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File Folder: Cancun Summit (October 1981) [2 of 6] **Date:** 7/11/96
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
~~1. point paper~~	~~re: International Commodity Agreements (1p)~~ R 1/11/99 NLSF94-090	~~n.d.~~	~~P1~~
~~2. point paper~~	~~re: Common Fund (1p)~~ R 1/11/99 NLSF94-090	~~n.d.~~	~~P1~~
~~3. point paper~~	~~re: 1982 GATT Ministerial~~ R 1/11/99 NLSF94-090	~~n.d.~~	~~P1~~
~~4. paper~~	~~re: Energy (1p)~~ R 1/11/99 NLSF94-090	~~n.d.~~	~~P1~~
~~5. paper~~	~~re: Energy (3pp)~~ R 1/11/99 NLSF94-090	~~n.d.~~	~~P1~~
~~6. paper~~	~~re: Energy Development (1p)~~ R 1/11/99 NLSF94-090	~~n.d.~~	~~P1~~
~~7. paper~~	~~re: UN Conference on Energy (1p)~~ R 1/11/99 NLSF94-090	~~n.d.~~	~~P1~~
~~8. paper~~	~~re: Energy Plan (1p)~~ R 1/11/99 NLSF94-090	~~n.d.~~	~~P1~~
~~9. paper~~	~~re: Producer-Consumer Cooperation (1p)~~ R 1/11/99 NLSF94-090	~~n.d.~~	~~P1~~
~~10. paper~~	~~re: Monetary and Finance (1p)~~ R 1/11/99 NLSF94-090	~~n.d.~~	~~P1~~
~~11. paper~~	~~re: Monetary and Finance (4pp)~~ R 1/11/99 NLSF94-090	~~n.d.~~	~~P1~~
~~12. paper~~	~~re: IMF Financing (2pp)~~ R 1/11/99 NLSF94-090	~~n.d.~~	~~P1~~
~~13. paper~~	~~re: IMF Quatas (1p)~~ R 1/11/99 NLSF94-090	~~n.d.~~	~~P1~~
~~14. paper~~	~~re: Developing Country Debt Burden (1p)~~ R 1/11/99 NLSF94-090	~~n.d.~~	~~P1~~
~~15. paper~~	~~re: U.S. Contributions to the MDBs (2pp)~~ R 1/11/99 NLSF94-090	~~n.d.~~	~~P1~~
~~16. paper~~	~~re: SDR Allocations (1p)~~ R 1/11/99 NLSF94-090	~~n.d.~~	~~P1~~

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]
- P-1 National security classified information [(a)(1) of the PRA].
- P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
- P-3 Release would violate a Federal statute [(a)(3) of the PRA].
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA].
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

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- F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
- F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
- F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
~~17. paper~~	~~re: Importance of National Policies (1p)~~ R 1/11/99 NLSF99-090	~~n.d.~~	~~P1~~

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]
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COMMODITIES, TRADE AND INDUSTRIALIZATION

COMMODITIES, TRADE AND INDUSTRIALIZATION

MAIN OBJECTIVES:

1. To emphasize the importance of trade and of an open trading system in the development process.

2. To convince others that the GATT is the appropriate forum in which to consider trade liberalization. In that context we are beginning preparations for the 1982 GATT Ministerial.

3. To make it clear that the US has been cooperative in seeking solutions to problems in commodity markets.

4. To restate our belief that industrialization can not be centrally directed, but is a response to market forces.

BEAR IN MIND:

1. Some developing countries believe the US supports the GATT Ministerial primarily to avoid global negotiations.

2. Most other Cancun participants are willing to include trade in global negotiations.

3. Mexico is not a GATT member and will be less than enthusiastic about the GATT Ministerial.

4. Many other Cancun participants see regulation of international commodity markets and centrally planned redeployment of industry as the most promising solution to the problem of price instability and unemployment.

CHECKLIST:

1. Stress that trade plays an important role in the development process by providing the funds to finance development, and that an open global trading system will provide the greatest opportunities for the developing countries to expand and diversify their exports.

2. State our general commitment to maintain open markets, resist protectionism, and facilitate adjustment in our economy.

3. To announce our intention to work with others to prepare for the 1982 GATT Ministerial, which will lay the groundwork for further liberalization, strengthening, and increased discipline in the international trading system.

4. Stress that while the US favors trade in commodities through free markets, we have cooperated with many organizations seeking solutions to the problems faced by developing countries dependent on commodities.

COMMODITIES, TRADE AND INDUSTRIALIZATION

THE UNITED STATES IS COMMITTED TO AN OPEN WORLD TRADING SYSTEM WHICH WILL PROVIDE ALL COUNTRIES AN OPPORTUNITY TO STRENGTHEN AND DIVERSIFY THEIR ECONOMIES. TRADE CAN PROVIDE A STONG ENGINE FOR GROWTH BOTH IN DEVELOPED AND DEVELOPING COUNTRIES. INCREASED EXPORTS LEAD TO AN INCREASE IN PRODUCTION, EMPLOYMENT AND DEVELOPMENT. THEY LIKEWISE LEAD TO A GREATER INTEGRATION AND INFLUENCE IN THE WORLD TRADING SYSTEM.

THE UNITED STATES RECOGNIZES THE IMPORTANT CONTRIBUTION MADE BY TRADE IN SPURRING ECONOMIC ACTIVITY IN MANY DEVELOPING COUNTRIES. EXPORT EARNINGS OFTEN PROVIDE THE PRIMARY SOURCE OF FUNDING FOR DEVELOPMENT. THEY ARE ALSO VITALLY IMPORTANT FOR FINANCING IMPORTS OF FOOD AND OTHER BASIC NECESSITIES. THE UNITED STATES IS COMMITTED TO CONTINUE EFFORTS DESIGNED TO ENSURE THAT DEVELOPING COUNTRIES ARE MORE FULLY INTEGRATED INTO THE INTERNATIONAL TRADING SYSTEM AND ARE ABLE TO DERIVE INCREASED BENEFITS FROM IT.

WE ARE COMMITTED TO A STRENGTHENED MULTILATERAL TRADING SYSTEM AS EMBODIED IN THE GATT. IN THAT REGARD, THE UNITED STATES IS READY TO WORK CLOSELY WITH ITS DEVELOPED AND DEVELOPING COUNTRY TRADING PARTNERS TO PREPARE FOR A GATT MINISTERIAL IN 1982. THIS MINISTERIAL WILL LAY THE GROUNDWORK FOR GREATER LIBERALIZATION, STRENGTH, AND DISCIPLINE IN THE INTERNATIONAL TRADING SYSTEM. ONE IMPORTANT FOCUS OF THE MINISTERIAL'S EFFORTS WILL BE THE INCREASED PARTICIPATION OF DEVELOPING COUNTRIES IN THE GATT SYSTEM ON THE BASIS OF GROWING BENEFITS

AND RESPONSIBILITIES. ACTIVE PARTICIPATION IN THE GATT WILL GIVE DEVELOPING COUNTRIES THE BEST MEANS TO INFLUENCE THE EVOLUTION AND MANAGEMENT OF THE INTERNATIONAL TRADING SYSTEM.

COMMODITIES ACCOUNT FOR MORE THAN HALF THE EXPORT EARNINGS OF THOSE DEVELOPING COUNTRIES WHICH DO NOT EXPORT PETROLEUM. THE UNITED STATES RECOGNIZES THE IMPORTANT ROLE THAT COMMODITIES PLAY IN THE ECONOMIC DEVELOPMENT OF MANY COUNTRIES, AND COOPERATES WITH PRODUCERS AND CONSUMERS IN A GOOD NUMBER OF COMMODITY ORGANIZATIONS. THE KEY TO REVITALIZED COMMODITY MARKETS, HOWEVER, IS A HEALTHY INTERNATIONAL ECONOMY AND AS WE RESTORE GROWTH WORLDWIDE OVER THE NEXT SEVERAL YEARS WE CAN EXPECT COMMODITY EXPORT EARNINGS TO INCREASE SUBSTANTIALLY.

WE BELIEVE THAT INDUSTRIALIZATION IN DEVELOPING COUNTRIES WILL TAKE PLACE THROUGH NATURAL MARKET FORCES IF TRADE IS KEPT OPEN AND NON-DISCRIMINATORY IN NATURE AND DOMESTIC LDC POLICIES ENCOURAGE INVESTMENT AND ENTREPRENEURIAL SKILLS. WHILE RECOGNIZING THE DOMESTIC POLITICAL NEED FOR THE SAFE GUARD CODE IN DEVELOPED COUNTRIES, WE BELIEVE THAT IF INVOKED IT SHOULD BE DONE IN A NON-DISCRIMINATORY WAY. THE ALTERNATIVE OFFERED BY SOME OF "ORGANIZED MARKETS" IS UNACCEPTABLE. WE MUST KEEP THE TRADING SYSTEM OPEN AND COMPETITIVE.

COMMODITIES, TRADE AND INDUSTRIALIZATION

Objectives

-- To emphasize the importance of trade and of an open trading system in the development process.

-- To convince others that the GATT is the appropriate forum in which to consider trade liberalization. In that context we are beginning preparations for the 1982 GATT Ministerial.

-- To make it clear that the U.S. has cooperated extensively with international organizations in seeking solutions to problems in commodity markets.

Context

Access to developed countries' markets is a priority concern of developing countries. The U.S. is committed to maintain open markets, to resist protectionism, and to facilitate adjustment in our economy. While we thus share common views with the developing countries in many aspects of trade policy, many developing countries do not share our emphasis on GATT as the proper forum for trade liberalization.

