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WITHDRAWAL SHEET

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FOIA

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GRYGOWSKI

33

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
131653	MEMO	CHARLES HILL TO DONALD GREGG ET AL RE: DEPUTY SECRETARY DAM'S SPEECH	1	11/28/1984	B1
131654	MEMO	ROGER ROBINSON TO ROBERT MCFARLANE RE: ARGENTINA AND PERU DEBT	3	6/8/1985	B1
131655	TALKING POINTS	RE: CALL TO JIM BAKER ON ARGENTINA AND PERU	1	ND	B1
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131657	CABLE	071354Z JUN 85	3	6/7/1985	B1
131668	MEMO	ROGER ROBINSON TO ROBERT MCFARLANE RE: ARGENTINA - FINANCIAL SITUATION	1	6/13/1985	B1
131669	MEMO	DUPLICATE OF 131673	2	ND	B1
131670	MEMO	JAMES BAKER TO THE PRESIDENT RE: ARGENTINA	2	6/12/1985	B1

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

Freedom of Information Act - [5 U.S.C. 552(b)]

- B-1 National security classified information [(b)(1) of the FOIA]
- B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
131671	MEMO	DAVID WIGG TO ROBERT KIMMITT RE: FINANCING FOR ARGENTINA	1	6/17/1985	B1
131672	MEMO	ROBERT KIMMITT TO EDWARD STUCKY RE: FINANCING FOR ARGENTINA	1	ND	B1
131673	MEMO	ROBERT MCFARLANE TO THE PRESIDENT RE: ARGENTINA - FINANCIAL SITUATION	2	6/13/1985	B1
131675	MEMO	DUPLICATE OF 131670	2	6/12/1985	B1

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DEPARTMENT OF STATE

Washington, D.C. 20520

October 18, 1984

UNCLASSIFIED

MEMORANDUM FOR MR. ROBERT C. MCFARLANE
THE WHITE HOUSE

Ce. [Signature]

Subject: Presidential Reply to Argentine President Alfonsin

On September 24, President Raul Alfonsin of Argentina wrote to President Reagan to transmit the Mar del Plata communique. The communique sets forth the agreed position of 11 countries whose representatives met at Mar del Plata, Argentina, September 13-14 to discuss the debt crisis.

The draft reply thanks President Alfonsin for transmitting the communique, assures him it will receive careful and serious consideration, and notes that debt issues will be discussed at the spring 1985 meetings of the IMF/IBRD Interim and Development Committees.

Charles Hill
Charles Hill
Executive Secretary

UNCLASSIFIED

SUGGESTED REPLY

2

Dear Mr. President:

Thank you for your letter of September 24 transmitting the Mar del Plata communique. As we discussed in New York, I share your concerns about the effects of the debt problem on the economies of developing countries. I appreciate the serious and responsible approach many governments are taking toward their external payments problems, most recently exemplified by Argentina's successful conclusion of an agreement with the International Monetary Fund.

You may be sure that the United States Government will give the most serious and careful consideration to the points raised in the Mar del Plata communique. We look forward to discussions of debt-related issues at the spring meetings of the Interim and Development Committees as agreed at last month's IMF/IBRD annual meetings.

Sincerely,

Ronald Reagan

His Excellency

Raul R. Alfonsin,

President of the Argentine Nation,

Buenos Aires.

NUEVA YORK, 24 de septiembre de 1984.

Señor Presidente:

Como es de su conocimiento el 13 y 14 de septiembre pasado, se reunieron en Mar del Plata, República Argentina, los representantes de la Argentina, de Bolivia, del Brasil, de Chile, de Colombia, del Ecuador, de México, del Perú, de la República Dominicana, del Uruguay y de Venezuela.

Al término de la reunión se dió a conocer el Comunicado de Mar del Plata cuyo texto le hago llegar en nombre de los Jefes de Estado de los países participantes.

Hago propicia esta oportunidad para saludarlo con mi más alta y distinguida consideración.

A Su Excelencia
el Señor Presidente
de los Estados Unidos de América,
Sr. Ronald W. REAGAN

COMUNICADO DE MAR DEL PLATA

Los Cancilleres y Ministros responsables del área financiera de los países firmantes del Consenso de Cartagena, reunidos en Mar del Plata, los días 13 y 14 de septiembre de 1984:

1. Señalaron con preocupación la pérdida del sentido de urgencia en los países industrializados respecto de la solución de la crisis del endeudamiento externo, mientras se agudiza el empobrecimiento en los países en desarrollo. Manifestaron que si bien hasta ahora, no se ha producido una desestabilización severa del sistema financiero internacional, se profundizan las consecuencias de esa crisis sobre sus países.

Ante estos hechos, cuyo tratamiento reclama un amplio enfoque político, coincidieron en:

- a) Ratificar la vigencia del Consenso de Cartagena,
- b) Reiterar su solidaridad ante el problema del endeudamiento de América Latina y
- c) Reafirmar su determinación de continuar realizando consultas, con la frecuencia necesaria, en el marco del Mecanismo de Consulta y Seguimiento.

