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| ID | Doc Type | Document Description | No of Pages | Doc Date | Restrictions |
|--------|----------|--|-------------|-----------|--------------|
| 131607 | PAPER | RE: ARGENTINA | 5 | 8/15/1984 | B1 |
| 131614 | PAPER | RE: MEXICO (INCLUDES 1 P. OF HANDWRITTEN NOTES ON REVERSE) | 3 | 8/14/1984 | B1 |
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| 131623 | MEMO | ROGER ROBINSON AND DAVID WIGG TO ROBERT MCFARLANE RE: REQUESTS FOR FOREIGN ASSISTANCE | 1 | 6/29/1984 | B1 |
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| 131627 | MEMO | ROGER ROBINSON AND DAVID WIGG TO BUD MCFARLANE RE: BRIEFING BOOK | 1 | 5/24/1984 | B1 |

The above documents were not referred for declassification review at time of processing

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| 131629 | MEMO | ROGER ROBINSON AND DAVID WIGG TO ROBERT MCFARLANE RE: ARGENTINA | 1 | 3/23/1984 | B1 |
| 131632 | PAPER | RE: INTERNATIONAL DEBT UPDATE | 7 | 8/21/1984 | B1 |
| 131640 | PAPER | RE: MEXICO | 2 | 9/4/1984 | B1 |
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| 131646 | MEMO | RE: MALTA | 1 | 9/13/1984 | B1 |
| 131647 | MEMO | DAVID MULFORD TO MEMBERS OF THE INTERAGENCY GROUP RE: MEETING | 1 | 9/19/1984 | B1 |
| 131648 | PAPER | RE: UPDATE ON ARGENTINA | 2 | 9/17/1984 | B1 |
| 131649 | PAPER | RE: SECOND CARTAGENA FOLLOW-UP MEETING | 2 | 9/18/1984 | B1 |

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OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

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August 15, 1984

UNCLASSIFIED
(with ~~Secret~~ Attachment)

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE DIRECTOR, OFFICE OF MANAGEMENT
AND BUDGET
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR NATIONAL
SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY
DEVELOPMENT
CHAIRMAN, FEDERAL RESERVE BOARD
PRESIDENT, EXPORT-IMPORT BANK
ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

Subject: IG-IEP on International Debt

Attached are papers for discussion at the meeting of the IG-IEP on International Debt on Friday, August 17. The material on Argentina must be closely held.

Christopher Hicks
Executive Secretary and Executive
Assistant to the Secretary

UNCLASSIFIED
(with ~~Secret~~ Attachment)

dm 02/17/2012

THE INTERNATIONAL DEBT STRATEGY

2

Introduction

Our approach to the international debt problem is of necessity a pragmatic one in which countries are treated on a case by case basis. No comprehensive solution or formula could be applied indiscriminantly to countries which are very different with respect to their stages of development, their adaptation to global economic trends and their respective relationships to the international private and public credit system. Debtors also vary by need, capacity for adjustment, and potential for sustainable long-term growth. Creditors operate under varying constraints, with differing obligations and limits to their ability to adapt to debtor problems and demands. This diversity is the principal obstacle to a comprehensive solution to the debt problem.

For this reason, our debt strategy is a set of related conditions, which, if fulfilled over the medium-term, can lead to a basic improvement in the creditworthiness of many of the heavily indebted countries. Success would be defined by those countries developing an improved capacity to service their debt while allowing imports to grow sufficiently to support sound economic growth.

The strategy was first enunciated in the fall of 1982 in the wake of the Mexican debt crisis. It was endorsed by the seven Heads of State at the Williamsburg Summit in 1983, and has wide support throughout the international financial community. It was reaffirmed at the London Summit in early June.

- The Five-Point Strategy

In its original formulation, our international debt strategy consisted of five elements:

The first, and indeed central, element of the strategy is that debtor countries in financial difficulty adopt comprehensive, credible and effective programs for strengthening their balance of payments and stabilizing their economies.

The second element is that the industrial countries follow policies leading to sustainable, non-inflationary economic growth and keep their markets open to exports from developing countries.

The third element in our strategy has been a strengthening of the IMF. Its resources have been increased and it plays a major supporting role in helping debtor countries to formulate needed adjustment programs so that creditors are encouraged to provide financial support.

The fourth element is continued commercial bank lending for countries making determined adjustment efforts including, in most cases, the provision of net new finance.

The fifth element is the readiness of creditor governments to provide bridge financing on a selective basis when appropriate. This financing generally fills the gap between the time when a program has been worked out with the IMF but before its resources and those of the commercial banks are disbursed.

