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MEMORANDUM FOR: Secretary Regan

From: Under Secretary Sprinkel BWS

Subject: Papers for October 8 White House Meeting on Cancun

Attached are six papers for tomorrow's meeting at the White House on the Cancun Summit. These papers were prepared by an inter-agency group (Treasury, State and STR). I believe they reflect the coordinated positive thrust we want the President to take at Cancun. The subjects are:

1. Global Negotiations
2. Economic Development
3. Investment
4. Trade
5. Food and Agriculture
6. Energy

Attachments

cc: Mr. Craig Fuller, White House
Mr. Mike Rashish, State
Mr. Robert Hormats, State
Ms. Doral Cooper, STR
Mr. Tim McNamar
Mr. Roger Porter
Mr. George Cross
Mr. David Chew
Mr. David Pickford
Mr. Charles Dallara (for Mr. Leland)
Mr. Tom Dawson
Mr. Jon Hartzell

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname						
Initials / Date	/	/	/	/	/	/

OS F 10-01.11 (2-80) which replaces OS 3129 which may be used until stock is depleted

Cancun Summit and Global Negotiations

Several principles need to be kept in mind regardless of how the issue of Global Negotiations is handled at Cancun:

- The President should not be engaged in the debate on Global Negotiations between now and the end of Cancun. Rather, he should focus on the substantive views and policies of this Administration and its vision of how development is stimulated;

- The current U.S. dialogue with developing countries should be based on the realistic approach outlined by the President and Secretary Regan at the IMF/IBRD meetings and Secretary Haig at the UNGA. The emphasis should be on the positive role of the international financial institutions and the GATT;

- The Ottawa Summit Communique commits us to some process of addressing the problems of developing nations.

All of the attached options share the following elements:

- Prior to Cancun, the U.S. must make an intensive effort to ensure that our position is well understood and supported by as many Cancun participants and observers as possible. The focus of this effort should be high level contact with the other participating governments to inform them of our positions, to seek their support and to minimize the possibility of any surprises or embarrassment for the President. In addition, consultations with Congress and press briefings/ interviews should be used to ensure that public (both foreign and domestic) and congressional expectations about Cancun are consistent with the positions that the U.S. will take;

- The President will make a speech prior to Cancun in which he will elaborate on the themes of his speech before the Annual Meeting of the Bank/Fund;

- The President's statement at Cancun will emphasize a positive U.S. approach to economic growth that relies upon the specialized institutions;

- There will be some sort of follow-up to Cancun, but the form of the follow-up varies under each option.

Option I

Emphasize the Specialized Institutions
Decline to Participate in Global Negotiations in New York

The President would present his vision of how successful development proceeds and would emphasize the role of market forces in attaining this result. He would review the role of the specialized agencies in spurring development worldwide. He would outline specific plans and measures that the United States will propose in the various specialized agencies in the coming months and would underline the fact that these institutions can address the real economic concerns of the developing world more successfully than would endless rhetoric in a political forum. We can suggest follow up and review in the specialized agencies themselves, which may allay the fears of those who think this is simply a "time-buying" approach.

As far as Global Negotiations are concerned, there are two options for how and when to indicate our position:

A. The President could announce at Cancun that although the United States fully shares the hope that the development goals of all nations will be realized, we do not think that Global Negotiations will be able to provide the tangible economic benefits sought by those who propose it or;

B. The President could forego specific mention of Global Negotiations at Cancun, in favor of outlining the U.S. position more clearly in New York at November's meeting of the General Assembly. The latter position saves the President from facing potential embarrassment at Cancun.

Pro:

- This approach would be positive in that it would lay out concrete measures designed to address developing countries' real economic concerns as well as genuinely to include them in the international economic system.

- We can deliver this option. The position tracks U.S. domestic as well as international economic policy as enunciated by Administration officials, including the President, during the past nine months. The U.S. would be presenting a firm, economically sound approach to development which offers a vivid contrast to some of our past efforts in this regard.

- Although this option may cause some immediate pain, this will be of a short-term nature, and the potential adverse effects at Cancun could be mitigated through concentrated pre-conference consultations. If we agree to go along with the concept of Global Negotiations merely to keep the "dialogue" going while knowing that there is virtually nothing we can agree on or give away, we will pay a political price which will steadily escalate until the process ends. In other words, from a foreign policy point of view, this approach would cut our losses.

- Saying "no" now would be an honest statement of the U.S. perception of its economic interest and that of the global system. The most important contribution developed countries can make in spurring economic development is to restore adequate economic growth domestically. A strong international economy coupled with realistic economic policies in developing countries is the key to sustained growth in the Third World. Global Negotiations provides a rhetorical mask for developing countries to hide behind as they ignore this fact.

- All previous North/South "dialogues" have failed to achieve results, and there is no reason to think this effort will have a different outcome. In fact, given the severe economic difficulties currently faced by nearly all countries, prospects for failure are quite high. This is especially true since LDCs equate success with direct resource transfers.

- Without U.S. participation, Global Negotiations can not be launched effectively; this would remove the threat to the specialized agencies from a UNGA attempt to supervise the work of those institutions.

- There is less unity among developed countries in their views of North-South issues than has been the case previously. This would increase the chances of an unacceptable outcome from Global Negotiations.

Con:

- This position will require us to be more forthcoming on LDC issues within the GATT, IMF and IBRD in the coming year. This may involve some economic concessions that would affect trade and financial flows.

- The United States may be isolated internationally on this position and may be portrayed by developing countries, the socialist bloc and by many developed countries (including several that share our concerns) as being unresponsive to the plight of the developing world.