2. Señalaron que el incremento de las tasas de interés registrado apenas concluida la Reunión de Cartagena, agravó las consecuencias negativas derivadas de su nivel excesivamente elevado. A pesar de la detención de los incrementos observados desde fines de junio, la estabilización de dichas tasas a los niveles actuales, que sobrepasan varias veces los promedios históricos, dificulta la ejecución de proyectos en el campo económico y mantiene vigentes problemas de endeudamiento externo e interno que imposibilitan un manejo adecuado de las políticas de desarrollo de la región. Lo anterior confirma la urgencia de que la comunidad internacional, y en especial los gobiernos de los países industrializados, adopten acciones que permitan retornar a niveles razonables de tasas reales de interés.

3. Advirtieron que las manifestaciones de recu-

peración de la actividad económica, continúan concentradas en algunos países desarrollados los que siguen aplicando políticas que afectan las perspectivas de crecimiento de la mayoría de los países de la comunidad internacional. En la medida en que esta recuperación económica no se extienda a todos los países, estará signada por la precariedad, amenazando precipitarse en una crisis internacional, cuya magnitud, profundidad y consecuencias no se pueden predecir.

4. Manifestaron que, salvo casos aislados, las tendencias proteccionistas y otras medidas restrictivas se han intensificado. Ello acentúa los efectos adversos que estas acciones ejercen sobre el nivel de ingreso de divisas por exportación, la capacidad para importar, la posibilidad de atender el servicio de la deuda externa y las perspectivas de los programas de desarrollo de los países del área. Notaron además, que no se han reanudado a niveles adecuados las corrientes financieras para promover el crecimiento económico ni los créditos comerciales de corto plazo.

5. Reiteraron su preocupación por el mantenimiento de la asimetría en los esfuerzos de ajuste, incompatible con la corresponsabilidad de acreedores y deudores en la búsqueda de la solución al problema de la deuda.

6. Observaron con interés que en una negociación reciente sobre reestructuración de deuda, se ha logrado adoptar algunos de los principios enunciados en el Consenso, en materia de términos, costos y condiciones.

Sin embargo, manifestaron que es de fundamental importancia continuar la búsqueda de soluciones adecuadas y permanentes para el conjunto de los problemas relacionados con el endeudamiento externo dentro de la orientación establecida en el Consenso, de forma que los gobiernos de los países acreedores, los organismos financieros multilaterales y la comunidad bancaria realicen aportes comparables con los esfuerzos efectuados por los deudores en su proceso de ajuste.

7. Reafirmaron la necesidad del diálogo como factor de entendimiento. En la materia específica del endeudamiento, concluyeron que el diálogo entre acreedores y deudores es imprescindible para lograr que se comprenda cabalmente el problema y se alcance ese entendimiento. La ausencia de diálogo impediría poner en marcha la cooperación necesaria

entre las partes para resolver conjuntamente la crisis.

8. Dada la persistente gravedad de la situación descrita, y conforme al párrafo 23 del Consenso de Cartagena, juzgaron esencial invitar a gobiernos de países industrializados a un diálogo político directo que sería deseable realizar en el primer semestre de 1985, para lo cual se efectuarán las gestiones correspondientes.

9. Pusieron de manifiesto la coordinación lograda por sus países frente a las próximas reuniones internacionales.-En consecuencia, las iniciativas acordadas serán planteadas en todos los foros pertinentes como expresión del Consenso.

10. Los países miembros podrán solicitar la realización de reuniones extraordinarias del Mecanismo de Consulta y Seguimiento para examinar las implicaciones y consecuencias de hechos que revistan carácter de urgencia.

La próxima reunión se efectuará en la República Dominicana, en el curso del primer trimestre de 1985. A tal efecto el país sede actuará como Secretaria Pro-Tempore.

8426704



THE WESTIN ST. FRANCIS
San Francisco

Translation

New York 24 Sep 84

Mr President:

As you know on the 13.
+ 14 of last September
representatives of Argentina,
Bolivia, Brasil, Chile,
Colombia, Ecuador, Mexico,
Peru, the Dominican Republic,
Uruguay + Venezuela met in
Mar del Plata, Argentina.

~~##~~ A Communique was
issued at the conclusion of
the meeting. ~~##~~ On behalf
(over)

For reservations at any of our hotels worldwide
call toll-free 800-229-3900

of the Chiefs of State of
the participating countries
I herewith transmit to you
the text.

I take this opportunity
to greet you with my
highest & most disting-
uished consideration.

Raul Alfonsín
(Pres. of Argentina)

DEPARTMENT OF STATE
DIVISION OF LANGUAGE SERVICES

(TRANSLATION)

LS NO. 114041-A
ALK/WD
Spanish

New York, September 24, 1984

Mr. President:

As you know, on September 13 and 14, representatives of Argentina, Bolivia, Brazil, Chile, Colombia, the Dominican Republic, Ecuador, Mexico, Peru, Uruguay, and Venezuela met at Mar del Plata, Argentina.

At the conclusion of the meeting, the Mar del Plata Communique was issued. On behalf of the chiefs of state of the participating countries, I am transmitting a copy of it to you.

I avail myself of the opportunity to renew to you the assurances of my highest consideration.