At the London Summit in early June the debt situation was reviewed within the framework of our agreed debt strategy. The Summit Communique on this issue:

- a) Reaffirmed the central role of the IMF, its cooperative relation with the World Bank and called for the strengthening of the latter's function in the area of medium- and long-term development,
- b) Encouraged private banks to make more extended multi-year rescheduling of their credits and expressed the willingness of governments to consider doing the same for countries who are adjusting well, and
- c) Emphasized the potential importance of direct investment.

- Alternative Strategies

Numerous proposals have been presented during the past two years "to do something" about the debt crisis. Many of the more dramatic ones are quite comprehensive in scope and include sweeping transfers of private credits to creditor governments, substantial relaxation of IMF-supported adjustment programs, and increases of official credits, both for the MDBs and bilateral programs.

These proposals fail to take into account differences in the development environment and debtor/creditor relationships. Many are politically unrealistic in that they assume a public intrusion into the market place as well as a commitment of budgetary resources that neither the Executive Branch nor the Congress believe is desirable.

Resolving the debt problem will take both time and patience. All the players -- debtor country governments, commercial banks, creditor governments and international institutions -- need time to assess their experience and their ability to innovate. Prolonged negotiations, conducted patiently and with restraint, will be needed if the principal actors are to deepen their understanding of the dimensions of their problems and the nature of the solutions that may realistically be applied.

- The Outlook

Rapid and sustained OECD recovery is critical to the process and access to industrial country markets must be maintained in the face of increasing protectionist pressures. The U.S. expansion has already had a dramatic effect on Latin American sales to us and in general, we can expect widespread LDC export gains this year and next. On the other hand, interest rates have risen and although the extent and duration of these increases is uncertain, it is likely that average interest rates paid by LDC borrowers will be higher this year and next than in 1983. Nevertheless, compared to the crisis period of 1980-82, world economic and debtor country performance is much better. This suggests that the general principles of our debt strategy remain realistic.

We are now entering another phase in which various nations are at different distances along the road to adjustment. In Latin America, for example, Mexico is the most advanced and Argentina and Bolivia the furthest back. The London Summit Communique recognized this new reality by endorsing the concept of multiyear rescheduling for countries such as Mexico that have made the best adjustment, look as if they will continue to follow sensible policies but continue to have very heavy debt service obligations. We are in the process of working out with other governments how this approach might be applied in the Paris Club for government and guaranteed private credits and the relationship of government rescheduling to private bank rescheduling.

Another important next step is increasing the awareness that, as countries strive to cope with their debt burdens, they need to re-examine their policies towards direct foreign investment. Such investments provide not only needed capital and technology, but also stabilize capital flows and improve the management of external debt. The major debtors need to become less dependent on credit.

In this evolving situation we must be alert to new problems and seek to adapt the application of our basic strategy to new problems as they arise. But whatever changes that prove to be necessary should be made in a manner which strenghtens the international capital market.

U.S. Treasury/OASIA
8-14-84

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131614 PAPER

3 8/14/1984 B1

RE: MEXICO (INCLUDES 1 P. OF HANDWRITTEN
NOTES ON REVERSE)

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131616 PAPER

4 8/15/1984 B1

RE: VENEZUELA (INCLUDES 2 P. OF
HANDWRITTEN NOTES ON REVERSE)

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MEMORANDUM

NATIONAL SECURITY COUNCIL

August 16, 1984

INFORMATION

MEMORANDUM FOR ROBERT M. KIMMITT

FROM: ROGER W. ROBINSON *flwr*

SUBJECT: Speech by the President at the Annual
IMF/IBRD Meeting Scheduled for
September 24-27

In lieu of your long-range scheduling meeting tomorrow, attached (Tab I) is a scheduling request dated August 1 from Craig Fuller for the President to speak at the annual Bank/Fund meetings on September 24-27. The only discrepancy in Fuller's request is that the event would probably require the President's remarks to last more like 15-20 minutes than the 10 minutes referenced. In addition, we have included the IMF/IBRD speaking engagement as part of Bill Martin's NSC calendar of events (attached at Tab II). I have tried repeatedly to persuade Treasury to pursue this speaking engagement more actively, and they are finally exploring a joint Shultz/Regan request to reinforce the Fuller scheduling memo.

I do not think I need to further explain the significance of the President's appearance before the leaders of world banking and finance at this crucial juncture in the debt crisis. If approved, I will take a cut at drafting a speech (as I did last year) that is very upbeat concerning the President's domestic economic successes, the spreading of non-inflationary economic growth worldwide, and appropriate references to the President's sensitivity to the plight of the developing world laboring under the debt burden. He can applaud the progress of responsible debtor nations who are well on their way toward regaining access to world credit markets under their own restored strength (i.e., Mexico and Brazil) and urge others to follow this constructive path under IMF auspices.