Mexico itself is not a GATT member. It will thus be less than enthusiastic about the GATT Ministerial as the occasion for initiating further trade liberalization. Most Cancun participants other than the U.S. want global negotiations and want to include trade in these negotiations. Some developing countries believe that U.S. support for the GATT Ministerial is primarily motivated by a desire to avoid global negotiations.

We believe that we can now make a major contribution to the global economy by restoring strong, non-inflationary growth to our economy and by permitting market forces to operate. Through continuing to resist protectionist pressures, we believe that we will provide attractive market opportunities for industrializing developing countries. We also believe that our GSP program has provided significant development benefit to the developing countries.

The developing countries will argue that the developed countries should take measures to actively promote imports from the developing countries, and to eliminate protection against their exports. Some developing countries will also argue that the developed countries should take steps to bring about the "redeployment" to developing countries of those industries in which the developed countries are no longer competitive.

Although we regard structural adjustment as desirable, in our economy it is carried out primarily by the market. We see as one of the priority issues of the GATT Ministerial the integration of developing countries into the trading system. This would entail trade liberalization in the economies of the developing countries, particularly the more advanced among them.

Commodity prices have historically fluctuated widely, though the trend in real prices has been downward for the past thirty years. Many developing countries, including several Cancun participants, are dependent on one or two commodities for most of their export earnings. These nations view regulation of international commodity markets as the most promising solution to their commodity-related problems, even though attempts at regulation have had little success. The U.S. is a member of price stabilizing agreements for tin, natural rubber, coffee, and sugar. The sensitivity of commodity prices to economic conditions in developed countries indicates that restoring non-inflationary growth will reinvigorate commodity markets.

We have joined commodity agreements if they help stabilize market prices rather than replace the market with artificial prices. Our major emphasis has been in the IMF in support of the Compensatory Financing Facility (CFF) which helps finance balance of payments shortfalls caused by decline in commodity prices. The key to development is a stable flow of foregin exchange earnings and not artifically supported commodity prices.

Key Points to Make

-- We recognize that trade plays an important role in the development process. We support an open global trading system as providing the greatest opportunities for developing countries to expand and diversify their exports.

-- We are committed to maintaining open markets, resisting protectionism, and facilitating adjustment in our economy.

-- We intend to work with others to prepare for the 1982 GATT Ministerial, which will lay the groundwork for further liberalization, strengthening, and increased discipline in the international trading system.

-- The United States has cooperated with international organizations in seeking answers to commodity problems. However, we believe that restoring strong, non-inflationary growth most effective solution to commodity market problems.

-- We believe that industrialization of developing countries will result from an open world trading system.

~~CONFIDENTIAL~~

International Commodity Agreements

Criticism: The US has been uncooperative in the negotiation of international agreements designed to stabilize prices of commodities that are important foreign exchange earners for developing countries. In those commodity organization in which the US is a member, it obstructs price range increases needed by producers to cover increased costs of production.

Response:

1. The United States favors international trade in commodities through open markets. Nevertheless, the US has cooperated extensively with international organizations on a wide range of commodities. We have considered proposals for economically sound, market oriented commodity agreements that offer a balance between producer and consumer interests and help the market function more efficiently.. The US is a member of price stabilizing agreements covering tin, natural rubber, sugar and coffee, as well as other commodity bodies which provide forums for discussing market problems of a large number of other important commodities.

2. The US can support price range adjustments for commodities only when such changes can be justified by the long-term price trend and existing market conditions.

3. Renewed growth in the US and other industrialized countries should restore demand for raw materials and other commodity exports and is expected to increase the income of developing countries.

Facts: The track record of international commodity agreements in stabiliizng the prices of commodities exported by developing countries has not been good. Nevertheless, pursuing a number of goals, developing countries will continue to press for strong commodity agreements.

In those commodity organizations where the US is a member, we have been under political pressure from time to time to agree to prices higher than the free market would support. Our position has led to some friction with countries that are politically and strategically important to us, such as ASEAN tin producers.

The US was dissatisfied with the results of the recently concluded negotiations for a Sixth International Tin Agreement. Though we have been urged to join the Sixth Tin Agreement, we have decided not to participate since the agreement does not effectively balance consumer and producer interests.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

Common Fund

Criticism: The United States appears to be moving away from its commitment to help bring the Common Fund for Commodities into operation. Does the US intend to join the Common Fund, and if so, when?

Response:

1. The United States signed the Common Fund Agreement on November 5, 1980. The request for budget authorization for the US contribution to the Fund is planned for FY 1983 through 1985. Seeking budget authority is an important first step in the ratification process. Further steps will be taken provided that a sufficient number of suitably structured commodity agreements are prepared to associate with the Fund.

2. We believe that our efforts to promote vigorous economic growth in the United States, and renewed growth in all industrialized countries, provide the answer to the market problems of developing countries that export commodities.

Facts: Through its First Account, the Common Fund will facilitate the financing of price stabilization operations of associated international commodity agreements. The Fund's Second Account will finance other measures, such as research and development in commodities. The US contribution to the First Account is $73.85 million. We have stated that the US does not plan to contribute to the Second Account. We believe the Second Account duplicates existing efforts by UNDP and the World Bank.

The Common Fund will come into operation when ninety countries holding two-thirds of the Fund's shares have ratified the Agreement. So far, only about half of the required number of countries have signed, and about ten have been ratified.

The Philippines has been campaigning to have the Common Fund headquarters located in Manila, and may press this issue in Cancun. Support for a Manila headquarters site among the G-77 is thinner than the Philippines would admit. The US has made no decision as to its preference for the headquarters site, and will consider this question when the Common Fund comes into operation.

~~CONFIDENTIAL~~

Protectionism

Criticism: The United States and other developed countries maintain closed markets for the products in which the developing countries have a comparative advantage (e.g., textiles, apparel and light manufacturers).

Response:

1. The United States is among the most open markets in the world. Our average tariff is low, our quantitative restrictions are few, and our customs procedures are highly transparent and predictable.

2. Our positions on such issues as textiles and safeguards are more forthcoming than other major industrial countires.

3. This Administration, in particular, is committed to free trade and an international division of labor based upon the operation of market forces. Our decision earlier this year against the extension of orderly market agreements for footwear demonstrates our willingness to maintain open markets for products in which developing countries are competitive.

4. Increased openness of our markets can be achieved if other countries liberalize their own trade regimes and reduce the degree of subsidy that their governments provide to exports and import-competing production.

Facts: The United States annually absorbs 26% of non-OPEC developing countries exports to the world and 45% of their exports of manufactured goods. More than one quarter of our imports are from the non-OPEC developing countries, which is nearly as much as we import from Japan and the European Community combined.

In 1980, 51% of our imports from the developing countries entered duty free. The average tariff on dutiable imports from the world was 5.5% in 1980. We maintain a limited number of quantitative restrictions or fees on agricultural products covered by domestic price supports programs, but the Administration already has taken steps to reduce price supports, which will enable us to reduce the amount of surplus production and, therefore, provide greater opportunities for sales of imported products. The Meat Import Law of 1979 provides for quantitative restrictions that are relaxed when domestic production falls. Our bilateral quantitative agreements for imports of textiles and apparel provide for an orderly expansion of shipments from developing countries.

~~CONFIDENTIAL~~

1982 GATT Ministerial

Criticism: The GATT (General Agreement on Tariffs and Trade) Ministerial scheduled for November 1982 offers an opportunity to address important issues in international trade of interest to both developed and developing countries.

Response:

1. The United States supports the concept of a GATT Ministerial meeting in 1982 and believes that this meeting should be held in conjunction with the November 1982 meeting of the GATT Contracting Parties (CPs).

2. We will urge the establishment by the CPs of a Preparatory Committee which would meet initially in March 1982 in Geneva to consider the agenda; and suggest that this committee be charged with developing an agreed agenda before the August 1982 GATT recess.

3. While the range of possible objectives and specific agenda items are still under consideration, we assume that the GATT Ministers will set forth a brief list of the major trade problems and will agree to seek means of finding solutions on a multilateral basis.

4. Hence, we view the planning process for the Ministerial meeting as critical to the ability of the GATT Ministers to reach important decisions aimed at solving international trade problems.

Facts: The concept of a ministerial-level meeting of the GATT during 1982 was endorsed by GATT's Consultative Group of 18 (CG-18) at their most recent meeting, June 25-26. Further support was provided by the July 22 Declaration of the Ottawa Summit. The next formal discussion of the Ministerial will take place at the CG-18 meeting scheduled for October 14-16, 1981. The formal decision to convene the GATT Ministerial will have to be made at the November meeting of the Contracting Parties (CPs). The most likely date for the Ministerial is November 1982 in connection with the annual meeting of the CPs. At this time, no agenda has been set for the Ministerial meeting. However, while there is little enthusiasm for launching an extensive new round of multilateral trade negotiations at the 1982 GATT Ministerial, the United States does not wish to rule out an ambitious agenda. The range of possible objectives and specific agenda items are currently being considered within the USG.

~~CONFIDENTIAL~~

Developing Countries in GATT
(General Agreement on Tariffs and Trade)

Criticism: The General Agreement on Tariffs and Trade (GATT) is an organization created by and for the industrialized countries. Hence, developing countries need not join the GATT nor its codes since GATT addressees the trade interests and needs of the developed rather than the developing countries.

Response:

1. Developing countries have been participants in GATT since its establishment in 1948, and they continue to play an active role in the GATT system.

2. GATT has, in fact, been increasingly responsive to the trade and development needs of the developing countries -- particularly in the past decade. Moreover, GATT activities have led to reductions in trade barriers which have significantly benefitted the developing countries.

3. THE USG feels that there are important benefits to be gained in joining the GATT and in signing the MTN (multilateral trade negotiations) codes. Further integration into the world trading system is the best means of ensuring economic development, and the GATT system offers the most practical vehicle for developing countries to expand their trade.

