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THE WHITE HOUSE
WASHINGTON

July 28, 1987

Dear Mr. President:

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

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

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

47538155

NSC #8704394

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

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

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

Sincerely,

Ronald Reagan

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

THE WHITE HOUSE
WASHINGTON

July 23, 1987

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK C. CARLUCCI *FC*

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

Issue

To sign your letter to Uruguayan President Sanguinetti.

Fact

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

Discussion

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

cc: Vice President
Chief of Staff

Recommendation

OK

No

That you sign your letter to Uruguayan
President Sanguinetti

RR

Attachments

Tab A Letter to Uruguayan President Sanguinetti
Tab B Letter from Uruguayan President Sanguinetti

Prepared by:
Jacqueline Tillman

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20508

SIGNEDACTION

July 20, 1987

MEMORANDUM FOR FRANK C. CARLUCCI

FROM: JOSE S. SORZANO SUBJECT: Letter from Uruguayan President Representing
Cartagena Group to Venice Summit Participants

Uruguayan President Sanguinetti, representing the Cartagena Consensus Group of Latin American nations that confer about debt, has written to the President about the Venice Summit. In his correspondence to the President, President Sanguinetti expresses his concern that lower-than-anticipated OECD growth rate, the continuing deflated price of commodities, protectionism, rising interest rates, and low levels of new money to debt-ridden countries will aggravate the prospects for stability. He asserts that "innovative solutions" are required beyond just increases of financial flows, such as adjustment of debt service to real ability to pay, reduction in interest rates, long-term rescheduling of maturities, separation of old and new debt and trade liberalization. Lastly, he argues for broader bilateral and multilateral policy coordination on these issues.

State drafted a response which we sent to Treasury and USTR for further coordination (Tab III). Treasury made minor adjustments to the text which have been incorporated. USTR's comments were general in nature and we adjusted the letter somewhat to reflect their comments. The Speechwriters reviewed the letter.

Farrar concurs.

RECOMMENDATION


That you forward your memorandum to the President.

Approve  _____

Disapprove _____

Attachments

Tab I Memorandum to the President
 Tab A Letter to Uruguayan President
 Tab B Letter from Uruguayan President
~~Tab II Incoming Memo from State~~
~~Tab III NSC Tasking to USTR and Treasury~~
~~Tab IV Incoming from USTR and Treasury~~

Prepared by:
Jacqueline Tillman 

WASHFAX RECEIPT

THE WHITE HOUSE

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87 JUL 28 P 1: 06

UNCLASSIFIED

MESSAGE NO. _____ CLASSIFICATION _____ PAGES TWO

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

MESSAGE DESCRIPTION PRES 28 JUL LTR TO PRES SANGUINETTI

NSC# 4394

TO (AGENCY) DELIVER TO: DEPT/ROOM NO. EXTENSION

STATE MELVYN LEVITSKY EXECUTIVE SECRETARY

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

DEPARTMENT OF STATE
DIVISION OF LANGUAGE SERVICES

(TRANSLATION)

LS NO. 122336
AKB/RHC
Spanish

President of the Oriental Republic of Uruguay

Montevideo, May 25, 1987

Mr. President:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Owing to the magnitude of the problem, any increase in financial flows that does occur will not be sufficient to solve the debt problem. Parallel and coordinated action is required, (1) which must necessarily entail an adjustment of debt service to the real payment capacity of the debtor country, real reductions in the nominal interest rates in order to realign them more closely with actual historical levels, a separation of existing and future debt, the increasing elimination or limitation of bank intermediation margins, flows of new capital to reverse the transfer of resources, long-term rescheduling of maturities, and a determined commitment to the objectives of trade liberalization and expansion which will ensure our repayment capacity.

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

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

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

Mr. President:

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

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

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

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

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

STATE DEPARTMENT

SUGGESTED LETTER

Dear Mr. President:

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

at the outset of the Venice Summit,

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

His Excellency

Julio Maria Sanguinetti,

President of the Oriental Republic

of Uruguay,

Montevideo.

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

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

Sustained

¹ Growth depends on increased involvement of Latin American countries in international markets. Uruguay played a key role in launching the new round of multilateral trade negotiations ^{which I firmly believe will result in mutual benefits.}

While ^{this is a long-term effort,} ~~which~~ ^{the Uruguay round} ~~I~~ firmly believe will result in mutual benefits. The United States, like Uruguay, believes in free and fair trade and is concerned about increased protectionist pressures. ^{As you know,} ~~Certainly,~~ we in the United States cannot sustain our ^{I face considerable} ~~substantial~~ trade deficit indefinitely. The considerable ^{protectionist} ~~realignment~~ in the values of international currencies ^{pressure from the} ~~alleviates~~ some of the protectionist pressures which result ^{U.S. Congress which} ~~to resist.~~

from such ~~an imbalance~~, ^{a deficit,} but we look to the new round for ^{trade} further improvement in the international trading environment.