Naturally, if we should confront serious adverse developments prior to the Bank/Fund meetings, such as a genuine crisis in Argentina, we could reappraise the circumstances at that time. Your support at tomorrow's meeting would be much appreciated.

Attachments

- Tab I Fuller Schedule Proposal
- Tab II Martin's Calendar of Events
- Tab III April 24 Request from Treasury

cc: Fortier, Poindexter, Wigg, Martin

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THE WHITE HOUSE

WASHINGTON

SCHEDULE PROPOSAL

August 1, 1984

TO: FRED RYAN

FROM: CRAIG L. FULLER *CLF/K. Wilson*

REQUEST: An address to the World Bank and International Monetary Fund Joint Annual Meeting.

PURPOSE: To give brief welcoming remarks to the opening session of the World Bank/IMF meeting.

BACKGROUND: The World Bank and the IMF are the free world's principal international financial institutions. Their annual meeting will be held from September 24 to 27, 1984, and will be attended by finance ministers, central bank governors and other financial representatives from over 140 countries.

During a time of considerable international financial uncertainty, it is important that the United States reaffirm its leadership role in fostering international economic cooperation. The World Bank/IMF forum is ideally suited for the President to address the American people and the world community concerning this Administration's commitment to financial integrity and reduction of Federal deficits.

The President of the United States has delivered a welcoming address during the opening session of these meetings in 17 of the last 22 years that these meetings have been held. The President's remarks to this group were very well received, and covered extensively in the press.

DATE: September 24, 1984 - 10:15 AM. An alternative time and date would be acceptable

DURATION: Ten minutes. *more like 15-20 minute - RWR*

LOCATION: Washington Sheraton Hotel.

PARTICIPANTS: The Secretary of the Treasury, and various other American and foreign dignitaries.

OUTLINE OF EVENTS: To be determined.

REMARKS: Remarks will be required.

MEDIA
COVERAGE: Open.

PROJECT
OFFICER: Craig L. Fuller

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| 131617 | LIST CALENDAR OF EVENTS (P. 4 ONLY) | 1 | ND | B1 |

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WASHINGTON, D.C. 20220

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APR 24 1984

MEMORANDUM FOR CRAIG L. FULLER
ASSISTANT TO THE PRESIDENT
FOR CABINET AFFAIRS

Subject: Welcoming Address by President Reagan
to the World Bank/International Monetary
Fund Joint Annual Meetings.

The World Bank and the International Monetary Fund will hold their Joint Annual Meetings in Washington again this year, from September 24 to 27. The President has made a brief welcoming address to this gathering in 17 of the 22 years that the Meetings have been held in Washington.

We recommend that President Reagan again address the opening session of the Meetings on Monday, September 24, at approximately 10:15 a.m.

The Fund and the Bank are the free world's principal international financial institutions, and these Annual Meetings are attended by finance ministers, central bank governors and representatives of the international financial community from over 140 countries. There is always extensive media coverage. Last year's statement by President Reagan was very well received. Another appearance before this prestigious group would provide a further opportunity to reaffirm the United States' leadership role in, and continuing commitment to, international economic cooperation.

Should the suggested time conflict with the President's schedule, another mutually satisfactory time could be arranged.

(Signed)

David L. Chew
Executive Assistant
to the Secretary

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MEMORANDUM

NATIONAL SECURITY COUNCIL

July 11, 1984

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~~TOP SECRET ATTACHMENTS~~

MEMORANDUM FOR DONALD GREGG

FROM: ROBERT M. KIMMITT *Rmk*

SUBJECT: Background Materials on International Debt

Consistent with your recent conversation with Roger Robinson, the attached package represents a selective overview of recent efforts in this area. Roger believes that the Vice President may find the contingency strategy paper for the London Summit of particular interest as it deals specifically with the issue of an interest rate cap and remains relevant. Roger has also offered to brief the Vice President and field any potential questions he may have. Naturally, we would expect these internal NSC documents to be closely held and returned to Roger subsequent to their review.

Attachments

~~TOP SECRET ATTACHMENTS~~

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NATIONAL SECURITY COUNCIL

July 10, 1984

MEMO FOR PAUL THOMPSON

Paul,

We have received a request from Don Gregg for recent memos that provide an overview of the debt crisis and specifically an interest rate cap and the present state of play concerning the issue of financial conditionality versus national security. The Vice President has been involved and interested in this issue. We want to follow established procedures to be able to provide this selective package to Don ASAP. I will be in touch for your guidance on this question. Many thanks.

