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MEMORANDUM FOR: Secretary Regan

From: Under Secretary Sprinkel BWS

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 tne 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
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Mr. Tim McNamar
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	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
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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.

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.

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.

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%.

-- 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).

-- 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: U.S. Approach at Cancun

I. Increased investment in developing countries, in response to market forces and commercial incentives, can help those countries substantially to generate their own economic momentum. Mutually beneficial investment opportunities abound and can be realized by both domestic and foreign investors, to the extent that a conducive overall economic and political environment exists; conversely, an excessive burden of taxation, regulation, and other forms of intervention -- together with 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 -- and one aimed at augmenting the flow of private resources into the development effort -- is to press ahead with a wide variety of possibilities for improving the investment environment in LDCs.

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

- -- In the period 1976-78, U.S. investors supplied 47% of the $9.6 billion of OECD country direct investment flows into LDCs. (This compares with 13% from the United Kingdom, 11% from Japan, 9% from West Germany, 4% from Canada, and 3% from France.) Our share was even higher in earlier periods (51%, 1965-67).

-- At the end of 1976, the stock of U.S. direct investment in developing countries was $43.1 billion, or 51% of the OECD total; this compared to 13% for the United Kingdom, 6% for Japan, 7% for West Germany, % for Canada, and 6% for France. By 1980, the U.S. figure had risen to $56.2 billion, about one-fourth of total U.S. direct investment abroad.

-- U.S. banks are also intermediating a very large share of commercial bank financing to LDCs; those banks accounted for 40% of outstanding claims on LDCs on LDCs at the end of 1980 from the BIS reporting area.

-- In the relatively small market for LDC "foreign bond" issues (not including non-country-attributable Euro-bond issues, more than half the total of LDC issues), issues in the United States accounted for more than one-fourth in the 1978-80 period ($3.5 billion total) and nearly half in 1980.

III. 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. To this end, the United States is prepared to pursue the following:

1. Increased cofinancing and other private financing with the Multilateral Development Banks. We fully endorse 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, and we will work with the Bank to achieve it; regional MDBs need to do more also. Some useful ideas on cofinancing have already been generated in the IBRD/IMF Development Committee's Task Force on Non-concessional Flows, in which we have actively participated. The Task Force has also made several realistic suggestions for broadening the Bank's financing base with participation sales and "loan pass-through certificates" which we would endorse for further consideration.

2. Enhanced IFC activities, cofinancing and otherwise. The International Finance Corporation plays a unique catalytic role fostering private sector debt and equity financing of investment in LDCs (without host-country guarantees) and is in the middle of a significant increase in the size and diversity of its program. The bulk of IFC-backed projects (about 75% of a total of $3.3 billion in FY81) 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 and facilitating a more promising investment climate in more developing

countries. This could involve, for example, program innovations, development of new financing instruments, efficiency improvements within the IFC, a broadened advisory program on capital markets development in LDCs, and others.

3. Investment Insurance and Guarantees. A major constraint to the flow of direct investment to the LDCs is investors' 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 an 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 exporpriation.

World Bank President Clausen offered, in his annual meeting statement, to join in an effort "to see such a mechanism 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 as such an effort proceeds, we would expect to have the U.S. Overseas Private Investment Corporation (OPIC) 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 further exploration of the feasibility and capital-flow enhancement potential of a scheme for 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 Development Committee Task Force mentioned above, although it is not clear yet whether the concept ultimately will be practicable.)

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. It should be noted that some preliminary work has already taken place in the Development Committee's Task Force on Private Foreign Investment, and a followup study of "performance requirements" is about to be launched in the Bank.

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.

ATTACHMENT A

US Statement

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 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 developi 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.

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 - Redraft of Section on "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 producgive 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 in our aid programs will be on rural credit, improved storage and distribution facilities, roads to facilitate marketing and education.

-- Insist that recipient countries adopt a market-oriented agricultural 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.

Strenthening 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.

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.

- Their 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.

- 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.

