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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
131290	MEMO	DONALD REGAN TO THE PRESIDENT RE: BRAZILIAN FINANCIAL	2	9/2/1983	B1
131291	MEMO	DAVID WIGG TO ROBERT MCFARLANE RE: RESPONSE TO QUESTION	1	9/7/1983	B1
131292	MEMO	RE: IMF (W/ ATTACHMENT)	4	ND	B1
131293	MEMO	NORMAN BAILEY AND ROGER ROBINSON TO WILLIAM CLARK RE: BRAZILIAN AND INTERNATIONAL DEBT CRISIS	2	10/8/1983	B1
131294	MEMO	WILLIAM CLARK TO THE VICE PRESIDENT ET AL RE: INTERNATIONAL DEBT	3	ND	B1
131295	CABLE	062135Z OCT 83	2	10/6/1983	B1
131296	PAPER	RE: BRAZIL'S DEBT CRISIS	4	10/8/1983	B1
131297	PAPER	RE: RESPONSE TO NSC PROGRAM	6	ND	B1

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131298	PAPER	RE: GENERAL COMMENTS ON OCTOBER 8 PAPER	3	ND	B1

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Int'l Financial System

KEYWORDS IMF BRAZIL

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SUBJECT BRAZILIAN FINANCIAL NEGOTIATIONS

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The New York Times

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The New York Times/Paul Hosefros

President Reagan with Treasury Secretary Donald T. Regan before meeting of International Monetary Fund. At rear were A. W. Clausen, left, president of the World Bank, and Miguel Boyer, Spain's Economics Minister.

Reagan Praises I.M.F. and Warns Congress Over Delays in New Aid

By CLYDE H. FARNSWORTH

Special to The New York Times

WASHINGTON, Sept. 27 — President Reagan, calling the International Monetary Fund the "linchpin of the international financial system," urged Congress today to back a large increase in the resources of the lending institution to prevent an "economic nightmare that could plague generations to come."

The President opened the 38th annual meeting of the I.M.F. and the World

Text of speech is on page D27.

Bank, which make loans to poor countries, with a strong appeal for international economic cooperation and "true bipartisanship" domestically.

"Let me make something very plain," he told finance ministers and central bank governors from nearly 150 countries. "I have an unbreakable commitment to increased funding for the I.M.F."

Although this was what most of them wanted to hear, the delegates were restrained in their reaction. There were several thousand officials and bankers packed into the ballroom of the Sheraton Washington Hotel, but the speech was not once interrupted with applause. At the end, the applause was modest and lasted for about 20 seconds.

The restraint may have been due to the fact that the President's message was addressed more to Congress, especially the Democratic majority in the House, than to the foreign visitors.

Democratic leaders in the House immediately rebuffed Mr. Reagan.

"He is going to have to do more than the action of that speech before the I.M.F. bill gets through this House," said Speaker Thomas P. O'Neill Jr., Democrat of Massachusetts.

"First you hold out the hand of friendship, and then he bashes you in the head with a two-by-four," said Jim Wright of Texas, the Democratic majority leader. "Bipartisanship is not a faucet that you turn on and off."

Both repeated that there would be no movement on the bill until the Presi-

Continued on Page D27, Column 4

Reagan Plea to Bolster I.M.F.

Continued From Page 1, Section 1

dent apologized in writing for press releases from the Republican Congressional Campaign Committee that attacked some Democratic supporters of the bill.

The Republican press releases accused the Democrats of "supporting Communism" because they had voted against an amendment, adopted by the House, that sought to keep the I.M.F. from making loans to "Communist dictatorships." The Democrats have noted that the Administration itself had opposed the amendment, as had some Republican Representatives.

Larry Speakes, the White House spokesman, when asked about a possible apology by the President, said there had been "no decision by the President to send a letter at this time." Asked whether there would be such a letter, he commented: "We'll just have to wait and see."

White House aides later said that some action might be taken as early as this week. A letter has been drafted in the Treasury and has gone to the White House, they added.

The bill, which authorizes an $8.4 billion American contribution to the I.M.F. as part of a $42 billion global infusion of new resources, has cleared both the House and the Senate, but in different versions. These differences have to be ironed out in conference. Then a final version of the authorizing legislation again has to clear both houses.

In both chambers, many more Democrats than Republicans voted for the respective bills.

Pessimism Among Democrats

Fernand J. St Germain, Democrat of Rhode Island and chairman of the House Banking Committee, who would be one of the principal negotiators if the bill goes to conference, said that, "left to the whims of the members of the President's own party, there wouldn't be an I.M.F. bill to debate."

David Obey, Democrat of Wisconsin, one of those attacked by the campaign committee, added that without the President's personal response, the bill did not have "a snowball's chance in a you-know-where."