Facts: Of the twenty-two (22) original contracting parties who signed the General Agreement at its founding in 1948, half were developing countries, and included such countries as Brazil, Sri Lanka, India and Pakistan. Today, some two-thirds of the eighty-six (86) GATT members are developing countries, and an additional thirty (30) developing countries apply the GATT on a de facto basis.

Through the addition of Part IV to the GATT in 1966 and the Framework Agreement of the multilateral trade negotiations (MTN) in 1979, the GATT as an institution has increasingly recognized and addressed the trade and development needs of the developing countries. For example, Part IV and the Framework Agreement of GATT provide for differential treatment of developing countries and for a generalized system of non-reciprocal preferences (GSP) in trade between developed and developing countries. Moreover, GATT's Committée on Trade and Development (CTD) and its subcommittees continually review those issues most critical to the developing countries.

Generalized System of Preferences (GSP)

Criticism: Graduation of more advanced developing countries under the Generalized System of Preferences (GSP) is discriminatory, contradicts the basic principles underlying the program, and will not result in greater benefits for less advanced countries.

Response:

1. I believe that the GSP is an important element in North-South economic relations and that it has made an integral contribution to the development process in developing countries.

2. The GSP is a temporary program designed to assist developing countries in competing better with more traditional suppliers in developed country markets. Developing countries should phase out of preferential treatment as they become competitive producers of individual products, allowing less competitive supplying countries to benefit from GSP treatment on the items.

3. The GSP must serve 140 developing countries with widely different infrastructures and productive capacities. The United States introduced graduation in its GSP in order to expand trade opportunities for countries at the middle and lower ranges of economic development.

4. Our GSP scheme is a very open and transparent one, and we will continue to consider the views expressed by our developing country trading partners in administering the GSP program.

Facts: The total amount of imports receiving duty-free treatment under the U.S. GSP has more than doubled since implementation of the program, increasing from $3.1 billion in 1976 to $7.3 billion in 1980. Five advanced developing countries (Taiwan, Hong Kong, Korea, Mexico, and Brazil) have accounted for as much as 70 percent of that total in past years. Graduation of advanced developing countries from GSP duty-free treatment on a product-by-product basis should increase the share of the program's benefits accruing to the less advanced developing countries. However, the most advanced countries, particularly Brazil and Mexico, see graduation as purely protectionist. They doubt that graduation will result in a greater distribution of GSP benefits since less advanced countries generally produce a different mix of products than more advanced developing countries.

MTN Tariffs on Developing Countries

Criticism: The Tokyo Round of Multilateral Trade Negotiations (MTN) did little to reduce tariff barriers for developing countries.

Response:

1. The Tokyo Round clearly aided developing countries by lowering both tarriff and non-tariff barriers.

2. Exports from developing countries have been enhanced by average global tariff reductions of one-third negotiated in the MTN.

3. Where possible, the United States offered deeper than formula tariff cuts in the MTN. Tariff reclassifications were made for products principally supplied by developing countries.

4. The United States made tariff reductions in the MTN without expecting full reciprocity wither from the developing countries or from small suppliers.

Facts: The Tokyo Round, concluded in Geneva in 1979, is the seventh round of multilateral trade negotiations to take place under GATT auspices.

As a result of the MTN, the average US tariff rate on goods imported from developing countries will fall from 7.7 percent to 5.7 percent.

The US MTN industrial tariff offer resulted in a 26 percent depth of cut for developing countries and covered $10 1/4 billion in shipments. Developed countries cuts averaged 32-33 percent.

Developing countries also benefitted from US tariff reductions in the agricultural sector which resulted in average duties of 2.6 percent on shipments from developing countries. Duties averaged 4.1 percent on agricultural imports before the MTN. The least developed countries also received tariff reductions immediately on most products except the most sensitive, while tariff cuts benefitting other countries will be phased in through 1987.

MTN Codes

Criticism: The agreements (also known as codes) concluded in 1979 at the end of the Tokyo Round of multilateral trade negotiations (MTN) do not address directly the trade and development needs of developing countries and, hence, few developing countries have signed and accepted the agreements.

Response:

1. The United States continues to encourage as broad a participation as possible in the MTN agreements, and places strong emphasis on greater developing country involvement.

2. Many developing countries have signed and/or accepted at least one of the MTN agreements and others seem interested in doing so in the near future; and by and large, the United States is pleased with the progress all code signatories have made in implementing the MTN agreements.

3. We consider the code committee structure to be an important fora for the discussion of technical and specific trade-related problems and encourage developing countries to make use of this mechanism for resolving trade disputes. Work under the MTN agreements will be important to the evolution of the world trading system and we urge fuller participation.

Facts: The MTN agreements include two tariff protocols and codes of conduct governing technical barriers to trade (product standards), subsidies and countervailing measures, customs valuation measures, import licensing practices, government procurement procedures, antidumping practices, and trade in civil aircraft and in meat and dairy products. Developing countries which have signed and/or accepted at least one of the agreements include: Argentina, Brazil, Chile, Dominican Republic, Egypt, Hong Kong, India, Indonesia, Israel, Ivory Coast, Jamaica, Korea, Malaysia, Pakistan, Peru, Philippines, Singapore, Tunisia, Uruguay, Yugoslavia, and Zaire.

Assuming the responsibilities of GATT and MTN code membership will strengthen the ability of the developing countries to have a full voice in the interpretation and operation of the GATT and its new non-tariff agreements or codes, will give the developing countries redress under their dispute settlement procedures, and will generally allow the developing countries to take full advantage of the rights and benefits of GATT and/or code membership.

Multifiber Arrangement (MFA)

Criticism: The Multifiber Arrangment (MFA) is a protectionist agreement which permits developed importing countries to restrict the imports of textiles and apparel products from exporting developing countries.

Response:

I. If the MFA negotiation is raised by any Cancun participants, the United States should note that this is a crucial and very-sensitive issue. As it is under intense negotiation in the GATT, the United States should point out that the Cancun meeting is not the appropriate forum for MFA discussions.

Facts: The MFA, which governs international trade in cotton, wool and man-made fiber textiles and apparel, expires on December 31, 1981. The MFA is the framework agreement that providces guidelines for the negotiation of bilateral quantitative restraint agreements between exporting developing countries and importing developed countries.

The MFA's fundamental objectives are the expansion and progressive liberalization of trade in textiles while avoiding the disruption of individual markets. It seeks to obtain for developing countries increases in their export earnings and a greater share of the world's trade in textiles and apparel.

The original MFA entered into effect in 1974 and was extended by an interpretative protocol in 1977. The forty-two signatories of the MFA, which account for roughly three-quarters of the world textile trade, have been meeting this year in the GATT Textiles Committee in an effort to renegotiate the Arrangement. Progress has been slow to date and difficult negotiations are expected as the end of the year deadline approaches. The negotiations are very sensitive and failure to renew the MFA would have very negative consequences for the entire international trading system.

Export Credit to Developing Countries

Criticism: The United States, in negotiating for strengthened export credit understandings and in raising Eximbank's lending rates while reducing its budget, has aggressively sought to reduce export credit subsidies to the detriment of developing countries receiving such subsidies.

Response:

1. The objective of countries which offer export credit subsidies is the promotion of exports, not economic development of less developed countries. The exports financed by official export credit agencies only sometimes and incidentally fit the development objectives of recipient countries. The current low interest rates also are the result of official export credit competition and serve more to distort trade flows than to provide economic aid.

2. Eximbank's subsidies are being reduced as part of our domestic economic program. The success of this program, in raising U.S. productivity and lowering inflation and interest rates, will make many more U.S. goods available at lower prices than narrowly-based programs such as Eximbanks's.

Facts:

The international level of export credit subsidies has grown in recent years as market interest rates have shown little increase.

Mixed credits, or the use of both official aid and normal export credits to finance export sales, has been used extensively by some countries, notably, France. These are typically used to finance sales for which an exporter is facing severe competition, with the largest credits going to higher income developing countries.

The Administration is requesting that Eximbank's authorization ceilings be reduced in FY 1982. The Bank's direct loan program would be reduced $1.5 billion from its FY 1981 level to $3.9 billion. This is still high historically, the direct loan program reaching only $0.7 billion in FY 1977 and $2.9 billion in 1978.

Adjustment and Redeployment of Industry

Criticism: Developed countries should take deliberate steps to relocate to developing countries those industries in which, because of structural changes, they are no longer competitive.

Response:

1. Structural adjustment is a dymanic process which proceeds more rapidly the more open an economy is.

2. Because of the openness of the U.S. economy, structural change has always been a major characteristic of our economy, and one that we welcome.

3. We do not regard it as either necessary or desirable for the government to intervene in the private sector decision-making which brings about structural change. We do not regard it as beneficial and appropriate for government to facilitate structural change by ensuring that trade and investment can flow as freely as possible. We hope other governments will do likewise, and we stand ready to cooperate with such efforts in the future, as we have in the past.

Facts: The U.S. economy has undergone substantial structural change. From 1960 to 1979 the share of manufacturing in total non-agricultural employment dropped from 31 percent to 23.4 percent. Services increased from 13.6 percent to 19 percent. Agricultural employment dropped by 2.6 million workers.

The average U.S. tariff on industrial products was reduced 35 percent by the Kennedy Round and 32 percent by MTN. The U.S. has tried to rely on growing export markets rather than import restrictions to cushion the effects of rapid import change, as evidenced by the recent decision to end Orderly Marketing Agreements on footwear. The extent of structural change accompanying trade is suggested by the very rapid 25.2 percent per annum growth in manufactured goods imports to the U.S. from developing countries from 1970-1979.