-- 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 indispensible 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; energy assessments, planning and training; and helping to stimulate 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 WHITE HOUSE

WASHINGTON

October 5, 1981

MEMORANDUM FOR CANCUN PLANNING MEETING PARTICIPANTS

FROM: MICHAEL K. DEAVER

The attached papers on Cancun have been developed following a meeting of the Cabinet Council on Economic Affairs last week. These papers will be reviewed in detail at a subsequent meeting at the Cabinet Council.

At today's meeting, we intend to have a brief summary by Secretary Regan on the status of the Cabinet Council's work followed by a discussion of the Administration's approach to global negotiations which will be lead by Secretary Haig.

Attachment

Distribution:

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

THE WHITE HOUSE

WASHINGTON

October 3, 1981

MEMORANDUM FOR MICHAEL K. DEAVER

FROM: ROGER B. PORTER RBP

SUBJECT: Cancun Summit

At its Thursday, October 1 meeting, the Cabinet Council on Economic Affairs reviewed, as requested, a series of possible initiatives for the Cancun Summit. The central strategic issue facing the President as he prepares for Cancun is the position he should take on the calls for Global Negotiations. While the Cabinet Council's review did not directly address what approach we should take to Global Negotiations, our review of possible initiatives should prove helpful in developing the next steps in preparing for Cancun.

Our review concentrated on what basic approach the U.S. should pursue in its relations with developing countries and on what policies were most likely to produce lasting mutual benefits for both developed and developing nations. We considered a number of ideas and proposals, some more promising than others.

General Conclusions

In our discussion of possible proposals or initiatives, we reached several general conclusions:

1. The U.S. should identify with the developing countries' aspirations for greater economic growth and prosperity and show sympathy for their needs and problems.

2. We need to articulate better the U.S. record in aiding developing countries.

3. The most important step that both developed and developing nations can take is to put their domestic economic houses in order. International cooperation and economic growth depend on sound domestic policies.

4. Recommending a long list of specific initiatives or substantive proposals is unlikely to "win the hearts" of the developing nations at Cancun.

5. We should emphasize that we have a development strategy that can bring practical benefits to both the developed and developing world — one that we have found can succeed.

6. The institutional framework for what is needed is already in place but improvements can be made. We are prepared to join with others in making those improvements.

7. Our development strategy rests not on a single program or establishing a single forum. Rather it rests on an integrated approach that emphasizes trade, investment, and foreign assistance.

8. Neither government to government assistance nor massive income transfers from the developed to the developing world will bring sustained economic growth and prosperity. Lasting progress will occur only as the developing nations increase their capacity to produce goods and services and as there are markets for their products.

9. Thus, a successful development strategy must rest on an integrated approach that helps build productive capacity (through investment and technical assistance) and expand markets (through reducing barriers to trade).

Investment

The Cabinet Council examined three principal avenues for improving the investment climate in less developed countries thereby increasing the flow of private capital.

1. Multilateral Investment Insurance Arrangements.

A major constraint to the flow of direct investment to the LDC's is investors' perceptions of high political risk. Political risk insurance currently available from public and private sources is insufficient to support adequate flows of investment to the developing world, especially for high-risk, high-cost energy and minerals exploration projects.

A multilateral insurance arrangement, such as an 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 LDC's. 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.

Several details such as dispute settlement and arbitration mechanisms, financial obligations, and control mechanisms (weighted versus non-weighted voting rights) require further development.

2. Expanding Cofinancing Programs.

Multilateral development institutions can play an important role as catalysts in generating greater private investment in LDC's through cofinancing programs with commercial banks. Such programs are relatively modest now. (In the past two years, private lenders have participated with the World Bank in some 40 projects committing a total of about $3.5 billion.) The U.S. can actively support increasing substantially the level of private cofinancing activities of the World Bank and the IFC.