- There may be some negative impact in the short-run on our relations with individual developing countries.

Option II

Emphasize the Specialized Institutions as in Option I. Agree to Return to the Preparatory Process for Global Negotiations Provided Minimum Conditions for U.S. Participation are Met

Our conditions are the following:

- Protection of the competence, functions and powers of the specialized institutions.

- An agenda that addresses a limited number of global economic issues.

- A focus on the conditions for accelerating growth and on common economic problems requiring international cooperation.

- Old negotiating drafts on procedures and agenda would be discarded, and a fresh start would be made on drafting procedures and agenda.

- The Charter of the United Nations and the agreements between the UN and the specialized agencies and fora of the UN system will be respected.

Pro:

- By agreeing to continue to search for an acceptable basis for Global Negotiations, President Reagan would be spared the isolation that would occur at Cancun if he were to say "no" to Global Negotiations then.

- By establishing a set of minimal conditions for U.S. participation in the preparatory process for GN or another universal forum, the President will have preserved U.S. concern with the integrity of the specialized institutions.

- Permits the United States to be positive about discussions in the UNGA and not have to oppose a dialogue in principle.

- By keeping Global Negotiations alive at least in the short-run, we would create a more favorable environment for obtaining support for actions in the specialized institutions. If we develop enough momentum there before any breakdown of GNs, the negative impact of such a breakdown might be reduced substantially.

Con:

- Experience to date indicates that the U.S. cannot obtain strong assurance of its conditions through negotiations on agenda and procedures in New York. There is little doubt that the central issue of the specialized institutions' integrity will have to be refought repeatedly on virtually every individual trade and financial issue.

- The Cancun preparatory process illustrates that once U.S. conditions are enunciated and accepted, they inevitably will be eroded over time, either intentionally or by oversight.

- Agreement to a post-Cancun effort to pursue Global Negotiations will be construed as a first commitment by this Administration to GNs. A subsequent decision to back out of Global Negotiations then would be portrayed as this Administration reneging on one of its "commitments" rather than reversing the previous Administration's policy.

- A decision in the Spring of 1982 that our conditions for GNs could not be met might set off a negative reaction among the Group of 77 that would damage our efforts to obtain participation by the LDCs in the preparation for the GATT Ministerial in late 1982.

- In a formal sense, these conditions could be easily met. Except for a "clean slate" on draft texts, the conditions specified are largely identical to those of the previous Administration.

Option III

Emphasize the Specialized Agencies and Establish a Work Program for Them Under The Supervision of A Cancun Followup Group. Delay Decision On Global Negotiations.

It would be agreed at Cancun that the personal representatives of the Cancun participants would meet in 3-4 months to prepare a "curriculum" for the IMF, IBRD, GATT and FAO. Representatives of these organizations would be invited to participate in this process. The curriculum would consist of a series of issues to be considered by each institution, and each institution would submit a report on its respective issues to the Cancun group within 9-12 months. In the meantime, we would attempt to stall GN discussions in New York on the ground that any agenda for GN would be much better if it had the benefit of the specialized institutions' reports.

Pro:

- This would be a concrete step to move the discussions into the specialized institutions that are our preferred venue for addressing issues of international economic cooperation.

- We would be providing a positive alternative to Global Negotiations rather than simply being negative. Thus, the President would not be isolated at Cancun yet would not have made any commitment on Global Negotiations.

- We would have enlisted the prestige of the Cancun 22 in backing an approach that puts the specialized institutions at center stage.

Con:

- Negotiations about the specialized institutions' "curriculum" very likely would encounter difficulties about how much direction outside entities should give to the deliberations of the specialized institutions. This is why Global Negotiations failed last year. (Note: all Cancun participants are not members of all specialized institutions; e.g., Algeria, Saudia Arabia, PRC, Venezuela and Mexico are not members of GATT).

- This approach does not provide an explicit U.S. response to the question of U.S. participation in Global Negotiations. The question will arise in November in the form of a UNGA resolution on GNs.

- The Group of 77 may reject this approach as inconsistent with their concept of what is needed, namely, integrated discussions across issues and control by a universal forum.

- This approach does not provide a venue for discussing energy issues, nor does it draw non-members of the institutions (especially the socialist countries) into the discussions.

Development Policy: A Framework for U.S. Approach at Cancun

I. The framework for the United States overall approach to development issues at Cancun should be that long term, non-inflationary growth depends upon (a) adoption of appropriate domestic policies by developing countries; (b) mobilization of internal (private sector) resources which constitute the vast majority of production; and (c) recognition that external resources generated via trade, investment and capital flows are more important than official development assistance for most countries.

II. The basis for this framework is that external resources play a complementary role in promoting economic growth and development. For example:

-- Gross Domestic Investment accounts for about 25% of oil importing LDCs Gross Domestic Product while external capital flows were approximately 3.9% of GDP (1980), implying a contribution of only roughly 15% of total investment;

-- In 1980 exports ($52.0 billion), net private loans ($36.9 billion) and net direct investment ($8.6 billion) combined to provide all LDCs with external resources of $97.5 billion, compared to total official development assistance of $21.7 billion.

-- Private medium and long-term commercial loans to oil importing developing countries grew from $3.4 billion in 1970 to $27.5 billion in 1980, increasing from 37% to 50% of total net capital flows; ODA's share of total net capital flows declined from 34% to 29%.

-- In 1980 official development assistance to middle income oil importing developing countries was only 0.8% of their Gross National Product; for low-income oil importing countries ODA was 2.8% of their Gross National Product or about 86% of net capital flows.