ENERGY

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ENERGY

MAIN OBJECTIVES

1. Demonstrate that the U.S. considers energy a critical global problem.

2. Stress the importance of private investment and market pricing policies to the attainment of energy objectives.

3. Signal U.S. willingness to join international energy discussions.

4. Highlight U.S. (and OECD) energy policy achievements which have reduced demand for OPEC oil.

BEAR IN MIND

1. OPEC will oppose discussion of energy except in the context of global economic reform.

2. Many developing countries and OECD members believe the U.S. is indifferent to developing country energy investment needs because of our opposition to the proposed World Bank Energy Affiliate.

3. President Lopez Portillo has proposed a "World Energy Plan" which would involve the "rationalization" of energy consumption.

4. Many developing countries are suspicious of private oil companies and seek to develop energy resources on a state-owned basis.

CHECKLIST

1. Stress the importance of sound national energy policies to the attainment of energy objectives.

2. Urge developing countries to work out acceptable terms to encourage energy exploration by private firms.

3. Reaffirm the U.S. commitment to increase bilateral energy assistance to developing countries.

4. Reassure participants that the U.S. supports multilateral energy lending, but believes it can be reoriented to better catalyze private flows.

5. Cite U.S. energy policy progress which has a favorable impact on the price of oil supplied to developing countries..

6. Express interest in international energy discussions but opposition to formal agreements.

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ENERGY

WE BELIEVE THAT SECURING ADEQUATE AND REASONABLY PRICED ENERGY FOR THE FUTURE IS A CRITICAL GLOBAL ISSUE. IT IS AN ISSUE FACED BY ALL COUNTRIES, AND AN AREA WHERE FALSE STARTS, MISGUIDED POLICIES AND MISUNDERSTANDINGS HAVE REPEATEDLY SET US BACK IN OUR COMMON GOALS. WE NEED TO PRODUCE MORE ENERGY FOR GROWING WORLD ECONOMIES, AND WE NEED TO USE THE ENERGY WE PRODUCE--PARTICULARLY THE FINITE FOSSIL FUELS--AS EFFICIENTLY AS WE KNOW HOW.

TO ACHIEVE THESE GOALS, WE MUST INCREASE INVESTMENT IN ENERGY PRODUCTION AND ENERGY-EFFICIENT EQUIPMENT.

IT IS MY FIRM CONVICTION THAT ONLY THROUGH GREATER RELIANCE ON THE MARKETPLACE AND THE RESOURCEFULNESS AND INGENUITY OF THE PRIVATE SECTOR CAN THE WORLD EFFECTIVELY TACKLE THE ENERGY CHALLENGE AHEAD.

IN THE UNITED STATES, A RETURN TO MARKET PRICING AND THE REDUCTION IN THE REGULATORY BURDEN HAVE PUT OUR PRODUCTIVE AND INNOVATIVE PRIVATE SECTOR TO WORK IN THE CONTEXT OF A STABLE AND PREDICTABLE ENVIRONMENT FOR LONG-TERM INVESTMENT DECISIONS. THE EFFECT OF THESE CHANGES HAS BEEN IMMEDIATE AND DRAMATIC--OUR USE OF ENERGY IS DOWN AND THERE IS A NEW IMPETUS TO INVESTMENTS IN ENERGY EXPLORATION AND DEVELOPMENT.

IN ALL COUNTRIES SOUND NATIONAL ENERGY POLICIES ARE INDISPENSIBLE. GOVERNMENTAL POLICIES HAVE A MAJOR IMPACT ON WHETHER SUFFICIENT CAPITAL IS GENERATED FOR INVESTMENT NEEDS. MARKET DETERMINED CONSUMER PRICES ENSURE THE MOST EFFICIENT DISTRIBUTION AND USE OF ENERGY PRODUCTS. SUBSIDIES TO ENERGY USE, ALTHOUGH POLITICALLY ATTRACTIVE IN THE SHORT

RUN, LEAD TO MISALLOCATION OF RESOURCES THAT OVER TIME CAN CAUSE FUNDAMENTAL DAMAGE TO THE ECONOMY.

LET US PUT ASIDE OUTMODED PERCEPTIONS OF PRIVATE INVESTORS IN THE ENERGY FIELD. PRIVATE COMPANIES ARE THE BEST SOURCE OF EXPERTISE AND CAPITAL FOR HYDROCARBON EXPLORATION IN THE WORLD. THESE COMPANIES ARE MOST EFFECTIVE IN EXPLORATION WHEN THEIR OWN CAPITAL IS AT RISK AND WHEN THERE IS THE REASONABLE PROSPECT OF A FAIR RETURN FOR SUCCESS.

WE SHOULD WORK TOGETHER TO FIND WAYS TO FACILITATE INVESTMENT IN ENERGY IN PROMISING AREAS, INCLUDING THE DEVELOPING WORLD, WHERE THERE HAS BEEN LITTLE EXPLORATION TO DATE.

WE ALSO NEED TO THINK OF THE LONG-RUN ENERGY TRANSITION, PARTICULARLY THE NEED TO INVEST IN NEW AND RENEWABLE SOURCES OF ENERGY. THE UN CONFERENCE ON NEW AND RENEWABLE SOURCES OF ENERGY REPRESENTED A GOOD START IN THIS FIELD.

IN THE YEARS AHEAD, THE U.S. WILL BE INCREASING ITS ENERGY ASSISTANCE TO DEVELOPING COUNTRIES. OUR AID PROGRAMS EMPHASIZE TECHNICAL ASSISTANCE, IN ORDER TO HELP COUNTRIES ASSESS AND SELECT THE MOST PROMISING ENERGY OPTIONS. WE ALSO SUPPORT RESEARCH, SITE TESTING AND DEMONSTRATION OF PROMISING TECHNOLOGIES, PARTICULARLY WHERE U.S. ASSISTANCE COMPLEMENTS ACTIVITIES OF THE PRIVATE SECTOR.

WE SUPPORT ENERGY LENDING BY MULTILATERAL INSTITUTIONS. I BELIEVE, HOWEVER, THAT MORE CAN BE DONE TO UTILIZE THESE SCARCE PUBLIC SECTOR FUNDS TO CATALYZE PRIVATE FLOWS AS WELL.

ENERGY

Objectives

-- Stress that energy is one of the most important and urgent policy challenges facing developing countries, requiring new approaches to domestic policy by the developing countries, particularly joint measures to create a climate conducive to the flow of private investment for resource development.

-- Highlight U.S. energy achievements, particularly the decline in oil imports from 8 mmb/d in 1979 to 5.4 mmb/d in 1981. Note that the effect of oil price decontrol has been to increase production and encourage efficiency. Such savings are having a favorable impact on the availability and price of the petroleum supplied by OPEC to developing countries.

-- Urge that developing countries work out acceptable terms to encourage expanded oil and gas exploration and the development of other energy resources by private companies, foreign and domestic.

-- Signal the importance of changing the thrust of multilateral energy lending so as to increase its multiplier effect on private investment in energy resource development.

-- Reassure participants that the U.S. intends to maintain its commitment, within the context of currently approved or pledged contributions, to the energy development programs of the multilateral lending institutions.

-- Support energy discussions between producers, consumers and developing countries, but oppose the notion that a global energy "plan" or strategy can or should be devised, or that specific goals for significantly reduced developed country energy consumption should be adopted.

Context

Perceptions as to the nature of the global energy problem and the appropriate international response differ widely among developed and developing countries.

Since 1979, Summit host Jose Lopez Portillo has been promoting a "World Energy Plan". The Mexicans believe that such a plan is necessary to achieve an "orderly and rational" energy transition. They would seek a political commitment on the part of industrial countries (which consume 80 percent of energy supplies) to set "ambitious" goals for "even greater" energy conservation, so that developing countries "may legitimately claim a larger quota" of petroleum. The Mexicans also believe that developed countries should commit themselves to provide the developing countries with "access" to new techniques of conservation, and feel that efforts to expand energy supply should not "undermine the principle of full and permanent sovereignty" over natural resources (indicating a preference for doing without foreign direct investment). Developed countries are expected to provide financial support through international agencies.

OPEC countries, such as Saudi Arabia and Algeria, will seek to downplay the impact of high oil prices on developing country economies. They can be expected to stress the responsibility of industrial countries for developing country economic problems, through increased prices of industrial country manufactured goods exports to developing countries,, industrial country restrictions against imports of developing countries' semi-manufactured goods, and depressed commodity prices. Saudi King Khalid will probably stress the Saudi aid record (they claim 10% of GNP) but not mention that most aid goes to a few key Islamic LDC's.

French President Mitterand and Canadian Prime Minister Trudeau will oppose Mexican suggestions that industrial countries should join in a "rationalization" of the energy market which would mean reduced oil consumption by industrial countries. Mitterand and Trudeau may renew their efforts to get the U.S. to accept a new World Bank energy affiliate, however.

Mrs. Thatcher should be most closely aligned with U.S. thinking. The British have stressed the primacy of energy policy reform in developing and industrialized countries, particularly energy price decontrol, and the need to improve the climate for private investment. The UK is not committed to the energy affiliate as the only energy financing option, and is likely to follow the U.S. lead on this issue.

Developing countries such as Tanzania, Bangladesh, India and Brazil have had growth prospects badly battered by high oil prices but have been reluctant to criticize the producers. Many developing countries have repeatedly raised domestic oil product prices in the past two years, yet most still have subsidized prices for diesel and kerosene, the two fuels which most directly affect the cost of living for the poor. Developing countries are actively taking stock of their energy options, including coal and renewables, assisted by a variety of multilateral and bilateral assistance programs, including those offered by the U.S.