In his speech today, the President said he did not appreciate the "partisan wrangling and political posturing" over this issue.

"I urge members of both political parties to lay aside their differences, to abandon harsh rhetoric and unreasonable demands, and to get on with the task in a spirit of true bipartisanship," Mr. Reagan declared.

He argued that the bill, by keeping the wheels of world commerce turning, would mean job-producing exports for the United States. Exports, he said, account for one out of eight manufacturing jobs in this country, while 40 percent of American agricultural products are exported.

I.M.F.'s Need for Funds

The I.M.F. needs additional resources to help the developing countries among its 146 members that are having trouble paying their trade bills.

These troubles arise from high oil prices, from a world recession that has shrunk export markets for commodities and from high interest rates that have added to the total costs of the mountains of debt.

The President commented that the I.M.F. must also play the role of "Dutch uncle, talking frankly, telling those of us in government things we need to hear, but would rather not." This was a reference to the often tough austerity conditions that the fund demands as the condition for its loans.

What the Agencies Do

The I.M.F. loan policy differs from that of the World Bank and the International Development Association, a World Bank affiliate.

The World Bank and the association mostly give long-term help to such things as irrigation projects and roads in developing countries. The I.M.F., on the other hand, makes loans, generally up to three years, only to help cover balance-of-payments deficits and on condition that austerity programs are adopted.

The association's loans, which go exclusively to the poorest countries, are interest-free and paid back over a period of up to 50 years. Loans made by the World Bank, formally the International Bank for Reconstruction and Development, are at or close to market interest rates and usually for terms of up to 20 years.

Reactions to the speech by those in the audience were mixed.

"I think it was a terrific speech," said William McChesney Martin, former chairman of the Federal Reserve Board, "and it should do the job. Its only weakness was in its reference to the 'magic of the marketplace,' which is not going to cure all the problems." Mr. Reagan emphasized that the marketplace, or free trade in his context, was paramount in keeping the recovery on the right track.

Jacques Delors, the Finance Minister of France, said that what struck him most was "the firm insistence of the President's call for a quota increase," which Mr. Delors said "augurs well."

Bankers' Speeches

Jacques de Larosière, managing director of the I.M.F., said in his address that the proposed 47.5 percent increase in resources for the fund was the minimum needed for the institution to play its pivotal role.

In a warning similar to President Reagan's, he said there could be "incalculable consequences for economic and financial stability worldwide" if the I.M.F. legislation failed to pass in Congress.

A. W. Clausen, president of the World Bank, said in his speech that it was essential to speed development of the third world "while the window of opportunity is open to us."

The meeting now goes into three more days of formal speechs by the delegates. The chairman of the annual meeting is Miguel Boyer, Spain's Minister of Economy, Finance and Commerce.

Ecuador Debt Talks

QUITO, Sept. 27 (Reuters) — Ecuador's President, Osvaldo Hurtado, will hold talks with creditor banks this week in New York on his country's foreign debt, the Foreign Ministry said today. Ecuador has reached an accord with its foreign creditors for the rescheduling of $2.7 billion of its external debt falling due in December.

Int'l Financial System 12

REAGAN'S ARMS PROPOSALS UNACCEPTABLE, GROMYKO SAYS

MOSCOW — Foreign Minister Gromyko dismissed President Reagan's new arms proposals as "patently unacceptable" and accused the U.S. of blocking negotiations on reducing nuclear arms. (Michael Dobbs, Washington Post, A14)

The Soviet Union said President Reagan's offer on arms control is nothing but "a cover for American efforts to begin the deployment" of new U.S. missiles in Western Europe this year. Tass said Reagan's offer was "deliberately vague." (Washington Times, A6)

Western diplomats said the curt dismissal by Gromyko was a reflection of the state of U.S.-Soviet relations following the Soviet destruction of the South Korean airliner. (Martin Nesirky, Reuter)

NOTE: A similar article appears on page A1 of The New York Times.

Embassy in Moscow Heard Reagan

The Voice of America announced that the U.S. Embassy in Moscow was able to hear the English version and that the live Russian translation apparently could be heard within 15 miles of Moscow. He estimated 30M Soviets heard the speech. (Washington Post, A14)

PRESIDENT WARNS ON IMF CURB

President Reagan bluntly warned conservative Republicans who threaten to block an $8.4B authorization bill for the IMF that, if they succeed, the consequences could be "an economic nightmare that could plague generations to come." (Hobart Rowen, Washington Post, A1)

Addressing delegates from 146 nations at the opening session of the annual IMF and World Bank meetings, the President warned that U.S. refusal to provide its share of the quota increase could cause "a major disruption of the entire world trading and financial systems."
(Steven Beckner, Washington Times, A1)

The restrained reaction of the delegates may have been due to the fact that the President's message was addressed more to Congress, especially the Democratic majority in the House, than to the foreign visitors.
(Clyde Farnsworth, New York Times, A1)