III. A development policy based upon sound, market-oriented domestic and international economic policies can bring practical benefits to both developed and developing countries, has a proven record of success, is realistic, and is one on which the United States can deliver. This policy is grounded on economic rationale and assumes an integrated policy approach across economic sectors and activities, including trade, investment, energy, agriculture, as well as foreign assistance. Recognition by developing countries of the importance of getting their own economic houses in order and pursuing policies to make efficient use of scarce resources represents a major shift from "resource transfer" proposals which have characterized the dialogue with developing countries to "resource generation" measures.

In addition to specific U.S. approaches in trade, investment (including co-financing), energy and agricultural areas (covered in other papers), the overall U.S. economic policy toward development could be pursued by:

-- Emphasizing the role of multilateral development banks and the International Monetary Fund to provide economic advice to developing countries to follow market oriented principles. In particular, these institutions can advise countries to pursue suitable trade and exchange rate policies; to critically assess the role, size, and resource use of the public sector; and to encourage pricing and subsidy policies which reflect market signals.

-- Underscoring the need for developing countries themselves to adopt domestic economic policies which promote savings and investment, maximize efficient utilization of scarce resources via allocations by market forces and achieve effective balance of payments adjustment.

-- Concentrate more bilateral aid, including technical assistance, to those countries adopting policies which mobilize their domestic resources and promote healthy private sector growth. For example, countries which remove or reduce trade, foreign exchange, or investment controls and encourage private capital investment should be encouraged and reinforced through our bilateral programs.

-- Actively support and encourage greater attention to capital markets projects by the MDBs, particularly the IFC, designed to mobilize a developing country's domestic financial resources for development projects. This would be complementary to other international activities which are designed to attract additional foreign and domestic funds, e.g., via co-financing or providing an insurance cover, or to improve the climate for private foreign investment such as by a general agreement on guidelines for international investment (see Investment Paper for more detail).

-- Seeking a more energetic implementation of World Bank graduation policy and accelerate movement of borrowers from soft to hard loan World Bank windows to allow greater concentration of the Bank's resources on the countries most in need.

Investment

Increased investment in developing countries, in response to market forces and commercial incentives, can greatly help those countries' economic growth. It is essential to create an overall economic and political environment conducive to both domestic and foreign investors. Conversely, an excessive tax burden, unnecessary regulation, and uncertainty as to host government behavior can stifle a potentially productive investment climate, particularly for foreign sources of capital.

Therefore, a major element of the U.S. approach to encouraging development on a market-oriented basis, one aimed at augmenting the flow of private resources, is to encourage a wide variety of possibilities for improving the investment environment in LDCs.

The U.S. Record

The United States has in the past been a major provider of private investment capital to developing countries:

- In the period 1976-78, U.S. investors supplied 47 percent of the $9.6 billion of OECD country direct investment in LDCs. This compares with 13 percent from the United Kingdom, 11 percent from Japan, 9 percent from West Germany, 4 percent from Canada, and 3 percent from France.

- At the end of 1976, the stock of U.S. direct investment in developing countries was $43.1 billion, or 50 percent of the OECD total; this compared to 13 percent for the United Kingdom, 6 percent for Japan, 7 percent for West Germany, 4 percent for Canada, and 6 percent for France. By 1980, U.S. direct investment in LDCs had risen to $56.2 billion, about one-fourth of total U.S. direct investment abroad.

- U.S. banks intermediate a large share of commercial bank financing to LDCs, accounting for 40 percent of outstanding claims on LDCs at the end of 1980 from the BIS reporting area.

Increasing Investment

Augmenting the flow of foreign investment capital to LDCs rests primarily on improving the openness and stability of their domestic environment and, to a lesser extent, on the possibility that various intermediaries can broaden the universe of potential investors and reduce perceptions of risk to those investors. There are several avenues for improving the investment climate including:

1. Investment Insurance and Guarantees.

A major constraint to the flow of direct investment to the LDCs is investor's perceptions of high political risk. Political risk insurance currently available from public and private sources could be augmented multilaterally to produce higher flows of investment to the developing world, especially for high-risk, high-cost energy and minerals exploration projects.

A multilateral insurance arrangement, such as a International Investment Insurance Agency (IIIA), within the framework of the World Bank or its affiliate, the International Finance Corporation (IFC), could substantially reduce a major disincentive to investment in LDCs. Tying such an insurance arrangement to the World Bank could significantly increase its effectiveness since the potential loss of World Bank funding should prove a powerful deterrent to expropriation.

World Bank President Clausen offered, in his annual meeting statement, to join in an effort "to see if such a mechanism can be established." Secretary Regan stated, in response, that we shared Clausen's interest in the concept and supported "prompt examination of its potential."

At the same time, we would expect the U.S. Overseas Private Investment Corporation (OPIC) to work more closely with private sector insurance companies on a project-by-project or regional basis. Private insurers are increasingly interested in entering the political risk field and could benefit from OPIC experience and cooperation.

We would also support exploring further the feasibility of multilateral partial guarantees for private lending to developing countries on the "threshold" of reliable access to private capital markets. Such a scheme is currently under review in the IBRD/IMF Development Committee Task Force.

2. Increased Cofinancing and Other Private Financing with the Multilateral Development Banks.

We support World Bank President Clausen's intention (announced at the recent annual meeting) to "increase substantially" the level of private cofinancing with the World Bank (over the past two years, 40 projects totalling $3.5 billion), in the next several years. We will work with the Bank to achieve it; regional MDBs need to do more also. The IBRD/IMF Development Committee's Task Force on Non-concessional Flows is also developing cofinancing ideas and has made several useful suggestions for broadening the Bank's financing base with participation sales and "loan pass-through certificates."

