that the developing countries are a diverse group that can't be lumped together into a monolithic unit for purposes of serious negotiations. (See table, p. 1628.)

SENDING SIGNALS

Many participants in the North-South dialogue believe the United States still doesn't take the Third World seriously, or even understand it.

"We now have a set of countries and policy problems more important to the North than ever before, but we have not begun to take full account of this," said John W. Sewell, president of the Over-

States and the other major Western industrial nations.

"There is an important set of nation-states that are not being brought into the system," Sewell said, mentioning Mexico, Brazil and Nigeria. "What does the Soviet Union have to do with Mexico? Not a hell of a lot."

He said the North-South debate in recent years has gotten stuck on procedural questions that hide the real issues, principally adapting the World Bank, International Monetary Fund and General Agreement on Tariffs and Trade to "a new group of actors" and doing something about global poverty.

The real test of Cancun, Sewell said, will be whether it generates any creative thinking on Third World issues within the U.S. policy apparatus.

To Mahbub ul Haq, director of policy planning for the World Bank, who has been involved in the North-South debate since the beginning, Cancun presents an opportunity to "break the impasse" of the North-South dialogue because it is a new forum that offers a chance to design a narrower agenda.

In the 1970s, Haq was closely tied to the movement for a new international

economic order. In a series of speeches at Georgetown, Guyana, in 1975, he laid out a set of proposals that included establishment of institutions to replace the bank, the fund and the GATT and also an automatic foreign aid program through taxation.

More recently, however, he has acknowledged the deadlock that resulted from the strategies of both the North and the South, and he has set out to design some fresh proposals in an attempt to rekindle the debate. "From the belligerence of the early stages of the

dialogue, we may finally be entering a second phase of negotiations during the 1980s," he wrote optimistically in the winter 1980-81 issue of *Foreign Affairs*.

In contrast to his earlier agenda, he now believes the dialogue should focus on just three issues: energy, food and "resource transfers." (See box, p. 1630.)



John W. Sewell, president of the Overseas Development Council: "There is an important set of nation-states that are not being brought into the system."



Third World expert Jorge Lozoya: "Nothing's going to come out of [the summit]. The new diplomacy... is like that—there are no immediate results."

seas Development Council, a nonprofit group that seeks to promote better understanding of Third World problems.

U.S. policy, he said, still tends to center on the assumption that all important national security issues involve the Soviet Union and that all important economic problems involve the United

The Changing Third World Agenda



Mahbub ul Haq

hopes to put before the Cancun summit to break the North-South deadlock.

As syndicated columnist Joseph Kraft wrote recently, the North-South dialogue of the past seven years has taken place primarily "in a series of long, boring and indecisive meetings at the United Nations and elsewhere." The problem was that the South made the North an offer it couldn't possibly accept; the new international economic order, as originally proposed by Third World leaders in the mid-1970s, called for major changes in the systems of international aid, trade and finances.

One who has been influential in the movement for a new order is Mahbub ul Haq, a Pakistani who directs policy planning for the World Bank. Below is a summary of Haq's 1975 agenda, as put forward in a series of lectures at Georgetown, Guyana, and Haq's latest, more modest proposals, which he

1975

Institutional changes—A World Development Authority where "decisions on international economic issues can be coordinated," should be established under the aegis of the United Nations.

Within the institution would be an International Central Bank with exclusive jurisdiction over international reserves, an International Development Fund to arrange for international taxation for foreign aid, an International Trade Organization to ensure "a greater Third World role in controlling and managing the international trading infrastructure" and a World Food Authority to arrange short-term relief for food-short nations and to coordinate long-term research for increased food production.

Resource transfers—"We must get away from a voluntary basis of resource transfers to a mandatory basis, where the transfers... are based on some internationally accepted needs of the poor."

International Monetary Fund—If the World Development Authority is not established, a larger share of the fund's liquidity should be made available for development.

World Bank—New voting formulas should be found for the restructuring of voting rights in the bank.

1981

Food—The security of world supplies should not depend solely on the yields of U.S. and Canadian crops. Worldwide production, which has increased at an annual rate of 2.5 per cent since 1960, must be increased to 4 per cent for the next 20 years to eliminate the risks. Until maximum production is reached, there should be an international system of food stamps for the poorest countries, at a cost of \$5 billion annually.