Developing countries take the floor at the annual IMF-World Bank meeting after their urgent demands of more aid have been rejected by rich nations.
(Peter Torday, Reuter)

Just 1 Fred Speer 13

NETWORK NEWS SUMMARY FOR TUESDAY, September 27, 1983 (continued)

IMF—Jennings: President Reagan says the American share to the IMF should be increased, but Congress has yet to go along. Today, Mr. Reagan went before the delegates of the IMF and World Bank, but his message was directed at Capitol Hill. (Reagan: "The end of this road could be a major disruption of the entire world trading and financial systems -- an economic nightmare that could plague generations to come.") This isn't just a case of the U.S. giving money away. Contributions earn interest. The U.S. is actually the largest borrower and it is the contention of poorer countries that if they don't get the loans, they won't be able to buy American goods. (ABC-2)

NBC's Chris Wallace: The President used the meeting of the IMF and World Bank to appeal to Congress, calling for an additional $8.4B. Mr. Reagan said he has an unbreakable commitment to the IMF. (Reagan: "I do not appreciate the partisan wrangling and political posturing that have been associated with this issue during recent weeks. At the end of this road...generations to come.") The stakes are enormous. Estimates are the Third World has a $700B debt....Another problem for the President is this Republican press release, accusing the Democrats of voting to give loans to Communist-dictatorships. The Democrats were just backing the WH, opposing any restrictions on IMF loans. Speaker O'Neill said the Democrats were double-crossed, and has demanded an apology from the President. (O'Neill: "He's not just going to fluff us off with the statement that he said this morning. If he wants the IMF, he's going to have to respond.") Administration officials say there will be a response, but not necessarily an apology. (NBC-8)

GROMYKO—Brokaw: Soviet FM Gromyko rejected President Reagan's latest offer on medium-range nuclear missiles in Europe. Gromyko said that proposal is obviously unacceptable to Moscow because it is lopsided. He charged the U.S. is trying to evade a new arms agreement. (NBC-4)

Jennings: In Moscow, Gromyko had something to say on the President's new proposals. Gromyko asked why does the U.S. keep putting forward lopsided proposals clearly unacceptable to the other side. (ABC-9)

KAL 007—Rather: There were some Japanese news reports today that U.S. Navy search ships perhaps had located the black boxes from KAL 007. But those recorders have not been found and the search continues.

CBS's David Martin: There was a high-level denial today of Japanese news reports the flight recorder has been found. (President: "There is no knowledge that it has. No.") But U.S. Navy officers say they are cautiously optimistic — a significant change from two weeks ago when they put their chances at one-in-ten. In anticipation of finding something, the Navy has brought a team of international observers to the search area as witnesses against any Soviet charges the U.S. is tampering with the evidence....One new theory is that the KAL pilots improperly programmed their navigation systems even before they left the Anchorage airport. (CBS-3)

ABC's John McWethy reports from the Pentagon on the search. (ABC-3)

U.S. DEPARTMENT OF COMMERCE

October 6, 1983 14

To : Roger Robinson, NSC

Info Fred Snyder

From: Michael Liikala

At the request of several agencies, Council of Americas has agreed to meet with an interagency group to review the findings of their survey on Trade & Investment Trends in Latin America. They also welcome comments on the survey and suggestions on a follow-up survey they plan to undertake.

The meeting will be in room 3407, USDOC, at 1:30 p.m., Tuesday, October 11th.

Attachment

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COUNCIL OF THE AMERICAS

AN AFFILIATE OF THE AMERICAS SOCIETY, INC. 684 PARK AVENUE, NEW YORK, NEW YORK 10021 212 628-3200

THE IMPACT OF THE ECONOMIC CRISIS in ARGENTINA, BRAZIL, MEXICO AND VENEZUELA on UNITED STATES COMPANIES OPERATING THERE

A technical report of responses to a
Council of the Americas Questionnaire

September 1983

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The Council of the Americas is an association of over 180 major U.S. companies with investment, trading, banking, and servicing activities in Latin America. It seeks to improve understanding between governments and private sector representatives of the contribution which private initiative makes to economic growth.

This is a report which offers impressions formed from company-provided data. It reports the impact of the continuing economic crisis in Latin America on the investment, trade and financing flows of U.S. companies to Argentina, Brazil, Mexico and Venezuela. The primary effort has been to provide general impressions of the subject as rapidly as possible.

The Council of the Americas, after discussion with U.S officials, developed a questionnaire seeking data to aid policy planning relevant to the economic crisis. Member companies were urged to respond quickly. Order of magnitude and "ball park" numbers were sought, not detailed accuracy. Company responses from 35 firms were compiled in confidence by Arthur Andersen & Co.