3. Enhanced International Finance Corporation (IFC) Cofinancing and Other Activities.

The International Finance Corporation plays a unique catalytic role in fostering private sector debt and equity financing of investment in LDCs (without host-country guarantees) and is significantly increasing the size and diversity of its program. The bulk of IFC-backed projects (about 75 percent of a total of $3.3 billion in FY 81) are privately financed in LDCs from domestic and external sources. We expect to work with the IFC, and encourage others to do likewise, to enhance its role and effectiveness in mobilizing private sector resources. This may include program innovations, developing new financing instruments, efficiency improvements within the IFC, and a broadened advisory program on capital markets development in LDCs.

4. General Agreement on Investment.

To provide some overall framework of guidelines for cooperation and conflict resolution on international investment and related national policies, we would endorse early exploration of the prospects for a multilateral agreement analogous to the GATT under which countries could, to some extent, harmonize investment policies and negotiate mutually beneficial inprovements in those policies.

The World Bank has offered to take the lead in such an effort, and we would support that offer enthusiastically. Some preliminary work has already taken place in the Development Committee's Task Force on Private Foreign Investment, and the World Bank will soon begin a follow-up study of "performance requirements".

5. Tax Measures.

We support an early and thoroughgoing analysis of the extent to which external investment in LDCs may be hindered by disincentives arising either from characteristics of, or differences between, U.S. and foreign tax systems and structures--with a view to identifying whether there are tax measures which might increase the prospects for economic, market-oriented investment from both external and domestic sources in LDCs. While we are not endorsing specific measures yet, we would be willing to have a concentrated examination and discussion with other capital-exporting countries and capital-importing developing countries--in some ad hoc or institutional setting--of possible new arrangements and measures.

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 strong 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 and we provide the largest market for imports from these nations. 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 in 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.

TALKING POINTS ON CANCUN TRADE OPTIONS

I. The U.S. objective in the trade discussions at Cancun should be (1) to demonstrate the leadership role that the U.S. plays in liberalizing the international trading system, (2) to push North-South discussions on trade in the direction of pragmatic steps to strengthen the GATT system in ways that encourage the further adoptio of market-oriented, outward-looking policies by developed and develop countries.

II. The U.S. has an excellent record of providing market access to the exports of developing countries. We should not hesitate to point out that record. For example:

- In 1980, 51 percent of U.S. imports from the developing countries entered duty-free.

- Our GSP program is the most open and responsive of all the donors' programs. GSP duty-free imports have increased three-fold since 1976 and are expected to reach $9 billion in 1981.

- The U.S. absorbs half of all the manufactured goods that are shipped to the industrialized countries from LDCs.

- In the past two years alone, the non-OPEC LDCs earned more from exports to the U.S. ($114.5 billion) than the entire Third World has received from the World Bank in 36 years.

III. A strengthening of the GATT, including its continued adaptation to the growing participation of developing countries in international trade, is the most meaningful action that can be taken on behalf of LDC trade in the early 1980s.

- The establishment of a strong discipline on safeguard actions would provide major, concrete encouragement to LDCs that outward-looking trade policies will not be undermined by arbitrary protectionist actions by developed countries. The U.S. position on safeguards is closer to the LDC position than are the positions of other developed countries. We should push on this at Cancun.

- Further liberalization of industrial nations' trade regimes is most likely to be achieved in the context of reciprocal, multilateral negotiations within GATT.

- Increased North-South trade depends upon further trade liberalization by developing countries, especially the advanced developing countries. The GATT provides an opportunity for such LDC trade liberalization to be linked with trade liberalization in developed countries, thereby increasing the incentives for both groups to liberalize.

- The proposed GATT Ministerial offers an excellent opportunity in the immediate future to promote system-strengthening steps of special interest to developing countries (e.g., safeguards). The U.S. could seize the initiative at Cancun by proposing that free and open trade be the focus of the GATT Ministerial and by announcing that the U.S. will launch an extensive round of consultations with all countries, including developing countries, in preparation for the Ministerial's agenda.

- The U.S. could assert its leadership role even more vigorously at Cancun by announcing that the Administration will support the extension of GSP in some form beyond its scheduled termination date in 1985.

- Ability to deliver on our commitments is essential to maintaining our credibility on trade leadership. For this reason, it would be very dangerous to make commitments at Cancun on issues having extremely high domestic political sensitivity which might prove impossible to fulfill. Significant changes in the MFA, for example, would conflict with President Reagan's campaign pledge not to relax the existing degree of protection on textiles.

- Trade's contribution to development can be intensified by complementary private investment, development assistance and technology sharing. At Cancun we should point out that we are prepared to cooperate with other developed nations and with developing countries in such an integrated approach. In fact, we already have begun such an effort in the Caribbean region.

IV. Pro and Con of Suggested Approach

Pro:

- The approach offers pragmatic initiatives that are in the economic interests of both developing countries and developed countries.

- The Administration can fulfill these commitments at an acceptable domestic political cost.

- The proposed GATT Ministerial provides a relatively short time-frame within which the LDCs can judge the responsiveness of the developed countries.

Con:

- The developing country bloc is skeptical about the GATT's responsiveness to LDC trade concerns.
- The nature of the proposed trade initiatives does not lend itself to quantifying the additional resources that the LDCs will earn as a result of strengthening the GATT.

AGRICULTURE

Development Context

Food and agriculture are fundamental to the economic development of the third world. Only with increased agricultural production in the third world, with appropriate attention to food, can the food needs of the developing countries be met on a self-sustaining basis.

