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File Folder: International Trade VIII (A) Debt - IMF

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Date: 11/23/1999

DOCUMENT NO. & TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. cable	111256Z Oct 86 (2 p.) R 6/25/02 NLSF95-043/2 #8	10/11/86	P1
2. memo	Platt to VADM John Poindexter re: Senior Interdepartmental Group on International Foreign Affairs (5 p.) R 1/20/06 F95-043/2 #9	6/6/86	P1
3. memo	Platt to McFarlane re: Cuba (1p)	10/26/85	P1
4. memo	Danzansky/Soos to McFarlane (3p)	10/4/85	P5 KB 10/26/00
5. proposal	IMF/World Bank (4 p.) R 8/6/01 F95-043/2 #11	n.d.	P1

RESTRICTIONS

P-1 National security classified information [(a)(1) of the PRA].
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File Folder INTERNATIONAL TRADE VIII (A) DEBT-IMF

FOIA

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ID	Doc Type	Document Description	No of Pages	Doc Date
2	MEMO	PLATT TO POINDEXTER RE SIG ON INTERNATIONAL AFFAIRS FUNDING (F95-043/2 #9)	5	6/6/1986
		<i>mvh 9/18/08</i>		
5	PROPOSAL	FOR JOINT IMF/WORLD BANK FACILITY (F95-043/2 #11)	4	ND
		<i>mvh 3/18/08</i>		

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BY LDJ

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SUBJECT: 1986 IMF/WORLD BANK ANNUAL MEETINGS

1. SUMMARY: THE FORTY FIRST JOINT ANNUAL MEETINGS OF THE IMF AND WORLD BANK CULMINATED A YEAR THAT WITNESSED MAJOR NEW APPROACHES TOWARDS INTERNATIONAL COOPERATION ON EXCHANGE RATES, ECONOMIC POLICY COORDINATION AND LDC DEBT. THE DISCUSSIONS AT THE 1986 ANNUAL MEETINGS THEREFORE FOCUSED ON THE PROGRESS ACHIEVED DURING THE YEAR AND IMPLEMENTATION OF THE INSTITUTIONAL ARRANGEMENTS DEVELOPED TO ADDRESS THE PROBLEMS THAT REMAIN. THESE MEETINGS THUS PROVIDED AN OPPORTUNITY FOR STOCKTAKING RATHER THAN NEW INITIATIVES.

2. THERE WAS BROAD RECOGNITION THAT THE CURRENT PROBLEMS FACING THE GLOBAL ECONOMY, ESPECIALLY THE LARGE EXTERNAL IMBALANCES AMONG THE MAJOR INDUSTRIAL COUNTRIES AND THE CONTINUING LDC DEBT PROBLEM, COULD BEST BE RESOLVED IN THE CONTEXT OF AN OPEN, GROWING WORLD ECONOMY. WHILE DISAGREEMENTS REMAIN OVER THE NEED FOR AND SCOPE OF ADDITIONAL MEASURES TO SUSTAIN GLOBAL GROWTH, THE ACRIMONY THAT MANY FEARED WOULD ERUPT AT THE MEETINGS DID NOT MATERIALIZE. THE MAJOR INDUSTRIAL COUNTRIES AGREED TO DISAGREE ON ECONOMIC POLICIES WHILE CONTINUING TO USE THE PROCESS OF

CLOSER COORDINATION AGREED AT THE TOKYO SUMMIT TO REACH A CONSENSUS. THE AGREEMENT IN PRINCIPLE ON NEW COMMERCIAL BANK LENDING PACKAGE FOR MEXICO ALSO SERVED TO DEFUSE LDC CONCERNS REGARDING THE STRENGTHENED DEBT STRATEGY LAUNCHED AT SEOUL.

3. THE SEARCH FOR COMPROMISE AND CONCILIATION EXTENDED TO THE DISCUSSIONS ON SPECIFIC ISSUES AFFECTING THE IMF AND WORLD BANK. PAST DISPUTES ON ACCESS TO IMF RESOURCES WERE LAID ASIDE AS THE INTERIM COMMITTEE DECIDED TO EXTEND THE ENLARGED ACCESS POLICY FOR ONE YEAR WITH THE CURRENT LIMITS. PROGRESS WAS ALSO MADE IN THE NEGOTIATIONS ON THE IDA 8 REPLENISHMENT WHICH COULD EXCEED 12 BILLION DOLLARS, WITH A FINAL AGREEMENT EXPECTED TO BE REACHED IN NOVEMBER. THE U.S. STOOD FIRM ON ITS VIEW THAT IT WOULD BE PREMATURE TO BEGIN NEGOTIATIONS ON A WORLD BANK GENERAL CAPITAL INCREASE. THE CHANGE IN LEADERSHIP AT BOTH THE IMF AND WORLD BANK PROVIDED FERTILE GROUND FOR SPECULATION

OVER A SUCCESSOR TO JACQUES DE LABUSIERE AS IMF MANAGING-DIRECTOR AND THE COURSE BARBER CONABLE WOULD STEER AS THE NEW PRESIDENT OF THE WORLD BANK. END SUMMARY.

4. THE 1986 MEETINGS TOOK PLACE IN AN ECONOMIC ENVIRONMENT THAT WAS GENERALLY VIEWED AS MIXED. IN RECENT YEARS, STRONG U.S. GROWTH HAS FUELED GLOBAL RECOVERY, WITH THE U.S. EXPANSION ACCOUNTING FOR ABOUT HALF OF THE GROWTH IN OTHER MAJOR INDUSTRIAL COUNTRIES AND THE U.S. ABSORBING ROUGHLY 60 PERCENT OF THE GROWTH IN DEVELOPING COUNTRY EXPORTS. WITH U.S. GROWTH MODERATING TO A MORE SUSTAINABLE PACE, THE NEED FOR INCREASED GROWTH IN OTHER COUNTRIES TO MAINTAIN THE GLOBAL EXPANSION, REDUCE TRADE IMBALANCES AND DEAL WITH LDC DEBT PROBLEMS WAS A FOCAL POINT OF THE MEETINGS.

5. AT THE MEETINGS, THERE WAS RECOGNITION THAT DOMESTIC DEMAND IN OTHER INDUSTRIAL COUNTRIES IS STRENGTHENING AND THAT THE EXCHANGE RATE ADJUSTMENTS OF THE PAST YEAR SHOULD HALT THE INCREASE IN THE EXTERNAL IMBALANCES. RECENT IMF PROJECTIONS SUGGEST, HOWEVER, THAT IN 1987 GROWTH OUTSIDE THE U.S. WILL WEAKEN, RESULTING IN LITTLE CHANGE IN THE LARGE TRADE IMBALANCES THAT REMAIN.

6. A MAJOR THEME OF U.S. STATEMENTS AT THE MEETINGS WAS THE NEED FOR ALL COUNTRIES TO SHARE IN THE RESPONSIBILITY FOR ACHIEVING SUSTAINED, NON-INFLATIONARY GROWTH. IN HIS STATEMENT TO THE ANNUAL MEETINGS, PRESIDENT REAGAN COMMITTED THE U.S. TO CONTINUE TO DO ITS PART BY REDUCING THE BUDGET DEFICIT BY CURBING GOVERNMENT EXPENDITURES, LOWERING INTEREST RATES FURTHER, AND MAINTAINING AN OPEN

MARKET. HE NOTED, HOWEVER, THAT OTHER INDUSTRIAL NATIONS MUST ALSO CONTRIBUTE THEIR FAIR SHARE TO WORLD RECOVERY AND ADOPT MORE GROWTH-ORIENTED POLICIES. IN THIS CONNECTION, PRESIDENT REAGAN POINTED OUT THAT THE LARGE TRADE IMBALANCES THAT NOW EXIST POSE A MAJOR THREAT TO THE OPEN TRADING SYSTEM AND CAN BE RESOLVED ONLY THROUGH INCREASED GROWTH ABROAD, A GREATER COMPETITIVENESS FOR THE U.S. DOLLAR OR BOTH, COUPLED WITH THE OPENING OF MARKETS.

7. THESE ISSUES SERVED AS THE AGENDA FOR THE G-7 FINANCE MINISTERS MEETING WHICH UNDERTOOK THE FIRST MULTILATERAL SURVEILLANCE EXERCISE AS PROVIDED BY THE TOKYO ECONOMIC SUMMIT. AT THE MEETING, THE MINISTERS ASSESSED THEIR ECONOMIC OBJECTIVES AND FORECASTS, USING A RANGE OF ECONOMIC INDICATORS, WITH A VIEW TO EXAMINING THEIR MUTUAL COMPATIBILITY AND CONSIDERING THE NEED FOR REMEDIAL ACTION. THERE WERE NO DECISIONS FOR THE TIME BEING ON IMMEDIATE ACTION ON EITHER INTEREST RATES OR EXCHANGE RATES. THE GROUP AGREED TO FOLLOW THE SITUATION CLOSELY AND STAND READY TO CONSIDER ACTION IF IT SHOULD BECOME APPROPRIATE. WE CONSIDER THE MEETING, HOWEVER, AN IMPORTANT STEP FORWARD IN ADVANCING EFFORTS TO STRENGTHEN ECONOMIC POLICY COORDINATION AMONG THE MAJOR INDUSTRIAL COUNTRIES.

8. THE LDC DEBT SITUATION AND PROGRESS UNDER THE STRENGTHENED DEBT STRATEGY (DEBT STRATEGY PURSUED BY INDUSTRIAL COUNTRIES SINCE 1982, REINFORCED BY U.S. DEBT INITIATIVES ADOPTED IN SEOUL) WERE MAJOR TOPICS FOR BOTH THE INTERIM AND DEVELOPMENT COMMITTEES. THERE WAS BROAD RECOGNITION THAT SIGNIFICANT PROGRESS HAS BEEN MADE IN IMPLEMENTING GROWTH-ORIENTED STRUCTURAL REFORMS IN DEVELOPING COUNTRIES AND THAT THE INTERNATIONAL INSTITUTIONS HAVE BEEN ADAPTING THEIR POLICIES AND PROCEDURES TO SUPPORT THIS EFFORT MORE EFFECTIVELY. IN REAFFIRMING SUPPORT FOR THE STRENGTHENED DEBT STRATEGY,

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BOTH COMMITTEES EMPHASIZED THAT RESOLUTION OF THE DEBT PROBLEM REQUIRED A GROWING WORLD ECONOMY AND OPEN EXPORT MARKETS IN INDUSTRIAL COUNTRIES. THERE WAS CONCERN, HOWEVER, ABOUT THE IMPACT OF THE SHARP DECLINE IN OIL AND OTHER COMMODITY PRICES ON DEBTOR NATION'S DEBT SERVICING CAPACITY, AS WELL AS THE DECLINE IN COMMERCIAL BANK LENDING DURING 1985 AND EARLY 1986.

HAS NOT PUT FORWARD A CANDIDATE AND WILL REACH A DECISION ON THE POSITION WHEN A EUROPEAN CONSENSUS EMERGES. ON OTHER ISSUES, THE UNITED STATES STRONGLY SUPPORTED THE BID BY SPAIN AND AUSTRALIA TO JOIN THE G-10 BUT A DECISION WAS NOT REACHED AND THE QUESTION OF G-10 EXPANSION WILL BE CONSIDERED FURTHER NEXT YEAR. WHITEHEAD BT

9. THE UNCERTAINTIES FACING DEVELOPING COUNTRIES AND THE NEED TO SUPPORT GROWTH ORIENTED REFORMS WITH ADEQUATE FINANCING LED TO A DECISION BY THE INTERIM COMMITTEE TO EXTEND THE IMF'S ENLARGED ACCESS POLICY FOR ANOTHER YEAR WITH CURRENT ACCESS LIMITS (I.E., UP TO 90 PERCENT OF QUOTA ANNUALLY, AND 270 PERCENT OF QUOTA OVER THREE YEARS, PROVIDED NET OUTSTANDING USE DOES NOT EXCEED 400 PERCENT OF QUOTA). THERE WAS NO CONSENSUS, HOWEVER, ON A FURTHER

SDR ALLOCATION OR ON THE ROLE THAT THE SDR SHOULD PLAY IN THE SYSTEM IN THE FUTURE. WITH REGARD TO THE WORLD BANK, THE DEVELOPMENT COMMITTEE WELCOMED THE PROGRESS THAT HAD BEEN MADE ON IDA 8 AT A NEGOTIATING SESSION THAT OCCURRED JUST PRIOR TO THE ANNUAL MEETINGS AND REQUESTED THAT NEGOTIATIONS BE CONCLUDED BY NOVEMBER ON A REPLENISHMENT OF AT LEAST 12 BILLION DOLLARS. ON THE WORLD BANK GCI, THE U.S. WAS PRESSED HARD TO BEGIN NEGOTIATIONS IMMEDIATELY BUT DID NOT ALTER ITS POSITION THAT ADEQUATE RESOURCES WERE AVAILABLE TO MEET PROJECTED LENDING LEVELS AND THAT GCI NEGOTIATIONS SHOULD OCCUR ONLY WHEN THERE IS A DEMONSTRATED NEED FOR ADDITIONAL RESOURCES.