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

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

Sincerely,

Ronald Reagan

United States Department of State

Washington, D.C. 20520

XR: 8716427

June 23, 1987

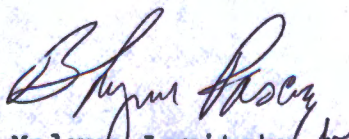
MEMORANDUM FOR MR. FRANK C. CARLUCCI
THE WHITE HOUSE

Subject: Suggested Response to Letter from Julio Maria Sanguinetti, President of Uruguay, concerning the debt problems of developing countries in Latin America

On May 25 President Sanguinetti wrote leaders of the industrialized countries meeting at the Venice Summit in his capacity as Secretariat pro tempore of the Cartagena Consensus, a group of eleven Latin American debtor countries. Sanguinetti has exerted a moderating influence on discussions of the debt issue. His letter and a translation are attached.

Sanguinetti expresses his concern regarding recessionary trends which pose obstacles to growth in the developing countries. He cites the efforts of debtor countries to adjust to these conditions at great social cost. Nonetheless, debt remains the major economic problem of the region. Sanguinetti also laments the clouded atmosphere surrounding the new round of multilateral trade negotiations which was launched in Uruguay. Citing our common interest in growth, he calls for coordinated action to confront the debt problem. He proposes an "in-depth debate" to be conducted multilaterally and bilaterally.

In the suggested response, we reiterate the strategy we have agreed with other Summit countries to deal with debt-related problems and to restore economic growth in the developing countries. We acknowledge there is more to be done. We express our support for expanded lending by commercial banks and the international financial institutions in support of adjustment. We also cite the importance of maintaining open markets to alleviation of debt problems. We conclude by expressing our willingness to discuss these issues at the IMF/IBRD meetings this fall or bilaterally.


Melvyn Levitsky
Executive Secretary

Attachments:

- Tab 1. Suggested Reply.
- Tab 2. Letter from President Sanguinetti with translation.

STATE DEPARTMENT

SUGGESTED LETTER

Dear Mr. President:

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

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

His Excellency

Julio Maria Sanguinetti,

President of the Oriental Republic

of Uruguay,

Montevideo.

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

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

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

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

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

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

Sincerely,

Ronald Reagan

Su **Excelencia**
Señor Presidente de los Estados Unidos de América
D. Ronald Wilson Reagan
Washington
Estados Unidos de América

Presidente de la República Oriental del Uruguay



DEPARTMENT OF STATE

Washington, D.C. 20520

June 7, 1987

MEMORANDUM FOR: Mr. Grant S. Green
National Security Council

SUBJECT: Alerting NSC on Presidential
Correspondence

Enclosed is the original of a letter to President Reagan from President Julio M. Sanguinetti of Uruguay which is transmitted for your information.

This correspondence was received in the Information Management Section of the Executive Secretariat on June 6, 1987.

Charles S. Jackson, Jr.

Director, S/S-1
Information Management Section
Executive Secretariat
647-3836

ACTION COPY

Department of State

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Handwritten initials/signature

UNCLAS MONTEVIDEO 03338

E.O. 12356: N/A TAGS: EFIN, OECD, UY SUBJECT: TEXT OF CARTAGENA CONSENSUS LETTER TO PRESIDENT REAGAN

- 1. GOU FOREIGN MINISTER IGLESIAS GAVE THE AMBASSADOR A LETTER TO PRESIDENT REAGAN FROM PRESIDENT SANGUINETTI WHO WRITES ON BEHALF OF THE CARTAGENA CONSENSUS NATIONS TO THE OECD COUNTRIES FOR THEIR CONSIDERATION AT THE VENICE SUMMIT. ORIGINAL BEING POUCHED TO DEPT.
- 2. THE FOLLOWING IS AN INFORMAL TRANSLATION OF THE TEXT.