Arthur Andersen & Co. reports some apparent confusion in the responses to some of the questions. Still, general trends seemed clear enough. Shortcomings in the data are noted in all important instances in this report.

OVERVIEW

In overview, the impact of the continuing economic crisis in Argentina, Brazil, Mexico and Venezuela on the investment, financing and trade flows of thirty-five major U.S. companies is reported as follows:

Investment

- Overall, 1983 dollar earnings will be sharply reduced from prior years.
- Dividend remittances will be down in 1983, in some cases sharply.
- Dollar equity invested in the four countries as of mid-1983 is dropping in three countries and flat in the other.

Trade

- There is a major shift to secured trade terms with third parties.
- Barter, countertrade and the like are starting, with more expected in 1984.

Finance

- Of dollar borrowing by subsidiaries, about 10% is owed to parents, with 48% of that past due. The rest is chiefly owed to banks with 6% past due.
- Some companies say they will indefinitely continue to fully finance their local affiliates, but others report having reached their limit, and still others are approaching theirs.

Restarting the Productive Sectors

- Greater access by their subsidiaries to foreign exchange as well as liberalization of price controls were listed by the companies as the predominant host country policy shifts needed to maintain their investing, financing and trading activities.

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BACKGROUND

Multinational companies are key players in the investment, financing and trade flows from the United States to the developing countries, particularly in Latin America, which are experiencing extended economic difficulties. Yet, it appears that virtually no data are available to report the impact of this economic crisis on the activities of these companies. How much non-bank financing do these companies provide to the economies of these countries? What portion of total U.S. trade with these nations is conducted by them? Are the net new funds and the trade financing provided by these MNC's increasing, decreasing or unchanged in the context of host country illiquidity? As far as we know, neither government nor private effort has previously developed statistics to answer these types of questions.

This report is intended to help fill this gap in information. The data provided by the companies are as recent as mid-1983 for some questions. Much of the data, however, is only as recent as the end of 1982. Thus, the full impact of the economic crisis on the companies is yet to be reported.

Throughout this report "company" and "parent" refer to the parent U.S. company together with other affiliates located outside the countries under study. The terms "affiliate", "local affiliate" or "subsidiary" refer to companies located in one of the four countries.

The report makes occasional observations intended to place in context some of the trends shown by the data. Brief comments on key issues and policy questions which arise from the findings of the study appear at the end of the report.

NOTE: For more detailed study of this subject, copies of the questionnaire may be obtained from the Council of the Americas, 680 Park Avenue, New York, New York 10021, telephone (212)628-3200.

THE RESPONDING COMPANIES

The thirty-five responding companies are diversified in activity, representing a broad spectrum of industrial, extractive, agribusiness and service sectors in the four selected countries. Members of the group have invested significant risk capital there. The group contains a handful of very large corporations, a sizable number of medium or average-sized multinationals and a smaller selection of smaller firms. As a group, the 35 had global sales of U.S.$230 billion in 1982.

Latin American operations appear to be important to the responding companies because total sales made within Latin America by their local affiliates represent about 10% of total sales throughout the world for these MNC's. Additional sales are made from abroad by these companies to local non-affiliates, as shown below, which would increase the importance of these countries to these MNC's.

By country, the ratio of sales made by the local affiliates in each country compared to worldwide company sales is:

CHART 1
LOCAL AFFILIATE SALES
(As % of Worldwide Sales)

	1980	1981	1982
Argentina (20 firms)	2.0%	1.5%	1.0%
Brazil (27 firms)	3.6%	3.9%	4.0%
Mexico (25 firms)	3.5%	4.0%	3.3%
Venezuela (20 firms)	2.1%	2.3%	2.4%

Sales made by the local affiliates in dollar amounts in the four selected countries were reported as follows. Sales to the countries from abroad are not reported in this chart.

CHART 2
SALES BY LOCAL AFFILIATES
(Billions of US$)

	1980	1981	1982
Argentina (21 firms)	$ 4.0	$ 2.8	$ 1.7
Brazil (29 firms)	8.0	9.1	9.3
Mexico (26 firms)	4.3	5.1	3.9
Venezuela (21 firms)	1.5	1.6	1.8
Total	$17.8	$18.6	$16.7

Sixteen of the firms were active in each of the four countries. Six reporting companies had no local affiliates.

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INVESTMENT - EARNINGS TRENDS

Since earnings results are confidential, absolute numbers were not requested. An index with 1979 as the base year of 100 was used. That was a pre-crisis year for each of the four countries. Because there was a lack of uniformity in reporting losses under the index methodology, certain questionnaire responses contained information which may somewhat distort the average percentage increase or decrease shown below, but up and down trends are clear enough.