[s] Raúl R. Alfonsín

His Excellency
Ronald W. Reagan,
President of the United States of America.

8426704

MAR DEL PLATA COMMUNIQUE

The Foreign and Finance Ministers of the signatory countries of the Consensus of Cartagena met in Mar del Plata on 13 and 14 September, 1984.

1. They expressed concern over the fact that, while the developing countries become poorer, the industrialized countries have lost the sense of urgency to solve the foreign debt crisis. The Ministers stated that even though the international financial system has not yet been subjected to a severe desestabilization, the impact of the crisis is becoming more profound.

In view of these facts which must be dealt within a broad political context, the Ministers agreed:

- (a) To ratify the validity of the consensus of Cartagena.
- (b) To reiterate their solidarity concerning the Latin American foreign debt problem.
- (c) To reaffirm their determination to continue the process of consultation, as often as it may be necessary, within the framework of the consultation and follow-up mechanism.

2. They noted that the rise in interest rates that occurred soon after the conclusion of the Cartagena meeting, aggravated the negative consequences of their already excessively high level. Although there have been no further increases since June, the stabilization of those interest rates at the present level, considerably higher than ever before, hinders the implementation of economic projects and aggravates the foreign and domestic debt crisis, making it impossible to carry out the region's development policies. This emphasizes the urgent need for the international community, and especially the governments of the industrialized countries, to take action in order to bring the real interest rates down to reasonable levels.

3. They pointed out that the economic recovery is still centered in some developed countries and that these countries continue to resort to policies which adversely affect the growth prospect of most countries in the international community. If the economic recovery does not extend to all countries, it will remain temporary and it will run the risk of degenerating into an international crisis whose magnitude, depth and impact are impossible to foresee.

4. They stated that, with the exception of some isolated cases, protectionist trends and other restrictive measures have been intensified, thereby stressing the adverse effects these policies have on export earnings, the import capacity, the possibility of servicing the debt and the future of development programs for the countries of the region. They pointed out, moreover, that financial flows to foster economic growth and short term commercial credits have not been resumed at the adequate levels.

5. They reiterated their concern over the fact that adjustment efforts made by one side have not been matched by the other. This is not compatible with the fact that both, debtors and creditors, share the responsibility in the search for solutions to the debt problem.

6. They observed with interest that, during a recent debt restructuring negotiation, some of the principles on matters of terms, costs and conditions were adopted. However they asserted that it is of utmost importance, within the guidelines established by the consensus, to continue the search for an adequate and permanent solution of all the problems related to the foreign debt, so that the creditor countries, the multilateral financial agencies and the banking community make a contribution that will match the efforts made by the debtor countries during their adjustment process.

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 between creditors and debtors is necessary to fully understand the problem and to reach an agreement. Therefore, the absence of dialogue will prevent the establishment of the necessary cooperation

to solve the crisis jointly.

8. Given the prevailing serious situation that has been described, and according to 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 preferably be held during the first half of 1985, following the necessary consultations.

9. They stressed the coordination achieved by their countries regarding the forthcoming international meetings. Therefore, the initiatives agreed upon, as an expression of the Consensus of Cartagena, will be submitted in all the appropriate fora.

10. Member countries may convene special sessions of the consultation and follow up machinery in order to assess the implications of any emergency.

The next meeting will be held in the Dominican Republic during the first quarter of 1985. To that effect the host country will act as a pro-tempore Secretariat.

Mar del Plata Communique

The Foreign and Finance Ministers of the signatory countries of the Consensus of Cartagena met at Mar del Plata on September 13 and 14, 1984:

1. They expressed concern over the fact that while poverty intensifies in the developing countries, the industrialized countries are losing their sense of urgency with respect to finding a solution to the foreign debt crisis. They stated that although the international financial system has not yet become severely destabilized, the impact of the crisis is being felt more deeply in their countries.

In light of these facts, which must be handled within a broad political context, the Ministers agreed:

- (a) To ratify the Consensus of Cartagena;
- (b) To reiterate their solidarity with regard to the Latin American debt problem;
- (c) To reaffirm their determination to continue to consult with one another, as often as necessary, within the framework of the consultation and follow-up mechanism.

2. They noted that the rise in interest rates that occurred soon after the conclusion of the Cartagena meeting aggravated the negative consequences caused by the already

excessively high level of such rates. Although there have been no further increases since June, the stabilization of said interest rates at current levels, which several times exceed historic averages, poses an obstacle to the implementation of economic projects and perpetuates foreign and domestic debt problems which make it impossible to carry out the region's development policies properly. The foregoing confirms the urgent need for the international community, and especially the governments of the industrialized countries, to take actions designed to restore real interest rates to reasonable levels.

3. They pointed out that the signs of economic recovery are still concentrated in certain developed countries and that these countries continue to apply policies that affect the prospects for growth in most of the countries of the international community. If this economic recovery does not spread to all countries, it will be a precarious one threatening to plunge into an international crisis of unforeseeable magnitude, depth, and consequences.

4. They stated that, with the exception of some isolated cases, protectionist tendencies and other restrictive measures have been intensified. This accentuates their adverse effects on export earnings, import capacity, the possibility of servicing the foreign debt, and the outlook for development

programs of the countries of the region. They pointed out, moreover, that neither financial flows aimed at fostering economic growth nor short-term commercial loans have returned to adequate levels.