BEGIN TEXT: MONTEVIDEO. MAY 25, 1987

HIS EXCELLENCY RONALD WILSON REAGAN PRESIDENT OF THE UNITED STATES OF AMERICA WASHINGTON

HISTER PRESIDENT:

ONCE AGAIN, ON THE OCCASION OF A NEW SUMMIT OF THE SEVEN MAJOR INDUSTRIALIZED COUNTRIES, ^{we} AM WRITING TO YOU, IN MY CAPACITY AS PRO-TEMPORE SECRETARY OF THE CARTAGENA CONSENSUS, AND ON BEHALF OF THE PRESIDENTS OF ARGENTINA, BRAZIL, COLOMBIA, CHILE, ECUADOR, DOMINICAN REPUBLIC, BOLIVIA, MEXICO, PER. AND VENEZUELA. I DO SO IN ORDER TO CONVEY TO YOU THE VIEWPOINT OF OUR GOVERNMENTS ON RECENT EVENTS CONCERNING THE INTERNATIONAL ECONOMY NOT ONLY BECAUSE SUCH EVENTS HAVE DEEP REPERCUSSIONS ON THE EVOLUTION OF ALL OF THE LATIN-AMERICAN AND CARIBBEAN

ECONOMIES, BUT ALSO BECAUSE WE ARE CONSCIOUS THAT, IF THE RECESSIONARY TRENDS WHICH HAVE CHARACTERIZED THE GREAT MAJORITY OF OUR COUNTRIES IN THIS DECADE ARE NOT REVERSED, SUCH TRENDS WILL BECOME AN IMPORTANT OBSTACLE FOR ORDERLY AND STABLE EXPANSION OF THE WORLD ECONOMY.

WE VIEW AGAIN WITH DEEP CONCERN THE FACT MANY OF THE EXTERNAL FACTORS WHICH HAVE HINDERED A SUSTAINED RECOVERY OF THE REGION IN PAST YEARS STILL PERSIST AND IN SOME CASES ARE EVEN WORSENING. ON ONE HAND, AND CONTRARY TO INITIAL FORECASTS, THE RATE OF GROWTH ANTICIPATED FOR MOST OF THE OECD COUNTRIES HAS NOT BEEN CONFIRMED. ON THE OTHER, AFTER A PROMISING DECLINE, INTEREST RATES CURRENTLY SHOW A WORRISOME RISING TREND, HAVING REMAINED IN ANY CASE, IN REAL TERMS, FAR ABOVE HISTORICAL LEVELS. FOR DEVELOPING COUNTRIES THIS IS AGGRAVATED BY THREE ELEMENTS: FALL IN PRICES OF BASIC PRODUCTS--WHICH CONTINUE TO BE THEIR PRINCIPAL SOURCE OF FOREIGN CURRENCY--ON A SCALE UNPRECEDENTED SINCE END OF WORLD WAR II, THE INCREASE OF PROTECTIONIST MEASURES IN INDUSTRIALIZED COUNTRIES, AND THE LIMITED AVAILABILITY OF FRESH EXTERNAL FINANCING WHICH SOME INDICATORS SHOW WILL DECREASE EVEN MORE IN THE NEXT FUTURE.

SOME COUNTRIES HAVE ALSO HAD TO FACE ADDITIONAL PROBLEMS AS A CONSEQUENCE OF DAMAGES CAUSED BY NATURAL DISASTERS WHICH HAVE AGGRAVATED THEIR ECONOMIC SITUATION AND PAYMENT CAPACITY.

DESPITE THESE NEGATIVE EXTERNAL AND INTERNAL SITUATIONS WE HAVE SPARED NO EFFORT TO ADJUST OUR RESPECTIVE ECONOMIES TO PREVAILING AND PREDICTABLE CIRCUMSTANCES. THESE EFFORTS HAVE BEEN ENORMOUS IN PAST YEARS--MEASURED IN TERMS OF CONTRACTION OF THE STANDARDS OF LIVING AND TRANSFORMATION OF PRODUCTIVE STRUCTURES--ALL OF WHICH HELPED TO AVOID A BREAKDOWN IN THE INTERNATIONAL FINANCIAL SYSTEM WHICH WOULD HAVE DAMAGED US ALL.

UNFORTUNATELY, THESE PROFOUND ADJUSTMENTS WERE INSUFFICIENT IN THE FACE OF THE NEGATIVE PRESSURES OF THE INTERNATIONAL ENVIRONMENT ON OUR ECONOMIES. THE SOCIAL COST THEY IMPLIED HAS BEEN SO GREAT THAT IT EVEN JEOPARDIZES THE RECENT TREND TOWARDS PLURALISTIC AND DEMOCRATIC SOCIETIES.