The United States has made food and agriculture an important emphasis of its economic assistance programs ever since their beginnings under the Marshall Plan.

Past Accomplishments

U.S. economic assistance has been instrumental in increasing third world food production. In doing so, we shared the knowledge and experience which made our own agricultural abundance possible.

--First, we helped finance agricultural research that made posssible increased production at lower costs to the benefit of both farmers and consumers in the developing countries. Our scientists and financial support made critical contributions to the development of high-yielding varieties.(HYVs) of Green Revolution fame. Rapid spread of these varieties in Asia, the Near East and parts of Latin America has been a major cause for food production growth exceeding population growth in these regions. For example, in 1976-77 alone, an additional 23.3 million metric tons of wheat world-wide were grown as a result of the spread of HYVs. This is enough to feed 95 million people for over one year or the entire population of a country such as Bangladesh or all of Central America for five years.

-- The U.S. has also assisted the creation and strengthening of a wide range of institutions and infrastructure that provided the complementary inputs, such as irrigation water, that made it possible to realize the potential of the Green Revolution.

-- As part of our assistance programs over the years, the U.S. has welcomed 200,000 third world students who have received training in our institutions of higher education, many in agriculture.

-- The net impact of U.S. assistance has been the creation of self-reliant food and agricultural systems in such countries as Taiwan, Korea and Brazil. Other countries approaching self-reliant status, and where U.S. assistance has played a significant role, include Thailand, India, and the Philippines.

In addition to assistance for agricultural development aimed at providing long-term food security, the U.S. has also made a major contribution to short-term third world food security. We have exported $29 billion worth (or 267 million metric-tons) of agricultural goods under PL 480 since FY 1955, or more than 80 percent of total world food assistance during this period.

Future Approaches

Technology has a role to play in aiding developing countries to meet their food needs and much of our aid will be directed to providing the technological wherewithal. However, it is clear that technology super-imposed on an economic structure which does not allow the market to allocate resources will fail to achieve the goal of greater self-sufficiency and furthermore, could be destabilizing and harmful to the development process. We intend, therefore, to emphasize the absolute necessity for market-oriented policies and the creation of the infrastructure to permit markets and entrepreneurship to lead the way.

Within this context, our agricultural assistance programs will continue to aim at increasing food production and productive rural employment. Those programs will be designed to provide a catalyst to move the rural and agricultural sectors of developing countries toward the private money economy and to provide incentives for private initiative under free market conditions. The result will be rising agricultural productivity, self-sustaining capacity for research and innovation, and stimulation of employment-creating entrepreneurship in rural areas.

To accomplish these objectives:

-- Food and agricultural production must be profitable. We would therefore encourage LDC economic policies which: (1) reduce or eliminate subsidies to food consumers; and (2) provide adequate and stable price incentives to the agricultural sector to increase production.

-- New emphasis will be placed on innovative joint research and development activities undertaken through U.S. and LDC institutions.

-- Greater emphasis will be given to rural credit, improved storage and distribution facilities, and roads to facilitate marketing and education.

-- The U.S. should insist that recipient countries adopt a market-oriented agriculture policy, which permits prices to find their own levels without production or consumption subsidies.

It is private farmers and other entrepreneurs that will be responsible for most agricultural activity in the Third World. Their role should be strengthened in all areas, including the delivery of inputs and credit, the marketing of farm output, processing, storage, and transportation. But private farmers must be in a position to respond to unimpeded market signals if food production and agricultural development are to stand a chance of success.

While the policy initiatives and resources needed to promote agricultural development must in large part be generated by the LDCs themselves, the U.S. can help through policy advice to assure that the market plays its proper role and accelerate progress by providing technical, financial and food assistance. A major new dimension of our programs will involve the expansion of agricultural research and development through cooperative efforts between U.S. and developing country scientists and the strengthening of institutional capacities in the developing countries.

Strenthening the capacity for the LDCs to feed themselves will require the same ingenuity which produced the Green Revolution -- an excellent example of how science and technology can contribute to increased food production. Innovative research and development activities are needed to help developing countries solve their own problems. These include:

-- new varieties of crops and new methods of production;

-- improved irrigation systems;

-- increased use of multicropping; and

-- greater control of human and animal diseases.

The type of effort that is envisaged will require additional domestic and external resources to support joint research and capacity building efforts with developing countries. Given recent international interest in greater cooperation in science and technology, our resources will likely stimulate inputs by other countries far in excess of those provided by the U.S.

ENERGY

Development Context

- The U.S. recognizes that addressing the energy problems confronting developing countries in an economically efficient way is a key to their sustained economic growth.

- Developing countries' present dependence on oil--the oil import bill was $74 billion in 1980, up from $7 billion in 1973--weakens their balance of payments and threatens their future development. At the same time, their demand for traditional fuels, such as wood, is outstripping natural growth and reforestation. This intensifies the spread of the desert, the loss of topsoil, the silting of waterways, and causes declines in food production.

- Increasing LDC investment in energy can also help the U.S. Increased LDC energy supplies can help dampen worldwide pressures on energy prices.

Past Accomplishments

- U.S. bilateral programs had previously concentrated on power generation and distribution requiring significant resource transfers. These programs helped several LDC's develop rural electrification systems as well as expanded hydroelectric and other conventional power supplies. AID estimates that its rural electrification programs alone have provided electricity for over 13 million people in the Third World.

- Since 1980, bilateral assistance programs have been reoriented. Expensive power generation and distribution projects have been deemphasized in the development assistance program (but continued in some countries under the Economic Support Fund). More emphasis has been placed on technical assistance type activities, such as energy policy, assessments, and training, and renewable energy and fuelwood for rural application consistent with AID's program focus on agriculture and rural development.