Energy—All nations of the world need to increase their production of alternative energy sources at a cost of \$60 billion to \$80 billion, financed through either institutions such as the World Bank or the private sector. The considerable potential for conservation in developing countries should be exploited. Finally, there should be an international agreement that no basic commodity—energy or food—will be embargoed.

Resource transfers—In an era of international budgetary constraints, there should be a reallocation of existing aid flows so that concessional aid—interest-free loans—goes primarily to the poorest of the developing countries instead of to the so-called middle-income countries, which now get two-thirds of such aid. To compensate for the lost concessional aid, the middle-income countries could be given higher levels of non-concessional aid. That could be accomplished by changing the World Bank's ratio of capital to outstanding loans.

Haq also believes Cancun should become a regular event, like the annual economic summits among the Western industrialized nations. But he warned in an interview that "if it remains a media event, expectations are high. All items are brought to the table. Then, there is a great collapse of expectations."

But if the summit becomes a regular event, he said, it would send signals to the world that the dialogue is an evolving process and that there is concern at the highest political levels. In addition, he believes, a permanent North-South institution would add momentum to the process.

"If the Mexico summit does no more than this, it will hold out a hope that there is communication," Haq said.

Jorge Lozoya, a visiting fellow at the Overseas Development Council, is one of many Third World experts who emphasize that there will be few immediate results from the summit. "Nothing's going to come out of it," he said. "The new diplomacy of the world is like that—there are no immediate results." He described this and other summit meetings as "anti-crisis" and "preventive."

At the same time, Lozoya believes the Cancun summit will be historic because it will bring together so many leaders in an off-the-record, relatively informal setting. By contrast, "nothing that happens at the U.N. is off the record," Lozoya said.

The attending heads of government represent a select group "who believe the economic crisis is so complex that there's no scapegoat, nobody to be blamed," Lozoya said.

This cooperative spirit apparently was obvious at the planning meetings in early August. According to Rashid, "It was not a confrontational scene, not a North-South line up. There was a kind of open-mindedness—very pragmatic and practical."

Planning notwithstanding, no one is at all certain exactly what will happen at Cancun when the 22 leaders get together, and results or long-range effects of the gathering are even more difficult to foresee. "If you are from the South," Lozoya said, "you somehow hope the North will agree to resume the global negotiations at the United Nations. More realistically, you hope that the North agrees to the establishment of a new negotiating mechanism."

Unlike some of the other of the South's proposals, that one doesn't scare the Reagan Administration.

"If we could get away with more Cancuns, that's not objectionable," said one of the Administration's officials. And that is about as far as they will commit themselves to a future North-South course. □

TO: Barton C. Green

DATE: Sept. 29, 1981

FROM: W. H. Hoffman, Jr. *Bill*

SUBJECT: Craig Fuller

Craig Fuller called me yesterday on a variety of matters. He mentioned that he had met you recently and talked with you on several issues, one being the upcoming Cancun Summit. He indicated that he wished to pursue this further but wanted to work through me because of our liaison system. I told him you had advised me of your having met him.

In trying to set up a luncheon meeting for him with some of our industry reps, he said he would like to do the Cancun meeting on the same day, preferably just prior to the lunch. I told him I'd work to that end and suggested we also include our Vice President of International Trade and Economics, Frank Fenton. He was delighted.

The date we arrived at for the reps session is Friday, October 9. Thus we have scheduled for him to be at my office at 11:15 on the 9th to meet with you, Fenton, and me. This session will have to end at 11:50 in order for him and me to go to the reps luncheon meeting.

Please confirm your availability.

Attachment

cc: R. B. Peabody
F. Fenton

*Let me know your
availability.*

Bill

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Attachment

cc: R. B. Peabody ✓
F. Fenton

Bob -
If you can, you may wish to sit in on this.

