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J.P.

THE WHITE HOUSE
WASHINGTON

*file = OBE
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FL006-15*

MEMORANDUM FOR THE PRESIDENT

FROM: CRAIG L. FULLER *CF*

SUBJECT: U.S. Economic Policy Toward Developing Countries
and Global Negotiations

You have received a Memorandum from Secretary Regan concerning the development of our strategy towards developing countries and global negotiations.

The development of such a strategy is part of the preparation now under way for the Cancun Summit in October.

Don Regan's Memorandum will be held for review, unless you wish to review it now.

OK to hold

please send

Attachment

THE WHITE HOUSE
WASHINGTON

Wald

September 11, 1981

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: RICHARD V. ALLEN *Allen*
SUBJECT: Memorandum from Secretary of the Treasury Regan

Attached is a memorandum from Secretary of the Treasury Regan (Tab B) to you concerning U.S. economic policy toward developing countries and global negotiations. The NSC staff is entirely in agreement with the content of this memorandum. However, a speech by you at the IMF/IBRD in late September might provide other participants at the Cancun Summit in late October with more than sufficient time to develop a counter strategy. A speech by you or a policy pronouncement about a week before the Cancun Summit might be preferable from a policy standpoint.

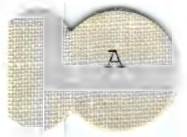
RECOMMENDATION:

That you sign the memorandum to Secretary Regan (Tab A) acknowledging receipt of his memo and expressing agreement with the policy recommendations, but including that you prefer to announce this policy at an appropriate occasion closer to the initiation of the Cancun Summit.

APPROVE _____ DISAPPROVE _____

Attachments

- Tab A Memo to Secretary Regan
- Tab B Memo from Secretary Regan



THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE HONORABLE DONALD T. REGAN
The Secretary of the Treasury

SUBJECT: Your Memorandum of August 27 on
U.S. Economic Policy Toward Developing
Countries and Global Negotiations

Your idea of a major policy pronouncement on my part prior to the Cancun Summit meeting is a good one. However, the IBRD/IMF meetings take place almost a month prior to Cancun. I think a statement will have more effective and favorable impact if issued shortly before the Cancun Summit convenes. I will be soliciting your help in finding the appropriate opportunity.





THE SECRETARY OF THE TREASURY

WASHINGTON

August 27, 1981

MEMORANDUM FOR THE PRESIDENT

SUBJECT: U.S. Economic Policy Toward Developing Countries
and Global Negotiations

Our experience at the Ottawa Summit has underscored the importance of developing countries in international economic policy. Your participation in the late October Cancun Summit with Heads of State from developed and developing countries will draw attention to outstanding issues in this area, especially with the global negotiations issue looming in the background. The September-October period would provide an excellent "window" for you to make a major policy speech to assert U.S. leadership in the international economic arena and dispel misimpressions of your Administration's attitude toward developing countries.

Foreign assistance traditionally has been viewed as a stimulus to economic growth in developing countries. Domestically, your Administration has rejected the notion that government transfers and intervention provide a necessary impetus for business activity. Vigorous economic activity and growth result from allowing the market place to allocate scarce economic resources and determine appropriate kinds of productive activity. This basic proposition is no less valid in developing countries, although it is not always popular with their governments.

As in domestic economic policy, so in international economic policy, aggressive yet practical leadership to cope with economic ills brought on by inflation and slow growth has been lacking. Industrialized countries realize they cannot sustain ever-growing foreign aid levels while their domestic economies are weak. Developing nations must appreciate that accumulating debts to finance consumption merely mortgages their future and can be no substitute for sound domestic economic policies. Successful economic growth is based largely upon internal generation of capital and foreign private financial flows.

A major policy address -- perhaps at the annual meeting of the World Bank and International Monetary Fund in late September -- could bring these ideas together, put them in perspective, and supply the basis for U.S. leadership at Cancun and thereafter.

The speech could:

- underscore our concern and compassion for developing countries' economic problems;
- stress that the fundamental issue, nevertheless, is for all to get their internal houses in order (as we are doing);
- emphasize the full range of U.S. (and other industrialized country) contributions to the economic betterment of developing countries via the private market (trade, investment, technology, private capital flows) as well as aid;
- confirm our commitment to provide foreign assistance to the poorer developing countries;
- reject the artificial division of the world along North-South lines and offer instead to examine concrete problems on a pragmatic basis (such as we are beginning to do in the Caribbean); and
- clearly state U.S. concern over the prospect of Global Negotiations undermining the integrity of existing institutions, which are fully competent to handle emerging problems.

As you are aware, the proposed U.N.-based Global Negotiations will be a major issue this fall. "GN", which has been stalled primarily by U.S. objections, would create a central negotiating body under U.N. auspices to conduct -- in some fashion yet to be determined -- interrelated negotiations across a range of economic issues.

Our basic problem with Global Negotiations centers on the strong likelihood that the competence, integrity, and role of existing international institutions -- especially the International Monetary Fund and the World Bank -- would be undermined and distorted if they were allowed to proceed. A new international bureaucracy simply is not needed. The Fund, Bank, and other specialized international institutions are well equipped to handle the proposed topics for negotiation. Food, trade, development finance, and international monetary matters are the concern of established international organizations. Energy is the only proposed topic without such a forum.

Global Negotiations are a 'no-win' situation. Although the negotiations themselves are likely to follow a "consensus" approach, the sheer volume of developing country voting power in the U.N. (119 of 154 votes) would likely force us to choose between a highly damaging substantive outcome and blocking the conference. Thus, any favorable political atmosphere generated by a decision to move forward with Global Negotiations would soon dissipate.

Economic problems of developing countries -- which are increasingly important in our trade and political relations -- must be addressed. The United States should provide leadership to this end. The best approach, however, would be to redirect existing organizations to resolve concrete problems. We will gain nothing by encouraging political debates on these problems in the U.N. where inevitably the developing countries act and vote as a bloc. My own view is that it would be better, in effect, to break off the engagement now than be confronted with a very costly divorce later on. You could signal your inclination to do so by an appropriate passage in the speech I am recommending.


Donald T. Regan

cc: Secretary Haig
Richard Allen