Several developing countries represented have recently liberalized terms for foreign investors. Phillips and Exxon have found large new oil fields in the Ivory Coast, which soon will become an oil exporter. In Brazil, recent reforms have allotted substantial new acreage to foreign oil companies, but the best blocks remain in government hands and foreign companies have made no commercial finds.

Key Points to Make

-- Expanded investment in energy production and more energy-efficient capital equipment is vital to continued world economic growth.

-- Market pricing for energy resources and private sector investment will play a crucial role in the development of energy resources.

-- The policies of national governments will have a major impact on whether sufficient capital will be generated for energy investment. Today's high oil prices justify increased energy investment and commercial finance is available if government-imposed terms and conditions are improved.

-- Let us put aside outmoded perceptions of private investors. Private companies are the best source of expertise and capital for hydrocarbon exploration in the world. They are most effective when their own capital is at risk and there is the reasonable prospect of a fair return.

-- Scarce public sector funds should catalyze private investment flows; they cannot substitute for sound national energy policy measures.

-- Lending by multilateral development banks has played an important role in assisting developing countries to assemble the capital to make basic energy investments. Such banks can further stimulate the development of energy resources through improvements in lending policies to increase the multiplier effect on private investment.

-- We are also willing to consider methods to enhance the ability of the multilateral banks to participate in developing country energy resource development and stimulate private investment.

-- We need to think of the long-run energy transition, particularly the need to foster investment in new and renewable sources of energy. The Program of Action adopted by the UN Conference on New and Renewable Sources of Energy lays out a useful framework for action in this field.

-- We appreciate the opportunity to hold frank discussions on the full range of energy issues facing the international community. Such meetings would promote understanding of contrasting national energy problems and objectives, and would be more fruitful than contentious negotiations towards unattainable and ineffective inter-governmental agreements.

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Energy Development in Developing Countries

Criticism: The U.S. is indifferent to energy development needs. It opposes an energy affiliate or aid targets, and provides little aid for urban or industrial energy projects.

Response:

1. The U.S. agrees that a key to economic growth is the availability of adequate energy supplies.

2. We believe governments should adopt pricing and investment policies which create an environment conducive to the mobilization of private capital. Such policies are critical since most of the capital and technology required for energy development can be provided by the private sector.

3. U.S. bilateral programs emphasize technical assistance for assessment and training, reforestation, R&D, site testing, and demonstration of promising technologies, particularly where US assistance complements the private sector.

4. U.S. energy aid in FY 82 will be $145 million. In the years ahead, the U.S. intends to increase its level of funding for energy. We believe OPEC nations have a special responsibility to do more as well.

5. We support energy lending by multilateral institutions, but at today's energy prices, many projects are "bankable" in private financial markets. We believe scarce capital from institutions such as the World Bank should be used to catalyze, not displace private flows.

Facts: The developing countries' oil import bill in 1980 was $74 billion. In addition to growing demand in the modern sector, new energy supplies must be found to supplement dwindling traditional sources of energy, such as fuelwood. In too many cases, however, price controls and government monopolies encourage energy consumption and inhibit energy investment.

The World Bank has estimated that the oil-importing developing countries will require over $36 billion per year for energy investments. The USG considers this estimate high, but recognizes that substantial capital will be required. The only feasible source of capital on this scale is the private sector. The U.S. will be encouraging the developing countries to adopt the necessary attitudinal and policy changes to attract this private capital.

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UN Conference on New and Renewable Sources of Energy (UNCNRSE)

Criticism: The UN Energy Conference failed to accomplish the goal of mobilizing the resources developing countries feel are necessary for greater use of new and renewable sources of energy (NRSE).

Response:

1. The success of UN conferences should not be measured in terms of new funds created. The Program of Action recognizes that resources will be needed from many sources, including the international community and the private sector. In this connection many countries, including the US, announced increases in bilateral assistance in NRSE at the conference.

2. The principal value of the Conference was in highlighting awareness of the current and potential use of NRSE and demonstrating that certain energy issues can be fruitfully discussed in a UN forum. The Program of Action adopted by the Conference is realistic and technically sound and will provide a good basis for determining national priorities.

3. It is particularly significant that the Program of Action recognizes that the primary responsibility for developing NRSE rests with individual countries and gives appropriate emphasis to the role of the private sector, as well as setting forth constructive ideas for international activity.

Facts: The UNCNRSE, held in Nairobi, Kenya August 10 - 21, 1981 was the first UN conference exclusively devoted to energy. The Program of Action, adopted by consensus, included recommendations for priority actions at the national, regional and global levels to further the energy transition towards reduced dependence on oil and increasing utilization of energy sources such as hydro power, solar power, fuel wood and biomass. The US and other industrial countries succeeded in keeping out of the Program of Action any specific targets for international aid or calls for new funds. The US did reaffirm that it does not favor creation of a World Bank energy affiliate which inter alia might lead to increased lending for NRSE development.

The Conference did not, however, resolve the permanent Conference follow-up mechanism. The US and other Western countries sought designation of the UN Committee on Natural Resources, which already has an energy mandate, but this was opposed by the developing countries who wanted to create a new intergovernmental body with a mandate limited to new and renewables. The Program of Action is to be launched by an intergovernmental committee which will meet in 1982 and make recommendations on permanent follow-up measures to the 37th UN General Assembly in 1982.

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World Bank Energy Lending

Criticism: The US has oppossed both the proposed World Bank energy affiliate and an expansion of resources for World Bank energy lending.

Response:

1. Most resources for energy investment must come from the private sector. The Bank can play an important role by complementing and catalyzing private efforts and by encouraging host governments to adopt policies conducive to private sector involvement.

2. We are unable to agree to the proposed expansion of the Bank's energy lending or to suoport the creation of, or participation in, the proposed new energy affiliate.

3. Improvements can and should be made in the Bank's energy lending program which, within the limits of currently pledged resources, will result in higher energy investment in the developing countries. The Bank should be encouraged to promote developing country energy development by increasing its multiplier effect on private energy investment.

4. After we have had the opportunity to see the effect of these improvements and gauge the OPEC willingness to increase its participation, we will also be able to judge what additional resources, if any, should be provided to the Bank for further energy development activities.

Facts: In response to a Venice Summit initiative, the Bank proposed in 1980 an expansion of its FY 82-86 energy lending from $14 to $30 billion, to be financed by creating an energy affiliate whose capital, for a large part, would come from OPEC.

Since February 1891, the US has maintained the position that it cannot support the proposed affiliate. Moreover, the in-depth interagency report on the Bank energy lending program directed by the Treasury recommends that the Bank reorient its current lending activities, and questions the need for an expansion of Bank lending. While France and Canada are the only strong supporters of the affiliate among G-6 countries, there appears to be wider support in the Group for expanded energy lending. The OPEC position on the affiliate or expanded energy lending is not clear. World Bank President Clausen has given no impression he will push for the affiliate. Moreover, it appears that in response to our concerns, the Bank is attempting to expand the role of private capital investment in its energy projects.

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Lopez Portillo World Energy Plan

Criticism: Industrialized countries consume 80% of world petroleum production. In order to avoid bitter competition for scarce conventional energy, to encourage an "orderly" energy transition, and to help the developing countries, the UN should develop a World Energy Plan.

Responses

1. The oil market outlook has significantly changed since 1979. In response to the sharp increases in oil prices, OECD oil consumption is sharply down. Oil producers are looking for customers, and LDC's are the beneficiaries.

2. The energy marketplace is working to rationalize oil consumption, and encourage new production of conventional and nonconventional energy.

3. Energy technology is readily available from private firms and through development assistance. A UN program to promote such transfers instead could impede the innovation and competition that is taking place today.

4. Donor governments, including the U.S., are according increased priority to energy assistance. But specific aid "targets" can be unduly rigid and counter-productive.

5. Consequently, although the U.S. would be willing to participate in a UN working group to discuss world energy issues, we would not favor the development of a global energy "plan".

Facts: At the UN General Assembly in 1979, Mexican President Lopez Portillo made a plea for the UN to work out a "World Energy Plan". He hoped that such a plan would prevent conflict between producers and consumers and result in more aid to developing countries. Mexican interest was motivated in part by concern that unless action were taken to rationalize energy markets, rich countries would grow desperate for oil and "pressure" producers for preferential access to supplies. Lopez Portillo was also worried by the fast pace of Mexican energy development and its corrosive effects on society. The idea met with quiet OECD interest (as a means for creating a forum for oil price and production discussions), but steadfast OPEC opposition.

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Producer-Consumer Cooperation

Criticism: The U.S. is unwilling to join an effort to assure oil producers of steadily increasing real oil prices, real return on their financial assets, and access to markets for "downstream" products. Producers have claimed they need these assurances if they are to expand capacity for future world needs.

Responses:

1. World progress in energy has occurred as consumers and producers have responded to market signals.

2. In our view, maximum free play of market forces should continue to guide energy policy decisions. Producer consumer agreements to stabilize long run prices or production levels would be unwise, and, given widely differing national interests, probably unattainable.

3. A forum for regular interchange between producing and consuming countries may be useful, however. In an informal setting, we could exchange views on policy intentions, experiences and supply and demand projections, thereby facilitating mutual understanding and the development of sound national policies.

Facts: In recent years many private "study groups" and analysts have called for a "Producer Consumer Dialogue" to facilitate an "understanding" on oil price parameters and supply prospects. The Brandt Commission report was one of the more recent such proposals, and one in which an oil market agreement was linked with financial asset guarantees for OPEC, trade policy concessions, and cooperation in aid to developing countries.

OPEC countries seldom have been interested in producer-consumer cooperation, which would touch on price and supply. OPEC has been unable to agree on its own "Long Term Strategy," and the sharply divergent interests of its members are only too evident. Even in the Global Negotiations context, OPEC has been reluctant to discuss energy in a comprehensive manner.