5. They reiterated their concern over the fact that adjustment efforts made by one side still have not been matched by the other. This is not compatible with the idea of creditors and debtors sharing responsibility in the search for a solution to the debt problem.

6. They observed with interest that during a recent debt restructuring negotiation some of the principles enunciated in the Consensus with regard to terms, costs, and conditions were adopted. However, they asserted that it is of utmost importance to continue to seek, within the guidelines established by the Consensus, satisfactory and permanent solutions to foreign debt-related problems, such that the governments of the creditor countries, multilateral financial organizations, and the banking community will be making a contribution that matches the efforts made by the debtor countries in their adjustment process.

7. They reaffirmed the need for dialogue as a factor in reaching an understanding. On the specific issue of indebtedness, they concluded that a dialogue between creditors

and debtors is essential if there is to be full understanding of the problem and if an agreement is to be reached. The absence of dialogue would make it impossible to establish the cooperation between the parties necessary to jointly resolve the crisis.

8. Given the persistent and serious nature of the situation that has been described, and in accordance with paragraph 23 of the Consensus of Cartagena, they considered it imperative to invite the governments of the industrialized countries to join in a direct political dialogue, which should preferably be held during the first half of 1985 and for which the necessary arrangements will be made.

9. They emphasized the coordination achieved by their countries in connection with the forthcoming international meetings. Accordingly, the initiatives agreed upon will be submitted in all appropriate fora as an expression of the Consensus.

10. Member countries may request that special meetings of the Consultation and Follow-up Mechanism be held to assess the implications and consequences of any developments of an urgent nature.

The next meeting will be held in the Dominican Republic during the first quarter of 1985. For purposes of the meeting, the host country will act as a Secretariat pro tempore.

→ R. Robinson

MEMORANDUM

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NATIONAL SECURITY COUNCIL

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ACTION

November 30, 1984

MEMORANDUM FOR ROBERT M. KIMMITT

FROM: KARNA SMALL *KS*

SUBJECT: Deputy Secretary Dam's Speech before the
Dallas World Affairs Council

We have reviewed Secretary Dam's speech and have made some suggested edits.

RB Burghardt concurred with the original text; *RR* Robinson provided suggested changes.

RECOMMENDATION

That you sign the memo to State (Tab I), transmitting the edited speech (Tab A).

Approve _____ Disapprove _____

Attachments

- TAB I Memo to State
- TAB A Edited speech

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

MEMORANDUM FOR MR. CHARLES HILL
Executive Secretary
Department of State

SUBJECT: Deputy Secretary Dam's Speech before
the Dallas World Affairs Council

We have reviewed Secretary Dam's speech before the Dallas World Affairs Council and have made some suggested edits. We also suggest that the Department of the Treasury clear off on this draft speech.

Robert M. Kimmitt
Executive Secretary

TAB A Secretary Dam's speech incorporating NSC edits

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131653 MEMO

1 11/28/1984 B1

CHARLES HILL TO DONALD GREGG ET AL RE:
DEPUTY SECRETARY DAM'S SPEECH

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"LATIN AMERICA: THE STRUGGLE TO RESTORE ECONOMIC GROWTH"

REMARKS BY
THE HONORABLE KENNETH W. DAM
DEPUTY SECRETARY OF STATE
BEFORE THE
DALLAS WORLD AFFAIRS COUNCIL
DALLAS, TEXAS
December 5, 1984

I. INTRODUCTION

I recently returned from ten days in Latin America. I was not in Central America, where the headlines are. I went to South America, and I should like to share with you what I saw there because it applies in most ways throughout the hemisphere, including Central America and the Caribbean.

I visited three countries -- Peru, Bolivia, and Argentina. Each has searing social and political problems. Argentina still feels the wounds of a "dirty war" between extremes of left and right. Bolivia is bedeviled by poverty, political instability, and organized narcotics trafficking. Peru, like Bolivia, is beset by drug trafficking; in addition, it is combatting a nihilist guerrilla movement.

What struck me most, however, was that in all three countries I found civilian governments working hard to consolidate democracy in the face of their most severe economic crisis since the Great Depression. In all three, I found individual leaders struggling, often with great courage, against enormous odds. It is their struggle -- which is basically a struggle to restore economic growth while maintaining social and political stability -- that I should like to discuss with you today.

[NEAR-TERM SUCCESSES ...]

In the last few years, the international economic agenda has been dominated by the \$700 billion Third World external debt. When the debt crisis erupted in 1982, it threatened the viability of the international economic system. In a first response, the United States and other industrial democracies undertook emergency financing measures designed to overcome the immediate lack of liquidity in particular countries. This was followed rapidly by a second phase, in which the IMF and the World Bank also played key roles. In that second phase, we sought to support short-term stabilization and economic ^{adjustment} reform. on a case by case basis.