3. Incentives under Bilateral Tax Agreements for Investment in Developing Countries.

Under current arrangements, when foreign governments in developing countries reduce or "spare" taxes for investors through tax holiday incentive laws, these have little effect on U.S. investors who simply end up replacing the foreign taxes they are spared with additional U.S. taxes because they receive a U.S. foreign tax credit only for taxes actually paid abroad.

One alternative examined by the Cabinet Council was allowing a U.S. foreign tax credit to U.S. investors not only for taxes actually paid to the developing country but also for taxes which would have been paid but which were "spared" under the tax holidary incentive law.

Other alternatives considered included extending a 10 percent investment tax credit to investments in developing countries, and allowing tax sparing credits only if the developing country reduced by treaty its statutory withholding tax on dividends, interest, and royalties paid to U.S. investors.

The Cabinet Council felt it was premature to endorse any of these specific tax proposals for several reasons. The current budget situation makes any near-term revenue losses extremely unattractive. Moreover, congressional agreement to support such tax changes is uncertain. There is widespread agreement that the President should not propose specific tax treaty changes on which he could not deliver. Rather, the Council felt that we could express a willingness to discuss new arrangements without supporting any specific changes in advance.

Foreign Assistance

A second major element of our development approach is foreign assistance programs. The underlying theme behind the Council's consideration of our economic assistance strategy is the need to build productive capacity in developing countries. Increased technical assistance in its many forms, including greater involvement by the U.S. private sector in technical assistance programs, is needed. "If you give a man a fish you feed him for a day; if you teach a man to fish you feed him for a lifetime."

The Council's review of this area produced agreement on the need to:

- o Encourage sound LDC policies that promote development and that strengthen the private sector emphasizing the important role of market forces, especially in pricing policies. Governmental controls on agricultural and energy prices in many developing countries constrain development in those sectors;

- o Continue to support existing multilateral institutions and to honor our commitments to them;

- o Refocus our bilateral aid on programs which:

  a. provide technical assistance and

  b. concentrate on training;

  (Most U.S. bilateral assistance focuses on agriculture and energy.)

- o Place increased emphasis in agricultural programs on expanding food production, primarily through small farms and raising incomes by strengthening productive enterprises;

- o Place increased emphasis in energy programs on technical assistance for energy assessment and training, reforestation, and research and development where our aid complements the private sector.

Trade

Developing nations must not only increase their capacity to produce goods and services by sound domestic economic policies, greater foreign investment, and expanded technical assistance and training; they also must have adequate markets for their products.

Five measures illustrate the absolute and comparative U.S. contribution to providing markets for LDC exports.

1. The U.S. absorbs approximately one-half of all the manufactured goods that the LDCs export to the industrialized countries.

2. In 1980, 51 percent of U.S. imports from developing countries entered duty free. Our average tariff on all dutiable imports was 5.5 percent.

3. The U.S. maintains very few quantitative restrictions and U.S. customs procedures are highly transparent and predictable.

4. Our Generalized System of Preferences (GSP) program is the most open and responsive of all the donors' programs. GSP duty-free imports have increased threefold since 1976 and are expected to reach $9 billion in 1981.

5. 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.

Among the developed nations, the U.S. has a superior record with respect to lowering both quantitative and qualitative trade barriers to LDC products.

Building on this record, the U.S. can challenge other developed nations to join in strengthening the GATT in ways that encourage the further adoption of market-oriented, outward-looking policies by developed and developing countries.

Specific potential initiatives include:

- Support the extention of the Generalized System of Preferences, in some form, beyond its scheduled termination in 1985.

- Seek at a 1982 GATT Ministerial a reduction in the barriers against LDC goods and services.

- Press for strong discipline on safeguard actions to reduce arbitrary, secretive, inter-industry trade restraints.

cc: Donald T. Regan
Edwin Meese III
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Richard G. Darman
Craig L. Fuller
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MULTILATERAL INVESTMENT INSURANCE ARRANGEMENTS

Overview:

A major constraint to the flow of direct investment to the LDC's is investor perception of higher political risk in these countries. Political risk insurance currently available from public and private sources is insufficient to support adequate flows of investment to the developing world, especially for high-risk, high-cost energy and minerals exploration projects. A multilateral insurance arrangement drawing together the resources of developed and perhaps developing countries could provide a mechanism to help meet these needs.