IT SHOULD BE REMEMBERED THAT IN 1986 MORE THAN HALF OF THE COUNTRIES HAD AGAIN NEGATIVE PER CAPITA GROWTH RATES--IN SOME CASES FOR THE FIFTH CONSECUTIVE YEAR--AND THAT IN MOST OF THE OTHER COUNTRIES RECOVERY WAS SLOW AND GENERALLY WEAK. UNDER THESE CIRCUMSTANCES, THE FAVORABLE PERFORMANCE OF SOME COUNTRIES CANNOT BE UNDERSTOOD TO IMPLY A SUSTAINED REVERSAL OF THE RECESSIONARY TRENDS OF PREVIOUS YEARS. LATIN AMERICA WILL LIKELY START THE NEXT DECADE WITH STANDARDS OF LIVING SIMILAR TO OR LOWER THAN THOSE AT THE BEGINNING OF THE 80'S.

AMONG THE MAIN OBSTACLES HINDERING A BETTER PERFORMANCE OF THE REGION'S ECONOMIES IS--AND WE MUST AGAIN INSIST UPON THIS--THE DEBT PROBLEM. AS RECENT DEVELOPMENTS SHOW, THIS PROBLEM IS NOT ONLY UNRESOLVED BUT IS TENDING TO WORSEN, DESPITE THE CONSIDERABLE PROGRESS ATTAINED AS TO RECOGNIZING JOINT RESPONSIBILITY IN ITS ORIGIN AND SOLUTION AND THE NEED TO ADDRESS IT WITHIN THE FRAMEWORK OF POLICIES OF GROWTH AND POSITIVE--AND NOT RECESSIONARY--ADJUSTMENT. FROM OUR VIEWPOINT, THE MENTIONED PREVAILING CONDITIONS IN THE WORLD ECONOMY HAVE RESULTED IN ONE FACT: IT IS SIMPLY IMPOSSIBLE FOR MOST OF THE COUNTRIES OF THE REGION TO SIMULTANEOUSLY GROW, INVEST AND SERVICE THEIR LARGE EXTERNAL DEBT.

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THE INITIATIVES DESIGNED IN THE PAST TO FURTHER A LARGER FLOW OF PUBLIC AND PRIVATE RESOURCES HAVE NOT MATERIALIZED AND HAVE NOT ATTAINED THE LEVELS REQUIRED TO SUSTAIN A MINIMUM VOLUME OF INVESTMENT AND A REASONABLE RATE OF GROWTH.

ON THE CONTRARY, THE MASS TRANSFER OF FINANCIAL RESOURCES FROM OUR ECONOMIES HAS CONTINUED. IN INTEREST ALONE, THESE TRANSFERS AMOUNT TO MORE THAN 5 PERCENT OF THE GROSS NATIONAL PRODUCTS. THIS IS AN UNSUSTAINABLE PHENOMENON THAT MUST BE REVERSED AS SOON AS POSSIBLE. THIS PHENOMENON HAS FORCED SOME COUNTRIES TO ADOPT MEASURES AIMED AT LIMITING SUCH TRANSFERS.

ON THE OTHER HAND, IT IS ESSENTIAL FOR US TO INSIST ON THE FACT THAT THE PROBLEM OF THE EXTERNAL DEBT, NOT ONLY BECAUSE OF ITS CAUSES BUT BECAUSE OF ITS CONSEQUENCES, CONCERNS US ALL. THE PARALYSIS OF GROWTH AND ESPECIALLY THE VERTICAL FALL IN IMPORTS INTO WHICH DEBTOR COUNTRIES HAVE BEEN FORCED, CONSTITUTES TODAY A SIGNIFICANT ELEMENT AMONG THE OBSTACLES TO WORLD ECONOMIC EXPANSION AND, PARTICULARLY, TO THE EXPANSION OF THE ECONOMIES OF INDUSTRIALIZED COUNTRIES.

IN THE NEGOTIATION OF EACH CASE NOVEL SOLUTIONS ARE THEREFORE REQUIRED THAT FOCUS ON OBTAINING MINIMUM PER CAPITA INCOME GROWTH RATES AND THAT ARE PROTECTED FROM PERSISTENT VARIATIONS IN INTEREST RATES AND SUDDEN FLUCTUATIONS OF THE TERMS OF TRADE. WITH REGARD TO THE SOLUTION OF THE DEBT PROBLEM ONLY IN A REASONABLY SECURE CLIMATE WITH LONG-TERM STABILITY WILL IT BE POSSIBLE FOR US TO CONTINUE WITH OUR ADJUSTMENT PROGRAMS, TO INSURE LARGER INVESTMENT AND TO ATTAIN ACCEPTABLE GROWTH OBJECTIVES.