Roger Robinson

~~TOP SECRET ATTACHMENTS~~

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srn 02/17/2012



Proposal Would Cut Foreign Aid Policy From IMF Decisions

By Mary Ann Sieghart
Washington Post Staff Writer

Moves are afoot in Congress to separate U.S. foreign aid policy from lending decisions of the International Monetary Fund.

An amendment adopted by Senate and House Appropriations subcommittees would prevent the Agency for International Development, which disburses bilateral U.S. foreign assistance, from withholding aid to countries that have failed to reach agreement with the IMF, a multilateral assistance organization.

When the monetary fund lends money to economically distressed countries, it sets financial conditions. These may include increasing taxes, devaluing the currency and reducing government spending, conditions that often are bitterly opposed by the Third World countries. AID often will make its U.S. assistance conditional on agreement between the IMF and the aid recipient.

The amendment designed to prevent this is included in a supplemental spending bill pending before the House Appropriations Committee. The counterpart Senate committee already has approved the amendment.

Sponsored by Rep. Jack Kemp (R-N.Y.), ranking Republican on the House foreign operations appropriations subcommittee, it says that "none of the funds made available by this act shall be restricted for obligation or disbursement solely as a result of the policies of any multilateral institution."

By adding the word "solely," Kemp persuaded seven of his 11 subcommittee colleagues to back the amendment.

Kemp's move is a demonstration of Congress' growing unease with the IMF. Last year, a bill authorizing an additional \$8.4 billion U.S. quota to the IMF was stalled by the House for five months and passed only by a narrow majority in November. Kemp was instrumental in drumming up opposition to the mon-

In a June 7 letter to Secretary of State George P. Shultz, Kemp talked of the "wrong-headed ideas" of the IMF. Referring to the adjustment program in Jamaica, which involved raising taxes, Kemp wrote, "It is unconscionable that the U.S. reaction to the needs of the people of Jamaica could be to support such policies." Shultz has not replied to the letter.

Kemp said he believes that the road to international economic growth is through lower, not higher, taxes. "I am very much concerned about the politics of austerity being imposed by the IMF on Third World countries," he said. "How much more austerity can these countries stand?"

"They should reduce subsidies and move toward market conditions. All too often they follow no-growth policies on the theory that you fight inflation by slowing down the econ-

omy. There is just too much unemployment in Third World countries and it's causing drastic social conditions."

Kemp cites as an example the Dominican Republic's attempt to enforce IMF conditions that, he claims, led to riots in which 60 people died.

As well as disagreeing with the IMF's policies, Kemp is against the idea of U.S. policy being tied to that of a multilateral agency. "U.S. policy should be made directly, not circuitously by subordinating our aid to the IMF," he said.

The conservative Kemp managed to recruit the support of even Rep. William H. Gray III (D-Pa.), who is on the opposite side of the political spectrum on most foreign policy issues. Their differences were bridged by agreement over both the need to maintain the independence of U.S. foreign aid and concern over the impact of austerity measures on the Third World.

"It appeared to me that the decisions made by the Congress and the American people could be short-circuited by a multilateral institution which has no responsibilities for American interests in any particular nation, whether those interests are humanitarian, economic or strategic," Gray said.

But the suppliers of U.S. aid disagree.

"The assistance that we provide ought to be provided in the context of a sound economic program," said Carl Cunningham, deputy director of the State Department's office of monetary affairs.

"The one institution which is able to help countries in the development of such a program is the IMF. If you don't have such a program in place, it's hard to be sure that the resources will accomplish what they're intended to," he said.

Paul Haire, special assistant for international monetary affairs at AID, pointed out that the agency is not under any statutory or regulatory requirement to link its disbursements with the IMF.

"We do it on a case-by-case basis," he said. "We never make a determination to withhold funds solely as a result of multilateral policies." Of the \$4 billion a year that the agency disburses, Haire estimated that less than 10 percent is linked to IMF conditions.

On monetary fund policy, Haire said that Kemp and AID are in agreement. "Kemp sees AID as simply supporting whatever agreement is made between the IMF and the sovereign nation. But AID is actively encouraging reforms in nations to promote private-sector growth.

"We do not advocate tax increases that are a burden on the private sector and we don't favor placing austerity on the people. We're trying to pull the IMF in the same direction as Kemp is and we will continue to pull as hard as we can. We just hope he can recognize that our influence is limited," Haire added.