- It is still too early to point to concrete results of the reoriented energy program. Energy assessments and training are leading to an increased LDC institutional capacity to understand and address their energy problems. The attention to reforestation has stimulated additional LDC investment in this area.

Future Directions

- AID plans to increase funding for energy-related activities in the years ahead, with emphasis on a mix of public and private efforts and the mobilization of LDC resources.

-- The U.S. believes domestic policies of developing country governments are critical to effective energy development. Energy pricing in particular must be realistic. Subsidies and price controls inhibit efforts to increase production. Sound government policies also are indispensible to the creation of a climate favorable to foreign and domestic private investment in energy production and improved energy efficiency.

-- The U.S. bilateral assistance program in energy will stress technical assistance rather than resource transfers. Major emphasis will be placed on renewable energy sources such as reforestation and research and development where U.S. assistance complements the private sector; on energy assessments, planning and training; and on greater private sector involvement in conventional fuels development.

-- The U.S. supports energy lending by multilateral institutions provided projects are economically viable. Such lending can accelerate LDC energy development by catalyzing private investment in energy development -- through joint project planning, co-financing, multilateral insurance, and other innovative methods. We believe these institutions can reorient their lending to increase its multiplier effect on private investment. The U.S. does not support the creation of a new energy affiliate because it believes that the same results can be accomplished by the existing institutions within their current and pledged funds by encouraging more private investments.

-- The U.S. is undertaking the following to supplement already planned programs:

<u>Mobilizing Private Sector Support</u> -- Trade and Development Program feasibility studies for energy; the adaptation of private sector technology to developing country situations; and providing financing for developing country internships in U.S. energy companies.

<u>Support for the Program of Action of the U.N. Conference on New and Renewable Sources of Energy</u> -- The Conference identified specific actions to better utilize new and renewable sources of energy. In support of the Conference

KGD

THE WHITE HOUSE

WASHINGTON

October 7, 1981

MEMORANDUM FOR ED MEESE
JIM BAKER
MIKE DEAVER
DICK ALLEN

FROM: MARTIN ANDERSON MCA

SUBJECT: New Policy Proposals for Cancum Summit

At the risk of being labeled a "nitpicking bureaucrat" I'd like to point out a few aspects of the policy proposals submitted by State that the President should be aware of.

1) Multilateral Investment Insurance.

This plan has been kicking around in the bureaucracy for years. Now, under certain circumstances the U.S. insures the loss of a U.S. Company by expropriation.

Under the proposed multilateral scheme, the U.S. would be committed to pay a substantial part of the losses suffered by a foreign company. For example: An Italian company enters into a high-risk energy venture in Tanzania. Tanzania seizes the assets of the company there. U.S. taxpayers would pick up probably about 25% of the Italian company's loss.

It is also true that if a U.S. company, say Exxon, suffered expropriation losses, the other countries who are parties to the agreement would have to pay their share.

Anyway:

a) It is a major departure from U.S. policy of insuring U.S. companies from political risk, to insuring foreign companies with U.S. taxpayers' dollars.
b) It could cost as much as $100 million to start, although you might pay for it by transferring funds out of OPIC.
c) It is an increase in foreign aid to LDC's at a time when 84% of the American public wants to cut aid.
d) It establishes a new multi-lateral organization just when we seemed to be moving toward more bi-lateral aid.

2) Incentives under Bilateral Tax Agreements.

It is impossible to get a precise estimate of what this would cost, but you can get an idea of the outer limit on the cost. A 10% investment tax credit could result in a revenue loss of $1 billion a year. (See attached OMB analysis)

Furthermore, the tax impact of such a policy would be uneven, and its magnitude would be effectively under the control of other countries.

3) Foreign Assistance Proposals.

The Agriculture, Energy and Private Sector proposals could total $250 million, and it would be important to clearly state whether this is to be new funding, or is to come out of existing allocations.

Given the difficulty of estimating costs of fuzzy, open-ended programs like these, it does not seem unreasonable to suggest that this offering could add about $1 billion a year to the foreign aid budget of the U.S.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

'81 OCT -7 P12:53
October 7, 1981

MEMORANDUM FOR: MARTIN ANDERSON

FROM: William Schneider, Jr. Philip A DuSault for

SUBJECT: Budget Costs of Cancun Proposals

In response to your questions at yesterday's meeting, we have attempted to determine the cost of each of the proposed initiatives.

1. Multilateral Investment Insurance. As the proposal indicates, a sound facility would require reserves, funded by paid-in capital. If one assumes an initial multi-year program of $1 billion, of which 40% would be backed by paid-in capital, and a 25% U.S. share, a payment of $100 million from this country would be required. Our bilateral investment insurance program, OPIC, currently has total reserves of $714 million (of which $106 million was paid in by the U.S. Government and the balance is retained earnings). The $100 million U.S. subscription could be transferred from OPIC's reserves, so that new government financing from general revenues would not be required. The payment to the facility would, however, result in outlays of $100 million, directly affecting the budget deficit. A frequent criticism of the proposed facility is that U.S. funds would be used to finance insurance payments to foreign companies. The problem was reduced in designing a similar plan in the late 1960's by requiring that the first 25% of each insurance claim be paid by the government of the affected firm's home country (e.g., France would pay the first quarter of each claim made by a French company). The remainder would be financed from the pool.