In the past, the U.S. has been mildly interested in an energy dialogue which would reestablish the forum which was lost when CIEC collapsed in 1977. We have been consistently skeptical that a price and supply accord, could or should be negotiated, however. Other OECD countries have been somewhat more interested in a potential producer-consumer understandings, although as the oil market has softened their sense of urgency has waned as well.

MONETARY AND FINANCE

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MONETARY AND FINANCE

MAIN OBJECTIVES

1. Present the US approach to economic growth and development: sound domestic economic policies, along with trade, private investment, and commercial capital flows are seen as much more important than foreign assistance to long-term economic growth in most developing countries.

2. Indicate that multilateral development banks must support sound economic policies and catalyze private resources for development; our bilateral assistance will concentrate on (a) countries mobilizing their resources and promoting private sector growth and (b) food, energy, and population, with emphasis on institution building and technology transfer.

3. point out clearly that private markets must play the primary role in recyling funds from surplus to deficit countries. The International Monetary Fund's role is to promote sound programs of economic adjustment.

4. Emphasize that combating inflation should be the number one economic priority and that short-term costs, such as high interest rates, are for outweighed by the longer term benefits. Premature reflation would reduce growth.

BEAR IN MIND

1. Other countries think the United States is abandoning its development assistance responsibilities.

2. Developing countries have called for increased resource transfers, and for changes in international economic insitutions that would give them increased control.

3. High US interest rates are perceived as postponing global recovery and raising developing countries' borrowing costs.

CHECKLIST

1. Stress that private financial markets, with supplemental efforts of existing internation al institutions, are handling the process of financing payments deficits.

2. Stress that developing countries need to adopt rational economic plicies and maintain a favorable investment climate.

3. Emphasize that the interantional financial insitutions must be allowed to operate in accordance with economic criteria if they are to continue to enjoy international support.

4. Point out that Congress has authorized payments to fulfill US contributions to multilateral development banks.

5. Note that high interest rates reflect inflationary expectations, and are not Administration policy. Interest rates will recede as inflation is lowered.

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MONETARY AND FINANCE

Objectives

-- Present the US approach to economic growth and development: sound domestic economic policies, along with trade, private investment, and commercial capital flows are seen as much more important than foreign assistance to long-term economic growth in most developing countries.

-- Indicate that multilateral development banks must support sound economic policies and catalyze private resources for development; our bilateral assistance will concentrate on (a) mobilizing their resources and promoting private sector growth and (b) food, energy, and population, with emphasis on institution building and technology transfer.

-- Point out clearly that private markets must play the primary role in recyling funds from surplus to deficit countries. The International Monetary Fund's role is to promote sound programs of economic adjustment.

-- Emphasize that combating inflation should be the number one economic priority and that short-term costs, such as high interest rates, are for outweighed by the longer term benefits. Premature reflation would reduce growth

CONTEXT

The budget restrictions in the Administration's Economic Recovery Program have attracted much interentional publicity and given rise to misimpressions that the US is abandoning its global 'responsibilities,' especially in providing economic assistance to developing countries. Moreover, apprehensions have been generated by our internal review of US participation in the multilateral development banks (MDBs) and the strong position taken favoring more rigorous conditions for countries receiving loans from the International Monetary Fund.

Developing countries have for years assiduously sought additional financial assistance -- throught bilateral and multilateral channels -- by proposing specific numerical targets for aid levels, and by seeking changes in international institutions to ease developing countries' access to their financial resources. Recent economic conditions (petroleum price increases, inflation, rising debt burdens) have created problems for many developing countries and have spurred their efforts as they attempt to finance huge current account deficits (projected to be $97 billion in 1981 by the IMF) in order to maintain their growth rates or facilitate adjustment to these new conditions.

Certain major donors (Canada, France and Japan), have pledged to increase their economic assistance and have accepted (but few have met) the UN-sponsored aid target of 0.7 percent of their Gross National Product. They have also supported additional funding for certain international institutions (the International Development Association and IBRD) and the creation of an energy affiliate for the World Bank to expand its lending in this area.

The United States has not accepted the concept of numerical aid targets since they are not indicative of specific country needs or capabilities to absorb additional funding. Industrialized countries' official development assistance averaged 0.3 percent of their GNP in 1980, compared to 0.27 percent of the United States. The United States, however, continues to be the largest single donor in absolute terms ($7.1 billion in 1980; Germany was second at $4.0 billion).

The Administration has begun to refocus the development assistance issue by placing increased emphasis on the fact that economic development and growth are fundamentally dependent on the adoption of sound domestic economic policies which promote savings and investment, maximize efficient utilization of scarce resources, and achieve effective balance of payments adjustment.

International trade, investment and commercial capital flows of the private sector, are substantially more important for most developing countries than foreign assistance to long-term, non-inflationary economic growth. The U.S. performance in this area is excellent. Our capital markets are more open than others and U.S. banks are heavily involved in loans to developing countries. Earnings of developing countries from exports to the United States alone amount to double the foreign aid from all industrial countries and the United States accounted for over half of industrialized countries' investment in developing countries over the past 10 years.

We continue to recognize that official economic assistance has an important role to play, especially for poorer countries. You joined in the Ottawa Summit Communique commiting Summit countries "to maintaining substantial and, in many cases, growing levels of Official Development Assitance" and to "direct the major portion of our aid to poorer countries." Contrary to misimpressions, your proposed budget for foreign assistance, even as just revised, actually increased this year, and Congress has authorized fulfillment of U.S. pledged contributions and subscriptions to multilateral development banks, including the International Development Association. We will focus our bilateral assistance on the vital development constraints of food production, energy and population. In addition, special emphasis will be placed in institution building, technology transfer and increasing the role of the private sector in development.

Developing countries must recognize that borrowing should be used to facilitate--not simply postpone--needed adjustments. To adjust to new economic conditions, compete in world markets, and attract private investment and capital flows, they must make greater efforts themselves to adopt appropriate economic policies and maintain a favorable investment climate. We will seek to channel and to those countries adopting hospitable policy frameworks which mobilize their domestic resources and promote healthy private sector growth. Furthermore, our internal assessment of the multilateral development banks (MDBs) concludes that the MDBs can also play an important role in advising developing countries on such policies, as well as using resources available to them to attract additional private funds for development projects.

Developing countries have sought a restructuring of the international monetary system focusing on measures to: (1) ease macroeconomic policy conditions the International Monetary Fund attaches to its loans; (2) create additional international liquidity through substantial creation of Special Drawing Rights linked to development criteria; (3) increase their role in international monetary decisions; and (4) cancel debt as a means of "resource transfer". Developing countries have long argued that the international monetary system in general, and decisions of the IMF in particular, are unfairly dominated by the major industrial countries. Industrialized countries as a whole share our interest in maintaining a stable international monetary system, but often seem more willing to accommodate changes sought by developing countries (e.g. France on SDR creation linked to development).

Private financial markets have demonstrated a remarkable capacity to meet the financing needs of borrowers and lenders, and will continue to have the primary role in recycling funds from surplus to deficit countries. The supplementary role of the IMF is to use its resources to promote sound programs of economic adjustment. The success of the IMF's efforts to maintain a stable monetary system depends on ensuring that the policy conditions associated with its loans require appropriate economic adjustments and policy responses in borrowing countries. The IMF has adapted in a number of important ways to meet the changing economic circumstances and needs of its members. We welcome further adaptation to reflect changes in the relative economic positions of the Fund's members as long as the changes continue to be based on economic criteria. We have viewed efforts to radically restructure the decision-making process of the IMF, as misguided since they are likely to undermine international confidence in its ability to foster a stable monetary system.

High U.S. interest rates are perceived as postponing global economic recovery and raising developing countries' borrowing costs. Our monetary policy, of course, is not one of high interest rates but is designed to ease inflation which adversely effects the U.S. and the world economy. We have embraced the fight against inflation as the highest priority of the international community, as noted in the Ottawa Summit Communique. As inflation subsides, so too will interest rates. U.S. pursuit of domestic policies to ensure a strong U.S. economy, and hence a healthy international one, will contribute much more than development assistance measures to long-term, sustainable economic growth in the developing countries.

Key Points to Make

-- Sound domestic economic policies and the external factors of trade, private investment, and commercial capital flows are more important for most developing countries than assistance measures for achieving long-term economic growth.

-- Developing countries need to make greater efforts to adopt rational economic policies and maintain a favorable investment climate.

-- Multilateral development banks and other foreign assistance can play an important role in promoting sound national policies and attracting private financial resources for development.

-- Private financial markets are managing the recycling of surplus funds; existing international institutions play a supplemental role.

-- International financial institutions must be allowed to operate in accordance with economic criteria if they are to continue to enjoy wide international support.

-- Combating inflation should be the number one economic priority of the international community.

-- Our bilateral assistance will concentrate on the vital development areas of food, energy and population, with special emphasis in institution building, technology transfer and increasing the private sector role.

MONETARY AND FINANCE

RECOGNITION OF GREATER ECONOMIC INTERDEPENDENCE AMONG NATIONS PLACES A PREMIUM ON ALL NATIONS WORKING TOGETHER TO ACHIEVE GREATER PROSPERITY. HOWEVER, WE CANNOT LOSE SIGHT OF THE FACT THAT ECONOMIC DEVELOPMENT IS FUNDAMENTALLY DEPENDENT ON EACH OF OUR OWN NATIONAL ECONOMIC POLICIES AND THE STRENGTH OF THE PRIVATE SECTOR. EQUALLY IMPORTANT, WE MUST APPRECIATE THAT THE EXTERNAL CONTRIBUTIONS OF TRADE, PRIVATE INVESTMENT AND COMMERCIAL CAPITAL FLOWS RESPONDING TO INCENTIVES OF THE MARKET PLACE ARE ESSENTIAL INGREDIENTS TO ACHIEVE LONG-TERM, NON-INFLATIONARY ECONOMIC GROWTH AND DEVELOPMENT.