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131625 MEMO

1 6/26/1984 B1

ROGER ROBINSON TO ROBERT MCFARLANE RE:
FORMATION OF INTERAGENCY GROUP

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131626 MEMO

1 6/18/1984 B1

ROGER ROBINSON AND DAVID WIGG TO
ROBERT MCFARLANE RE: FINANCIAL
CONDITIONALITY (P. 1 ONLY)

The above documents were not referred for declassification review at time of processing
Freedom of Information Act - [5 U.S.C. 552(b)]

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131627 MEMO

1 5/24/1984 B1

ROGER ROBINSON AND DAVID WIGG TO BUD
MCFARLANE RE: BRIEFING BOOK

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131629 MEMO

1 3/23/1984 B1

ROGER ROBINSON AND DAVID WIGG TO
ROBERT MCFARLANE RE: ARGENTINA

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NATIONAL SECURITY COUNCIL

July 11, 1984

UNCLASSIFIED with
~~TOP SECRET ATTACHMENTS~~

SIGNED

ACTION

MEMORANDUM FOR ROBERT M. KIMMITT

FROM: ROGER W. ROBINSON

SUBJECT: Briefing Materials for the Vice President

Don Gregg and I discussed providing some background materials on international debt. Don has been directly engaged in our recent efforts to identify an appropriate process to deal with special requests for foreign assistance and is a firm supporter of our recommendations to date. In discussing this procedure with Paul Thompson, he recommended that we use our established format to transmit these internal documents.

RECOMMENDATION:

That you approve the transmittal of these internal memos to Don Gregg with the understanding that they are closely held and returned to me after their review and that you sign the memo to Gregg at Tab I.

Approve ✓ Disapprove _____

Attachment

Tab I

Memo to Don Gregg with attachments

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~~TOP SECRET ATTACHMENTS~~

sm 02/17/2012

Robinson 31
with Frank
Spoke
CM HAS SEEN

MEMORANDUM

NATIONAL SECURITY COUNCIL

August 21, 1984

UNCLASSIFIED
with SECRET ATTACHMENT

INFORMATION

NOTED

MEMORANDUM FOR ROBERT C. MCFARLANE

FROM: DAVID G. WIGG *DWG*
ROGER W. ROBINSON *RWR*

SUBJECT: International Debt Update

Attached per your request is the latest update (Tab I) on the international debt situation.

Attachment
Tab I International Debt Update

cc: Menges
Sigur
Sommer
Cobb
Wettering

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131632 PAPER

7 8/21/1984 B1

RE: INTERNATIONAL DEBT UPDATE

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Two years after world debt crisis began, the worst may be over

Roger
Robinson
from Semis
- Hope he's right!

By David R. Francis
Staff writer of The Christian Science Monitor

Boston

Two years ago, Mexico touched off an international debt crisis by announcing that it couldn't service its foreign loans on schedule. The crisis continues today.

Economists, however, are more hopeful for solutions.

"I am a little more optimistic," says Harry E. Brautigam, senior economist for Latin America with the Bank of Boston.

"The crest has passed," says David Devlin, an economist with the Institute for International Finance, a body set up by international banks to research the crisis. "But you still have some 'wavelets,' like Argentina." (Argentina has not yet completed negotiations with the International Monetary Fund on a domestic austerity program necessary to obtain needed new loans.)

William R. Cline, a senior fellow at the Institute for International Economics in Washington, says that in purely economic terms, "fundamental debt recovery is proceeding well."

"But," he adds, "political perceptions in debtor countries nonetheless remain relatively negative, and the debtor problem is by no means resolved."

So he sees a paradox between favorable economic trends and escalation of political pressure for some form of debt relief.

Mr. Brautigam bases his increased optimism partly on the fact that commercial banks and governments are

recognizing that they must to some degree share the burdens of economic adjustment with the debtor nations.

He notes that the banks, currently negotiating with Mexico, expect to reschedule several years of debt payments rather than only one year. They also will offer a concession in the way of a narrower spread between what their money costs them in terms of interest, and the interest rate they charge Mexico. He also hopes that governments will not step up protectionist measures against imports from the debtor nations.

Evidence of a better economic scene for the debtor nations includes the following:

- The global recession, which precipitated the crisis, has been replaced by a sustained international recovery. Growth this year in the industrialized countries should reach about 4 percent. For the whole world, growth in output should run 2.5 to 3 percent. This, says economist Cline, "is the central ingredient in the recipe for resolving the debt problem." Industrial countries import more when their economies are thriving.

- The 19 largest debtors cut their external deficits (on what is called the current account) from \$56 billion in 1982 to \$23 billion in 1983. Much of this was achieved by trimming imports. Now exports are growing rapidly.