It is now apparent that some important near-term successes have been scored. The total current account deficit of the seven largest Latin American debtors [Argentina, Brazil, Mexico, Colombia, Chile, Peru and Venezuela] -- who together hold about half of the Third World debt -- was reduced from \$34 billion in 1981 to just \$3 billion in 1983. In the same period, the combined trade accounts of these countries jumped from a surplus of less than \$1 billion to a surplus of \$31 billion.

Over \$70 billion in Latin American external debt has been rescheduled to permit orderly servicing. Mexico's impressive improvement enabled it to sign a multi-year agreement in September with its commercial bank Advisory Committee to reschedule payment on almost \$50 billion of public sector debt. Brazil will enter similar negotiations shortly. Both Mexico and Brazil should record positive growth this year.

[... LEAD TO A NEW PHASE: GROWTH]

We are thus entering a new phase. The emphasis is shifting from ensuring immediate liquidity ^{and short-term adjustment} to promoting long-term growth. Without renewed real growth, debtor nations will lurch from one short-term crisis to another.

For a generation, from the late 1950's to the late 1970's, Latin America as a whole grew by 6 percent a year in real terms. But since the debt crisis erupted in 1982, and despite near-term successes in some countries, aggregate growth has been negative. Per capita income has fallen to roughly 1976 levels. Industrial sector unemployment, seldom a problem in the past, has become serious. Population continues to grow at about 2 percent a year, and entrants to the job market are increasing at about 3 percent a year.

As a creditor country, we often think in terms of the repayment of debts, hence the label "debt crisis". Behind this crisis, however, is the failure of most Latin American economies to generate the resources for the growth their societies require. How to meet popular expectations for jobs, for services, for education, for improved standards of living -- that is the underlying problem throughout Latin America. And that is why in this new phase we should be ^{concentrating on} thinking growth, ~~not debt~~ as well as debt servicing capabilities.

[INTERNAL TRADE-OFFS]

Achieving sustained economic growth presents different challenges from those posed by balance of payments problems. Austerity programs and belt-tightening measures can be sold

politically as short-term necessities. Sustainable growth, in contrast, requires far more fundamental economic and political changes.

The changes required to renew and sustain growth are often referred to under the heading of "structural adjustment." These changes involve permanent shifts in income distribution, resource allocation and political power -- often between city and countryside, labor and management, consumers and exporters. Adjustment involves decisions on subsidies, on exchange rates, on state enterprise, on private enterprise -- in short, on the way economic activity is organized in a particular country. These decisions are almost always painful. And they cannot be taken by outsiders.

The choice is not between adjustment today or adjustment tomorrow. It is between orderly adjustment -- cushioned by external support -- and disorderly adjustment forced by economic decline and attempts to sustain ineffective policies.

The Latin American experience is currently marked by the social and political strains associated with the adjustment measures needed to renew growth.

The Peruvian Government, for example, has reached successive agreements with the IMF to take steps that would enable it to stabilize its economy and resume orderly servicing of its \$13 billion debt. But these steps have aroused intense opposition from political parties, labor, business and interest groups. A nationwide general strike was widely effective in March. And without effective adjustment, the economic situation has continued to deteriorate, eroding further the ability of the government to take decisive action. Meanwhile, particularly brutal guerrilla agitation and violence are corroding national confidence. These developments challenge Peru's government, which was restored to civilian democratic control only in 1980.

Peru's problems are not unique:

-- In the Dominican Republic last April, efforts to reduce food subsidies that the government could no longer afford to pay led to riots that left 60 dead. Only careful, patient leadership in the wake of those riots has restored the government's ability to conduct economic policy.

- In Bolivia this spring, labor groups frustrated attempts at economic reform by striking and closing the Central Bank. Since then, the economy has greatly deteriorated, with inflation reaching almost 1500 per cent. The Bolivian Catholic Church recently warned that democracy was endangered. Civilian President Siles responded with a significant gesture, cutting his mandate short by one year and promising elections in June of 1985.

- In Ecuador, the democratically elected, reform-minded administration of President Febres Cordero faces a tough political challenge in putting his economic program through a skeptical Congress.

- In Honduras and El Salvador, newly developing democratic institutions must cope not only with economic difficulties, but with immediate security problems as well.

[EXTERNAL SUPPORT]

Each country must make the tough decisions on how to stabilize and restructure its economy. The international community can help in this effort and can cushion the impact of reforms. But domestic adjustment must come first, because international help will fail without it.

Three factors in particular can help ease the adjustment process: IMF/World Bank efforts to promote growth, increased investment in the debtor countries, and more open trade. I should like to touch briefly on each of these factors in turn.

IMF/World Bank Efforts

In the short term, the United States can ^{Sometimes} ~~often~~ provide bilateral assistance to cushion the shock of adjustment while ensuring that adjustment takes place. We are, for example, giving economic aid to each of the countries I have just named. In the short and medium term, multilateral institutions, such as the International Monetary Fund, the World Bank, and the Inter-American Development Bank, assist debtor countries by providing resources and policy advice.

The purpose of IMF programs, according to the Fund's Managing Director, is "to achieve a better balance of payments equilibrium and thus open the way for more vigorous and lasting growth [in debtor countries]." Consequently, IMF programs seek both "a better balance-of-payments equilibrium in the medium term and a more efficient use of scarce resources by introducing . . . incentives . . . to generate more domestic savings, more investment, and more exports." The United States supports this emphasis on growth.