Pros:

-- Risk on major projects could be spread so that high value projects could be covered more easily.

-- Capital-exporting countries could act mutilaterally in cases of expropriation, raising the inherent cost of hostile action against the property of citizens of any one state.

Cons :

-- LDCs have been reluctant to support past multilateral insurance proposals, which could reduce their leverage in dealing with developed countries or limit their control over foreign enterprise. Some leaders of the G-77 opposed arbitration obligations or other limits to national sovereignty.

-- Western European countries were uninterested in past schemes as well, preferring to exert greater control through national programs which can be tailored more closely to the pursuit of their own domestic objectives. (Europeans also tend to view such programs as benefiting us more than them, especially in Latin America, where the bulk of foreign investors are U.S.)

-- Previous plans were dropped when participants were unable to agree on: dispute settlement and arbitration mechanisms; financial obligation (including at least a token contribution from the LDCs); control mechanisms (weighted versus non-weighted voting rights). Any new program would also have to deal with these issues.

Most Forthcoming Alternative: A multilateral insurance arrangement within the framework of the World Bank or International Finance Corporation (IFC).

World Bank President William Clausen has already privately expressed his interest in launching a multilateral insurance program within the World Bank. However, strong U.S. support would be needed to begin such a program. We would prefer an insurance mechanism established through the IFC, similar to the International Investment Insurance Agency (IIIA) advanced on a number of occasions by the U.S. between 1961 and 1972. (The IIIA would have been a new international agency which insured private developmental investment in member LDCs against specific political risks and reinsured investment insurance contracts made under domestic programs such as OPIC.)

Pros:

-- Would create a large insurer capable of providing low-cost insurance against political risk and loan guarantees for major investments.

-- IIIA would be fiscally sound and credible to investors.

-- The framework for consultation is already in place, and general principles have been set out in the IFC Charter.

-- It would be a multilateral program with a link to the IFC, which should deter expropriation.

-- The program could possibly be put in place without additional funding. The IFC already has a guarantee program; changes in reserve ratio requirements could permit the IFC to leverage existing funds to support many more projects through insurance rather than direct loans.

Cons:

-- The IFC's Charter does not specifically allow or prohibit it to issue insurance. A Charter amendment would be needed to permit the IFC to issue insurance on reasonable terms.

-- The LDCs will have the same objections they had to previous IIIA proposals. The prospects for a successful negotiation are thus not good.

-- LDCs oppose the involvement of a major multilateral lending agency. They fear that a World Bank-linked mechanism would have additional leverage, since the Bank must look at a country's expropriation record before approving new loans.

-- We would have limitd control over the design of an IFC proposal.

-- A sound facility would require reserves, funded in all probability by paid-in capital. The USG might have problems if we had to seek an appropriation.

Moderately Forthcoming Option: A U.S.-led, developed country multilateral initiative.

The U.S. could propose a multilateral insurance program within an existing developed country mechanism such as the Direct Assistance Committee of the OECD, similar to the International Investment Reinsurance Agency (IIRA), a plan raised in the Investment Insurance Committee of the Berne Union in the mid-70's. The group would provide reinsurance on political risk coverage; risk would be shared among countries in proportion to their contribution to the insurance pool.

Pros:

-- LDC approval is not needed to implement the program.

-- Greater national control is retained over insurance issued.

Cons:

-- Such a mechanism would probably not draw in non-Western (e.g., OPEC) participants.

-- Previously, Western Europeans have been unenthusiastic.

Least Forthcoming Alternative: Greater U.S. public-private sector insurance cooperation.

The Overseas Private Investment Corporation (OPIC) could 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.

Pros:

-- The program would be easy to implement, and would in fact only expand current OPIC efforts.

-- This program would re-emphasize our commitment to the private sector, and help interested private sector insurers to expand their activities in the political risk field.