FOREIGN ASSISTANCE AND INTERNATIONAL DEVELOPMENT AND FINANCIAL INSTITUTIONS CAN PLAY AN IMPORTANT ROLE IN REINFORCING AND SUPPORTING DEVELOPMENT EFFORTS. BUT ASSISTANCE CANNOT--NOR CAN WE PRESUME THAT IT SHOULD--DISPLACE OR SUBSTITUTE FOR THESE ESSENTIAL INGREDIENTS. WE RECOGNIZE THAT FOREIGN ASSISTANCE WILL BE OF PARTICULAR IMPORTANCE TO POORER COUNTRIES, AND WE WILL CONTINUE TO SUPORT THE EFFORTS OF ALL DEVELOPING COUNTRIES TO ADDRESS THE PROBLEMS THEY FACE AND UNDERTAKE ADJUSTMENTS. WE WILL CONCENTRATE OUR EFFORTS ON ALLEVIATING CONSTRAINTS IN THE VITAL AREAS OF FOOD, POPULATION, AND ENERGY, WITH EMPHASIS ON INSTITUTION BUILDING, TECHNOLOGY TRANSFER AND INCREASING THE ROLE OF THE PRIVATE SECTOR.

ADJUSTMENT OF ECONOMIC POLICIES TO NEW ECONOMIC CONDITIONS IS A NECESSITY. IT IS IMPORTANT THAT BORROWING BE USED TO FACILITATE--NOT SIMPLY POSTPONE--NEEDED ADJUSTMENTS. WE WILL SEEK TO GIVE PRIORITY IN OUR BILATERAL ASSISTANCE TO THOSE COUNTRIES WHICH DEMONSTRATE A SERIOUSNESS OF PURPOSE IN MOBILIZING THEIR OWN RESOURCES AND PROMOTING HEALTHY PRIVATE SECTOR GROWTH.

THE UNITED STATES WILL HONOR RECENT INTERNATIONALLY NEGOTIATED AGREEMENTS RELATED TO REPLENISHING THE RESOURCES OF THE MULTILATERAL DEVELOPMENT BANKS. THEY CAN AND SHOULD ACTIVELY PROMOTE SOUND ECONOMIC POLICIES AND ATTRACT PRIVATE FINANCIAL RESOURCES FOR GROWTH AND DEVELOPMENT OBJECTIVES.

A SMOOTHLY FUNCTIONING INTERNATIONAL MONETARY SYSTEM IS ESSENTIAL TO A PROSPEROUS WORLD ECONOMY. PRIVATE FINANCIAL MARKETS, SUPPLEMENTED BY EFFORTS OF EXISTING INTERNATIONAL INSTITUTIONS, ARE HANDLING THE PROCESS OF FINANCING PAYMENTS DEFICITS. THE DEMONSTRATED CAPABILITY OF THE INTERNATIONAL MONETARY FUND TO EVOLVE AND ADAPT TO CHANGES IN THE WORLD ECONOMY AND TO THE NEEDS OF ALL ITS MEMBERS IS A CORNERSTONE OF STABILITY IN THE INTERNATIONAL ECONOMY SYSTEM. HOWEVER, THE SUCCESS OF IMF'S EFFORTS TO MAINTAIN A STABLE MONETARY SYSTEM DEPENDS ON ENSURING THAT THE POLICY CONDITIONS ASSOCIATED WITH ITS LOANS REQUIRE THE APPROPRIATE ECONOMIC ADJUSTMENTS IN BORROWING COUNTRIES.

THE FIGHT AGAINST INFLATION MUST BE THE HIGHEST PRIORITY OF THE INTERNATIONAL COMMUNITY. HIGH INTEREST RATES ARE PAINFUL FOR ALL OF US, BUT WE MUST NOT EVADE OUR RESPONSIBILITY TO ATTAIN LOWER INTEREST RATES ON A LASTING BASIS. THIS WILL NOT COME THROUGH SHORT-TERM MEASURES, WHICH WOULD INEVITABLY THWART OUR EFFORTS AGAINST INFLATION. BY STEADFAST PURSUIT OF OUR DOMESTIC POLICIES WE WILL, IN THE LONGER TERM, ACHIEVE LOWER INTEREST RATES, STRENGTHEN THE U.S. ECONOMY AND CONTRIBUTE TO A HEALTHY, LESS-INFLATIONARY WORLD ECONOMY.

IMF Financing and Conditionality

Criticism: The developing countries claim that the amount of financing available from the IMF is inadequate to deal with their balance of payments needs and that the economic policy conditions associated with IMF financing are excessively harsh and damaging to their development efforts.

Response:

1. With re-emergence of large balance of payments deficits and financing needs over the past few years, the IMF has moved dramatically to increase its resources and expand members' access to those resources.

2. Consequently, recourse to the IMF's financing has increased rapidly.

3. The need now is to assure that the substantial resources available to the IMF are used prudently in support of soundly designed and effectively implemented programs of economic adjustment. This is critically important for the IMF as an institution, to individual borrowing countries, and to the world in general.

Facts: The IMF is the principal source of official financing for countries experiencing temporary balance of payments difficulties. The availabiltiy of IMF financing is conditioned upon the borrower adopting economic adjustment policies that will correct its balance of payments problem and place its external position on a sustainable basis that can be financed from non-IMF sources, primarily private markets. In recent years, the IMF has substantially expanded its resources available for balance of payments financing and members access to those resources. Quotas have been doubled since 1977 (to a total of about $69 billion) and the IMF has borrowed significant amounts (includiow a recent $9 billion loan from Saudi Arabia and $2 billion from other countries). A member's access to IMF resources is now multiple of its quota. Consequently, the IMF's financing commitments have increased sharply and in 1981 (through July) loans are being made at an annual rate of $16 billion, more than double the pace set last year.

The US and other major countries have become increasingly concerned that IMF supported adjustment programs have not been adequately implemented despite the substantial commitment of IMF resources. The effectiveness of the IMF's efforts to promote sound economic policies in borrowing countries is critical to the achievement of a more stable world economy and maintenance of the financial integrity of the institution. We are working with IMF management and other countries to improve IMF conditionality.

Developing countries and smaller developed countries are also pressing to accelerate the quota review, pointing to the current rapid utilization of IMF resources. The US has firmly opposed any acceleration in light of the IMF's storng financial position and concern about Congressional reaction to further requests for IMF funding at a time of budgetary stringency.

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IMF Quotas and Voting Shares

Criticism: IMF quotas do not adequately reflect the role of developing countries in the world economy. The quota (and voting) share of developing countries should be substantially increased and the deadline for completing the quota review be advanced.

Response:

1. The general review of quotas which is now underway will be long, complex, and difficult. We believe that the current schedule, calling for completing the review in late 1983 is reasonable and appropiate.

2. The effectiveness of the IMF in promoting adjustment and the evolving world payments situation will have and important bearing on the demand for IMF resources and the need for a quota increase. It would be premature to reach decisions on the size and distribution of a quota increase before assessing developments in those areas.

3. The US approach to the quota review is based on the view that the IMF must remain a monetary institution which serves as a backstop for the international monetary system. The US opposes any "bloc" approach to the determination of quota shares, believing individual country quotas should reflect the member's relative position in and responsibility for the world economy.

Facts: Quota subscriptions constitute the IMF's permanent financial resources and determine the amounts of financing a country can obtain when in balance of payments need. Quotas also determine voting power in the IMF. Quotas are calculated on the basis of economic criteria and are reviewed periodically. In December 1980 a major 50 percent increase in quotas became effective, raising total IMF quotas to roughly $69 billion.

A review of quotas is underway and is scheduled to be completed in late 1983. The review will examine the interrelated questions of the criteria and procedures for quota calculations, the appropriate distribution of quotas, and the overall size of the IMF. The developing countries are pressing for a larger quota (and voting) share in an effort to push through changes in IMF lending practices favorable to them, even though many developing countries already have quota shares that are unjust- ifiably high. A number of industrial countries are also seeking share increases. THe US will have to contend with strong pressure to reduce its own share. We have traditionally resisted reductions in the US share (at 20 percent the largest of any member) below a level substan- ially above the veto point (15 percent) for major IMF decisions.

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Developing Country Debt Burden

Criticism: The growing level of international debt owed by developing countries is threatening the stability of the international financial system and may impede the growth and development prospects of developing countries.

Response:

1. The US does not believe that there is a generalized developing country debt problem. Our view was supported by a recent study by the IMF staff which conluded that the international financial system could adequately meet developing country financing needs over the next years without jeopadizing the stability of that system.

2. Despite the large nominal incrase in developing country debt over the last decade, when measured against the size of developing country economies and/or the level of their exports, the capability of developing countries as a group to meet this increased level of debt has changed little during the period.

3. The US recognizes that individual developing countries are experiencing debt servicing difficulties. In these isolated cases, there are well-tested multilateral mechanisms for addressing such problems in a manner which protects the stability of the system and helps the individual debtor countries to maintain progress toward their development objectives.

Facts: At the end of 1980, total publicized medium and long-term public debt of the non-oil producing developing countries was estimated at $280 billion, of which approximately $32 billion is owed to the US Government. In nominal terms this represents a significant increase over the 1973 level of roughly $86 billion. However, once these figures are adjusted for inflation and measured against relevant factors such as GNP growth and exports, the developing country debt situation changed very little in real terms during the 1970s. For this reason, the USG does not believe that a generalized debt problem exists for developing countries as a group. Moreover, we believe that the international financial system will be able to provide adequate resources to meet developing country financing needs in the coming years.