CHART 3

EARNINGS TRENDS INDEX
(By Index, 1979=100)

	1979	1980	1981	1982	1983E*
Argentina (21 firms)	100	80	7	89	47
Brazil (27 firms)	100	165	312	375	118
Mexico (27 firms)	100	125	178	-77	-1
Venezuela (18 firms)	100	101	125	143	83

* E = Estimated

This indicates an overall trend to diminished earnings. Indeed, a plunge is evident from the company estimates for 1983 earnings except for Mexico which shows recovery from very negative to barely negative results. Both Brazil and Venezuela show sharply poorer results expected by the companies for this year. These earnings estimates were made at mid-year.

Such earnings declines, it is generally understood, are heavily influenced by drastic devaluations and widespread recession as, for example, in Argentina in 1981.

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INVESTMENT - EARNINGS REMITTANCES

Earnings remittances were reported by index (1979 = 100) rather than by absolute numbers. Again, distortions may be present because of lack of uniformity in responses to the index methodology.

CHART 4

EARNINGS REMITTANCE INDEX
(By Index, 1979=100)

	1979	1980	1981	1982	1983E*
Argentina (15 firms)	100	116	108	194	129
Brazil (19 firms)	100	339	434	308	289
Mexico (23 firms)	100	132	203	137	102
Venezuela (15 firms)	100	151	199	311	141

* E = Estimated

The level of remittances is less important than the up or down trend. There is no direct correlation between earnings (Chart 3) and remittances since no fixed relation between earnings and dividends can be assumed for the base year 1979. Moreover, remittances often lag behind earnings by twelve months or more. Thus, actual dividend levels remitted in 1983 and in 1984 will be even more revealing of the current situation.

Lower levels of remittances in 1983 compared with 1982 probably reflect lower earnings and, particularly in the case of Mexico, the lack of foreign exchange for dividends.

INVESTMENT - DIVIDENDS

The questionnaire asked whether, because of the countries' foreign exchange scarcity as distinguished from other causes, dividends remitted in 1982 were below what normal company dividend policy would have called for.

Only a few companies reported impairment of 1982 dividend remittances for this reason: 2 of 21 in Argentina, none in Brazil, 4 of 28 in Mexico, and 2 of 21 in Venezuela. It is suspected that most subsidiaries remitted their dividends early in the year before the exchange shortages occurred. Keep in mind that dividends are typically remitted early in the year out of the prior year's earnings. The companies projected reduced dividend remittances in 1983.

The questionnaire also asked whether in 1982 any dividends had been remitted at a penalty rate, that is, at an exchange rate costlier than an officially available rate for other types of transactions at that time. In only five instances was a penalty suffered. This may indicate that the companies timed their payments to avoid penalty periods. It is also suspected that in 1982 many subsidiaries retained earnings in their business above normal levels to maintain working capital. The higher cost of dollar obligations and inventory financing, as well as reduced cash positions would have forced this in many cases.

INVESTMENT - CHANGES IN EQUITY

The nature of equity is to respond more slowly to changed conditions than do other measures of business activity. In the first half of 1983, equity positions in the local subsidiaries dropped sharply in Venezuela, slightly in Brazil and reached a plateau in Argentina and Mexico. Normally any trend other than growth in equity would be cause for concern. Conditions of illiquidity, drastic devaluations and recession are suspected causes of the decapitalization.

Equity was defined to include non-current intercompany dollar debt that would normally be considered part of capital. Dollar loans to foreign affiliates including the parent, which would normally be viewed as capital, were excluded for purposes of this question because they were reported separately (see Chart 10). The questionnaire sought to measure changes in equity by use of an index with base year 1979 at 100.

CHART 5

CHANGES IN EQUITY
(By Index, 1979=100)

	1979	1980	1981	1982	Mid-1983
Argentina	100	110	97	120	120
Brazil	100	100	109	125	111
Mexico	100	118	148	169	165
Venezuela	100	90	125	145	96

Companies reported that the liquidity problems *per se* of their host countries are having little impact on estimated equity positions in their affiliates in 1983, although other factors are evidently being felt.

TRADE - THE COMPANIES AS TRADERS

Approximately two-thirds of the reported sales made by the 35 companies to the four countries were made to non-affiliates. These global source sales to local third parties have been in virtually constant proportion with sales to local affiliates over the last three years. Of such total sales to each country, the following average percentages reflect sales to local non-affiliates for 1980 to 1982:

CHART 6

SALES TO NON-AFFILIATES
(As % of Sales to Country)

Argentina	58%
Brazil	66%
Mexico	59%
Venezuela	72%

From this we gain an impression that the U.S. multinational firms are major traders with third parties. (Even though this information is suggestive there are still, apparently, no comprehensive data available to show what portion of total U.S. trade with, for example, Brazil is conducted by and within multinational firms.)