IMF efforts are complemented by those of the World Bank. The Bank's Structural Adjustment Loan program, for example, is designed to facilitate the sort of long-term economic changes I described earlier: changes to make exports more competitive; to mobilize domestic and foreign capital; to promote a more efficient use of domestic resources; and to bring about institutional reforms. These loans, together with the Bank's sectoral and project lending, can help developing countries carry out reforms at a time when slow growth and tight credit make such reforms as difficult as they are necessary.

Investment

Restoring vigorous and sustainable growth to the hemisphere will require continued infusions of capital for years to come. Official assistance levels, whether from bilateral or multilateral sources, are unlikely to rise much in the years ahead. It is also clear that private lending at the levels that prevailed in the 1970's is not in the interest of the banks or the borrowers. The capital required to sustain new growth will have to come from somewhere else.

Domestic savings must be a primary source of new investment. Adequate incentives -- such as positive real interest rates -- must be provided to encourage such savings. Priority should also be given to creating the right conditions

for repatriation of the flight capital of the past decade. From 1979 to 1983, some \$100 billion -- I repeat, roughly \$100 billion -- was transferred out of Latin American countries. That money could have been used to generate income to service debt. Its absence means that local savings must be tapped to service debt rather than to stimulate economic growth. The volume of capital flight has fallen slightly in the past year, but remains a major problem.

Foreign direct investment is another important potential source of capital. As an alternative to acquiring new debt, foreign direct investment has many advantages. In hard times, the costs of investment, serviced by profits, are lower than the costs of debt capital, serviced by interest payments. Moreover, foreign direct investment develops human resources through training and education, provides access to new technology, and often generates its own international export markets.

The problem is that Latin America and the Caribbean have not been successful recently in competing for foreign direct investment. External and internal factors have combined to cause a pronounced dropoff in investment flows. For five major Latin American countries [Brazil, Mexico, Chile, Peru and Colombia], net inflows during 1983 were \$2.6 billion less than the 1979-82 average. And despite Mexico's recent financial successes, foreign investment flows to Mexico remain at a

fraction of pre-crisis levels. Meanwhile, the Far East has seen foreign investment rise. And the United States, which offers excellent security and good yields, is proving extremely attractive to investors, including many from Latin America.

It will take political courage and determination for Latin American countries to compete more effectively for foreign investment. Both internal adjustments and international cooperation will be essential. Owners of capital need to earn a fair, risk-adjusted rate of return. They will not be attracted by restrictive rules enforced by government bureaucracies with little understanding of production or marketing requirements. Remedies in these areas would also curb capital flight and stimulate local savings.

Open Trade

Trade is as vital to growth as it has been to the easing of immediate liquidity problems. The United States has contributed decisively to improved Latin American trade accounts. We have kept our markets open -- even when those countries were forced to cut their imports from the United States and elsewhere. Accordingly, Latin American exports to the United States grew by over \$4 billion from 1982 to 1983, while they decreased to the rest of the world. In 1984, we expect to take almost half of all Latin American exports (\$50 billion out of \$111 billion).

These figures belie the notion that the United States is "protectionist." Our projected \$130 billion merchandise trade deficit is evidence that we have kept our markets open, thus helping our Latin American trading partners to grow with our own economic expansion. However, if trade is to foster sustained growth, it must be a two-way street. We anticipate that renewed Latin American economic growth will lead to increased purchases by them of our goods. And we hope that individual Latin American countries will reduce their trade barriers and diversify their trade with others, and among themselves as well.

[WHAT'S AT STAKE]

The "trade-offs" between maintaining political and social stability today and building for growth tomorrow create awesome dilemmas for any government.

The difficulties can be eased somewhat if there is an alliance between the decision-makers and the people whose fate is being decided. As President Monge of Costa Rica, speaking from experience, told a European audience five months ago:

QUOTE: Democracy works as a means of settling the problems of production and [winning] battles in the struggle against under-development and poverty. UNQUOTE.

My talks in South America made me optimistic that President Monge is right. Men like Argentina's President Raul Alfonsin -- a profoundly decent man trying to do what is right in a country still wracked by the misdeeds of the recent past -- are now also working in democratic systems. And this kind of thing is happening throughout the hemisphere.

Counting just the past four years, our southern neighbors have cast some 150 million votes in 33 elections in 24 countries. That is more people voting in more elections in more countries than ever before in the history of Latin America and the Caribbean.

Over the past five years, elected civilian presidents have replaced military rulers in Argentina, Bolivia, Ecuador, El Salvador, Honduras, Panama, Peru and Uruguay. Additional countries as different as Brazil and Guatemala are now also moving toward greater democracy. The day before yesterday (December 3), the people of Grenada chose their leaders in a free and open election, restoring democracy on that island. More than 90 percent of the people of this region to our south now have governments that are either democratic or heading there.

But good political statistics cannot offset bad economics. The dictatorships were swept aside because they could not solve their nations' severe economic and social

problems. Democratic governments, if they are to survive, must now prove that they can deal successfully with these challenges. They must implement adjustment measures and they must do so now, not later. If governments delay -- if adjustment measures are then forced upon them by circumstances -- there is a risk of triggering internal violence and a return to the military dictatorships of the past.