Cons:

-- There would be little expansion of coverage available. Private sector firms could not be expected to accept too large a portion of the total risk.

-- There would be only limited psychological impact from announcing such a program.

-- Limitations which keep OPIC from insuring projects (e.g., country exposure limits, employment-impact, Calvo clause) would also limit joint activities.

Incentives under Bilateral Tax Agreements for
Investment in Developing Countries

U.S. tax treaties with developing countries can include investment incentives. Such benefits should be provided only by treaty because: (1) the incentive can be targeted to particular countries where it is likely to be most effective and where it conforms to overall U.S. foreign policy objectives; (2) it can be targeted to certain industries which are important to the development of the partner; (3) the U.S. would be able to receive reciprocal consessions, particularly exchange of information; and (4) the greater incentive thereby created for developing countries to enter into treaties with the U.S. would further enhance the ability of these countries to attract U.S. investment.

<u>Last Forthcoming Alternative: Tax Sparing Credits Only for Reduction under the Treaty in Treaty Partner Taxes</u>

If the treaty partner reduces by treaty its statutory withholding tax on dividends, interest and royalties paid to U.S. investors, the U.S. would allow a foreign tax credit for the full statutory tax.

<u>Pro</u>:

-- It will benefit U.S. investors and encourage investment.

-- Developing countries would probably agree to greater treaty reductions in their statutory withholding rates.

-- Because it is more limited than full tax sparing, it would probably engender less opposition.

<u>Con</u>:

-- It would violate the policy of not giving U.S. treaty benefits to U.S. citizens and residents.

-- It will encourage repatriation.

-- The impact will be uneven, depending on the partner's level of statutory withholding rates.

-- It will provide windfall benefits to those who would have receive the income in any event.

-- The Senate would be likely to object.

Moderately Forthcoming Alternative: Investment Tax Credit

A 10 percent investment tax credit would be extended to investment (and reinvestment) in developing countries.

Pro:

-- Most developing countries would consider this a satisfactory alternative to tax sparing.

-- It would afford an immediate benefit to U.S. investors, whether or not the venture proved profitable.

-- It would be a move toward capital export neutrality.

-- It would not encourage repatriation and, if structured to cover reinvestment, would encourage retention.

-- It would permit a broadening of the U.S. treaty network with developing countries.

-- The U.S. would retain control over the incentive.

Con:

-- It would violate the purpose of the domestic credit -- to encourage investment in the United States.

-- It would give U.S. treaty benefits to U.S. persons.

-- It would be uneven in impact, giving greater benefit to capital intensive investments, which are, typically, not those most needed by developing countries.

-- It has previously been rejected by the Senate.

Most Forthcoming Alternative: Tax Sparing Credits for Developing Country Tax Holidays

A U.S. foreign tax credit would be granted to U.S. investors not only for taxes actually paid to the developing country, but also for the taxes which would have been paid but which were "spared" under tax holiday incentive laws in the developing country.

Pro:

-- Developing countries consider this very important.

-- It would attract some additional U.S. investment.

-- It would permit a broadening of the U.S. network of treaties with developing countries.

Con:

-- The assertion that tax sparing is needed to avoid neutralization of developing country tax holidays by the U.S. foreign tax credit is an over-simplification. Provisions of U.S. tax law, particularly deferral and the overall foreign tax credit limitation, offset much of the neutralizing effect.

-- It would give U.S. tax benefits to U.S. persons.

-- It would move away from capital export neutrality.

-- The partner's tax policies control, not the U.S.

-- It would be uneven in impact. Countries with high tax rates but generous tax holidays would benefit; those with low rates and no tax holidays would not.

-- It would encourage rapid repatriation.

-- Investors who would have invested anyway would receive windfall benefits.

-- It has previously been rejected by the Senate.

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 South-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 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.

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.