In the first four months of 1984, Mexico's non-oil ex-

cc Dave Weiss
Int'l Financial
System File

OSM
P. 3
8/27/84
1 of 2

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ports were up by 56 percent from the same period in 1983. Brazil's exports of manufactured goods were up 68 percent in the same four months. Mr. Cline says Mexico's trade surplus has been running at a rate of \$15 billion yearly, and Brazil's at \$12 billion. Brautigam estimates Argentina's trade surplus this year to be about

\$3.8 billion, but that nation needs some \$5.9 billion to pay interest on its debts.

● There are signs of economic recovery in Latin America. The region's output fell by 3.3 percent in 1983, leaving per capita in-

come some 9 percent below its 1980 level. This year, however, industrial production has been rising by some 3.8 percent in Mexico and 2.2 percent in Brazil.

Cline says growth rates should return to 4 to 6 percent in the area in 1985 and beyond.

One negative factor in the debt crisis was the rise in interest rates this spring, when the prime rate of commercial banks (the basic interest rate charged business customers) in the United States went up to 13 percent. About \$380 billion of the debt of non-OPEC developing countries is interest-sensitive; that is, as rates go up in New York or London, the interest on such loans automatically rises.

Thus, a 1 percent rise in lending nations' interest rates

costs debtor nations \$3.8 billion yearly. But Cline calculates "conservatively" that an extra 1 percent growth in the industrial countries boosts the exports of the non-oil exporting, developing countries by about \$12 billion. That's three times the impact of a 1 percent interest rate hike.

Since growth of the industrial countries will have risen about 1.7 percent this year above the growth rate of 1983, export earnings will more than make up for about a 2 percent rise in interest charges this year, Cline reckons.

"The political impact of the highly visible interest-rate increase is understandable," he said. "But it overstates the real economic damage of higher interest rates by failing to take into account the broader international economic environment."

Messrs. Devlin and Brautigam hope that Mexico will be in good enough financial shape next year that commercial banks will once more voluntarily lend to it, rather than having to lend to it as part of a negotiated debt rescheduling operation. Brazil, they figure, would be next to return to "normal" among the major debtors. Argentina could take longer.

Stocks of the major American banks holding the bulk of the loans to the largest Latin American debtors are still at extremely low levels. "Markets are both manic-depressive and lagging," said Mr. Devlin, who was seconded from Citibank, one of the largest lenders to developing nations.

Investors may still be fearful of political unrest in the debtor nations — unrest that may prompt a moratorium or default on interest repayments. "Political frustration is currently a greater risk than economic setbacks," said Cline. But that risk is hard to measure.

TWO YEARS ...

2 of 2

19



OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

Handwritten: Int'l Finance Sub
42

September 4, 1984

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| MEMORANDUM FOR | OVP | - MR. G. PHILIP HUGHES |
| | STATE | - MR. CHARLES HILL |
| | DEFENSE | - COL. JOHN STANFORD |
| | AGRICULTURE | - MR. RAYMOND LETT |
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| | OPD | - MR. LEHMAN LI |
| | CEA | - MR. WILLIAM A. NISKANEN |
| | FED | - MR. EDWIN M. TRUMAN |
| | AID | - MR. MARK L. EDELMAN |
| | EXIMBANK | - MR. WILLIAM H. DRAPER, III |

Subject Interagency Group on International Economic Policy (IG-IEP)

The agenda for the IG-IEP on Thursday, September 6, 3:30 p.m., in room 4426 of the Main Treasury Building will be the following:

1. Argentina
2. Mexico
3. Venezuela

Attached are discussion papers on Mexico and Venezuela. The paper on Argentina was distributed prior to the August 21 meeting.

Christopher Hicks
Executive Secretary and
Executive Assistant to the Secretary

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131640 PAPER

2 9/4/1984 B1

RE: MEXICO

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131642 PAPER

2 8/30/1984 B1

RE: VENEZUELA

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| 131646 | MEMO RE: MALTA | 1 | 9/13/1984 | B1 |

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OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

September 19, 1984

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| | STATE | - MR. CHARLES HILL |
| | DEFENSE | - COL. R. J. AFFOURTIT |
| | AGRICULTURE | - MR. RAYMOND LETT |
| | COMMERCE | - MRS. HELEN ROBBINS |
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| | FED | - MR. EDWIN M. TRUMAN |
| | AID | - MR. MARK L. EDELMAN |
| | EXIMBANK | - MR. WILLIAM H. DRAPER, III |

Subject Interagency Group on International Economic Policy (IG-IEP)

Attached is a paper from Assistant Secretary Mulford which provides an update on international debt issues.