2. Tax Incentives. The U.S. has historically maintained a policy of investment and tax neutrality, which would be undercut by tax options. In addition, past congressional resistance to similar proposals reflects the adverse domestic political implications of a proposal that may be seen as subsidizing run-away jobs. The cost of tax incentives provided through treaty is impossible to estimate since it would depend on specific terms and the number of treaties negotiated. However, it is possible to gauge the order of magnitude of the investment tax credit option, thus setting an outer limit on the cost of providing tax sparing through treaties. U.S. investment in developing countries increased by $8.2 billion in 1980. If a 10% investment tax credit applying to all developing countries had been in effect, tax revenues would have been reduced by $820 million. The revenue loss would increase to the extent that the credit induced additional investment. Increases in U.S. investment flows to developing countries since 1980 would likely put the current cost of the investment tax credit in excess of $1 billion.

providing generalized tax sparing is clearly the most expensive option, but the cost cannot be estimated since it is uncontrollable. U.S. revenue losses would be determined by the magnitude of tax holidays provided by developing countries.

3. Trade Proposals. The cost to the United States (and the benefits to developing countries) of the trade proposals cannot be easily quantified, but meaninful steps toward free trade would be to the long-term benefit of both. None of the proposals in this area would cause significant budget expenses, but none represents a substantial immediate benefit to the developing countries.

There would seem little reason for the President to pledge at this time to seek extension of GSP, which does not terminate until 1985. That decision should be made in the light of conditions three years hence.

4. Foreign Assistance Proposals. These proposals fall into the areas of Agriculture, Energy and the Private Sector, and could total $250 million. The time-frame for funding the programs is not specififed, but we assume that they represent annual program levels which would begin in 1983. We recommend that if the proposals are accepted, it be with the explicit understanding that they will be carried out within existing foreign aid budget ceilings. This would involve displacing other programs which are of lower priority, which might create bilateral problems.

Agriculture. An earlier draft of the paper on agriculture estimated the cost of science and technology and policy assistance at $100 million, most of which would be obtained from reallocations from other programs of lower priority. The President in March requested $728 million for bilateral agriculture, rural development and nutrition programs in 1982. That amount has been reduced in the latest budget cutbacks, and additional reductions are scheduled for 1983 and 1984. The new program initiatives would thus replace existing programs in a lower overall funding level. The administering agencies should insure that the new proposals are of sufficient priority, substantively and politically, to warrant doing so.

Energy. AID has costed out the energy proposals at three "levels of effort," ranging from about $10 million to $144 million. We assume a significant energy initiative would cost about $100 million. AID believes that most costs would be incremental to existing energy programs, so that funds would need to be reallocated from other sectors (e.g. health or education). The 1982 AID energy program request totalled $108 million, so that the proposal would be roughly a doubling of the current proposed effort. As in the agriculture sector, AID's ability to affect LDC energy capabilities with this type of program should be carefully assessed. In this regard, we question the importance of strong support for the "program of action" of the U.N. Conference on New and Renewable Energy, which would be about a third of the total program. Some elements of the UN program, such as LDC energy assessments, have been tried bilaterally by the U.S. government and have been found ineffective.

Private Sector. The proposals listed would cost about $40 million, consisting of a $25 million co-financing fund, $5-$10 million for advisory services with the IFC and $7 million for management and technical training. Private sector initiatives will be a new program in 1983, so resources would need to be reallocated from other sectors within the tight overall budget. These programs represent an important administration initiative but elements of them, such as the co-financing fund, need to be developed more fully before their effectiveness can be judged.

DEPARTMENT OF STATE

WASHFAX RECEIPT
DEPARTMENT OF STATE

B

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MESSAGE NO. 000277 CLASSIFICATION ~~CONFIDENTIAL~~ No. Pages 6

FROM: R. HORMATS | EB | 20396 | 6828
(Officer name) | (Office symbol) | (Extension) | (Room number)

MESSAGE DESCRIPTION PAPERS FOR OCTOBER 8 WHITE HOUSE MEETING ON CANCUN

TO: (Agency)	DELIVER TO:	Extension	Room No.
WHITE HOUSE	CRAIG FULLER	456-2823	OEOB 235
WHITE HOUSE	ROGER PORTER	456 6722	OEOB 235
TREASURY	Beryl SPRINKLE	566-5164	3432
STR	DORAL COOPER	395-3430	309

FOR: CLEARANCE ☐ INFORMATION ☒ PER REQUEST ☐ COMMENT ☐

REMARKS:

S/S Officer:

FORM DS-1760
7-77

Rec'd

3:15 pm

DEPARTMENT OF STATE

Washington, D.C. 20520

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MEMORANDUM FOR MR. RICHARD V. ALLEN
THE WHITE HOUSE

Subject: Papers for October 8 White House Meeting on Cancun

Secretary Haig has taken a look at the draft options paper on global negotiations and he believes the pros and cons on the options are not fairly portrayed. The changes reflected in the attachment are an attempt to portray the pros and cons in a more balanced way.

In addition, he sees option III as a sub option of option II, a more circuitous route back to New York.

L. Paul Bremer, III
Executive Secretary

Attachment:

Pages 2 through 5. Pages 1, 6 and 7 remain unchanged.

cc - Craig L. Fuller
Roger B. Porter
Beryl Sprinkle, Treasury
Doral Cooper, STR

DECLASSIFIED
Dept. of State Guidelines, July 21, 1997
BY dlz NARA, DATE 4/15/2019

~~CONFIDENTIAL~~
GDS (10/7/87)

REC'D. CA OCT 08 1981

Drafted:EB/SEN:CFMeissner:kjc

10/7/81 24040

Option I

Turn the focus of, and the responsibility for, multilateral development discussions away from Global Negotiations in New York to the specialized agencies (IMF, IBRD, GATT, etc.). Decline to participate in Global Negotiations in New York.