THE MAGNITUDE OF THE PROBLEM IS SUCH THAT THE INCREASE IN FINANCIAL FLOWS, SHOULD IT OCCUR, WILL BE INSUFFICIENT TO SOLVE THE DEBT PROBLEM. IT IS ALSO NECESSARY TO TAKE A PARALLEL AND COORDINATED ACTION WHICH MUST NECESSARILY TAKE INTO CONSIDERATION THE ADAPTATION OF THE DEBT SERVICE TO THE PAYMENT CAPACITY OF THE DEBTOR COUNTRY, THE EFFECTIVE REDUCTION OF NOMINAL INTEREST RATES TO BRING THEM TO REAL HISTORICAL LEVELS, THE SEPARATION OF CURRENT DEBT FROM FUTURE DEBT, THE ELIMINATION OR GREATER RESTRICTION OF BANKING MEDIATION MARGINS, A LONG-TERM RESCHEDULING, AND A SOLID COMMITMENT TO THE OBJECTIVES OF TRADE LIBERALIZATION AND EXPANSION WHICH GUARANTEE OUR REPAYMENT CAPACITY.

IN THIS LAST ASPECT, A PROCESS OF MULTILATERAL NEGOTIATIONS AT THE GATT LEVEL WAS INITIATED IN URUGUAY IN 1986, AIMED AT STOPPING AND REVERSING THE GROWING PROTECTIONIST MEASURES AND CREATING, TO THE ADVANTAGE OF A CONTINUED WORLD TRADE EXPANSION, A NEW ORDER IN INTERNATIONAL TRADE MORE TRANSPARENT THAN THE PRESENT ONE, PREDICTABLE AND FAVORABLE TO GROWTH, AND OFFERING OPPORTUNITIES TO DEVELOPING COUNTRIES TO IMPROVE THEIR SHARE IN SAID TRADE. HOWEVER, THE CLIMATE PREVAILING AT THE PUNTA DEL ESTE MEETING APPARENTLY COULD NOT PREVENT THE RECRUDESCENCE OF MEASURES THAT IN ONE WAY OR ANOTHER SLOW DOWN SUCH TRADE, AND THE URUGUAY ROUND WILL HAVE TO BEGIN UNDER LESS THAN PROMISING CIRCUMSTANCES, AND WITHOUT HAVING IMPLEMENTED AN EFFICIENT STATUS QUO AND PROGRESSIVE ROLLBACK OF TRADE BARRIERS SYSTEM.

ALL THESE PHENOMENA ARE OF EXTREME CONCERN SINCE THEY CHALLENGE AND OPENLY JEOPARDIZE THE SUCCESS OF NEGOTIATED REFINANCING AGREEMENTS AND OUR ADJUSTMENT AND DEVELOPMENT EFFORTS.

MASTER PRESIDENT:

THE DEBT PROBLEM IS JUST ONE ELEMENT--THOUGH CERTAINLY A FUNDAMENTAL ONE--OF THE GREAT CHALLENGE OF DEVELOPMENT AND MODERNIZATION FACED BY OUR COUNTRIES, OF WHICH WE ARE FULLY AWARE AND FROM WHICH WE DO NOT SHIRK OUR OWN RESPONSIBILITY. BUT THIS PROBLEM IS NOT ONLY OUR OWN; NEITHER CAN IT BE LIMITED TO ITS FINANCIAL ASPECT. IT IS ALSO AN ESSENTIAL FACTOR OF OUR DYNAMIC LINKAGE WITH THE GROWTH OF THE WORLD ECONOMY OF WHICH WE WANT TO BE A PART, TO THE ADVANTAGE OF ALL. AND IT IS ALSO AN UNAVOIDABLE ASPECT OF THE DISEQUILIBRIUM THAT CHARACTERIZES THE WORLD ECONOMY AND THAT HINDERS THE RESUMPTION AT A MORE SATISFACTORY PACE OF SUSTAINED GROWTH FOR ALL OF US--BOTH DEVELOPED AND DEVELOPING COUNTRIES.

IF ANY LESSON CAN BE LEARNED FROM THE DEVELOPMENTS OVER RECENT YEARS, IT IS THE DECISIVE ROLE OF COORDINATING POLICIES FOR LESSENING THE INTERNATIONAL ECONOMIC DISEQUILIBRIUM SUCH AS THOSE UNDERTAKEN BY YOUR COUNTRIES. SUCH EXPERIENCE MUST URGENTLY BE EXTENDED TO OTHER THEMES AND NEW INTERLOCUTORS.