10. THE MEXICAN ANNOUNCEMENT THAT IT HAD REACHED AN AGREEMENT-IN-PRINCIPLE WITH COMMERCIAL BANKS ON A NEW MONEY PACKAGE TO SUPPORT THE MEXICAN "PROGRAM FOR SUSTAINED ECONOMIC GROWTH" WAS RECEIVED AS A POSITIVE SIGN OF COMMERCIAL BANKS' WILLINGNESS TO PROVIDE SUBSTANTIAL NET NEW LENDING UNDER THE DEBT STRATEGY. THIS PROGRAM, WHICH EXTENDS THROUGH 1987, FORMED THE BASIS FOR A STANDBY ARRANGEMENT NEGOTIATED WITH THE IMF DURING THE SUMMER, AND IT INCLUDES INNOVATIVE EXTERNAL FINANCING ARRANGEMENTS DESIGNED TO PUT MEXICO ON A PATH OF SUSTAINED ECONOMIC GROWTH. THE BANK AGREEMENT PROVIDES A CONCRETE EXAMPLE OF THE BANK'S WILLINGNESS TO SUPPORT THE STRENGTHENED DEBT STRATEGY PROPOSED BY SECRETARY BAKER AT SEOUL A YEAR AGO. THE TOTAL EXTERNAL FINANCING ASSOCIATED WITH THE MEXICAN PROGRAM IS

APPROXIMATELY 12 BILLION DOLLARS, OF WHICH THE COMMERCIAL BANK SHARE IS 6 BILLION DOLLARS INCLUDING 750 MILLION DOLLARS OF BANK LOANS GUARANTEED BY THE WORLD BANK. (THE PACKAGE ALSO INCLUDES UP TO 2.4 BILLION DOLLARS IN ADDITIONAL CONTINGENCY FINANCING WHICH COULD BE ACTIVATED IF PERFORMANCE IS BELOW PROJECTIONS.) 1.6 BILLION DOLLARS OF THE PACKAGE WAS PROVIDED BY DEBT RELIEF FROM PARIS CLUB CREDITORS IN MID-SEPTEMBER, AND THE REMAINDER COMES FROM THE IMF, MULTILATERAL DEVELOPMENT BANKS AND OFFICIAL EXPORT CREDIT AGENCIES.

*mexico package
\$12 bil
6 bil comm bank
of which \$750m guaranteed
world bank
2.4 on standby (paris club)
1.6 Paris club
2.0 IMF / multib
export credit*

11. THE SURPRISE DECISION BY IMF MANAGING-DIRECTOR DE LAROSIERE TO RELINQUISH HIS POST AT THE END OF THE YEAR FUELED SPECULATION AT THE MEETING ON A POSSIBLE SUCCESSOR. THE POSITION IS TRADITIONALLY HELD BY A REPRESENTATIVE OF A EUROPEAN COUNTRY AND DUTCH FINANCE MINISTER ONNO RUDING AND FRENCH CENTRAL BANK GOVERNOR MICHEL CAMDESSUS HAVE BEEN PUT FORWARD BY THEIR GOVERNMENTS AS CANDIDATES. IT IS EXPECTED THAT EC FINANCE MINISTERS WILL REACH AGREEMENT ON A SINGLE CANDIDATE AT THEIR OCTOBER MEETING. THE UNITED STATES

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20508INFORMATION

September 24, 1986

MEMORANDUM FOR JOHN M. POINDEXTER

THRU: STEPHEN I. DANZANSKY

FROM: STEPHEN P. FARRAR

SUBJECT: Issues at the Upcoming IMF/World Bank Meetings

The major issues during the series of meetings leading up to next week's annual meeting of the IMF and World Bank are LDC debt, the Baker Plan, growth rates in Germany and Japan, and economic policy coordination. These and other issues are summarized below.

LDC Debt/Baker Plan

The Development Committee, a joint body of the IMF and World Bank, will review the LDC debt situation and progress made since last year in devising growth-oriented strategies to better cope with the debt burden. While some LDC's are likely to support more drastic solutions to the debt problem, the Baker Plan will probably be reaffirmed. The question of more World Bank resources to support the Baker Plan will be side-stepped this year, although Barber Conable's announced goal of a lending program of \$21 billion per year (compared with last year's level of \$13.2 billion) implies a General Capital Increase in the near future.

Growth Rates in Germany and Japan

The meeting of the Interim Committee -- the IMF's steering group -- will be the forum for continued pressure on Germany and Japan to accelerate their economic growth in order to expand export markets for the U.S. and debtor countries. Germany has been intransigent. Japan last week announced a package of domestic measures that has been widely dismissed as inadequate. The sticking point for both countries is lowering of their discount rates.

Economic Coordination Among Developed Countries

At the Tokyo Summit, it was agreed that the seven partners and the IMF would consider ways to improve coordination of economic policies so as to reduce the variation in exchange rates. The Interim Committee will consider a report on specific economic indicators that might be used in a surveillance system. The problems with implementing such a system are illustrated by our current differences with Germany and Japan -- economic data can be interpreted in many ways.

G-5 vs. G-7

The Italians and Canadians are smarting from public disclosure of a recent G-5 deputies meeting in Paris. Those countries consider that meeting -- intended to be secret -- as inconsistent with the Summit Declaration creating the G-7 for economic surveillance. The G-5 will meet at the end of this week, but have expanded to include the Italians and Canadians. The Japanese in particular favor retaining the G-5 (expanded ad hoc to include Italy and Canada) as a coordinating forum for all issues but surveillance, which would be the province of the G-7. From my viewpoint, the distinction between the G-5 and G-7 is almost meaningless and should be abandoned.

IDA-8

Final agreement should be reached on an eighth replenishment of the International Development Association (IDA). The U.S. has already accepted an IDA-8 replenishment of \$11.5 billion over three years, implying U.S. payments of \$958 million annually. This would represent a 28% increase over the IDA-7 replenishment of \$9 billion (\$750 million per year from the U.S.). The size of the overall replenishment may be increased, however, if Japan is prepared to contribute additional funds in exchange for a large voting share in the World Bank.

New IMF Managing Director

The IMF will name a successor to Jacques De Larosiere, who last week announced his intention to resign by the end of the year. The post is by tradition filled by a European. The leading candidate is H. O. Ruding, the Minister of Finance of the Netherlands and Chairman of the Interim Committee.

The U.S. position is reasonably well defined on all of the issues noted above. However, it is worth noting that there has been almost no interagency coordination of the U.S. position. Even State appears to have been cut out. In past years, Treasury has used the International Monetary Group (IMG) to bring in other key agencies -- State, the Fed, NSC, CEA and OMB, but that group has not met for several years. The Economic Policy Council has never considered such issues. Same story with Treasury: what's mine is mine; what's yours is negotiable.



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June 6, 1986

MEMORANDUM FOR VADM JOHN M. POINDEXTER
THE WHITE HOUSE

Subject: Senior Interdepartmental Group on
International Affairs Funding for FY 1987

As directed in your memorandum of May 29, Deputy Secretary Whitehead convened a SIG on May 30 and June 3. These meetings focused on a strategy for reversing the cuts made in the Budget Resolutions, and for dealing with the upcoming budget conference and 302(b) allocation. Subsequent sessions will address our strategy in the appropriations process.

The Budget - A Damage Assessment

The agencies represented at the SIG agreed that we have a major crisis in funding for our international affairs activities in FY 1987. Both the Senate and House versions of the budget resolution sharply reduce the President's \$22.6 billion request for Function 150. Both Senate and House rejected the President's request for a 10 percent increase over the enacted, post-sequester FY 1986 baseline and began instead with a straightlined "freeze base." The Senate then made further reductions in development assistance, Foreign Military Sales credits, foreign information activities, and the Inman Diplomatic Security Program. The House made even larger cuts from the "freeze base," reducing most programs by 4.2 percent, cutting foreign aid a further 14.4 percent, and then adding a final 2.5 percent reduction across the board. Within this smaller aggregate total for the function, however, the House allowed virtually the entire request for the Inman program and allowed substantially more for USIA and the Board for International Broadcasting (BIB) than did the Senate. Both versions included over a billion dollars for Export-Import Bank direct loans, which were not part of the Administration's request. The Senate aggregate for Function 150 is \$17.9 billion and the House total is \$17.0 billion.

Even at the higher Senate level, we would have to make significant policy choices. After funding our highest priority commitments to Israel and Egypt, the base rights countries, Pakistan, and Central America, and after allowing for the Export-Import Bank add-on, the shortfall in the rest of our foreign affairs programs is on the order of fifty percent. In economic assistance, for example, the Senate level would

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effectively eliminate ESF programs in Africa, South America and the Caribbean. The outlook for military assistance is equally bleak.

The Administration's Response: A Two-Track Approach

To date, the Administration has not been engaged in the Congressional budget actions. We have supported the President's request and declined to compromise with the budget committees. Underlying this approach was an expectation that the budget resolution process would never reach consensus. This may still be the case, since the House and Senate are far apart, particularly on defense spending. Now that each body has passed its own resolution, however, the numbers have assumed a certain status. Even if the budget conference fails to reach a consensus, each Appropriations Committee is likely to begin mark-ups based on its own set of 302(b) allocations derived from that body's version of the budget resolution.

The agencies represented at the SIG recommend that the Administration now become actively engaged in the budget and appropriations process. They recommend a two-track approach.

The first track would build upon the momentum which Secretary Shultz has generated to date with his press briefings and public statements criticizing the Congress for underfunding international affairs programs. We have garnered significant media attention and numerous favorable editorials and op-ed pieces by detailing the policy costs associated with recent congressional budget actions. This campaign should be pressed at the highest levels, taking as its theme the fact that we have produced a strong and vibrant foreign policy over the past five years, and now risk jeopardizing and reversing these gains through unwise budgetary action. Our strongest point will be to explain the consequences of cuts of the magnitude proposed, and to shift attention from aggregate numbers and percentages to real programs that would need to be eliminated. Each agency is providing specific examples of programs that would likely be cut, which could be used to illustrate graphically to the public and to the Congress what is at stake.

In addition, we should mobilize those constituencies and interest groups which support foreign assistance to help us make the case that funding reductions of these magnitude are irresponsible and will make it impossible to pursue the President's basic foreign policy objectives.

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The second track would seek to engage the Congressional process at each crucial decision point in order to prevent further damage to our interests.

The Budget Conference

The first decision point in the process is likely to be the budget conference, scheduled to begin this week. We have differences among the agencies represented in the SIG over what we should support in the budget conference - the Senate version is larger in the aggregate and generally superior in every account with three exceptions:

(1) the Inman Diplomatic Security Initiative -- the Senate does not allow enough outlays even to accommodate the modified Inman package recommended by the Senate Appropriations Committee in the FY 1986 Urgent Supplemental.

(2) USIA -- the Senate version falls \$80 million short of the 1986 freeze level -- the minimum judged necessary by USIA to conduct its operations. The House version is more favorable, but still many millions below the freeze.

(3) Board for International Broadcasting (BIB) -- again the House version is more favorable, although it is well below the level BIB requires to keep Radio Free Europe/Radio Liberty, Inc. from declaring bankruptcy at current exchange rates.

Our obvious approach should be to support the Senate version and seek additional outlays from outside Function 150 to cover Inman, USIA, and BIB. This would entail a functional total higher than either of the two versions, which will be difficult to achieve.

If in the end we must live within the Senate aggregate, State, AID, USIA and BIB believe that our first priority should be to maintain the integrity of our institutions. By protecting foreign affairs agency operating bases, and by continuing our security enhancement program, we preserve the underpinning of policy without which our other 150 programs could not survive under the best of funding scenarios.

DOD believes that the Inman program is of significant importance but that further cuts in budget authority for military assistance would require reductions or eliminations in funding for countries which desperately need to improve their external and internal security -- to include counter terrorist forces. Such a situation could also increase the threat to

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Americans abroad by reducing countries' incentives and capabilities to provide adequate protection. Further, such reductions would unacceptably weaken US regional defense strategies.

The Treasury Department believes that, until the Administration prioritizes all of its foreign assistance requirements, the FY 1987 budget request of \$1.4 billion for the multilateral development banks, which translates into total MDB lending of \$23.8 billion, should be protected. Treasury and Eximbank also believe the \$300 million Fair Export Financing Program (the "warchest") is a critical element of the President's trade action program and is vital to our efforts to negotiate an end to the predatory use of tied aid credits.

With these concerns in mind, the SIG recommends a legislative strategy for the budget conference which would involve:

(1) The immediate release of the Presidential letter to Chairmen Domenici and Gray, which should attract considerable press and public attention to the foreign policy implications of reductions in the 150 function. *done*

(2) A Secretary Shultz phone call to Chairman Domenici which would underscore the importance of not reducing the Senate aggregate in conference.

(3) A Secretary Baker phone call to Chairman Gray to encourage the House to accede to Senate level for Function 150.

The 302(b) Allocation Process

If there is an overall settlement on the budget, we will have to move quickly to ascertain what the exact 302(b) divisions of the budget resolution should be for our three subcommittees (Foreign Operations; Commerce, State and Justice; and Agriculture). At that point, our immediate task will be to ensure a fair allocation of those amounts, given the traditional propensity to poach from Function 150 accounts to benefit other programs. The key action will be to encourage House Appropriations Committee Chairman Jamie Whitten to allocate the full amount to each subcommittee.

The SIG recommends that Secretary Shultz call Senate Appropriations Committee Chairman Mark Hatfield with the same message. We do not anticipate as much difficulty in the 302(b) process on the Senate side, but feel it is important to touch base with the Chairman.

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Finally, appropriate senior Administration officials should call Appropriations subcommittee Chairmen Obey, Smith, Kasten and Rudman to encourage them to seek a fair 302(b) process in full committee.

If There Is No Budget Resolution

The differences between the House and Senate on defense, taxes and other issues may make a settlement of the budget resolution impossible. If the conference bogs down, the Appropriations subcommittees will begin marking up based on their separate budget resolutions' notional 302(b) allocations. In the 150 area, the first likely subcommittee to do so will be the Obey subcommittee (House Foreign Operations), perhaps as early as next week. In that event, the SIG will reconvene to recommend an Administration posture for that mark-up and beyond.