A rough approximation of the absolute amount of current annual trade by these 35 companies with each of the four countries has been extrapolated by annualizing from 1983 second quarter unsecured receivables (see Chart 8) and adjusting for secured shipments (see Chart 9):

CHART 7

TRADE IN 1983
(By Extrapolation, US$millions)

Sales to	Affiliates	Non-Affiliates	Total
Argentina	$ 60	$ 550	$ 610
Brazil	$310	$1,180	$1,490
Mexico	$620	$1,345	$1,965
Venezuela	$250	$1,450	$1,700

TRADE - OUTSTANDING UNSECURED RECEIVABLES

Are the local affiliates falling behind in paying for shipments from the parents and other foreign affiliates? How about outstanding payments owed by non-affiliates to the 35 companies? A comparison between pre-crisis mid-1981 and mid-1983 was used.

Outstanding unsecured receivables were expressed in total dollars and in terms of the months of shipments each total represented, given current shipment levels. Months' shipments owed by affiliates rose from an average 5.75 months in 1981 to 7.5 months by mid-1983. Outstanding amounts owed by non-affiliates moved from a 1981 average of 4.5 months to 6.25 months by mid-1983. These are presumably significant shifts from the "normal" levels for these companies.

In absolute terms, outstanding unsecured receivables owed to the parent companies by affiliates and non-affiliates on the two comparison dates are as follows:

CHART 8

UNSECURED RECEIVABLES
(US$millions)

	Argentina (17 firms)	Brazil (25 firms)	Mexico (23 firms)	Venezuela (18 firms)
Owed by Affiliates				
Mid-1981	$110.4 (5)*	$119.1 (6)	$101.9 (7)	$ 63.5 (5)
Mid-1983	57.2 (6)	124.6(11)	109.0 (6)	91.4 (7)
Increase(Decrease)	-48%	5%	7%	44%
Owed by Non-Affiliates				
Mid-1981	$ 60.5 (5)	$101.3 (4)	$150.5 (4)	$112.5 (5)
Mid-1983	37.8 (9)	113.2 (5)	97.3 (5)	105.8 (6)
Increase(Decrease)	-38%	12%	-35%	6%

* Numbers in parentheses represent average months' shipments.

The drop in non-affiliate receivables from Argentina and Mexico is remarkable. A contraction of trade with third parties is suspected since months' shipments have risen. The reports show trade with affiliates grew slightly for Mexico, but dropped sharply for Argentina.

Generally speaking, the reports show that willingness to ship to third parties is dropping while credit to local affiliates is being expanded as they run up the intercompany accounts.

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TRADE - SECURED VS. UNSECURED RECEIVABLES

About 90% of all shipments from parents to affiliates were on unsecured terms as of mid-1983. In mid-1981, which served as a pre-crisis, comparative checkpoint, virtually all such shipments were unsecured. For shipments from the companies to non-affiliates in these countries there has been a major shift to secured transactions, as shown below:

CHART 9

SECURED TERMS: NON-AFFILIATES
(As % of Total Shipments)

	Argentina	Brazil	Mexico	Venezuela
Mid-1981	48%	43%	16%	32%
Mid-1983	82%	56%	67%	79%

Although confirmed letters of credit are reported as the predominant type of secured transaction as of mid-1983, cash prepayments are also a noticeable factor. Official export credit guarantees played virtually no part in trade by the reporting companies. In spite of the shift to secured terms, a very sizable portion of trade flows to third parties remains unsecured, perhaps reflecting long-standing trade relationships.

TRADE - NON-TRADITIONAL TRADE PRACTICES

Factoring

Seven reporting companies have discounted unsecured receivables with banks or factoring houses. Six indicate it is more difficult to do so in mid-1983 than at the end of 1982.

Parent Guarantees

Although not generally a frequent practice, a significant number of parent companies are providing back-up guarantees to U.S. and foreign third party suppliers to induce them to ship to affiliates in the host countries. Mexico has the highest incidence. To a similar degree, parent companies are purchasing supplies on their own account and shipping them to local affiliates.

Non-Traditional Exports

To earn foreign exchange, some local affiliates as of mid-1983 are exporting products which were not part of their ongoing businesses in the past. Non-traditional exporting is being done by 2 of the 19 firms reporting for Argentina, 7 of 28 for Brazil, 7 of 26 for Mexico and 1 of 18 for Venezuela. But even for these firms, these exports combined with barter and countertrade activities account for only minor portions of their local affiliates' total current cross-border trade.

Future Practices

Looking to the future, companies estimated the portion of their total cross-border trade they think will be in barter, countertrade and non-traditional exports by the end of 1984. For Argentina, three firms estimated an average of 18% by then; the other 16 saw no resort to these practices. For Brazil, 10 firms estimated an average of 17% of their trade in these types of transactions. Nine firms could see an average of 14% by then for Mexico, and 3 firms thought 16% would be reached for Venezuela.