IN OUR OPINION, IT IS WITH THAT SAME SPIRIT AND WITHIN AN OVERALL VIEW OF THE DEBT PROBLEM AND THE INTERNATIONAL ECONOMIC ENVIRONMENT SURROUNDING IT THAT AN IN-DEPTH DEBATE IS REQUIRED, BOTH IN MULTILATERAL FORA OF WHICH WE ARE MEMBERS AND DIRECTLY WITH FRIENDLY COUNTRIES SUCH AS YOURS, TO STUDY JOINTLY MEASURES AFFECTING US ALL AND TO LOOK FOR NEW INITIATIVES THAT MAY HELP SOLVE THE EXISTING PROBLEMS.

I AVAIL MYSELF OF THIS OPPORTUNITY OF CONVEYING TO YOU THESE REFLECTIONS ON BEHALF OF THE CHIEFS OF STATE AND ON MY OWN BEHALF TO RENEW THE ASSURANCES OF MY HIGHEST CONSIDERATION AND ESTEEM.

(SIGNED:) JULIO MA. SANGUINETTI

WILKEY

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Presidente de la República Oriental del Uruguay

Montevideo, 25 de mayo de 1987.

Señor Presidente:

Una vez más, en ocasión de celebrarse una nueva Cumbre de los siete mayores países industrializados, me dirijo a usted, en nuestro carácter de Secretaría Pro-Tempore del Consenso de Cartagena y en nombre de los señores Presidentes de Argentina, Brasil, Colombia, Chile, Ecuador, República Dominicana, Bolivia, México, Perú y Venezuela. Lo hago para transmitirle el punto de vista de nuestros gobiernos sobre acontecimientos recientes que atañen a la economía internacional. No sólo porque tales acontecimientos tienen honda repercusión en la evolución de todas y cada una de las economías de América Latina y el Caribe, sino también porque tenemos conciencia de que, si no se revierten las tendencias recesivas que han caracterizado la vasta mayoría de nuestros países en la presente década, éstas se convertirán en un obstáculo de peso para la expansión ordenada y estable de la economía mundial.

Nuevamente, comprobamos con profunda preocupación que perduran y, en algunos casos incluso se agravan, muchos de los factores externos que han obstaculizado la recuperación sostenida de la región en años pasados. Por un lado y contrariamente a las previsiones iniciales, el ritmo de crecimiento previsto para la mayoría de los países de la OECD no se ha confirmado. Por otro, luego de un promisorio descenso, las tasas de interés demuestran actualmente una preocupante tendencia al alza habiendo permanecido, de todas maneras, en términos reales, muy por encima de sus niveles históricos. Esto se ve agravado para los países en desarrollo por tres elementos: la caída de los precios de los productos básicos - que siguen constituyendo su principal fuente de divisas - en una magnitud sin precedentes desde el período de la post-guerra, por el recrudecimiento de medidas proteccionistas en los países industrializados y por la escasa disponibilidad de financiamiento externo fresco, que algunos indicadores señalan como retrocediendo aún más en el futuro próximo.

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A su Excelencia
Señor Presidente de los Estados Unidos de América
D. Ronald Wilson Reagan
Washington.

Historical File

Presidente de la República Oriental del Uruguay

- 2 -

Asimismo algunos países han debido enfrentar problemas adicionales a consecuencia de los daños producidos por desastres naturales que han agravado aún más su situación económica y su capacidad de pago.

A pesar de estas negativas situaciones externas e internas, no hemos escatimado esfuerzos para acomodar nuestras respectivas economías a las circunstancias imperantes y a las previsibles. Esos esfuerzos han sido mayúsculos en años pasados, medidos en términos de contracción de los niveles de vida y de transformación de las estructuras productivas, todo lo cual sirvió para evitar rupturas en el sistema financiero internacional, que hubieran perjudicado a todos.

Desafortunadamente, estos profundos ajustes fueron insuficientes ante las presiones negativas del entorno internacional sobre nuestras economías. El costo social que han significado ha sido de tal magnitud que incluso amenaza con poner a prueba la reciente tendencia hacia sociedades plurales y democráticas.

Cabe recordar que en 1986, más de la mitad de los países nuevamente tuvieron tasas de crecimiento por habitante negativas - en algunos por quinto año consecutivo - y que en la mayoría de los restantes la recuperación fue lenta y sobre todo frágil. En estas circunstancias no se puede entender que el desempeño favorable que tuvieron algunos países constituya o asegure una reversión sostenida de las tendencias recesivas de los años anteriores. Es muy probable que América Latina entre en la próxima década con niveles de vida similares, o inferiores, a los que tenía cuando entró en la década del 80.