Nicholas Platt

Nicholas Platt
Executive Secretary

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SUBJECT: SECRETARY BAKER'S STATEMENTS AT IMF INTERIM
COMMITTEE

1. SUMMARY. SECRETARY BAKER GAVE TWO STATEMENTS AT OCTOBER 5 MEETING OF IMF INTERIM COMMITTEE. MORNING STATEMENT SUMARIZED U.S. VIEWS ON WORLD ECONOMIC OUTLOOK, PROGRESS ON LDC DEBT PROBLEMS, ACCESS TO IMF RESOURCES, AND SDR ALLOCATION. IT ALLUDED BRIEFLY TO U.S. SUGGESTIONS FOR STRENGTHENING THE DEBT STRATEGY AND TO THE SEPTEMBER 22 G-5 AGREEMENT, NOTING THAT THESE WOULD BE ELABORATED IN OCTOBER 8 ADDRESS TO IMF/IBRD ANNUAL MEETINGS. AFTERNOON STATEMENT PRESENTED DETAIL ON U.S. VIEWS ON USE OF TRUST FUND REFLOWS. DESPITE MEDIA REPORTS TO THE CONTRARY, SECRETARY BAKER DID NOT REPEAT NOT BEGIN QUOTE BACK OFF END QUOTE U.S PROPOSAL. INSTEAD, HE CHALLENGED OTHER MEMBERS TO CONSIDER A BOLD APPROACH, INVOLVING MORE INTENSIVE IMF/IBRD COLLABORATION THAT WOULD COMBINE THEIR RESOURCES AND EXPERTISE TO PROVIDE A FRAMEWORK FOR THE GENERATION IF COMPREHENSIVE ECONOMIC PROGRAMS, AND STATED U.S. WILLINGNESS TO CONSIDER SEEKING ADDITIONAL RESOURCES TO SUPPORT SUCH AN APPROACH. DETAILS ON REACTIONS TO U.S. PROPOSAL ARE BEING PROVIDED SEPTEL. END SUMMARY.

2. BEGIN TEXT OF MORNING STATEMENT:

STATEMENT BY SECRETARY BAKER BEFORE THE IMF INTERIM COMMITTEE, SUNDAY, OCTOBER 6, 1985 (MORNING SESSION)

MR. CHAIRMAN, MR. MANAGING DIRECTOR, FELLOW GOVERNORS:

- LAST SPRING WE HAD AN IMPORTANT DISCUSSION OF THE POLICIES WHICH COULD HELP IMPROVE AND SUSTAIN GROWTH IN ALL OF OUR COUNTRIES OVER THE MEDIUM TERM. WE MADE NO SPECIFIC COMMITMENTS ON MEASURES WHICH EACH OF US WOULD TAKE, BUT OUR DISCUSSIONS HELPED TO UNDERSCORE THE IMPORTANCE OF JOINT EFFORTS TO REACH OUR COMMON OBJECTIVES.

- SINCE THAT MEETING, THE UNITED STATES HAS GIVEN CONSIDERABLE ATTENTION TO WHAT WE COULD DO, IN CONCERT WITH OTHER NATIONS, TO HELP IMPROVE THE CLIMATE FOR GROWTH AND STABILITY IN THE GLOBAL ECONOMY.

CURRENT OUTLOOK

- THE GLOBAL COMMUNITY HAS MADE CONSIDERABLE PROGRESS IN THE PAST FEW YEARS IN REDUCING INFLATION, RESTORING GROWTH, AND DEALING WITH THE INITIAL FINANCIAL STRAINS OF THE DEBT PROBLEM. THE STRONG U.S. RECOVERY THAT BEGAN IN LATE 1982 HAS PROVIDED A STRONG IMPETUS TO TRADE AND GROWTH IN OTHER NATIONS. NOW THE BENEFITS OF GROWTH ARE SPREADING MORE WIDELY, AS ECONOMIC POLICIES WHICH HAVE BEEN PUT IN PLACE OVER THE PAST TWO TO THREE YEARS ARE BEARING FRUIT.

- THIS IS TRUE NOT ONLY FOR OTHER INDUSTRIAL NATIONS, BUT FOR MANY DEVELOPING COUNTRIES AS WELL. REAL GROWTH IN THE INDUSTRIAL WORLD WILL REMAIN ABOVE 3 PERCENT THIS YEAR, DESPITE MORE MODERATE U.S. GROWTH, DUE TO STRONGER DOMESTIC DEMAND OUTSIDE OF THE UNITED STATES. IT IS APPARENT THAT JAPAN AND GERMANY, IN PARTICULAR, ARE RELYING LESS ON EXPORT-LED GROWTH AND ARE BEGINNING TO GENERATE SUSTAINED DOMESTIC EXPANSION. THIS SHOULD RESULT IN STRONGER INDUSTRIAL COUNTRY GROWTH NEXT YEAR IN THE 3-1/2 - 4 PERCENT RANGE.

- OECD INTEREST RATES ON AVERAGE ARE ONLY HALF AS HIGH AS THEY WERE FOUR YEARS AGO. INFLATION RATES IN THE MAJOR INDUSTRIAL COUNTRIES ARE AT THEIR LOWEST LEVELS IN ALMOST 20 YEARS, REFLECTING A FIRM

FOUNDATION FOR A MEDIUM-TERM EXPANSION OF NONINFLATIONARY GROWTH.

- THE INDUSTRIAL NATIONS ARE THUS PROVIDING A SOLID FRAMEWORK FOR GROWTH IN THE DEVELOPING NATIONS. IT IS CRITICAL, HOWEVER, THAT THIS GROWTH BE REINFORCED BY FIRM RESISTANCE TO RISING PROTECTIONIST PRESSURES IN ORDER TO ENSURE THAT LDC EXPORT MARKETS REMAIN OPEN.
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UNCLAS SECTION 02 OF 06 SEOUL 10505

STATE PASS TO ALL DIP AND CONSULAR POSTS AS APPROPRIATE

FOR UNDER SECRETARY WALLIS, ASSISTANT SECRETARY MCHINN
FROM U.S. DELEGATION

E.O. 12356: N/A
TAGS: EFIN, IMF, KS
SUBJECT: SECRETARY BAKER'S STATEMENTS AT IMF INTERIM

- DOMESTIC POLICIES ADOPTED BY THE CAPITAL-IMPORTING
CURRENT ACCOUNT DEFICITS FROM DOLS 104 TO 44 BILLION
DURING THE PAST THREE YEARS, AND TO LAY THE BASIS FOR
BETTER GROWTH OVER THE MEDIUM TERM. DEVELOPING
COUNTRY EXPORTS HAVE RISEN SIGNIFICANTLY AND THESE
NATIONS ARE NOW GROWING AT AN AGGREGATE RATE OF
APPROXIMATELY 4 PERCENT.

NEXT STEPS

- HOWEVER, SOME MAJOR PROBLEMS NEED TO BE ADDRESSED.
- FIRST, LARGE TRADE AND CURRENT ACCOUNT IMBALANCES
IN THE INDUSTRIAL WORLD NEED TO BE CORRECTED THROUGH
THE CONTINUED CONVERGENCE OF RELATIVE GROWTH
PERFORMANCE AND EXCHANGE RATES WHICH MORE FULLY
REFLECT UNDERLYING ECONOMIC CONDITIONS. MEASURES TO
PROMOTE THE ACHIEVEMENT OF THESE OBJECTIVES WERE
ANNOUNCED IN NEW YORK ON SEPTEMBER 22 BY THE SDR
CURRENCY COUNTRIES.
- FOR OUR PART, THE UNITED STATES RECOGNIZES ITS
RESPONSIBILITY IN HELPING TO ASSURE A SOUND WORLD
ECONOMY. PRESIDENT REAGAN IS FIRMLY COMMITTED TO
CONTINUE TO REDUCE GOVERNMENT EXPENDITURES AND THE
FEDERAL BUDGET DEFICIT AS A SHARE OF GNP; TO IMPLEMENT
FULLY THE DEFICIT REDUCTION MEASURES ADOPTED BY
CONGRESS, AND TO SEEK FURTHER REDUCTIONS IN ORDER TO
REDUCE THE DEFICIT STEADILY IN THE YEARS AHEAD. THE
PRESIDENT HAS IN FACT RECENTLY WELCOMED PROPOSED
LEGISLATION THAT WOULD ESTABLISH A MAXIMUM ALLOWABLE
DEFICIT CEILING THAT WILL REDUCE THE DEFICIT IN EQUAL
STEPS TO A BALANCED BUDGET IN 1991. HE IS ALSO
COMMITTED TO PUT IN PLACE REVENUE-NEUTRAL TAX REFORM
THAT WILL ENCOURAGE SAVINGS AND EFFICIENCY.
FURTHERMORE, THE PRESIDENT HAS REITERATED OUR FIRM

INTENTION TO RESIST PROTECTIONIST MEASURES; HIS RECENT
REJECTION OF IMPORT RESTRAINTS ON SHOES BEARS WITNESS
TO THAT CONVICTION. HOWEVER, OUR ABILITY TO AVOID
PROTECTIONIST ACTION DEPENDS CRITICALLY ON OTHER
NATIONS OPENING THEIR MARKETS AND ELIMINATING UNFAIR
TRADING PRACTICES.

FURTHER ACTION IS ALSO NEEDED TO ADDRESS THE
CONTINUING DEBT PROBLEMS OF THE DEVELOPING NATIONS. A
NUMBER OF THE MAJOR DEBTOR NATIONS, DESPITE
CONSIDERABLE PROGRESS IN THEIR EXTERNAL ACCOUNTS, HAVE
MADE LESS PROGRESS AND EXPERIENCED SETBACKS IN THEIR
EFFORTS TO REDUCE DOMESTIC IMBALANCES AND INFLATION.
NET COMMERCIAL BANK LENDING TO THE DEVELOPING NATIONS
HAS ALSO BEEN DECLINING DURING THE PAST YEAR AND A
HALF, IN SOME CASES TO LEVELS THAT ARE NOT ADEQUATE TO
SUPPORT ADJUSTMENT EFFORTS.

- ADDRESSING THESE PROBLEMS WILL REQUIRE A
STRENGTHENING OF THE CASE-BY-CASE DEBT STRATEGY TO
INCLUDE:

- --FIRST AND FOREMOST, THE ADOPTION BY PRINCIPAL
DEBTOR COUNTRIES OF COMPREHENSIVE MACRO-ECONOMIC AND
STRUCTURAL POLICIES, SUPPORTED BY THE INTERNATIONAL
FINANCIAL INSTITUTIONS, TO PROMOTE GROWTH AND BALANCE
OF PAYMENTS ADJUSTMENT, AND TO REDUCE INFLATION.

- --SECOND, A CONTINUED CENTRAL ROLE FOR THE IMF, IN
CONJUNCTION WITH INCREASED AND MORE EFFECTIVE
STRUCTURAL ADJUSTMENT LENDING BY THE MULTILATERAL
DEVELOPMENT BANKS (MDB'S), BOTH IN SUPPORT OF THE
ADOPTION BY PRINCIPAL DEBTORS OF MARKET-ORIENTED
POLICIES FOR GROWTH.

- --THIRD, INCREASED LENDING BY THE PRIVATE BANKS IN
SUPPORT OF COMPREHENSIVE ECONOMIC ADJUSTMENT PROGRAMS.

I WILL ELABORATE ON THESE THOUGHTS IN MY ADDRESS TO
THE PLENARY SESSION OF THE ANNUAL MEETINGS.

-
ACCESS

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TO GRADUALLY PHASE OUT ENLARGED ACCESS.

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UNCLAS SECTION 03 OF 06 SEOUL 10505

STATE PASS TO ALL DIP AND CONSULAR POSTS AS APPROPRIATE

FOR UNDER SECRETARY WALLIS, ASSISTANT SECRETARY MCMINN
FROM U.S. DELEGATION

E.O. 12356: N/A
TAGS: EFIN, IMF, KS
SUBJECT: SECRETARY BAKER'S STATEMENTS AT IMF INTERIM

- PERMIT ME TO TURN NOW TO THE ISSUE OF THE IMF'S ENLARGED ACCESS POLICY. AT THE OUTSET, LET ME STATE CATEGORICALLY THAT THE UNITED STATES IS FIRMLY COMMITTED TO A STRONG AND EFFECTIVE IMF. WE ARE CONVINCED THAT THE IMF HAS PLAYED AN ESSENTIAL ROLE IN DEALING WITH LDC DEBT PROBLEMS. MANAGING DIRECTOR DE LAROSIERE AND HIS STAFF HAVE DONE AN OUTSTANDING JOB AND DESERVE OUT DEEP GRATITUDE. THE IMF CAN AND MUST REMAIN AT THE CENTER OF INTERNATIONAL EFFORTS TO PROMOTE A SOUND WORLD ECONOMY AND STABLE INTERNATIONAL MONETARY SYSTEM.

- IN RECENT YEARS, THE UNITED STATES HAS SUPPORTED A SUBSTANTIAL INCREASE IN IMF RESOURCES. WE HAVE INCREASED THE U.S. COMMITMENTS TO THE IMF BY DOLS 8.5 BILLION AS PART OF THE OVERALL EXPANSION IN IMF QUOTAS AND THE GENERAL ARRANGEMENTS TO BORROW. THE UNITED STATES IS THE LARGEST CREDITOR TO THE FUND, WITH A RESERVE POSITION TOTALLING ROUGHLY DOLS 15 BILLION.