FINANCE - DOLLAR LOANS

Local affiliates borrow dollars (hard currency) from banks, non-banking third parties and from foreign affiliates including the parent company. Although banks account for far more lending than the other sources, the multinationals provide self-financing in the form of loans to local affiliates to a significant degree. (They provide added self-financing in other forms, as shown later.)

CHART 10
DOLLAR LOANS OWED BY LOCAL AFFILIATES
(US$millions)

	1979	1980	1981	1982	Mid-1983	Past Due Mid-1983	% Past Due
Loans Owed to Banks							
Argentina	$ 76	$109	$152	$ 93	$ 75	$13	17.3%
Brazil	348	408	774	1,024	1,000	1	.1%
Mexico	357	364	857	1,000	927	43	4.7%
Venezuela	268	294	200	207	184	81	43.8%
Loans Owed to Foreign Affiliates							
Argentina	42	87	81	56	39	17	43.5%
Brazil	98	78	85	79	77	10	13.4%
Mexico	23	43	67	92	62	39	63.6%
Venezuela	22	34	26	28	61	48	78.0%
Loans Owed to Third Parties							
Argentina	1	1	3	1	1	0	0%
Brazil	29	33	29	40	40	0	0%
Mexico	8	10	14	13	11	.4	4.2%
Venezuela	4	8	6	6	5	2	40.0%

Loan levels, of course, fluctuate for a wide variety of reasons: expansion of facilities, financing inventories, covering losses, facilitating dividends, augmenting working capital and others. In some instances a few very large loans dominate the report. The Venezuelan increase from 1982 to mid-1983 for loans owed to foreign affiliates is chiefly because of one company.

Corporate self-financing through loans accounts for about 10% of total dollar loans owed by local affiliates. Of the amount owed at mid-1983, nearly half is past due. Bank loans in total show 6% is past due.

Venezuela has extremely high past due accounts at mid-1983. The affiliates in Brazil appear to be relatively current in loan payments, but the reports do not reflect the new foreign exchange system centralized after July 29.

FINANCE - CORPORATE SELF-FINANCING

In addition to financing their affiliates through hard currency loans from parent companies (Chart 10), multinationals also finance their affiliates (that is, self-finance) through intercompany account build-up, forbearance in dividend and other remittances, back-to-back loans and other types of intercompany debt. The questionnaire sought to determine whether corporate self-financing has been expanding or contracting in the midst of the financial crisis of the four countries.

In the first half of 1983 corporate self-financing contracted slightly (-15%) in Brazil and sharply (-69%) in Venezuela. The companies were also asked to state what portion of the increase or decrease in their self-financing was brought on by host country liquidity problems; that is to say, what portion was involuntary. For those companies affected by country illiquidity, nearly 90% of the Venezuelan decrease was involuntary. In Brazil 70% of their decrease was involuntary. During the same period, self-financing expanded by 75% in Argentina and 14% in Mexico, with 74% and 95% of the increases, respectively, being involuntary for those companies.

Caution is advised because the questionnaire sought non-traditional analysis of corporate activity. The concept of corporate self-financing has not been much thought about. Interpretation of the questions was surely not uniform. The data here are probably useful only to provide general impressions.

CHART 11

CORPORATE SELF-FINANCING
(Increase/Decrease as %)

	End'81/End'82	End'82/Mid-1983
Argentina	11%	75%
Brazil	23%	-15%
Mexico	44%	14%
Venezuela	69%	-69%

It should be noted that during the period studied, two governments mandated extended time for trade payments. Argentina required a minimum of 180 days starting in April 1981. This was gradually eased to 120 days by May 1983. Brazil introduced 180-day terms for selected imports in October 1980.

FINANCE - SELF-FINANCING LIMITS

The questionnaire sought to determine whether there is a limit to corporate self-financing beyond which a company is unwilling to go. This is a subjective question, rather than data based.

For Argentina, 79% of the 19 companies responding said they do not expect to reach self-financing limits beyond which they are unwilling to go. For Brazil, 88% of the 25 firms so replied. For Mexico, it was 64% of 25 firms and for Venezuela, 74% of 19 firms. These companies, it would seem, are willing to continue indefinite support for their affiliates in these countries. At least as of mid-1983, they plan to be there for the long-term, in spite of increasing self-financing requirements.

However, the other companies report they will soon reach, or have already reached, their limit for self-financing. For Argentina, 21% of the firms have so reported. For Brazil, 12% have so reported. For Mexico, the figure rises to an alarming 36%, and for Venezuela to 26%. Because it is suspected that alternative financing for these firms is costly or unavailable, and since these are large corporations, the probable negative impact on both host country and United States trade, employment and revenue is disturbing.

For the companies which have already reached the limit of their willingness to self-finance, the reports show shipments to non-affiliates have generally been reduced more than shipments to affiliates.