Christopher Hicks
Executive Secretary and
Executive Assistant to the Secretary

Attachment

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131647 MEMO

1 9/19/1984 B1

DAVID MULFORD TO MEMBERS OF THE
INTERAGENCY GROUP RE: MEETING

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131648 PAPER

2 9/17/1984 B1

RE: UPDATE ON ARGENTINA

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131649 PAPER

2 9/18/1984 B1

RE: SECOND CARTAGENA FOLLOW-UP MEETING

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(SEE 075 OF 14 SEP)

(HEREWITH RERUN 027 OF 15 SEP FOR TREASURY PER YOUR REQUEST)

CARTAGENA CONSENSUS COUNTRIES ISSUE COMMUNIQUE ON DEBT

PY150148 BUENOS AIRES NOTICIAS ARGENTINAS IN SPANISH 0021 GMT15 SEP 84

(EXCERPTS) MAR DEL PLATA, 14 SEP (NA) -- THE 11 COUNTRIES OF THE CONSENSUS OF CARTAGENA TODAY STATED THAT "A DIRECT POLITICAL DIALOGUE" WITH THE INDUSTRIALIZED COUNTRIES "IS NECESSARY," AND THAT IT "SHOULD BE HELD DURING THE FIRST HALF OF 1985."

IN A JOINT DECLARATION ENTITLED THE MAR DEL PLATA COMMUNIQUE, WHICH WAS READ BY ARGENTINE FOREIGN MINISTER DANTE CAPUTO AT THE CLOSING OF THE 2-DAY MEETING HERE, THE 11 COUNTRIES RATIFIED THE VALIDITY OF THE CONSENSUS OF CARTAGENA AND EXPRESSED "CONCERN OVER THE LOSS OF THE SENSE OF URGENCY AMONG THE INDUSTRIALIZED COUNTRIES" TO SOLVE THE FOREIGN DEBT PROBLEM.

THE TEXT OF THE DECLARATION READS AS FOLLOWS:

"THE FOREIGN AND ECONOMY MINISTERS OF THE SIGNATORY COUNTRIES OF THE CONSENSUS OF CARTAGENA MET IN MAR DEL PLATA ON 13 AND 14 SEPTEMBER 1984:

"1. THEY AGREED THAT ALTHOUGH A SEVERE DESTABILIZATION OF THE INTERNATIONAL FINANCIAL SYSTEM HAS BEEN PREVENTED SO FAR, THE PROFOUND FOREIGN DEBT CRISIS PREVAILS.

"THEY EXPRESSED CONCERN OVER THE LOSS OF THE SENSE OF URGENCY AMONG THE INDUSTRIALIZED COUNTRIES REGARDING THE CONSENSUS OF CARTAGENA RESOLUTION.

"IN VIEW OF THESE EVENTS, WHICH MUST BE LOOKED AT FROM A BROAD POLITICAL STANDPOINT, THEY RATIFIED THE IMPLEMENTATION OF THE CONSENSUS OF CARTAGENA, REITERATED THEIR SOLIDARITY CONCERNING THE LATIN AMERICAN FOREIGN DEBT PROBLEM, AND REAFFIRMED THEIR DETERMINATION TO CONTINUE THE CONSULTATIONS AS OFTEN AS THEY MAY BE NECESSARY, WITHIN THE FRAMEWORK OF THE CONSULTATION AND FOLLOW-UP MECHANISMS."

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2. THEY NOTED THAT THE RISE IN INTEREST RATES THAT OCCURRED SOON AFTER THE CARTAGENA MEETING ENDED AGGRAVATED THE NEGATIVE CONSEQUENCES OF THEIR ALREADY EXCESSIVELY HIGH LEVEL. ALTHOUGH THERE HAVE BEEN NO MORE INCREASES SINCE JUNE, THE STABILIZATION OF THOSE RATES OF INTEREST AT THE PRESENT LEVEL, WHICH SURPASSES HISTORICAL LEVELS, HINDERS THE IMPLEMENTATION OF ECONOMIC PROJECTS AND KEEPS ALIVE FOREIGN AND DOMESTIC INDEBTEDNESS PROBLEMS THAT MAKE IMPOSSIBLE THE ADEQUATE MANAGEMENT OF THE REGIONS DEVELOPMENT POLICIES. THIS POINTS UP THE URGENT NEED FOR THE INTERNATIONAL COMMUNITY, THE GOVERNMENTS OF THE INDUSTRIALIZED COUNTRIES ESPECIALLY, TO TAKE ACTION IN ORDER TO BRING THE REAL INTEREST RATES DOWN TO REASONABLE LEVELS.