- AS PART OF THE INCREASE IN IMF QUOTAS, IT WAS AGREED THAT THE POLICY OF ENLARGED ACCESS WAS TEMPORARY. THIS COMMITTEE REAFFIRMED THAT VIEW AND HAS TAKEN STEPS TO GRADUALLY PHASE OUT ENLARGED ACCESS. ON THE BASIS OF THESE UNDERSTANDINGS, AND AS PART OF OUR ACHIEVING FOR THE FIRST TIME IN 15 YEARS FULL FUNDING FOR THE MDB'S, WE COMMITTED TO CONGRESS THAT THE ENLARGED ACCESS POLICY WOULD EVENTUALLY BE ELIMINATED.

- THE UNITED STATES BELIEVES THAT THIS PROCESS SHOULD NOW BE CONTINUED. WHILE WE RECOGNIZE THAT CONTINUING DIFFICULTIES IN A NUMBER OF COUNTRIES WARRANT AN EXTENSION OF ENLARGED ACCESS TO FUND RESOURCES, WE NEVERTHELESS BELIEVE THAT GLOBAL CIRCUMSTANCES PERMIT A REDUCTION OF ACCESS LIMITS IN ORDER THAT WE WILL BE SEEN AS KEEPING OUR COMMITMENT

- A MODEST REDUCTION OF THE CURRENT CUMULATIVE AND ANNUAL LIMITS WOULD REAFFIRM AND PROTECT THE REVOLVING CHARACTER OF THE FUND'S RESOURCES, WHILE ENSURING THAT THE FUND RETAINS SUFFICIENT FLEXIBILITY TO MEET THE LEGITIMATE NEEDS OF ITS MEMBERS. SIMILAR REDUCTIONS IN ACCESS TO THE SPECIAL FACILITIES SHOULD ALSO BE IMPLEMENTED.

- WE REMAIN OPEN TO CONSIDERATION OF PRECISE PROPOSALS FOR REDUCTIONS WHICH OTHER MEMBERS MAY WISH TO SUGGEST. HOWEVER, WE BELIEVE THAT IT IS CRITICAL TO HAVE AN ADEQUATE REDUCTION TO MAINTAIN PROGRESS IN GRADUALLY PHASING OUT ENLARGED ACCESS. FOR OUR PART, WE MUST KEEP OUR COMMITMENT TO CONGRESS.

SDR ALLOCATION

- TURNING TO THE QUESTION OF A FURTHER ALLOCATION OF SPECIAL DRAWING RIGHTS, THE UNITED STATES CONTINUES TO BELIEVE THAT THE BASIC REQUIREMENT FOR AN ALLOCATION HAS NOT BEEN SATISFIED. A CONVINCING CASE HAS NOT BEEN MADE THAT THERE IS A LONG-TERM GLOBAL NEED TO SUPPLEMENT RESERVES. INDEED, GLOBAL RESERVES HAVE INCREASED AT AN AVERAGE ANNUAL RATE OF ABOUT 11 PERCENT SINCE 1982. NON-OIL DEVELOPING COUNTRY RESERVES HAVE ACTUALLY GROWN EVEN FASTER. OTHER BASIC INDICATORS, INCLUDING THE RATIO OF GLOBAL RESERVES TO IMPORTS AND TO EXTERNAL DEBT, HAVE IMPROVED OR REMAINED RELATIVELY CONSTANT.

- THUS, ALTHOUGH SOME DEVELOPING NATIONS STILL FACE DIFFICULT ADJUSTMENT AND LIQUIDITY PROBLEMS, THE SOLUTION IS NOT SIMPLY CREATING UNCONDITIONAL LIQUIDITY, ONLY A SMALL SHARE OF WHICH WOULD FLOW TO THE DEVELOPING COUNTRIES. THE KEY IS IMPLEMENTATION OF SOUND ECONOMIC POLICIES TO PROMOTE GROWTH AND ADJUSTMENT, SUPPORTED BY ADEQUATE COMMERCIAL AND OFFICIAL SUPPORT AND A FAVORABLE GLOBAL ECONOMIC ENVIRONMENT.

- OUR DISCUSSION OF THE ALLOCATION QUESTION HAS ALSO
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STATE PASS TO ALL DIP AND CONSULAR POSTS AS APPROPRIATE

FOR UNDER SECRETARY WALLIS, ASSISTANT SECRETARY MCHINN
FROM U.S. DELEGATION

E.O. 12356: N/A
TAGS: EFIN, IMF, KS
SUBJECT: SECRETARY BAKER'S STATEMENTS AT IMF INTERIM

RAISED BASIC QUESTIONS CONCERNING THE ROLE OF THE SDR
IN SYSTEM THAT HAS EVOLVED SUBSTANTIALLY SINCE THE SDR
WAS CREATED. THESE CHANGES MAKE IT NECESSARY TO
REVIEW THE BASIC RATIONALE FOR THE SDR IN TODAY'S
SYSTEM, AND SUCH A REVIEW WILL BE UNDERTAKEN BY THE
IMF EXECUTIVE BOARD. WE SHOULD NOT PREJUDICE THAT
REVIEW. WE ARE CONFIDENT THAT THERE WILL BE A
COMPREHENSIVE TREATMENT OF THIS ISSUE IN THE EXECUTIVE
BOARD.

CONCLUSION

- ACHIEVING THE OBJECTIVE OF GROWTH AND ADJUSTMENT
SUPPORTED BY A FAVORABLE GLOBAL ENVIRONMENT AND
ADEQUATE FINANCIAL FLOWS WILL REQUIRE DETERMINATION
AND MUTUAL EFFORT. AS INDICATED IN THE SEPTEMBER 22
STATEMENT BY THE UNITED STATES AND OTHER KEY
INDUSTRIAL COUNTRIES, WE ARE COMMITTED TO HELP CREATE
A GLOBAL ENVIRONMENT WHICH WILL PROVIDE A POSITIVE
CONTRIBUTION TO SUPPORT THE DEVELOPING COUNTRIES IN
THEIR CONTINUING ADJUSTMENT EFFORTS. WE NEED TO
CONSIDER FURTHER HOW THE OTHER ELEMENTS CAN BE PUT IN
PLACE, AND I WILL ELABORATE ON OUR VIEWS WITH RESPECT
TO THAT IN MY SPEECH AT THE ANNUAL MEETINGS. END OF
TEXT.

3. FOLLOWING IS TEXT OR AFTERNOON STATEMENT: BEGIN
TEXT:

STATEMENT BY SECRETARY OF THE TREASURY JAMES A. BAKER,
III AT THE IMF INTERIM COMMITTEE MEETING ON USE OF
TRUST FUND REFLOWS ON OCTOBER 6, 1985

MR. CHAIRMAN:

OUR DISCUSSION THIS MORNING CONFIRMS THAT IN SPITE OF
A NUMBER OF POSITIVE SIGNS IN THE WORLD ECONOMIC
OUTLOOK, THE ECONOMIC CONDITIONS IN MOST OF THE
POOREST COUNTRIES WHICH RELY PRIMARILY ON CONCESSIONAL
FINANCING HAVE NOT NOTICEABLY IMPROVED. THE ECONOMIC
FACTS BEAR WITNESS TO THIS SITUATION:

---ECONOMIC GROWTH IN THE POOREST COUNTRIES IN RECENT
YEARS HAS AVERAGED 1.8 PERCENT ANNUALLY, AND IN SOME
COUNTRIES LIVING STANDARDS ARE CURRENTLY AT THE LEVELS
OF 15 YEARS AGO.

---THEIR TRADE AND CURRENT ACCOUNT DEFICITS HAVE NOT
IMPROVED DESPITE RECOVERY IN THE WORLD ECONOMY, AND
ARE NOT PROJECTED TO IMPROVE OVER THE NEXT FEW YEARS,
DESPITE FREQUENT USE OF IMF FINANCING BY MANY OF THESE
COUNTRIES WHICH HAS LED TO PROLONGED USE OF IMF
RESOURCES.

---DEBT SERVICING DIFFICULTIES IN THESE COUNTRIES HAVE
RESULTED IN THE IMPOSITION AND INTENSIFICATION OF
TRADE AND PAYMENTS RESTRICTIONS AND IN GROWING ARREARS
ON FINANCIAL OBLIGATIONS, BOTH DOMESTIC AND EXTERNAL,
INCLUDING ARREARS TO THE IMF.

THE IMF HAS PROVIDED BALANCE OF PAYMENTS FINANCING AND
ADVICE IN THE CONTEXT OF ECONOMIC PROGRAMS FOR MANY OF
THESE COUNTRIES IN RECENT YEARS. THE WORLD BANK HAS
ALSO ASSISTED THESE COUNTRIES, THROUGH BOTH PROJECT,
SECTORAL AND STRUCTURAL ADJUSTMENT LENDING. BUT,
THESE PROGRAMS HAVE MET WITH ONLY LIMITED SUCCESS. IN
PART THIS REFLECTS INADEQUATE ACTION BY THE COUNTRIES
ON THE FUNDAMENTAL CHANGES NEEDED TO CREATE THE
CONDITIONS FOR SUSTAINED GROWTH AND DEVELOPMENT.
HOWEVER, ADVERSE EXTERNAL DEVELOPMENTS AND NATURAL
DISASTERS HAVE ALSO PLAYED A ROLE. FINALLY, THE LACK
OF SUCCESS PARTIALLY STEMS FROM THE FACT THAT THE
ECONOMIC PROBLEMS OF THE POOREST COUNTRIES REQUIRE A
COMPREHENSIVE APPROACH INVOLVING STRUCTURAL CHANGES AS
WELL AS SOUND MACRO-ECONOMIC POLICIES.

THE TRUST FUND REFLOWS PRESENT US WITH AN OPPORTUNITY
TO UTILIZE IMF RESOURCES IN SUPPORT OF COMPREHENSIVE
ECONOMIC PROGRAMS. IN ORDER TO DO THIS MOST
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STATE PASS TO ALL DIP AND CONSULAR POSTS AS APPROPRIATE

FOR UNDER SECRETARY WALLIS, ASSISTANT SECRETARY MCMIN
FROM U.S. DELEGATION

E.O. 12356: N/A
TAGS: EFIN, IMF, KS
SUBJECT: SECRETARY BAKER'S STATEMENTS AT IMF INTERIM

EFFECTIVELY, WE BELIEVE THAT A NEW TRUST FUND PROGRAM
SHOULD INCLUDE THE FOLLOWING BASIC ELEMENTS:

---ELIGIBILITY WOULD BE BASED SOLELY ON LOW PER CAPITA
INCOME, PERHAPS THE DOLS 550 LEVEL USED BY THE WORLD
BANK TO DETERMINE IDA PARTICIPATION. ACTUAL USE OF
THE RESOURCES, HOWEVER, WOULD BE BASED ON AN ELIGIBLE
COUNTRY HAVING A PROTRACTED BALANCE OF PAYMENTS
PROBLEM AND BEING WILLING TO IMPLEMENT A COMPREHENSIVE
GROWTH-ORIENTED ECONOMIC PROGRAM. ACCESS TO PRIVATE
MARKETS COULD ALSO BE TAKEN INTO ACCOUNT IN
DETERMINING ACTUAL USE OF THE FACILITY.

*IDA
\$550 per
level*

---TERMS ON LOANS WOULD BE CONCESSIONAL WITH LOW
INTEREST RATES, SUBSTANTIAL GRACE PERIODS, AND
EXTENDED MATURITIES.

---CONDITIONS FOR PARTICIPATION WOULD INCLUDE A
COMMITMENT TO A MULTI-YEAR GROWTH-ORIENTED ECONOMIC
PROGRAM IN WHICH FUNDS WOULD BE DISBURSED
SEMI-ANNUALLY BASED ON SATISFACTORY PERFORMANCE UNDER
THE PROGRAM. THE PROGRAMS THEMSELVES WOULD BE
DESIGNED TO SUPPORT GROWTH-ORIENTED ADJUSTMENT BY
REMOVING STRUCTURAL IMPEDIMENTS TO PRODUCTION, SAVING,
INVESTMENT AND NON-INFLATIONARY GROWTH.

TO ACCOMPLISH THESE OBJECTIVES, EACH PROGRAM SHOULD
CONTAIN BOTH MACRO-ECONOMIC AND STRUCTURAL COMPONENTS,
TAILORED TO MEET THE INDIVIDUAL NEEDS OF EACH
COUNTRY. MACRO-ECONOMIC POLICIES MUST CONTINUE TO
INCLUDE SOUND MONETARY AND FISCAL POLICIES TO REDUCE
DOMESTIC IMBALANCES AND INFLATION, AS WELL AS FREE
MARKET PRICES AND EXCHANGE RATES TO ENCOURAGE
PRODUCTION AND A MORE EFFICIENT USE OF RESOURCES.
THESE MEASURES CAN HELP ASSURE A MORE STABLE DOMESTIC
POLICY ENVIRONMENT WITHIN WHICH TO PURSUE LONGER TERM
RESTRUCTURING AND GROWTH.

STRUCTURAL AND INSTITUTIONAL MEASURES SHOULD ALSO BE
ADOPTED TO ENHANCE THE ROLE OF THE PRIVATE SECTOR AND
TO ENCOURAGE PRIVATE INITIATIVE IN ORDER TO PROVIDE
GREATER STIMULUS TO DOMESTIC GROWTH. THESE SHOULD
INCLUDE EFFORTS TO IMPROVE THE EFFICIENCY OF
STATE-OWNED ENTERPRISES AND PRIVATIZE THE PUBLIC
SECTOR, REDUCING GOVERNMENT INTERVENTION IN THE
ECONOMY. GROWTH-ORIENTED TAX REFORM AND INTEREST
RATES DESIGNED TO STIMULATE SAVINGS AND DOMESTIC
INVESTMENT SHOULD ALSO BE ADOPTED.