Bill

ENERGY

Development Context

- The U.S. recognizes that addressing the energy problems confronting developing countries in an economically efficient way is a key to their sustained economic growth.
- Developing countries' present dependence on oil--the oil import bill was \$74 billion in 1980, up from \$7 billion in 1973--weakens their balance of payments and threatens their future development. At the same time, their demand for traditional fuels, such as wood, is outstripping natural growth and reforestation. This intensifies the spread of the desert, the loss of topsoil, the silting of waterways, and causes declines in food production.
- Increasing LDC investment in energy can also help the U.S. Increased LDC energy supplies can help dampen worldwide pressures on energy prices.

Past Accomplishments

- U.S. bilateral programs had previously concentrated on power generation and distribution requiring significant resource transfers. These programs helped several LDC's develop rural electrification systems as well as expanded hydroelectric and other conventional power supplies. AID estimates that its rural electrification programs alone have provided electricity for over 13 million people in the Third World.
- Since 1980, bilateral assistance programs have been reoriented. Expensive power generation and distribution projects have been deemphasized in the development assistance program (but continued in some countries under the Economic Support Fund). More emphasis has been placed on technical assistance type activities, such as energy policy, assessments, and training, and renewable energy and fuelwood for rural application consistent with AID's program focus on agriculture and rural development.
- It is still too early to point to concrete results of the reoriented energy program. Energy assessments and training are leading to an increased LDC institutional capacity to understand and address their energy problems. The attention to reforestation has stimulated additional LDC investment in this area.

Future Directions

- AID plans to increase funding for energy-related activities in the years ahead, with emphasis on a mix of public and private efforts and the mobilization of LDC resources.

Future Approaches

Technology has a role to play in aiding developing countries to meet their food needs and much of our aid will be directed to providing the technological wherewithal. However, it is clear that technology super-imposed on an economic structure which does not allow the market to allocate resources will fail to achieve the goal of greater self-sufficiency and furthermore, could be destabilizing and harmful to the development process. We intend, therefore, to emphasize the absolute necessity for market-oriented policies and the creation of the infrastructure to permit markets and entrepreneurship to lead the way.

Within this context, our agricultural assistance programs will continue to aim at increasing food production and productive rural employment. Those programs will be designed to provide a catalyst to move the rural and agricultural sectors of developing countries toward the private money economy and to provide incentives for private initiative under free market conditions. The result will be rising agricultural productivity, self-sustaining capacity for research and innovation, and stimulation of employment-creating entrepreneurship in rural areas.

To accomplish these objectives:

- Food and agricultural production must be profitable. We would therefore encourage LDC economic policies which: (1) reduce or eliminate subsidies to food consumers; and (2) provide adequate and stable price incentives to the agricultural sector to increase production.
- New emphasis will be placed on innovative joint research and development activities undertaken through U.S. and LDC institutions.
- Greater emphasis will be given to rural credit, improved storage and distribution facilities, and roads to facilitate marketing and education.
- The U.S. should insist that recipient countries adopt a market-oriented agriculture policy, which permits prices to find their own levels without production or consumption subsidies.

It is private farmers and other entrepreneurs that will be responsible for most agricultural activity in the Third World. Their role should be strengthened in all areas, including the delivery of inputs and credit, the marketing of farm output, processing, storage, and transportation. But private farmers must be in a position to respond to unimpeded market signals if food production and agricultural development are to stand a chance of success.

While the policy initiatives and resources needed to promote agricultural development must in large part be generated by the LDCs themselves, the U.S. can help through policy advice to assure that the market plays its proper role and accelerate progress by providing technical, financial and food assistance. A major new dimension of our programs will involve the expansion of agricultural research and development through cooperative efforts between U.S. and developing country scientists and the strengthening of institutional capacities in the developing countries.

Strengthening the capacity for the LDCs to feed themselves will require the same ingenuity which produced the Green Revolution -- an excellent example of how science and technology can contribute to increased food production. Innovative research and development activities are needed to help developing countries solve their own problems. These include:

- new varieties of crops and new methods of production;
- improved irrigation systems;
- increased use of multicropping; and
- greater control of human and animal diseases.

The type of effort that is envisaged will require additional domestic and external resources to support joint research and capacity building efforts with developing countries. Given recent international interest in greater cooperation in science and technology, our resources will likely stimulate inputs by other countries far in excess of those provided by the U.S.