3. THEY STATED THAT THE ECONOMIC RECOVERY IS STILL CENTERED IN SOME DEVELOPED COUNTRIES AND THAT RESTRICTIVE MEASURES ARE STILL BEING IMPOSED IN TRADE AND FINANCIAL SECTORS, ADVERSELY AFFECTING THE DEVELOPMENT PROSPECTS OF MOST COUNTRIES IN THE INTERNATIONAL COMMUNITY.

4. THEY OBSERVED WITH INTEREST THAT DURING A RECENT NEGOTIATION OVER THE RESTRUCTURING OF A DEBT, SOME OF THE PRINCIPLES ON MATTERS OF TERMS, COSTS, AND CONDITIONS ANNOUNCED BY THE CONSENSUS OF CARTAGENA WERE PROMOTED.

HOWEVER, THEY ASSERTED THAT IT IS VERY IMPORTANT TO CONTINUE THE SEARCH FOR PERMANENT SOLUTIONS BY DISCUSSING THE BROADER ASPECTS OF THE FOREIGN DEBT PROBLEM TO FULLY SATISFY THE OBJECTIVES ESTABLISHED BY THE CONSENSUS OF CARTAGENA AND TO COMPLY WITH THE SACRIFICES BEING MADE BY THE DEBTOR COUNTRIES.

5. THEY ASSERTED THAT, EXCEPT FOR SPECIAL DECISIONS, PROTECTIONIST TENDENCIES AND OTHER RESTRICTIVE MEASURES HAVE INTENSIFIED. THIS IS INCREASING THE ADVERSE EFFECTS THAT THESE ACTIONS EXERT OVER FOREIGN CURRENCY INCOME FROM EXPORTS, THE ABILITY TO IMPORT, THE POSSIBILITY FOR SERVICING THE FOREIGN DEBT, AND THE PROSPECTS OF THE DEVELOPMENT PROGRAMS OF THE COUNTRIES OF THE AREA. THEY ALSO NOTED THAT THE SHORT-TERM COMMERCIAL CREDITS HAVE NOT BEEN RESUMED AT THE ADEQUATE LEVELS.

6. THEY REITERATED THEIR CONCERN OVER THE FACT THAT THE ADJUSTMENT EFFORTS MADE BY ONE SIDE HAVE NOT MATCHED THOSE MADE BY THE OTHER SIDE. THIS IS NOT COMPATIBLE WITH THE FACT THAT BOTH DEBTORS AND CREDITORS SHARE THE RESPONSIBILITY IN THE SEARCH FOR SOLUTIONS TO THE DEBT PROBLEM.

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"7. THEY REAFFIRMED THE VALIDITY OF DIALOGUE AS A FACTOR FOR UNDERSTANDING. ON THE SPECIFIC ISSUE OF INDEBTEDNESS, THEY ASSERTED THAT A DIRECT POLITICAL DIALOGUE IS NECESSARY TO FULLY UNDERSTAND THE PROBLEM SO THE PARTIES INVOLVED CAN REACH AN AGREEMENT. THEREFORE, THE USE OF DIALOGUE TO PREVENT MORE SERIOUS SITUATIONS WITH HARMFUL EFFECTS FOR THE ENTIRE INTERNATIONAL COMMUNITY CANNOT BE POSTPONED.

"8. TAKING INTO ACCOUNT THE PREVAILING SERIOUS SITUATION THAT HAS BEEN DESCRIBED, AND CONSIDERING PARAGRAPH 23 OF THE CONSENSUS OF CARTAGENA, THEY CONSIDERED IT IMPERATIVE TO INVITE THE GOVERNMENTS OF THE INDUSTRIALIZED NATIONS TO A DIRECT POLITICAL DIALOGUE, WHICH SHOULD BE HELD DURING THE FIRST HALF OF 1985, FOLLOWING THE NECESSARY CONSULTATIONS MADE IN DUE COURSE WITH THE GOVERNMENTS OF THOSE COUNTRIES.

"9. THEY REPORTED THE AGREEMENT ACHIEVED BY THEIR COUNTRIES REGARDING THE FORTHCOMING MEETINGS SCHEDULED AT REGIONAL AND WORLD LEVELS. THE INITIATIVES AGREED UPON, AS AN EXPRESSION OF THE CONSENSUS OF CARTAGENA, WILL BE SUBMITTED IN ALL APPROPRIATE FORUMS.

"10. THE NEXT MEETING OF THE CONSULTATION AND FOLLOW-UP MECHANISM WILL BE HELD IN THE DOMINICAN REPUBLIC, DURING THE FIRST QUARTER OF 1985, OR WHENEVER SOME SPECIAL EVENT DEMANDS."

15 SEP 1139Z KEH