Private

FINALLY, TRADE LIBERALIZATION AND MEASURES TO MAKE
FOREIGN DIRECT INVESTMENT MORE ATTRACTIVE ARE CRITICAL
TO BRING IN THE RESOURCES NEEDED TO BOOST BOTH
PRODUCTION AND EXPORTS. EQUITY INVESTMENT CAN BE
PARTICULARLY VALUABLE IN SUPPORTING GROWTH, SINCE IT
IS NOT DEBT CREATING AND CAN GENERATE SUPPORTIVE
ADDITIONAL INVESTMENT WHICH CAN HAVE A COMPOUNDING
EFFECT ON GROWTH AND HELP TO KEEP CAPITAL AT HOME.

*Direct
Growth
Investment*

---OPERATIONS WOULD BE THE RESPONSIBILITY OF THE IMF.
IT WOULD BE CRITICAL, HOWEVER, TO HAVE CLOSE
COOPERATION BETWEEN THE FUND AND THE BANK TO ACHIEVE A
CONSISTENT POLICY APPROACH THAT WOULD HELP THESE
COUNTRIES IN CREATING THE FUNDAMENTAL CONDITIONS FOR
GROWTH. WE BELIEVE THAT IN SOME CASES THIS COULD BEST
BE ACCOMPLISHED BY A JOINT APPROACH BY THE FUND AND
THE BANK. SUCH AN APPROACH WOULD INVOLVE, ON A CASE
BY CASE BASIS, JOINT FUND/BANK TEAMS TO ASSIST THE
MEMBER IN DEVELOPING A BROAD RANGE OF POLICIES THAT
ADDRESS BOTH MACRO-ECONOMIC AND STRUCTURAL PROBLEMS IN
ORDER TO PROMOTE GROWTH. BILATERAL AID FLOWS COULD BE
DISBURSED IN CLOSE ASSOCIATION WITH SUCH JOINT

PROGRAMMING.

THE U.S. WOULD BE PREPARED TO CONSIDER A BOLDER
APPROACH INVOLVING MORE INTENSIVE IMF AND WORLD BANK
COLLABORATION TO PROVIDE A FRAMEWORK FOR DEVELOPMENT
OF UNIFIED COMPREHENSIVE ECONOMIC PROGRAMS, AND TO
CATALYZE ADDITIONAL FINANCING IN SUPPORT OF SUCH
PROGRAMS. WE BELIEVE THAT THIS APPROACH WOULD HELP
INSURE THAT THE INSTITUTIONS PROVIDE SOUND, MUTUALLY
CONSISTENT ADVICE ON THE FULL RANGE OF POLICIES THAT
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STATE PASS TO ALL DIP AND CONSULAR POSTS AS APPROPRIATE
FOR UNDER SECRETARY WALLIS, ASSISTANT SECRETARY MCMINN
FROM U. S. DELEGATION

E. O. 12356: N/A
TAGS: EFIN, IMF, KS
SUBJECT: SECRETARY BAKER'S STATEMENTS AT IMF INTERIM

CAN BE USED TO ATTACK POVERTY AND PROMOTE GROWTH.
MOREOVER, IT MIGHT GENERATE SUBSTANTIAL ADDITIONAL
RESOURCES FOR THESE COUNTRIES. IN FACT, THE UNITED
STATES (WHICH SUPPORTED AFRICAN COUNTRIES WITH DOLS
1.7 BILLION IN BILATERAL AID IN 1985) WOULD BE
PREPARED TO CONSIDER SEEKING ADDITIONAL RESOURCES IN
SUPPORT OF SUCH A BOLDER APPROACH IF OTHER DONORS WERE
PREPARED TO MAKE EQUITABLE CONTRIBUTIONS.

WE RECOGNIZE THAT SOME OF YOU MAY HAVE RESERVATIONS
ABOUT SUCH AN APPROACH, VIEWING IT AS COMPLICATED AND
DIFFICULT TO IMPLEMENT. I WOULD AGREE THAT THIS WOULD
NOT BE AN EASY APPROACH TO PUT INTO PLACE, BUT I
BELIEVE THAT IT OFFERS SUBSTANTIAL POSSIBILITIES FOR
HELPING THE POOREST COUNTRIES -- AND FOR STRENGTHENING
THE TIES BETWEEN THE FUND AND THE BANK -- AND THAT WE
SHOULD BE PREPARED TO EXPLORE IT. I WOULD WELCOME
HEARING THE VIEWS OF OTHER MEMBERS ON SUCH AN
APPROACH, AND HOPE THAT FURTHER CONSIDERATION COULD BE
GIVEN TO IT IN THE MONTHS AHEAD.

THANK YOU MR. CHAIRMAN. END TEXT.

WALKER
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UNCLAS SECTION 01 OF 03 SEOUL 10479

STATE PASS TO ALL DIP AND CONSULAR POSTS AS APPROPRIATE

E.O. 12356: N/A
TAGS: IMF, EFIN, KS
SUBJECT: PRESS COMMUNIQUE OF IBRD/IMF DEVELOPMENT
COMMITTEE

FOLLOWING IS VERBATIM TEXT OF AGREED COMMUNIQUE:
BEGIN TEXT:

1. THE DEVELOPMENT COMMITTEE HELD ITS TWENTY-SEVENTH MEETING IN SEOUL, KOREA, ON OCTOBER 7, 1985 UNDER THE CHAIRMANSHIP OF HIS EXCELLENCY GHULAM ISHAQ KHAN. MR. A.W. CLAUSEN, PRESIDENT OF THE WORLD BANK, MR. J. DE LAROSIERE, MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND, AND MR. FRITZ FISCHER, EXECUTIVE SECRETARY OF THE DEVELOPMENT COMMITTEE, PARTICIPATED IN THE MEETING. OBSERVERS FROM A NUMBER OF INTERNATIONAL ORGANIZATIONS AND SWITZERLAND ALSO ATTENDED.

2. THE COMMITTEE HEARD A REPORT FROM THE IMF MANAGING DIRECTOR ON THE INTERIM COMMITTEE DISCUSSIONS ON THE WORLD ECONOMIC OUTLOOK.

3. THE COMMITTEE CONTINUED A DISCUSSION BEGUN IN APRIL CONCERNING THE IBRD'S LENDING PROSPECTS AND IMPLICATIONS FOR ITS FINANCIAL REQUIREMENTS. THE COMMITTEE EXPRESSED SUPPORT FOR AN EXPANDED ROLE FOR THE BANK IN HELPING DEVELOPING COUNTRIES IMPLEMENT POLICIES DESIGNED TO PROMOTE EFFICIENCY AND MOBILIZE DOMESTIC SAVINGS AS THEY CONTINUE TO ADJUST TO THE ADVERSE EXTERNAL ECONOMIC ENVIRONMENT. THE COMMITTEE CONCLUDED THAT ALL COUNTRIES NEED TO MOVE AS QUICKLY AS POSSIBLE TOWARD SUSTAINED ECONOMIC GROWTH. THE COMMITTEE FURTHER AGREED THAT MANY HEAVILY INDEBTED COUNTRIES HAVE MADE CONSIDERABLE PROGRESS IN THEIR ADJUSTMENT EFFORTS, BUT NOTED THAT SERIOUS DIFFICULTIES REMAIN. IN THIS CONTEXT, THE COMMITTEE STRESSED THAT SUSTAINED GROWTH IN THE INDUSTRIAL COUNTRIES, OPEN MARKETS, TOGETHER WITH GREATER STABILITY IN THE EXCHANGE MARKETS AND LOWER INTEREST RATES, ARE NECESSARY TO FURTHER ADVANCE PROSPECTS FOR

GROWTH IN SUCH DEVELOPING COUNTRIES. MOREOVER, THE COMMITTEE AGREED THAT THERE WERE OTHER ELEMENTS WHICH ARE ESSENTIAL TO STRENGTHEN GROWTH PROSPECTS: COMPREHENSIVE STRUCTURAL AND DEVELOPMENT POLICIES, PROVISION OF SUBSTANTIAL NET NEW RESOURCES BY COMMERCIAL BANKS, AND ENHANCED PARTICIPATION OF THE MULTILATERAL DEVELOPMENT BANKS AND THE IMF. THESE ELEMENTS MUST BE CLOSELY INTEGRATED, WITHIN A CONSISTENT FRAMEWORK, IF THE GOAL OF GROWTH IS TO BE ACHIEVED IN THESE COUNTRIES. THE COMMITTEE CONCLUDED THAT IN THIS SITUATION THE WORLD BANK HAD AN INCREASINGLY IMPORTANT ROLE TO PLAY IN RESTORING GROWTH AND REQUESTED THAT BANK MANAGEMENT PREPARE, FOR CONSIDERATION AT THE APRIL MEETING OF THE COMMITTEE, A REPORT FOCUSED ON HOW SUSTAINED GROWTH CAN BEST BE ACHIEVED IN THESE COUNTRIES.

4. THE COMMITTEE REVIEWED THE RESPONSE OF BANK MANAGEMENT TO ITS REQUEST FOR FIVE-YEAR PROJECTIONS OF BANK LENDING, I.E. A THREE-YEAR LENDING PROGRAM (FY86-88) OF DOLS 40-45 BILLION, RISING TO AN ANNUAL LEVEL IN FY90 OF BETWEEN DOLS 16.5 AND DOLS 20 BILLION. THE COMMITTEE EXPRESSED ITS STRONG SUPPORT FOR A SUBSTANTIAL EXPANSION OF THE BANK'S LENDING PROGRAM IN ORDER FOR IT TO RESPOND MORE EFFECTIVELY TO THE NEEDS OF ITS BORROWING MEMBERS AND TO STIMULATE THE FLOW OF CAPITAL FROM OTHER SOURCES.

5. THE COMMITTEE DISCUSSED THE IMPLICATIONS OF THE EXPANDED LENDING PROGRAM PROPOSED BY MANAGEMENT FOR THE RESOURCES OF THE BANK. MINISTERS AGREED THAT THE BANK SHOULD BE PROVIDED WITH THE CAPACITY TO INCREASE ITS QUALITY LENDING AND THAT THE BANK SHOULD NOT BE

CONSTRAINED BY LACK OF CAPITAL OR BORROWING AUTHORITY IN MEETING FUTURE DEMAND. THE COMMITTEE CALLED UPON MANAGEMENT TO BEGIN DISCUSSIONS WITH THE EXECUTIVE BOARD ON PROPOSALS THAT WOULD ENABLE THE BANK TO MEET ITS RESOURCE REQUIREMENTS OVER THE NEXT FIVE YEARS, INCLUDING THE POSSIBILITY OF A GENERAL CAPITAL INCREASE, AND TO REPORT ON PROGRESS AT THE NEXT MEETING OF THE DEVELOPMENT COMMITTEE.

6. THE REPORT OF THE TASK FORCE ON CONCESSIONAL FLOWS, COMPRISING REPRESENTATIVES FROM EIGHTEEN DEVELOPING AND INDUSTRIALIZED COUNTRIES, WAS PRESENTED TO THE COMMITTEE BY ITS CHAIRMAN, PROFESSOR JOHN P. LEWIS. THE COMMITTEE EXPRESSED ITS APPRECIATION FOR THIS IMPORTANT REPORT AND UNDERLINED THE CONSENSUS
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UNCLAS SECTION 02 OF 03 SEOUL 10479

STATE PASS TO ALL DIP AND CONSULAR POSTS AS APPROPRIATE

E.O. 12356: N/A
TAGS: IMF, EFIN, KS
SUBJECT: PRESS COMMUNIQUE OF IBRD/IMF DEVELOPMENT

REACHED IN IT ON AID EFFECTIVENESS, PUBLIC SUPPORT FOR AID, AND AID VOLUME. THE COMMITTEE RECALLED ITS AGREEMENT REACHED LAST APRIL THAT FOR THE LOW-INCOME COUNTRIES INCREASING ODA FLOWS DESERVES THE HIGHEST PRIORITY AND EXPRESSED ITS SUPPORT FOR THE TASK FORCE REPORT. IT URGED THAT THE REPORT AND ITS SUGGESTIONS SHOULD BE TAKEN INTO ACCOUNT BY ALL GOVERNMENTS CONCERNED. IT CALLED ON THE WORLD BANK TO TAKE THE LEAD IN FOLLOWING UP ON THE TASK FORCE'S CONCLUSIONS AND TO REPORT TO FUTURE DEVELOPMENT COMMITTEE MEETINGS ON PROGRESS ACHIEVED.

7. AGAINST THIS BACKGROUND WHICH EMPHASIZED THE NEED FOR INCREASED AID FLOWS TO POOR COUNTRIES, THE COMMITTEE HEARD A REPORT ON THE MID-TERM REVIEW OF IDA-7 FROM THE CHAIRMAN OF THE IDA DEPUTIES, FOLLOWING THEIR MEETING ON OCTOBER 5, 1985. THE COMMITTEE URGED THAT A SUCCESSFUL AND ADEQUATE EIGHTH REPLENISHMENT OF IDA BE ACHIEVED BY SEPTEMBER 1986 FOLLOWING THE TIMETABLE ESTABLISHED BY THE DEPUTIES.