U.S. Economic Assistance Strategy

Context

The developing countries face economic problems which have been aggravated by high oil prices, high inflation and slow economic growth in the developed world. These problems can be overcome by: (1) strong economic growth in the U.S. and other developed countries; (2) freer trade; (3) sound economic policies in the Third World; (4) strengthening the role of market forces; and (5) development and adaptation of technology to raise productivity in agriculture and industry.

The primary responsibility in promoting development rests with the LDCs themselves. However, foreign aid is a significant factor. Both the U.S. foreign aid program and the multilateral development banks play important roles. We continue to support the multilateral institutions and to honor our commitments to them, but the U.S. will emphasize bilateral over multilateral assistance.

Assistance Priorities

--Encourage sound LDC policies that promote development, and strengthen the private sector.

--Build LDC institutions so that these countries can help themselves.

--Develop and transfer technology to the Third World using the unique resources of U.S. universities and corporations for training and R and D.

Countries of Concentration

--The primary focus of economic aid is on the poorer countries.

--Aid is concentrated among the poorer countries which pursue sound economic policies.

--Aid is provided within overall U.S. security and foreign policy objectives.

Fields of Concentration

U.S. bilateral assistance focuses primarily on agriculture and energy. Our agriculture programs stress increasing food production, primarily through small farms and raising incomes by strengthening productive enterprises.

In energy, our programs emphasize technical assistance for energy assessment and training, reforestation and R and D in areas where our aid complements the private sector.

Assistance: Agriculture

Contributing to the Third World's capacity to feed itself is an important U.S. commitment.

U.S. assistance to agricultural production should give priority to (1) better developing country policies, e.g., farmers won't produce much if the government holds down the prices paid to them; (2) developing human and institutional LDC capabilities, e.g., training and building experiment stations; (3) expanding the role of the private sector in agribusiness; and (4) generating and adapting technology.

The U.S. foreign aid program reflects these priorities. In 1982 over half of our development assistance will be focused on agriculture.

The Green Revolution of the past decade is the best example of the contribution of science and technology to food production. Underpinned by U.S. financial and scientific support, high-yielding varieties of wheat and rice were developed. They were critical to staving off famines in the 1970's and 1980's in several parts of the Third World. Indeed, some countries have become self-sufficient in food as a result of these crop breakthroughs. (The new variety of wheat was developed in a research center located in Mexico and the Mexicans are proud of their contribution).

Examples of scientific and technological activities supported by the U.S. include work to develop (1) a variety of plants that will tolerate a wide-range of soil and climate conditions, insects, and diseases; (2) more efficient irrigation systems (80% of the land under irrigation is in Aisa); (3) production of several crops per year on the same land in the humid tropics; and (4) methods of human and animal disease control to include such serious problems as the Tsetse Fly in Africa. The Tsetse bars agriculture production on vast areas of potentially-productive lands and other areas.

The U.S. also supports the strong efforts by the multilateral banks in agricultural assistance.

Free trade is important for agriculture as well as other sectors. This is detailed in the Trade paper.

Assistance: Energy

The U.S. recognizes the significance of energy problems--dependence on imported oil, and dwindling fuelwood supplies--confronting developing countries.

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 indispensible to the creation of a climate favorable to foreign and domestic private investment in energy production and improved energy efficiency.

Reflecting LDC concerns and our capabilities, the U.S. bilateral assistance program in energy--which primarily involves technical assistance--will place its major emphasis on renewable energy sources, e.g., reforestation, training, and in helping stimulate greater private sector involvement in conventional fuels development. Funding for renewable energy programs, especially fuelwood, will double in the next fiscal year to $70 million. (This is a reallocation; no additional monies are being requested.)

In particular, AID will expand (or initiate) the following energy assistance 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 United Nations 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 the U.S. policy emphasizes the following: new fuelwood/reforestation programs; an evaluation network to help determine the most attractive applications of the new technologies; and active participation in consultative group meetings to foster increased international cooperation.

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

The U.S. also supports energy lending by multilateral institutions. Such lending can generate considerable increases in 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 have a more positive impact on the private sector and we will suggest means to achieve this. 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 institutional arrangements with their existing and expected funds.