But that is not the only -- or even the most probable -- result. If the democratic governments fail, a whole range of alternatives is possible, and not just Marxist-Leninist regimes mimicking Cuba and Nicaragua. We have already seen in the Garcia Meza regime that ruled Bolivia from 1980 to 1982 a government dominated by narcotics traffickers. And beyond that, consider the dangerous chaos that could ensue if nihilistic radicals like Peru's Sendero Luminoso ["Shining Path"] guerrillas multiplied their strength.

The stakes are enormous. Hanging in the balance is the well-being of the 90 percent of Latin Americans now enjoying or moving toward democracy, as well as the security of the Western Hemisphere itself.

It is vital, then, that the Latin American governments directly at risk take today the actions necessary to build for sustained growth tomorrow. Foremost among such actions are policy changes to open up their markets and create conditions to attract and retain capital.

The United States has supported -- and will continue to support -- such actions. Other industrial countries -- particularly Japan and the European Community -- must also work to cushion the adverse impact of economic adjustment. This can be done by supporting the international financial system, keeping markets open and exercising sensitivity along with fiscal responsibility.

When all is said and done, I came back from South America both concerned by the odds and convinced that a new era of hemispheric cooperation, growth and security is within our reach.

NATIONAL SECURITY COUNCIL

Robinson



34

*Just Fritland
Stucky*

June 7, 1985

ACTION

MEMORANDUM FOR ROBERT C. MCFARLANE

FROM: JACQUELINE TILLMAN *JT*

SUBJECT: Aide Memoire from Peru

The Vice President met yesterday with the Ambassador from Peru who left an aide memoire with him regarding the Regulator Committee meeting on Monday, June 10 at which time Peru's situation will be discussed. The Peruvians are concerned that they will be declared value impaired which will interfere with their current economic plans and the ability of the new administration of Alan Garcia to continue with their economic program but suggested as well that it would interfere with bilateral regulations with the U.S. Philip Hughes has sent the aide memoire to David Mulford but the last time I talked to David about Peru and this upcoming meeting he was not very sympathetic. I think it is in our interests to try to prevent a value impaired designation until we see which way Garcia is going on economic issues and other important interests we have with Peru. I understand as well that the regulatory committees operate within their own legal criteria and that political considerations do not determine their decisions. However, it doesn't hurt to point out to them that there is high level interest. Therefore, I think that we might send the aide memoire as well to Treasury with a covering note that we wish it to be brought to the attention of the FDIC, Federal Reserve and Comptroller of the Currency.

RECOMMENDATION:

That you authorize Bob Kimmitt to forward his memorandum with aide memoire to Treasury.

Approve _____ Disapprove _____

RUB
Robinson, *not here* Menges concur.

We are preparing a memo on both Argentina + Peru which folds in the thrust of

Attachments:

- Tab I Kimmitt/Stucky memo *these concerns. Packages should best be viewed in*
- Tab II Aide memoire from Peru *tandem. Understand Mulford already has copy of*
- Tab III Philip Hughes memo dated June 5, 1985 *Aide Memoire.*

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

MEMORANDUM FOR MR. EDWARD J. STUCKY
Acting Executive Secretary
Department of the Treasury

SUBJECT: Aide Memoire from Peru

The Vice President has transmitted to the NSC a copy of an aide memoire from the Government of Peru regarding the consideration of Peru's economic program and situation by the Inter-Agency Country Exposure Review Committee at a meeting on Monday, June 10. We request that the Department of the Treasury make the aide memoire available to appropriate officers at the FDIC, Federal Reserve and Comptroller of the Currency for their consideration at said meeting.

Robert M. Kimmitt
Executive Secretary

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EMBASSY OF PERU

WASHINGTON, D. C. 20036

AIDE MEMOIRE

There are supervisory rules in U.S. banking regulations which govern the status of loans granted by American banks to foreign nations. It has come to our attention that the Peruvian economic situation would be examined at the next meeting of the Inter-Agency Country Exposure Review Committee to be held during the week of June tenth and that there is a possibility that some of the loans made to Peru might be classified as "value impaired".

As a result of the economic program implemented by the Peruvian Government it has been possible to obtain a notable increase in the gross domestic product of 6.7% during the first quarter of this year which, in comparison with the -1.8% of last year's first quarter, represents a remarkable improvement. This growth has been reached within the context of a stabilization program whereby it has been possible to reduce during the first quarter of 1985 the fiscal deficit of the central government to 1.8% of the gross domestic product, a figure well below the 5.6% target aimed at the time of approval of the Peruvian General Budget.

An eventual "value impaired" declaration at this time could fundamentally affect the Peruvian economic program through the cut of commercial lines and seriously harm as well the private sector which has become a frontline factor of considerable importance in determining the recent economic growth of Peru.

The first transfer of power in forty years from one democratically elected government to another will take place in Peru next July 28th. In this sense, it is important that the new government be able to continue constructively the economic program presently in operation. However, should the classification "value impaired" be imposed on some Peruvian loans, an inadequate and inconvenient situation could be created that would significantly alter the efforts which the Peruvian government is making, at great political and social cost, to stabilize the economy of the country.