8. THE COMMITTEE NOTED THE REPORT FROM THE IMF MANAGING DIRECTOR CONCERNING THE CONSTRUCTIVE DISCUSSIONS THAT HAD TAKEN PLACE IN THE INTERIM COMMITTEE ON THE USE OF IMF TRUST FUND REFLOWS. THE COMMITTEE WELCOMED THE INITIATIVES PROPOSED THAT WOULD CONCENTRATE THE USE OF THOSE RESOURCES IN LOW-INCOME COUNTRIES WITH PROTRACTED BALANCE OF PAYMENTS PROBLEMS IN SUPPORT OF PROGRAMS TO PROMOTE STRUCTURAL ADJUSTMENT AND GROWTH IN A MEDIUM-TERM FRAMEWORK. IN THIS REGARD, THE COMMITTEE STRESSED THE IMPORTANCE OF CLOSER COLLABORATION BETWEEN THE FUND AND THE BANK WHILST AVOIDING CROSS-CONDITIONALITY.

9. THE COMMITTEE CONTINUED TO REVIEW THE ESPECIALLY DIFFICULT ECONOMIC SITUATION OF SUB-SAHARAN AFRICAN COUNTRIES. IT EXPRESSED ITS PLEASURE THAT THE BANK'S

SPECIAL FACILITY FOR SUB-SAHARAN AFRICA HAD BECOME EFFECTIVE JULY 1, 1985 WITH OVER DOLS 1.2 BILLION IN ANTICIPATED CONTRIBUTIONS, AND NOTED WITH SATISFACTION THAT SEVERAL CREDITS HAD ALREADY BEEN MADE BY THE FACILITY IN ITS FIRST THREE MONTHS.

10. THE COMMITTEE NOTED WITH GREAT CONCERN THE INCREASING NUMBER OF COUNTRIES IN SUB-SAHARAN AFRICA WHICH FACE SEVERE DEBT, AND MORE GENERALLY, RESOURCE PROBLEMS. IT WELCOMED THE EMERGING CONSENSUS THAT THE USE OF THE IMF TRUST FUND REFLOWS WOULD CONTRIBUTE TOWARD THE SOLUTION OF THESE PROBLEMS. THE COMMITTEE ALSO AGREED THAT CONTINUED BROAD-BASED ADJUSTMENT EFFORTS, INCLUDING STRUCTURAL REFORMS, AS WELL AS ADDITIONAL CONCESSIONAL FLOWS, ARE NEEDED FOR THESE COUNTRIES TO RECOVER AND RESUME PER CAPITA INCOME GROWTH. IN THIS CONTEXT, THE COMMITTEE URGED THE WORLD BANK AND THE IMF TO IMPROVE THEIR COOPERATION IN DEVELOPING SOUND AND CONSISTENT ADVICE ON POLICIES DESIGNED TO REDUCE POVERTY AND PROMOTE GROWTH IN THESE COUNTRIES. THE COMMITTEE ALSO REQUESTED THAT WORLD BANK MANAGEMENT PREPARE A STUDY FOCUSED ON THE RESOURCE PROBLEMS OF SUB-SAHARAN AFRICA FOR DISCUSSION AT THE NEXT COMMITTEE MEETING.

11. THE COMMITTEE WAS INFORMED BY THE GATT DIRECTOR-GENERAL OF THE LATEST DEVELOPMENTS ON INTERNATIONAL TRADE ISSUES. THE COMMITTEE REITERATED ITS CALL FOR ALL GOVERNMENTS TO RESIST PROTECTIONISM AND WELCOMED THE UNANIMOUS AGREEMENT RECORDED IN RECENT DISCUSSIONS IN THE GATT CONCERNING PREPARATIONS FOR THE PROPOSED ROUND OF MULTILATERAL TRADE NEGOTIATIONS. IT INVITED THE GATT DIRECTOR-GENERAL TO CONTINUE TO KEEP IT INFORMED ABOUT FURTHER DEVELOPMENTS.

12. THE MINISTERS NOTED THAT, PURSUANT TO THE CONSENSUS REACHED AT THE APRIL DEVELOPMENT COMMITTEE MEETING, THE EXECUTIVE DIRECTORS OF THE WORLD BANK HAD PREPARED THE DRAFT CONVENTION ESTABLISHING THE MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA) WITH A VIEW TO ENHANCING THE FLOW OF CAPITAL AND TECHNOLOGY FOR PRODUCTIVE PURPOSES TO DEVELOPING COUNTRIES. MOST MEMBERS OF THE COMMITTEE NOTED WITH SATISFACTION THAT THE CONVENTION HAD BEEN TRANSMITTED TO THE BANK'S BOARD OF GOVERNORS RECOMMENDING THAT IT NOW BE OPENED FOR SIGNATURE BY INTERESTED GOVERNMENTS. MOST MEMBERS OF THE COMMITTEE EXPRESSED THE HOPE THAT THE
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UNCLAS SECTION 03 OF 03 SEOUL 10479

STATE PASS TO ALL DIP AND CONSULAR POSTS AS APPROPRIATE

E. O. 12356: N/A
TAGS: IMF, EFIN, KS
SUBJECT: PRESS COMMUNIQUE OF IBRD/IMF DEVELOPMENT

CONVENTION WOULD BE SIGNED AND RATIFIED BY INTERESTED MEMBERS IN THE NEAR FUTURE IN ORDER TO ENABLE THE AGENCY TO START OPERATIONS AS EARLY AS POSSIBLE.

13. THE DEVELOPMENT COMMITTEE NOTED THAT A PRELIMINARY EXCHANGE OF VIEWS HAD TAKEN PLACE IN THE INTERIM COMMITTEE ON THE REPORTS ON THE INTERNATIONAL MONETARY SYSTEM PREPARED BY THE GROUP OF TEN AND THE GROUP OF TWENTY-FOUR. IT WELCOMED THE COMMITMENT OF THE INTERIM COMMITTEE CHAIRMAN TO COMMUNICATE WITH THE CHAIRMAN OF THE DEVELOPMENT COMMITTEE WITH A VIEW TO SEEING TO WHAT EXTENT ARRANGEMENTS COULD BE MADE FOR COOPERATION ON MATTERS PERTAINING TO DEVELOPMENT.

14. MINISTERS EXTENDED THEIR DEEPEST SYMPATHY TO THE MEXICAN PEOPLE AND GOVERNMENT FOLLOWING THE TRAGIC EARTHQUAKE THAT HAS CAUSED SUCH GREAT HUMAN LOSS AND SUFFERING. THEY CALLED UPON THE INTERNATIONAL COMMUNITY TO GIVE ITS STRONG SUPPORT TO ALLEVIATING THE EFFECTS OF THE DISASTER.

15. THE COMMITTEE EXPRESSED ITS APPRECIATION TO THE GOVERNMENT AND THE PEOPLE OF THE REPUBLIC OF KOREA FOR THEIR WARM HOSPITALITY AND FOR THE EXCELLENT ARRANGEMENTS PROVIDED FOR ITS MEETING.

16. THE COMMITTEE AGREED TO MEET AGAIN ON APRIL 10-11, 1986 IN WASHINGTON, D. C. FOR AN EXTENDED SESSION. END TEXT.

WALKER
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UNCLAS SECTION #1 OF #3 SEOUL 10467

STATE PASS TO ALL DIP AND CONSULAR POSTS AS APPROPRIATE

E.O. 12356: N/A
TAGS: EFIN, IMF, KS
SUBJECT: SECRETARY BAKER'S SPEECH AT OCTOBER 6 MEETING
OF IBRD/IMF DEVELOPMENT COMMITTEE MEETING.

1. FOLLOWING IS THE TEXT OF THE SPEECH GIVEN BY
SECRETARY BAKER AT THE OCTOBER 6 MEETING OF THE
IBRD/IMF DEVELOPMENT COMMITTEE MEETING. BEGIN TEXT:

- I WELCOME THIS OPPORTUNITY TO CONTINUE THE
DIALOGUE WE BEGAN AT THE LAST MEETING OF THE
DEVELOPMENT COMMITTEE. AT THAT TIME, WE FOSTERED A
GREATER AWARENESS OF OUR SHARED INTEREST AND THE
RESPONSIBILITY TO ACHIEVE SUSTAINED GLOBAL GROWTH.
THE THOUGHTFUL PREPARATORY WORK OF OUR CHAIRMAN, THE
COMMITTEE STAFF, AND THE BANK HAVE PROVIDED A
FRAMEWORK FOR FURTHER FRUITFUL DISCUSSION TODAY.

POLICIES FOR GROWTH

- LET ME RESTATE MY BELIEF THAT PURSUIT OF SOUND,
GROWTH-ORIENTED ECONOMIC POLICIES REMAINS THE KEY TO
SUSTAINED WORLD ECONOMIC GROWTH AND DEVELOPMENT. AS
WE DISCUSS TODAY'S AGENDA, WITH ITS FOCUS ON OFFICIAL
FINANCING, WE MUST REMEMBER THAT SOUND GROWTH IS
SIMPLY NOT POSSIBLE WITHOUT A SOUND POLICY FRAMEWORK.
THOSE COUNTRIES THAT HAVE BEEN THE MOST SUCCESSFUL
PERFORMERS HAVE PURSUED SUCH POLICIES. THEY HAVE
PERMITTED THEIR ECONOMIES TO RESPOND FLEXIBLY TO
CHANGES IN WORLD MARKETS AND THEIR PRIVATE SECTORS TO
OPERATE FREELY.

- IT IS MY BELIEF THAT TWO CURRENT POLICY
INITIATIVES -- A NEW GATT ROUND OF TRADE NEGOTIATIONS,
AND THE MULTILATERAL INVESTMENT GUARANTEE AGENCY, OR
MIGA -- HOLD GREAT PROMISE FOR ENHANCING FUTURE GROWTH
AND DESERVE OUR ENTHUSIASTIC SUPPORT.

- A FREE AND OPEN TRADING SYSTEM IS ABSOLUTELY
ESSENTIAL FOR SUSTAINED ECONOMIC GROWTH. A NEW GATT
ROUND OF TRADE NEGOTIATIONS ON GOODS AND SERVICES IS
OUR BEST HOPE FOR HALTING PROTECTIONISM AND EXPANDING
TRADE OPPORTUNITIES FOR ALL OF OUR COUNTRIES.

- PRESIDENT REAGAN HAS RECENTLY RESTATED THE U.S.
COMMITMENT TO FREE TRADE AND A NEW GATT ROUND, BUT
SUCCESS IN THE NEGOTIATIONS DEPENDS ON THE WIDEST
POSSIBLE PARTICIPATION BY THE DEVELOPING COUNTRIES.
THE PROTECTIONIST PRESSURES WE ARE FEELING IN
WASHINGTON MEAN THAT THE FAILURE TO LAUNCH A GATT
ROUND COULD INCREASE THE LIKELIHOOD OF PROTECTIONIST
LEGISLATION AND COULD SPILL OVER INTO CONGRESSIONAL
ATTITUDES TOWARD MULTILATERAL DEVELOPMENT BANK
FUNDING, REDUCING AND RESTRICTING U.S. PARTICIPATION.
I THEREFORE URGE ALL OF YOU TO LEND YOUR ACTIVE
SUPPORT TO THE NEW ROUND.

- THERE IS A PRESSING NEED FOR DEVELOPING COUNTRIES
TO RELY LESS ON BORROWING FOR EXTERNAL CAPITAL AND
MORE ON EQUITY FLOWS, SUCH AS FOREIGN DIRECT
INVESTMENT. IN ADDITION TO EASING THE LONG-TERM DEBT
BURDEN, THESE CAPITAL FLOWS ALSO CONVEY THE ADVANTAGES
OF TECHNOLOGY TRANSFERS AND MANAGERIAL KNOW-HOW --
ESSENTIAL INGREDIENTS OF ECONOMIC DEVELOPMENT. THE
MIGA SHOULD PLAY AN IMPORTANT ROLE IN INCREASING THIS
TYPE OF FINANCING FOR DEVELOPING COUNTRIES, BOTH
THROUGH PROMOTION OF SOUND INVESTMENT POLICIES AND
DIRECT INSURANCE ACTIVITIES. I HOPE THAT ALL MEMBER
GOVERNMENTS OF THE BANK WILL SUPPORT OPENING THE MIGA
FOR MEMBERSHIP, AND WILL TAKE THE STEPS NECESSARY TO
JOIN.

THE ROLE OF THE BANK AND BANK LENDING

- THE UNITED STATES VIEWS THE PRIMARY ROLE OF THE
BANK AS SUPPORTING POLICIES WHICH ENCOURAGE ECONOMIC
GROWTH AND REVITALIZATION IN ITS DEVELOPING MEMBER
COUNTRIES. THE BANK CAN ACHIEVE THESE GOALS PRIMARILY
BY MAINTAINING AN EFFECTIVE LENDING PROGRAM IN SUPPORT

OF GROWTH ORIENTED POLICIES THROUGH EFFECTIVE RESOURCE
USE AND BY CATALYZING OTHER CAPITAL FLOWS.

- THE CENTRAL FOCUS OF THE BANK'S LENDING PROGRAM
REMAINS SOUNDLY BASED INVESTMENT PROJECT LENDING, AND
WE ENCOURAGE ALL MEMBERS TO CONTINUE TO TAKE ADVANTAGE
OF THE BANK'S EXPERTISE IN THIS AREA. THE BANK'S
INTRODUCTION OF STRUCTURAL AND SECTOR ADJUSTMENT
PROGRAMS HAS PROVED AN EFFECTIVE MEANS TO HELP MEMBERS
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UNCLAS SECTION 02 OF 03 SEOUL 10467

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E.O. 12356: N/A
TAGS: EFIN, IMF, KS
SUBJECT: SECRETARY BAKER'S SPEECH AT OCTOBER 6 MEETING

BOTH SUSTAIN GROWTH AND IMPLEMENT POLICY CHANGES OVER
THE MEDIUM-TERM.