FINANCE - INVESTMENT CONDITIONS AND SELF-FINANCING

The companies were asked what "rules of the game", if changed for the better from an investor's point of view, would most increase their willingness to further self-finance.

Overall, the most significant reasons given for potential willingness to increase self-financing were Foreign Exchange Access and Price Adjustment Mechanisms, followed by Profit Remittance Limits, Access to Local Financing, and Control and Ownership Limits.

A breakdown of the four most significant reasons in order of significance by country is as follows:

<u>Argentina</u> : Price Adjustment Mechanisms, Foreign Exchange Access, Profit Remittance Limits, and Access to Local Financing.

<u>Brazil</u> : Profit Remittance Limits, Price Adjustment Mechanisms, Foreign Exchange Access, and Access to Local Financing.

<u>Mexico</u> : Foreign Exchange Access, Control and Ownership Limits, Price Adjustment Mechanisms, and Access to Local Financing.

<u>Venezuela</u> : Foreign Exchange Access, Price Adjustment Mechanism, Profit Remittance Limits, and Access to Local Financing.

COMMENT

The investing, trading and financing patterns of the 35 reporting U.S. companies, and undoubtedly others as well, are evidently being disrupted, in some cases rather severely, by the continuing economic crisis in Latin America.

Extrapolating from the reports of these 35 companies and drawing on general business knowledge, it appears that U.S. multinationals have been sustaining, and to an important degree intend to continue to sustain, the operations of their local affiliates through what has been termed self-financing. This has probably helped somewhat to arrest the negative growth of the productive sectors in these four debt-burdened countries.

The companies have continued to ship to third parties in these countries, although increasingly on secured terms. They have experienced more overdue loans owed to themselves, while keeping reasonably current on loan payments to banks. Yet, they are experiencing sharp declines in earnings, reductions in equity and reduced dividends.

A central question posed by the report is this: For how long and to what extent will the companies be willing and able to continue as key players in supplying investment, technology, trade and finance to these countries? The following observations, which comment point by point on the Overview (page ii), may suggest some relevant factors.

Investment

- Any failure of growth in equity, such as reported at mid-1983, may signal fundamental weakening of that business; decapitalization is clear cause for concern in the board room.
- Sharp earnings reductions can normally be sustained over a short period, making future earnings prospects a key issue.
- That even a few companies suffered dividend impairment because of foreign exchange scarcity in 1982 and that reduced dividend remittances are expected in 1983, can imply a chilling effect on investment incentive.

COMMENT (cont.)

Trade

- As trade with non-affiliates shifts to secured terms, the continuing scarcity of foreign exchange makes secured transactions more expensive or, recently in some cases, even unobtainable. This signals trade contraction for U.S. exports.

- Barter, countertrade and the like are being compelled by lack of exchange. They are not preferred ways of doing business.

Finance

- With half the subsidiary-to-parent debt past due, there may not be much willingness to further finance from this source. Yet, it is known that little new bank financing is currently available at acceptable cost in these countries.

- Companies may view themselves willing to self-finance so long as delay in payment, although extended, is not out of hand. Under more severe conditions, willingness to expand self-financing could diminish.

Restarting the Productive Sectors

- To the extent subsidiaries are denied consistent, unpenalized access to scarce foreign exchange, it becomes increasingly desirable to curtail their activities.

It has been noted by many observers that Latin America's debt/equity ratio, currently skewed toward debt, could be put into better balance through greater investment flows. Although presumably desirable from the point of view of the indebted countries, there is little broad evidence that companies are currently interested in planning for investment there in the next few years, and even less evidence that governments in the debtor countries are seriously willing to change investing and operating rules to encourage a shift in their debt/equity ratios.

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POLICY QUESTIONS

- In contemplating foreign exchange allocation and other policies, what can eventually be expected to happen to the productive sector when the position of invested companies is not serviced?

- How quickly will companies reach the end of their willingness to sustain host country operations through self-financing?

- To what extent is this willingness a function of how they perceive the longer term prospects for their business in that country?

- To what extent will local investment and operating rules influence that perception?

- What changes in conditions, over which government policy can have some influence, would increase companies' willingness to maintain their activities, thus aiding recovery of the productive sectors?

- To the extent policy changes by Latin American governments might be indicated, how can the U.S. government and the U.S. private sector best help to that end?

- How widely is it understood that for the Latin American countries which are experiencing extended economic difficulties, the critical focus is not how to get the debt paid, but how to restart their productive sectors - so the debt can be paid and social turmoil minimized.

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131293	MEMO NORMAN BAILEY AND ROGER ROBINSON TO WILLIAM CLARK RE: BRAZILIAN AND INTERNATIONAL DEBT CRISIS	2	10/8/1983	B1

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