Clearly some countries will experience debt servicing difficulties in the coming yeaers. However, these will be isolated cases, resulting most often from the inability of debtors to adjust rapidly enough to the changing international economic environment. In these cases, there are established international procedures to handle the problem while preserving the stability of the international financial system.

U.S. Bilateral Economic Assistance Program

Criticism: The United States is failing to meet its responsibilities in providing economic assistance. The US ranked 13th among the seventeen members of the OECD in terms of the percentage of GNP allocated to official development assistance (ODA).

Response:

1. The United States will provide the largest single amount of economic assistance of any country in the world.

2. It is true that budget stringencies and economic problems at home will limit the growth of US assistance over the near term.

3. Therefore, we will concentrate our efforts on making our aid more effective.

4. This will be accomplished in several ways:

   a) Concentrating assistance in those countries that adopt a policy framework appropriate to domestic resources mobilization and healthy private sector growth.

   b) Emphasizing a blend of technical assistance and resource transfer that will promote the strengthening of public and private institutions in the developing countries so as to ensure self-sustaining growth.

   c) Using bilateral aid as a tool to increase private capital flows, thus augmenting total resource flows.

Facts: The US has several major budgetary instruments to support our assistance objectives and strategy: the Development Assistance accounts ($1.9 billion requested for FY 82); the Economic Support Fund (ESF) ($2.6 billion requested for FY 82); and PL 480 food aid ($1.6 billion programmed for FY 82). The FY 82 budget request calls for a 16 percent increase in foreign assistance.

In 1980, estimated US ODA was over seven billion dollars, over 26 percent of all the assistance provided by the OECD. US ODA in 1980 was greater than all the assistance provided by all members of OPEC combined.

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U.S. Contributions to the Multilateral Development Banks (MDBs)

Criticism: The U.S. is backing away from its support of the MDBs.

Response:

1. This Administration is continuing effective U.S. participation in the multilateral development banks. We have made a firm commitment to take action to provide our share of resources under the MDB agreements which were already negotiated when we came into office.

2. A great deal has already been accomplished. Authorization legislation has been obtained for the full amount of our $12.8 billion request for U.S. subscriptions and contributions to the MDBs.

3. FY 1981 supplemental appropriations have also been obtained for the first U.S. installments to IDA VI and African Development Bank capital and work is now proceeding in Congress on the Administration's request for other necessary appropriations for fiscal year 1982.

4. We continue to see a major role for the banks. We think they can help promote even greater economic and social progress, based on market-oriented principles, and contribute to a more stable and productive economic system which will benefit all countries.

Facts: Authorization. Legislation has been enacted authorizing the full amount of $12.8 billion requested by the Administration for U.S. subscriptions and contributions to the MDBs. This total includes $3.24 billion for IDA VI; $8.8 billion for the World Bank General Capital Increase (GCI); $360 million for shortfalls in authorizations previously approved for the Inter-American Development Bank (IDB) ($345 million) and the Asian Development Fund (ADF) ($67 million). The authorization was included in the Omnibus Budget Reconciliation bill.

Appropriation. Congress aproved an FY 1981 supplemental appropriation of $500 million for the first installment of the U.S. contribution to IDA VI in June. Following approval of the authorization legisltion in August, the U.S. Government was able to agree to contribute and to make available the first installment of its contribution to IDA VI, thereby permitting the replenishment agreement to come into effect. The supplemental appropriation also contained $18 million for the first of five annual installments of U.S. capital subscriptions to the African Development Bank (AFDB); however, those funds cannot be used until the regional members of the bank complete their ratification of non-regional membership which is not expected to take place in the near future.

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The FY 1982 Foreign Assistance Appropriations Bill was reported out of Committee in the House of Representatives on September 17, with the Committee approving the Subcommitee on Foreign Operations' recommendation of the requested levels for IDA VI and the African Development Fund (AFDF), no funding for the African Development Bank (AFDB), and 10 percent reductions from the requested levels for the other banks.

Although the scheduling of House debate on the bill has not been settled, there are indications that amendments for additional reductions will be proposed from the floor. On the Senate side the Foreign Operations Subcommittee of the Senate Appropriations Committee, has deferred consideration of the bill originally scheduled for September 17, in order to learn more details of the Administration's current budget proposals. The Chairman of that Subcommittee has indicated his intention to set lower levels for the banks, including $530 million for the second installment to IDA VI.

On September 14, the House of Representatives adopted a continuing resolution for FY 1982, providing for funding of MDB programs at the level of last year's appropriations. The Senate is expected to act on the continuing resolution in the next few days.

In a letter to Secretary Regan, The Chairman and Ranking Minority Member of the House Appropriations Subcommittee on Foreign Operations noted that the continuing resolution (H.J. Res. 325) would be operative for a period of only one month and asked that no U.S. funding be provided to IDA under the terms of the resolution. There is a strong possibility, however, that another continuing resolution may be passed at the end of the one month period. This would be the third consecutive year for funding the banks under continuing resolutions.

SDR Allocations and the SDR-AID Link

Criticism: The developing countries argue that current international financial arrangements do not provide them with adequate reserves to meet their balance of payments needs. They are seeking a further allocation of Special Drawing Rights (SDRs) and a change in the basis for distributing SDRs to provide developing countries with a larger share.

Response:

1. An allocation of SDRs at a time of abundant global liquidity and high inflation would represent an unwarranted and undesirable weakening of the commitment to bring the present ruinous world inflation under control.

2. Current economic problems cannot be solved simply by printing more money. Each country must pursue sound economic policies to get its own house in order.

3. A change in the basis for distributing SDRs -- i.e., creation of an SDR aid link -- would damage the monetary character of the SDR and undermine efforts to make the SDR an important monetary asset.

Facts: The Special Drawing Right (SDR) is an international reserve asset created by the IMF and distributed to member countries in proportion to their IMF quotas to supplement existing reserve assets. Since the inception of the SDR in 1969, 21.4 billion SDRs have been allocated to members, including SDR 4.9 billion to the United States. The IMF is currently considering a further allocation of SDRs, beginning in January 1982.

Developing countries, and some smaller industrial countries, have been pressing for annual allocations of anywhere between SDR 4-18 billion. Developing countries have also sought a change in the distribution formula to provide them with a larger share (presently about 28 percent) of the allocations (the so-called SDR aid link).

Opponents of an allocation -- including the United States -- argue that there is adequate, indeed excessive, global liquidity and that further allocations would contribute to inflationary expectations, ease balance of payments discipline on some countries, and undermine the credibility of the IMF as a monetary institution. The US has also consistently opposed the "link" on ground that it would undermine the SDR as a monetary asset and create pressures for excessive allocations on non-monetary grounds.

ADDITIONAL POINT PAPERS

Implication of the U.S. Economic Recovery Program for Developing Countries

Argument: The budgetary implications of the President's economic program imply further reductions in U.S. foreign assistance and the resulting high U.S. interest rates disrupt exchange markets making private borrowing too costly for many developing countries.

Response:

1. We have stated that we will stand behind U.S. multilateral commitments and we will preserve our bilateral programs, especially for the poor countries.

2. The economic program is designed to reestablish the sort of vigorous, non-inflationary growth in the U.S. economy that is a critical element in the environment for healthy, world economic development.

3. Economic progress is principally determined by each country's own economic policy and the health and dynamism of its private sector -- not by official assistance.

4. High U.S. interest rates do pose a particular, if temporary, problem for some developing country borrowers. This problem will diminish as U.S. inflation itself moderates, reducing the inflation premium now embedded in our interest rates.

Facts: The Economic Recovery Program is made up of four mutually reinforcing, interdependent elements -- consistently restrained monetary growth, curbed government spending, tax reduction and regulatory relief. Together these will restore strong, non-inflationary growth to the U.S. economy.

The general importance of improved U.S. economic performance for the rest of the world's economy is well known. It has specific relevance to the developing countries. As that program succeeds, demand for developing countries' exports will substantially increase. Moreover, our own protectionist pressures, which could otherwise harm developing country export receipts, will be defused as employment and investment opportunities in the U.S. expand.

A strong, non-inflationary U.S. economy however does not, nor can it, in itself assure sustained economic progress in the developing world. Nor do ever-increasing official income transfers for development. What is critical in determining development progress is the set of national policies each country adopts so as to make its own best use of a strengthened world economy and such official resources as may be available.

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Importance of National Policies

Argument: A developing country's own economic and social policies are a critical factor in economic development.

Responses:

1. Any country's economic performance is primarily a function of its own economic policies and actions. In order to achieve their developing potential and increase the economic well-being of their people, we believe that developing countries need to adopt and pursue rational, market-oriented, economic policies.

2. Policies cannot avoid needed adjustments or put short-term political objectives ahead of economic efficiency or the long-run economic development performance of the country.

3. We allocate our aid in an effort to reinforce sound national policies.

Facts: Many developing countries will have pursued economic policies which ignore or distorted market forces and deterred domestic as well as foreign investment. These policies include such things as price controls on energy, or food. The former has led to excessive demand while reducing or eliminating incentives for domestic agricultural production, thereby contributing to the world hunger problem. Controls and nationalization policies have also often discouraged investment and capital accumulation and have often been biased away from small producers and towards capital intensive investment.

Developing countries have therefore often been reluctant to undertake needed adjustments because such change risks political disruption. There is, however, an increased acceptance by the developing countries of the view that long-term success in development and political stability requires the adoption of rational, market-oriented economic policies but reinforce sound programs.

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