Entre los principales obstáculos que impiden un mejor desempeño de las economías de la región se encuentra - y debemos nuevamente insistir en ello - el problema de la deuda. Como lo demuestran acontecimientos recientes, este problema no sólo no se resuelve, sino que tiende a agravarse, a pesar de que ha habido un avance considerable en cuanto a reconocer la responsabilidad en la gestación y solución del problema de la deuda así como la necesidad de abordarlo en el contexto de políticas de crecimiento y de ajuste positivo y no recesivo. Vistas desde nuestra óptica, las condiciones imperantes en la economía mundial ya mencionadas se han traducido en un hecho: para la vasta mayoría de los países de la región es simplemente imposible crecer, invertir y cumplir con el servicio de su abultada deuda externa en forma simultánea.

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Presidente de la República Oriental del Uruguay

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Las iniciativas concebidas en los últimos tiempos para promover un mayor flujo de recursos públicos y privados no se han producido en los hechos o no han alcanzado los niveles necesarios para sostener un volumen mínimo de inversiones y una tasa razonable de crecimiento.

Al contrario, ha continuado la transferencia masiva de recursos financieros hacia el exterior que, sólo en concepto de intereses, a veces implica magnitudes equivalentes a más del 5% del producto nacional bruto. Este es un fenómeno insostenible que debe revertirse cuanto antes. El mismo ya ha obligado a algunos países a adoptar medidas destinadas a limitarlas.

Por otro lado, consideramos imprescindible insistir en que el problema del endeudamiento externo no sólo por sus causas sino por sus consecuencias nos atañe a todos. La parálisis del crecimiento y sobre todo la vertical caída de las importaciones a la que se han visto forzados los países endeudados, constituye hoy en día un elemento significativo entre los obstáculos a la expansión económica mundial y, en particular, de los países industrializados.

Se requieren por tanto soluciones novedosas que pongan, en el centro de las negociaciones de cada caso, la obtención de tasas mínimas de crecimiento del ingreso per cápita y que estén al abrigo de los persistentes movimientos de las tasas de interés y de las bruscas fluctuaciones de los términos del intercambio. Sólo en un clima de razonable seguridad y estabilidad a largo plazo en la solución del problema de la deuda es que se darán las condiciones para continuar con nuestros programas de ajuste, asegurar una mayor inversión y lograr metas de crecimiento aceptables.

La magnitud del problema determina que el aumento de las corrientes financieras, aunque se diera, tampoco será suficiente para resolver el problema de la deuda. Se necesita además una acción paralela y coordinada, que deberá pasar necesariamente por una adecuación del servicio de la deuda a la capacidad real de pago del país deudor, por reducciones efectivas de las tasas de interés nominales para acercarlas a los niveles reales históricos, por una separación de la deuda actual y futura, por la eliminación o limitación aún más fuerte de los márgenes de intermediación bancaria, por la reprogramación a largo plazo de los vencimientos y por un decidido compromiso con los objetivos de liberalización y expansión del comercio que nos asegure la capacidad de repago.

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Presidente de la República Oriental del Uruguay

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En este último campo, se inició en 1986, en Uruguay, un proceso de negociación multilateral en el marco del GATT, destinado a detener y revertir las crecientes tendencias proteccionistas y a crear, en beneficio de una continua expansión del intercambio comercial a nivel mundial, un ordenamiento del comercio internacional más transparente que el actual, predecible y favorable al crecimiento y que ofrezca oportunidades a los países en desarrollo para mejorar su participación en dicho intercambio. Sin embargo, el ambiente que prevaleció en la Reunión de Punta del Este al parecer no logró evitar el recrudecimiento de medidas que de una u otra manera lo entorpecen, y la Ronda Uruguay habrá de iniciarse en condiciones no del todo promisorias, sin que se haya logrado aún instrumentar un sistema eficaz de statu-quo y de progresivo desmantelamiento de las trabas comerciales.

Todos estos fenómenos resultan sumamente inquietantes, por cuanto desafían y comprometen abiertamente el éxito de los acuerdos de refinanciación negociados y amenazan nuestros esfuerzos de ajuste y desarrollo.