October 5, 1981

NOTE FOR DICK DARMAN

FROM: CRAIG L. FULLER

Consider the attached Briefing paper for Monday's meeting.

I haven't yet seen any paper, but I think something should go to the President prior to the meeting. (Henry Nau says that Haig reviewed a paper today which is coming to us.)

Dick— This is the "State" paper -- I suggest we say in the briefing memo that Al Haig will be prepared to discuss the options. of

~~To help accomplish our objectives at the Cancun Summit, it is proposed that we:~~

~~-- Agree to participate in further preparations for Global Negotiations in exchange for acceptance by the Cancun heads of state or government of the following conditions:~~

State that we cannot accept Global Negotiations as presently construed, but that we would

-- Agree to resume discussions at the UNGA about modalities for a dialogue, -- including possible negotiations in the UN.. in exchange for acceptance by the Cancun heads of state or government of the following conditions:

~~-- Agree to return to efforts in the UNGA to discuss modalities of an international conference in exchange for acceptance by the Cancun heads of state or government of the following conditions:~~

(a) That their delegations in New York will support procedures ~~for Global Negotiations~~ that will protect the competence, functions, and powers of the specialized agencies and fora (IMF, GATT, IBRD, etc.),

(b) That their delegations in New York will support an agenda for ~~Global~~ Negotiations which addresses a limited number of priority global issues

(c) That the ~~conference~~ focus of which the dialogue or negotiations on the acceleration of economic growth and deal with world-wide economic issues of common concern where international cooperation is warrented,

(d) That old drafts be put aside, that fresh approaches be brought to the table, and that a spirit of shared responsibility for a better future prevail.

(e) That the Charter of the United Nations and the agreements between the UN and the specialized agencies and fora for the UN system be respected.

-- Obtain agreement of the Cancun heads of state or government that their personal representatives from capitals will meet from time to time starting in January 1982 in order to:

(a) Ensure that existing economic institutions are pursuing a program of work which responds adequately to the priorities identified during the Summit.

(c) Monitor and ensure compliance with the above agreement on ~~Global~~ Negotiations.

~~(c) Monitor progress on the creation of an international conference on growth and its work.~~

(d) Consult on others matters of common interest including inter alia the advisibility of convening subsequent meetings, ~~at the level of head of state or government.~~

Jan meeting

dev. frame of ref.
task work on priority issues identified by hds. ~~to SAs~~ SAs
agencies issue reports to UNGA or another follow-up

Nov. 1981
go back to discs. on our terms

October 5, 1981

NOTE FOR MIKE DEAVER

FROM: CRAIG L. FULLER CF

Summary of the CCEA review:

1. APPROACH

   a. US strategy for development calls for an integrated approach on investment, trade and foreign assistance.

   b. Most important 1st step is for the developed and developing countries to put their economic issues in order.

   c. We have an economic framework in place ... just need to make improvements.

2. INVESTMENT

   a. International Investment Insurance Agency (IIIA): such an organization, working within the World Bank, could substantially increase investment in the developing countries by reducing the risk to investors.

   b. Expand Cofinance Programs: the US can encourage such programs. During the past 2 years, $3.5 billion has gone to 40 projects.

   c. Tax Incentives: The CCEA is looking at various alternatives but believes new arrangements should be considered.

3. FOREIGN ASSISTANCE

   a. Underlying theme -- build productive capacity in developing countries ... stress need for greater involvement by US private sector in technical assistance programs.

   b. Continue to support existing multilateral instituitons.

   c. refocus bilateral aid on technical assistance and training (principally in agriculture and energy fields).

4. TRADE

   a. Support the extention of the Generalized System of Preferences, in some form, beyond its scheduled termination in 1985.

   b. Seek, at a 1982 GATT Ministerial, a reduction in the barriers against LDC goods and services.

   c. Press for strong discipline on safeguard actions to reduce arbitrary, secretive, inter-industry trade restraints.

cc: Richard Darman