Furthermore, such classification could also endanger the continuity of the effort to stabilize the economy, initiative that should receive the preferred attention and support of the United States Government.

It is pertinent to add that this type of loan classification could be used by extremist groups to promote discord in the cordial and friendly relations existing between Peru and the United States.



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OFFICE OF THE VICE PRESIDENT
WASHINGTON

June 5, 1985

MEMORANDUM FOR JACQUELINE TILLMAN
ROGER ROBINSON

FROM: Philip Hughes *Philip*

SUBJECT: Peruvian Aide Memoire on Classification
of Outstanding Loans to Peru

This morning the Vice President met with Peruvian Ambassador Luis Marchand and his Deputy Allen Wagner. In the meeting the Peruvians raised the issue of the possible reclassification of some loans to Peru as "value impaired" in the course of next week's Inter-Agency Country Exposure Review Committee meeting. They expressed concern that this step, if taken, would both impede the plans of the new government of President Allen Garcia to continue the current government's economic stabilization program and hamper the new government's desire, asserted by Ambassador Marchand, to improve bilateral relations. The Peruvians gave the Vice President the attached Aide Memoire on this topic.

The Vice President promised to insure that the Aide Memoire was shared with the NSC Staff and other relevant Departments. He assured the Peruvians that, while he could not anticipate what decisions the committee would take, the factors raised in their Aide Memoire would be taken into account.

Accordingly, I wanted to pass along this Aide Memoire and account of the Vice President's meeting for your review.

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131654	MEMO	3	6/8/1985	B1
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ROGER ROBINSON TO ROBERT MCFARLANE RE:
ARGENTINA AND PERU DEBT

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

- B-1 National security classified information [(b)(1) of the FOIA]
- B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
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131655 TALKING POINTS

1

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B1

RE: CALL TO JIM BAKER ON ARGENTINA AND PERU

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131656	CABLE LIMA 06272	2	6/6/1985	B1

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131657	CABLE 071354Z JUN 85	3	6/7/1985	B1

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131668 MEMO

1 6/13/1985 B1

ROGER ROBINSON TO ROBERT MCFARLANE RE:
ARGENTINA - FINANCIAL SITUATION

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131669	MEMO DUPLICATE OF 131673	2	ND	B1

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131670 MEMO

2 6/12/1985 B1

JAMES BAKER TO THE PRESIDENT RE:
ARGENTINA

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131671 MEMO

1 6/17/1985 B1

DAVID WIGG TO ROBERT KIMMITT RE:
FINANCING FOR ARGENTINA

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131672 MEMO

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B1

ROBERT KIMMITT TO EDWARD STUCKY RE:
FINANCING FOR ARGENTINA

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National Security Council
The White House

I ⁵⁴

System #

Package #

85 JUN 14 P 3: 49

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	SEQUENCE TO	HAS SEEN	DISPOSITION
Bob Pearson	_____	_____	_____
Bob Kimmitt	1	K	_____
John Poindexter	_____	_____	_____
Paul Thompson	_____	_____	_____
Wilma Hall	_____	_____	_____
Bud McFarlane	_____	_____	_____
Bob Kimmitt	_____	_____	_____
NSC Secretariat	2	_____	Route to Wigg for implementation memo. A
Situation Room	_____	_____	_____

I = Information A = Action R = Retain D = Dispatch N = No further Action

cc: VP Meese Baker Deaver Other called results

COMMENTS

Should be seen by: to Mulford on 6/14 at 1520.
(Date/Time)

National Security Council
The White House

55

System # _____

Package # _____

	SEQUENCE TO	HAS SEEN	DISPOSITION
Bob Pearson	_____	_____	_____
Bob Kimmitt	1	<i>K</i>	_____
John Poindexter	2	<i>[Signature]</i>	_____
Paul Thompson	_____	_____	<i>PDB</i>
Wilma Hall	3	_____	_____
Bud McFarlane	4	<i>[Signature]</i>	<i>A</i>
Bob Kimmitt	<i>[Signature]</i>	<i>6/13</i>	_____
NSC Secretariat	_____	_____	<i>N</i>
Situation Room	_____	_____	_____

I = Information A = Action R = Retain D = Dispatch N = No further Action

cc: VP Meese Baker Deaver Other _____

COMMENTS

Should be seen by: ASAP
(Date/Time)

Jim Baker has asked that the attached memorandum go to the President this morning. We received it late last evening. Recommend you include in PDB materials.

Bud, I have asked for a brief ^{attached} memo by 0930.

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<i>ID</i>	<i>Document Type</i> <i>Document Description</i>	<i>No of</i> <i>pages</i>	<i>Doc Date</i>	<i>Restric-</i> <i>tions</i>
131673	MEMO ROBERT MCFARLANE TO THE PRESIDENT RE: ARGENTINA - FINANCIAL SITUATION	2	6/13/1985	B1

The above documents were not referred for declassification review at time of processing
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- B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
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131675	MEMO DUPLICATE OF 131670	2	6/12/1985	B1

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