Señor Presidente:

El problema de la deuda es sólo un elemento - aunque fundamental por cierto- del gran desafío que enfrentan nuestros países para desarrollarse y modernizarse, de los que somos plenamente conscientes y en los que no rehuimos en ningún caso nuestras propias responsabilidades. Pero no es sólo un problema de nuestra incumbencia, y no puede tampoco reducirse a su dimensión financiera. Es además un condicionante fundamental de nuestra vinculación dinámica con el crecimiento de la economía mundial al que deseamos sumarnos en beneficio de todos. Y es también un aspecto ineludible del conjunto de desequilibrios que caracterizan a la economía mundial e impiden la reanudación de un crecimiento sostenido y a ritmos más satisfactorios para todos, países industrializados y países en desarrollo.

Si alguna lección puede derivarse de lo acontecido en los últimos años es el papel decisivo de la coordinación de políticas en la atenuación de los desequilibrios económicos internacionales como las que realizan vuestros países. Urge extender esa experiencia a otros temas y nuevos interlocutores.

Es con ese mismo espíritu y en una visión de conjunto del problema de la deuda y el entorno internacional económico que lo rodea que se requiere a nuestro juicio, un debate en profundidad, tanto en los foros

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Presidente de la República Oriental del Uruguay


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multilaterales de los que formamos parte como en relación directa con países amigos como los vuestros, para el examen conjunto de medidas que nos afectan a todos y la búsqueda de nuevas iniciativas que pueden ayudar a resolver los problemas planteados.

Aprovecho la oportunidad que me brinda el hacerle llegar estas reflexiones en nombre de los señores Jefes de Estado y en el mío propio, para reiterarle las expresiones de mi personal estima y consideración.



Historical File

JSS, 

FCC probably
won't need to read
these Tabs. Thanks
anyway. WHC

Presidente de la República Oriental del Uruguay

Montevideo, 25 de mayo de 1987.

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multilaterales de los que formamos parte como en relación directa con países amigos como los vuestros, para el examen conjunto de medidas que nos afectan a todos y la búsqueda de nuevas iniciativas que pueden ayudar a resolver los problemas planteados.

Aprovecho la oportunidad que me brinda el hacerle llegar estas reflexiones en nombre de los señores Jefes de Estado y en el mío propio, para reiterarle las expresiones de mi personal estima y consideración.



4394



DEPARTMENT OF THE TREASURY
WASHINGTON

July 9, 1987

MEMORANDUM FOR GRANT S. GREEN, JR.
EXECUTIVE SECRETARY
NATIONAL SECURITY COUNCIL

FROM: Robert B. Zoellick ^{RBZ}
Executive Secretary

SUBJECT: Letter to President Sanguinetti

The Treasury Department has reviewed the subject draft letter and has the following comments:

- o Page 2, second and third lines, change to read "particularly the World Bank and the International Monetary Fund." This reordering is a bit more logical, because the Bank actually does the lending.
- o Page 2, second full paragraph, insert "Sustained" at the beginning of the first sentence, which begins "Growth depends on...."
- o Page 3, second full paragraph, change the third sentence to read: "However, I would caution that these problems, which developed over several years, will take perseverance and time to resolve fully."

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

July 9, 1987

Mr. Grant S. Green
Executive Secretary
National Security Council
The White House
Washington, D. C.

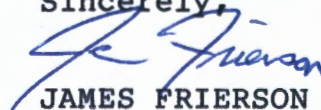
Dear Mr. Green:

We have reviewed the proposed reply to Uruguayan President Sanguinetti as Secretariat pro tempore of the Cartagena Consensus, and have a few comments as follows:

1. On the trade front, the letter could more fully express the realities and political pressures which we are facing here in Washington. It would be more constructive to emphasize that the President is facing enormous protectionist pressure from the Congress and is committed to resisting that pressure, even if it means vetoing a protectionist trade bill. We might also stress that the President recognizes the importance of expanded trade for world growth and that it is a central theme in our economic policies.
2. We also may want to tone down the great reliance placed on the Uruguay Round as a means of solving the problems raised in President Sanguinetti's letter. While the Uruguay Round is clearly an effort in the right direction, it is a long-term exercise. In contrast, the Consensus of Cartagena is concerned with immediate problems and solutions. The Uruguay Round may not be as responsive or helpful to them as the proposed reply suggests.
3. Finally, we noted that the letter has an overall tone of passivity and defensiveness. It adopts a "bureaucratic" approach that is not likely to persuade these countries of the wisdom of our position. We would suggest recasting the letter so that it sounds more presidential and reflects the political nature of these issues accordingly.

If you have any questions, please feel free to contact me.

Sincerely,


JAMES FRIERSON
Chief of Staff