- WITH THESE POLICY INSTRUMENTS, THE BANK SUPPORTS
MEMBERS' EFFORTS TO ACHIEVE EFFICIENCY IN THEIR
PRICING POLICIES, AND IN THE MANAGEMENT OF THEIR PUBLIC
SECTOR AND THEIR TRADE, INVESTMENT AND TAX REGIMES.
WE BELIEVE THERE IS STILL CONSIDERABLE SCOPE FOR
EXPANDING THE USE OF STRUCTURAL AND SECTOR ADJUSTMENT
LENDING, PARTICULARLY IN THOSE COUNTRIES WITH MAJOR
DEBT SERVICING DIFFICULTIES.

- IF THESE COUNTRIES ARE TO ACHIEVE THE MAXIMUM
GROWTH FROM INCREASES IN THIS TYPE OF LENDING, OTHER
ELEMENTS MUST COME INTO PLAY IN AN INTEGRATED
FASHION: INDUSTRIAL COUNTRIES MUST SUSTAIN THEIR
GROWTH AND MUST KEEP THEIR MARKETS OPEN; DEVELOPING
COUNTRIES MUST UNDERTAKE COMPREHENSIVE ADJUSTMENT
PROGRAMS; THE IMF SHOULD CONTINUE TO PLAY ITS
TRADITIONAL ROLE; AND THE COMMERCIAL BANKS MUST BE
WILLING TO PROVIDE SUFFICIENT NET NEW RESOURCES. I
WILL BE PROVIDING MORE DETAILS ON THIS IN MY PLENARY
ADDRESS TOMORROW.

- IN TODAY'S ENVIRONMENT OF CONSTRAINED EXTERNAL
FINANCE, THE POTENTIAL BENEFITS OF THE BANK'S
CATALYTIC ROLE ASSUME PARTICULAR IMPORTANCE. THE
BANK'S INNOVATIVE EFFORTS TO EXPAND CO-FINANCING WITH
PRIVATE SOURCES OF FINANCE ARE TO BE COMMENDED AND
SHOULD BE PURSUED VIGOROUSLY TO INCREASE THEIR
EFFECTIVENESS IN ATTRACTING PRIVATE FINANCE.

- WE ALSO BELIEVE THE BANK SHOULD CONTINUE TO
ENHANCE ITS ROLE IN THE DEVELOPMENT OF THE PRIVATE
SECTOR AND WHERE APPROPRIATE PROVIDE DIRECT ASSISTANCE
TO THIS PRIVATE SECTOR. IN ADDITION, THE BANK SHOULD
SEEK TO ASSIST, BOTH IN A TECHNICAL AND FINANCIAL
CAPACITY, THOSE COUNTRIES WHICH WISH TO DIVEST SOME OF
THEIR STATE-OWNED ENTERPRISES. THE NEWLY EXPANDED IFC
CAN PLAY AN IMPORTANT ROLE IN THESE EFFORTS.

- IN APRIL, WE SUPPORTED THE DEVELOPMENT COMMITTEE
CALL FOR AN EXPANSION IN BANK LENDING, PROVIDED THE
BANK MAINTAINS ITS LENDING STANDARDS AND ITS PRUDENT
FINANCIAL POLICIES. THIS REMAINS OUR POSITION TODAY.
THE ACTUAL RESOURCE REQUIREMENTS OF THE BANK WILL, OF
COURSE, BE DEPENDENT UPON THE EXTENT TO WHICH
BORROWING COUNTRIES ARE WILLING TO WORK WITH THE BANK
IN DEVELOPING THE POLICY PROGRAMS TO BE SUPPORTED BY
BANK LENDING.

- AS WE ALL ARE AWARE, CURRENT BANK RESOURCES ARE
SUFFICIENT TO SUSTAIN LENDING OF DOLS 13.5 TO DOLS 14
BILLION PER YEAR, COMPARED TO THE 1985 LENDING OF DOLS
11.4 BILLION. IF THE DEMAND FOR QUALITY LENDING WERE
TO INCREASE, THE IBRD SHOULD BE ENCOURAGED TO RESPOND
EFFECTIVELY AND RESOURCES SHOULD BE MADE AVAILABLE TO
ENABLE IT TO DO SO. WE INTEND TO KEEP THE CAPITAL
NEEDS OF THE BANK UNDER CLOSE REVIEW AND WE WILL
CAREFULLY ASSESS THE ADEQUACY OF THE BANK'S RESOURCE
BASE AS THE DEMAND FOR QUALITY LENDING INCREASES.

THE POOREST COUNTRIES

- SOME OF THE BANK'S POOREST MEMBERS, ESPECIALLY
THOSE IN SUB-SAHARAN AFRICA, FACE SEVERE ECONOMIC
PROBLEMS. WE APPLAUD THE BANK'S SPECIAL EFFORTS TO
SUPPORT STRUCTURAL ADJUSTMENT BY THESE COUNTRIES. THE
UNITED STATES IS ITSELF PROVIDING GROWING
POLICY-LINKED BILATERAL AID -- A TOTAL OF DOLS 1.7
BILLION IN 1985 -- AT TIMES IN CLOSE COOPERATION WITH
THE BANK'S SPECIAL FACILITY FOR SUB-SAHARAN AFRICA, AS
ARE OTHER DONORS.

- HOWEVER, MUCH MORE NEEDS TO BE DONE, ESPECIALLY IN
BETTER COORDINATING DONORS' EFFORTS WITH THE ECONOMIC
PROGRAMS ASSOCIATED WITH IMF AND WITH WORLD BANK
LENDING. AS I INDICATED IN THE INTERIM COMMITTEE
DISCUSSIONS YESTERDAY, I BELIEVE THE IMF TRUST FUND
REFLOWS OFFER AN OPPORTUNITY TO IMPROVE COORDINATION
AND PROVIDE A NEW SIGNIFICANT STIMULUS FOR GROWTH.

- THE UNITED STATES IS ALSO PREPARED TO CONSIDER A
BROADER APPROACH TO ENCOMPASS JOINT IMF AND WORLD BANK
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E. O. 12356: N/A
TAGS: EFIN, IMF, KS
SUBJECT: SECRETARY BAKER'S SPEECH AT OCTOBER 6 MEETING

PROGRAMS AND FINANCING TO FOSTER ADJUSTMENT AND
CATALYZE ADDITIONAL SOURCES OF FINANCING FOR THESE
POOREST COUNTRIES.

TASK FORCE ON CONCESSIONAL FLOWS

- WE ALSO WELCOME THE WORK OF THE TASK FORCE ON
CONCESSIONAL FLOWS. IT CHARGES DONORS AND RECIPIENTS
TO ASCERTAIN THAT AID IS USED EFFECTIVELY IN PROMOTING
ECONOMIC GROWTH, IN PROMOTING STRUCTURAL REFORM AND IN
PROMOTING DEVELOPMENT. THE TASK FORCE RECOGNIZES THE
SEVERE CONSTRAINTS AFFECTING THE VOLUME OF AID FLOWS
AND CLEARLY, IN SUCH AN ENVIRONMENT, ONLY PROGRAMS
WHICH ACTIVELY AND EFFECTIVELY SUPPORT APPROPRIATE
DEVELOPMENT POLICIES DESERVE CONTINUED SUPPORT.

CONCLUSIONS

- FURTHER ACTION IS NEEDED ON THE PART OF BOTH
DEVELOPED AND DEVELOPING COUNTRIES TO PROMOTE
SUSTAINED ECONOMIC GROWTH, TO MAINTAIN NECESSARY FLOWS
OF CAPITAL, AND TO PRESERVE AND EXPAND OPEN MARKETS.
THE UNITED STATES REMAINS COMMITTED TO THIS PROCESS,
AND TO INSTITUTIONS LIKE THE WORLD BANK THAT HAVE AN
ESSENTIAL ROLE IN PROMOTING THESE GOALS AMONG THE
DEVELOPING COUNTRIES.

- I LOOK FORWARD TO HEARING YOUR VIEWS ON THESE
IMPORTANT ISSUES, AND TO WORKING WITH YOU TO RESOLVE
OUR PROBLEMS. END TEXT.

WALKER
BT

Global Growth Forecast Scaled Back

IMF Staff Sees Industrial Nations Expanding at 2.8% Rate in '85

By Hobart Rowen
Washington Post Staff Writer

Because the U.S. economic outlook is "less buoyant," the International Monetary Fund staff has scaled back its economic growth estimates for global economic activity in 1985 made only six months ago, officials at the agency confirmed yesterday.

The figures are part of the IMF's World Economic Outlook report, which will be released in Seoul on Oct. 6 during the meeting of the IMF's Interim Committee, the agency's policy board.

Officials said the report will project the real growth rate of industrial nations at about 2.8 percent for 1985, down from the 3.1 percent forecast last spring, and far below the 4.9 percent growth achievement of 1984, which was the best in almost 10 years.

But for 1986, the staff sees a slight improvement over 1985 to a rate of 3.1 percent, reflecting an

expected modest recovery in the United States next year. This is also a marginal pickup from the IMF's spring forecast for the industrial nations for 1986 of 3.0 percent.

On a global basis, the current IMF forecast for 1985 is a growth rate of 3.1 percent, down from 4.5 percent in 1984, and 0.3 percent, down from the spring forecast of 3.4 percent. For 1986, the global forecast is unchanged at 3.4 percent.

"There's more concern about the world economic outlook than there was in the spring," an IMF spokesman said. "Not only does the American picture look softer, but oil and other commodity prices are down. Everything is a little less positive."

But another IMF official offered a slightly brighter perspective. "In reality," he said, "what the staff is forecasting now is a steady 3 percent trend for the two years, 1985-86. That is reasonably positive, and I think shows quite a bit of strength

in contrast to some of the gloomy forecasts you hear."

For the Third World countries— heavily dependent on the trend in the industrial world—the staff forecast is a decline to 3.5 percent real growth in 1985 from 3.75 percent in 1984, but a gain to 4 percent in 1986.

At the time the IMF made its forecasts for the spring meeting of the Interim Committee in Washington, the guess on U.S. economic growth for 1985 was 3.5 percent, down from 6.8 percent in 1984. But actual results for the first half of the year show that U.S. gross national product gained at an annual rate of only 1.5 percent. The new estimates by the IMF staff place the U.S. growth rate for all of 1985 at about 2.5 to 2.6 percent, with a pickup to 3.3 percent in 1986.

All of the figures may be adjusted when finally released in Seoul, reflecting early estimates of the U.S. third-quarter GNP rate, which will be published this morning.

U.S. to Propose Lending Pool To Aid Africa

Plan Calls for World Bank, IMF to Direct \$5 Billion To Needy Countries

By ART PINE

Staff Reporter of THE WALL STREET JOURNAL
WASHINGTON—The Reagan administration plans to propose a new international lending pool designed to channel more than \$5 billion to poor countries, mainly in black Africa, over the next five years.

The proposal, in final drafting, is expected to be unveiled by Treasury Secretary James Baker at the annual meeting of the International Monetary Fund and the World Bank in Seoul, South Korea, early next month. U.S. officials have shown por-

For other major international news, please see:

—House panel votes to impose quotas on some textile imports, page 54.

—Richardson-Vicks's planned issue of super-voting preferred stock is temporarily blocked, page 10.

tions of the plan to their counterparts from industrial and developing countries. Formal IMF-World Bank approval could come as soon as the Seoul meeting.

The first major U.S. initiative for developing countries in several years, the plan is designed to help grapple with two serious economic and financial problems involving African countries:

—First, how to stave off possible defaults by African nations on some \$7 billion in loans that the IMF made to these countries in the early 1980s and that are coming due in the next several months. Some African countries, hard hit by drought and a continuing decline in export earnings, don't have the money to repay the IMF. A series of defaults could undermine the IMF's own finances.

—Second, how to step up aid substantially to help black African nations cope with their economic and political problems. The World Bank already has assembled a \$1.1 billion special lending pool, but the money is considered inadequate to help revitalize the African economies.

The move represents a major change by the Reagan administration. Only last autumn, the U.S. declined to contribute to the World Bank's sub-Saharan Africa fund, saying it preferred to step up its own bilateral aid. The new program would be funded by major contributions from the U.S. as well as the IMF and World Bank.

Joint Administration

The plan calls for the lending pool to be administered jointly by the IMF and the World Bank, the first time the two institutions would share responsibility for a major new program.

About 80% of the new lending would go to black African countries. The rest would go to other poor countries such as Bangladesh.

The proposal, though, isn't designed to provide relief for Latin American debtor countries. Top administration officials have said they are sympathetic to those nations' pleas for relief, but so far haven't come up with any new proposals. Washington still hasn't lifted its opposition to increasing the World Bank's general lending pool.

The money would be disbursed only after the borrowing countries formally agreed to a series of long-term policy changes designed to streamline and revitalize their economies. However, because of the special problems that the African countries are facing, the conditions wouldn't be as harsh as those the IMF typically demands from debtor countries.

Funding From Gold Sales

At least half the money for the new lending program, some \$2.7 billion over the next five years, would come from another IMF lending pool—a special trust fund established in 1976 using money from the late-1970s sales of the IMF's stock of gold.

The remainder of the package would come from a variety of sources. The Reagan administration would ask Congress for \$300 million to \$500 million in new money over the next five years to serve as the U.S. contribution. U.S. officials already are considering disbursing \$75 million in existing bilateral U.S. aid to Africa "in conjunction with" the new fund.

The World Bank would contribute a sizable portion, both by tapping its own unused resources and by diverting part of its own sub-Saharan Africa aid program. And the U.S. would ask other major industrial countries to contribute, mainly by redirecting some of their bilateral aid.

Separately, the World Bank said it is considering stretching out repayment periods on loans to developing countries with heavy debt burdens, in an effort to ease the world debt situation. The repayment terms will be discussed at the Seoul meeting.

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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INFORMATION

October 4, 1985

MEMORANDUM FOR ROBERT C. MCFARLANE

FROM: STEPHEN I. DANZANSKY/HELEN E. SOOS ^{HS}

SUBJECT: African Economic Initiative

Treasury plans to announce a major African Economic Initiative which, like the recent G-5 meeting, has not been cleared by the NSC or with the President. Treasury has been discussing this initiative with State and AID for several months. There was a Wall Street Journal article on it a week ago (Tab A), and State sent Helen a copy of a proposal (Tab B). Helen called Treasury and was told they could not provide a copy. Treasury advised OMB that they would not provide them a copy unless instructed by Baker who is on an airplane. Steve called Darman directly and was supplied a copy at 7:00 PM this evening.

The proposal involves a joint IMF/World Bank Facility for Economic Reform which is designed to reschedule IMF and other debt for up to 50 years on a low-interest basis. Eligible countries would be those with 1) low per capita income and reliance on concessional aid; 2) protracted balance of payments problems, and 3) willingness to undertake comprehensive economic policy reform. The funds would come from the IMF Trust Fund (\$2.7 billion); existing World Bank funds (\$1.8 billion); the Sub-Saharan African Facility (\$1.3 billion) and donors. From the U.S. they would like to absorb the Economic Policy Initiative which the President announced 18 months ago, or scarce ESF funds. We think that would be a mistake, since the program has resulted in significant policy reform, directed in large part at reforms promoting private sector development. State, however, has agreed to the change.

While not exclusively directed at Africa, all but 6 African countries would qualify for the program, in terms of income levels. Not all African countries need the program, however.

The idea has many merits and some weak areas which should be strengthened. Encouraging the IMF and the World Bank to work together is a big plus. The IMF has dealt with stabilization without regard to growth criteria, which it considers to be outside its domain. However, how a country implements stabilization factors such as credit ceilings and imports can impact heavily on growth. This deficiency has led to a great deal of

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economic stagnation, whereby countries simply cannot generate growth while achieving stabilization, thereby falling to lower income levels which have led to political instability. The World Bank could focus on these issues and improve the stabilization process.

One weakness of the proposal is that reform is limited to 2-year programs, with the option to follow up. For a 50-year loan, 2 years of reform, which always turns out to be gradual, is insufficient. Another potential weakness is that the nature of reforms is not specified. Until we focus on private sector growth, we are unlikely to see any growth. Neither the IMF nor the World Bank seem to understand this, and this program could provide a major impetus to this type of policy reform. These points are details which could be worked out later. Helen has discussed some of them with one contact at Treasury, and he seemed to be interested. But it is important that NSC play a role to ensure this happens.

State is pleased with the proposal, but fears that the IMF and World Bank staff may sabotage the plan because it would force them to change the way they do business.

Early this week Steve and Dave Wigg sought your approval to request a briefing of the debt issue from Treasury. Deputy Secretary Darman casually mentioned the matter to Steve yesterday, expressing uncertainty as to whether it would take place because of "problems at State". Steve spoke with Darman again this afternoon and was told State had signed off on a proposal. When asked what proposal Darman responded that it was incorporated in a paper which he would send over. Darman continued that the paper proposal was not what would be announced in Seoul since there was some negotiating to be done and the extent of U.S. commitment wasn't to be revealed. When asked what was to be announced in Seoul, Darman responded, "I don't know, they are working on that on the plane."

The "final" proposal that Darman sent this evening from Treasury, contains a copy of a statement supposedly to be delivered by the Secretary of the Treasury in Seoul on October 6, 1985 (Tab C). The statement indicates that the USG will use \$75 million in bilateral assistance in FY86 and "seek to assure roughly equivalent amounts in direct contributions to the facility in FY87-91, provided other donors also make equitable contributions."

While we expect this to be discussed as a U.S. proposal in Seoul, we are unclear whether that means there will be a major announcement by Baker, or merely a statement read to the interim committee. Perhaps the form and content of the announcement are being massaged on the airplane. If you and Don Regan agree that the announcement should be made by the President, some contact will have to be made with the delegation on the plane to clarify what it is that can be announced and to stop any pre-conference "leaks" by Treasury here or in Seoul. Your decision.

Clearly, the NSC and the President have been left out of the process. We understand Treasury has been discussing a proposal for Latin American and other middle income countries as well, and we should insist upon participation in that process immediately.

PR
Phil Ringdahl concurs.

Attachments

Tab A Wall Street Journal article of Sep 20
Tab B Proposal
Tab C "Final Proposal" and Statement by Secretary Baker

cc:

John Poindexter

Proposal for a Joint IMF/World Bank Facility
for Comprehensive Economic Reform

Problem

The poorest LDCs, primarily in Africa, have generally proven incapable of effective economic adjustment, and are sinking into a deeper economic and financial morass characterized by low growth and protracted balance of payments problems.

These countries have been on the edges of the debt strategy since they rely primarily on official financing, with the IMF providing a growing proportion of the resources in recent years.

- o However, the economic problems of these countries are structural in nature and require a comprehensive reform effort extending over a number of years.
- o The IMF's efforts to deal with economic issues that are largely outside its traditional focus on temporary balance of payments problems has resulted in the prolonged use of IMF resources by the poorest countries and growing arrears to the IMF. Unless addressed promptly, this situation poses a major threat to the IMF's financial integrity and effectiveness in the debt strategy.
- o In contrast, the World Bank has not been adequately integrated into the debt strategy in a manner that would facilitate structural adjustment.

The United States has important economic and security interests in the poorest countries but very limited bilateral assistance resources to deal with their economic and financial problems. Budget constraints also severely limit the scope for providing additional multilateral assistance for the poorest LDCs. Consequently, reliance will need to be placed on concentrating existing resources where the need is greatest and providing more effective coordination by the institutions to assure that the available resources are used most efficiently.

Proposal

Concept: The IMF Trust Fund is scheduled to receive \$2.7 billion in reflows over the next few years which are already committed for use in the poorest LDCs. It is proposed that these funds, supplemented by World Bank resources, be used for a Joint IMF/World Bank facility to provide loans to the poorest countries with protracted balance of payments problems.

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Eligibility: A group of 30-45 countries, mostly Sub-Saharan African (SSA) countries (see attached list) and excluding both the major debtors and India/China. Selection based on:

- o Low per capita income and reliance on concessional aid;
- o Protracted balance of payments problems; and
- o Willingness to undertake comprehensive policy reform.

Terms: Highly concessional (within the range of current IMF Trust Fund and IDA terms) -- 0.5-0.75 percent interest; 5-10 years grace; 10-50 year repayment period.

Conditions: Commitment to a 2-year comprehensive program of macroeconomic and structural reform; release of funds tied to quantified performance targets. The initial program could be followed-up by additional programs to carry on the reform process.

Operations: The facility would be the vehicle for the development of a comprehensive reform program by the IMF and World Bank that would be incorporated in a formal agreement with the borrower. The actual financing would be provided by the IMF and World Bank.

- o New joint Fund/Bank teams would be created from existing staff;
- o Joint team negotiates each country program and prepares single document for review by IMF and World Bank Boards;
- o Performance review by both Boards under similar guidelines.

Funding: The Joint Facility would have available \$5-6 billion for lending over 1986-1991, including:

- o IMF Trust Fund: \$2.7 billion in reflows.
- o World Bank: \$1.8 billion of existing/projected resources including:
 - \$850 million in the Sub-Saharan African (SSA) Facility for 1987-88; and
 - \$1 billion of other World Bank resources (i.e., net income, increased lending).
- o Other: An additional \$1.1-1.3 billion would be obtained expanding and extending the existing SSA Facility to permit it to channel its activities through the Joint Facility.
 - U.S.: current plans call for \$375-500 million in State ESF to be used for SSA policy reform over the

next 5 years (\$75-100 million annually). These resources could be used for an expanded SSA facility

-- Other donors: an additional \$750 million would be obtained from others to extend the SSA.

Benefits: The establishment of such a facility could be an important means of achieving U.S. objectives.

- o Would provide substantial additional resources to low income countries facing serious and protracted balance payments problems.
- o The costs to the United States would be very modest, basically involving a reprogramming of resources from bilateral to multilateral uses.
- o Helps recipients meet major repayment obligations over the next few years, including IMF obligations.
- o Provides a comprehensive approach combining demand management and structural reforms.
- o Strengthens IMF/World Bank cooperation.

Joint IMF/World Bank Facility

Hypothetical List of Countries*

(actual eligibility would be based on a subset of these countries with protracted balance of payments problems)

Africa 36

Benin
Burkina Faso
Burundi
Cameroon
Cape Verde
C.A.R.
Chad
Comoros
Djibouti
Equatorial Guinea
Ethiopia
Gambia
Ghana
Guinea
Guinea-Bissau
Ivory Coast
Kenya
Lesotho
Liberia
Madagascar
Malawi
Mali
Mauritania
Mozambique
Niger
Rwanda
Sao Tome
Senegal
Sierra Leone
Somalia
Sudan
Tanzania
Togo
Uganda
Zaire
Zambia

Other

Afghanistan
Bangladesh
Bhutan
Bolivia
Burma
Guyana
Haiti
Kampuchea
Lab P.D.R.
Maldives
Nepal
Viet Nam
Yemen Arab Rep.
Yemen P.D.R.

* Countries with per capita GDP below \$550 per year, excluding IDA/IBRD blend countries, but including others that are prolonged IMF users.

Statement by Secretary of the Treasury

James A. Baker, III

at the IMF Interim Committee Meeting

on Use of Trust Fund Reflows

October 6, 1985

Mr. Chairman:

Our discussion this morning confirms that in spite of a number of positive signs in the world economic outlook, the economic conditions in most of the poorest countries which rely primarily on concessional financing have not noticeably improved. The economic facts bear witness to this situation:

- o Economic growth in the poorest countries in recent years has averaged 1.8 percent annually, and in some countries living standards are currently at the levels of 15 years ago.
- o Their trade and current account deficits have not improved despite recovery in the world economy, and are not projected to improve over the next few years.
- o Debt servicing difficulties in these countries have resulted in the imposition and intensification of trade and payments restrictions and in growing arrears on financial obligations, both domestic and external,

including substantial arrears to the IMF, which are weakening the financial integrity and monetary character of the Fund.

The IMF has provided balance of payments financing and advice in the context of economic adjustment programs for many of these countries in recent years. The World Bank has also mounted an effort to assist these countries, through both project, sectoral and structural adjustment lending. But, these programs have met with only limited success. In part this reflects inadequate action by the countries on the fundamental reforms needed to create the conditions for sustained growth and development. It also reflects, however, an adverse external environment and natural disasters. Finally, the lack of success also reflects the fact that the problems of the poorest countries transcend the traditional role and policies of the Bank and Fund and the need for closer cooperation between the institutions.

We now have before us an important opportunity to develop a new approach to reverse the economic decline facing the poorest countries. The United States proposes that a new joint IMF/World Bank facility be created that would combine the resources and expertise of both institutions in coordinated, comprehensive economic programs that would promote structural adjustment and growth.

The basic features of the new facility would involve the following elements:

- o Eligibility would be based solely on low per capita income, perhaps the \$550 level used by the World Bank to determine IDA participation. Actual use of the facility, however, would be based on an eligible country having a protracted balance of payments problem and being willing to implement a comprehensive economic program.

- o Terms on loans would be concessional with low interest rates, substantial grace periods, and extended maturities.

- o Conditions for participation would include a commitment to a multi-year economic program in which funds would be disbursed semi-annually based on satisfactory performance under the program. The programs would involve policies aimed at promoting adjustment and removing the structural impediments to growth. They would include sound monetary and fiscal policies; exchange rate, interest rate and pricing policies to provide more efficient use of resources and to help eliminate domestic and external imbalances; measures to encourage savings and investment,

such as tax reform and economically efficient investment programs; and greater openness to foreign investment and trade liberalization.

- o Operations would be undertaken jointly by the IMF and World Bank, including joint teams and a single document detailing the program that would be submitted to both Executive Boards. Such a joint operation is particularly important as it will facilitate the close cooperation and coordination needed to achieve the consistent policy advice and approach essential for success.

The United States believes that a joint IMF/World Bank facility could provide the framework for channeling up to approximately \$5 billion in resources to support reform efforts in the poorest countries. We believe that the full \$2.7 billion in resources arising from the Trust Fund reflows should be used for this purpose. In addition, the World Bank could provide a comparable amount to support the operations of the facility.

The United States is convinced that such a facility could make a real contribution in addressing the severe economic problems of the poorest countries. We are prepared to seek to use \$75 million in bilateral assistance in close cooperation with the operations of the facility in fiscal 1986, and to seek to assure roughly equivalent amounts in direct contributions to the facility in fiscal 1987-91, provided other donors also make equitable contributions.

In our view, an effective response by all major donors could result in direct new donor contributions for the full period in excess of \$1 billion, which could be supplemented by other World Bank funding sources. Mr. Chairman, a joint facility combining the resources and expertise of the Bank and Fund would introduce a new element in our efforts to overcome poverty in the poorest countries. It provides a mechanism to obtain more consistent and effective policy advice by improving coordination and strengthening cooperation between the Fund and Bank. It would initiate mutually reinforcing policies that could break the cycle of failure of recent years and create the conditions for sustained growth and development. And, most important, it would provide tangible evidence that the world community is responding in a constructive, cooperative manner and on a significant scale to assist the poorest countries, thus providing renewed hope to these countries.

I hope you will join me in this initiative and give your strong support to the proposal.