The President would present his vision of how successful development proceeds and would emphasize the role of market forces in attaining this result. He would review the role of the specialized agencies in spurring development worldwide. He would outline specific plans and measures that the United States will propose in the various specialized agencies in the coming months and would underline the fact that these institutions can more successfully address the real economic concerns of the developing world than would endless rhetoric in a political forum. We can suggest follow up and review in the specialized agencies themselves, which may allay the fears of those who think this is simply a "time-buying" approach.

As far as Global Negotiations are concerned, we need to decide whether:

A. The President should announce at Cancun that although the United States fully shares the belief that development goals of all nations should be realized, it does not think that Global Negotiations will be able to provide the tangible economic benefits sought by those who propose it or;

B. The President should forego specific mention of Global Negotiations at Cancun, in favor of outlining the U.S. position more clearly in New York at November's meeting of the General Assembly. The latter position saves the President from facing potential embarrassment at Cancun.

Pro: - This approach would lay out concrete measures designed to address developing countries' real concerns as well as to sincerely include them in the international economic system.

- We can deliver this option. The position tracks U.S. domestic as well as international economic policy as enunciated by Administration officials, including the President, during the past nine months. The U.S. would be presenting a firm, economically sound approach to development which offers a vivid contrast to our past efforts in this regard.

- Although this option may cause us some immediate pain, this will be of a short-term nature and the potential adverse effects at Cancun could be mitigated through concentrated pre-conference consultations. If we agree to go along with the concept of Global Negotiations merely to keep the "dialogue" going while knowing that there is virtually nothing we can agree on or give away, we will pay a political price which will steadily escalate until the process ends. In other words, from a foreign policy point of view, this approach would cut our losses.

- Saying "no" now would be an honest statement of the U.S. perception of its economic interest and that of the global system. The most important contribution developed countries can make in spurring economic development is to restore adequate economic growth domestically. A strong international economy coupled with realistic economic policies in developing countries is the key to sustained growth in the Third World. Global Negotiations provides a rhetorical mask for developing countries to hide behind as they ignore this fact.

- All previous North/South "dialogues" have failed to achieve results and there is no reason to think this effort will have a different outcome. In fact, given the severe economic difficulties currently faced by nearly all countries, prospects for failure are quite high. This is especially true since LDCs equate success with direct resource transfers.

- There is less unity among developed countries in their views of North-South issues than has been the case previously. This would increase the chances of an unacceptable outcome from Global Negotiations.

Con: - Developing an adequate package will require us to be more forthcoming on LDC issues within the GATT, IMF and IBRD in the coming year. This will involve some economic concessions that would affect trade and financial flows.

- The United States will be isolated internationally on this position and will probably be portrayed by developing countries, the socialist bloc and many developed countries (including several that share our concerns) as being unresponsive to the plight of the developing world. Because this is the key item at Cancun, such an outcome would sour the results of the Conference.

- There will be negative impact in the short-run on our relations with individual developing countries, Japan, Canada and Europe.

- The economic package we propose is not sufficient to sell this option or to offset the negative impact on LDC's of our saying no to GN's.

Option II

Emphasize the Specialized Institutions as in Option I. Agree to continue preparing for Global Negotiations provided Minimum Conditions for U.S. Participation are met.

- Our basic emphasis would be to press for a broad agreement at the need for positive progress in the specialized institutions.

Our conditions for agreeing to preparatory discussions in New York are specified as:

- Protection of the competence, functions and powers of the specialized institutions.

- An agenda that addresses a limited number of global economic issues.

- A focus on the conditions for accelerating growth and on common economic problems requiring international cooperation.

- Old negotiating drafts on procedures and agenda would be discarded, and a fresh start would be made on drafting procedures and agenda.

- The Charter of the United Nations and the agreements between the UN and the specialized agencies and fora of the UN system will be respected.

Pro:

- By agreeing to continue to search for an acceptable basis for Global Negotiations, President Reagan would be spared the isolation that would occur at Cancun if he were to say "no" to Global Negotiations.

- By establishing a set of minimal conditions for U.S. participation in a universal forum, the President will have preserved U.S. concern with the integrity of the specialized institutions.

- This option gets the President through Cancun and establishes firm negotiating position for the UNGA. If our conditions are not met there, we could say no without embarrassment to the President.

- Permits the United States to be positive about discussions in the UNGA and not have to oppose a dialogue in principle.

- By keeping Global Negotiations alive at least in the short-run, we would create a more favorable environment for obtaining support for actions in the specialized institutions. If we develop enough momentum there before any breakdown of GNs, the negative impact of such a breakdown might be reduced substantially.

Con:

- Experience to date indicates that the U.S. cannot obtain strong assurance of its conditions through negotiations on agenda and procedures in New York. There is little doubt that the central issue of the specialized institutions' integrity will have to be refought repeatedly on virtually every individual trade and financial issue.

- Agreement to a post-Cancun effort to pursue preparations for Global Negotiations will be construed as a first commitment by this Administration to GNs. A subsequent decision to back out of Global Negotiations then would be portrayed as this Administration reneging on one of its "commitments" rather than reversing the previous Administration's policy.

- A decision in the Spring of 1982 that our conditions for GNs could not be met might set off a negative reaction among the Group of 77 that would damage our efforts to obtain participation by the LDCs in the preparations for the GATT Ministerial in late 1982.

MEMORANDUM FOR: The Honorable
Richard G. Darman
The White House

FROM: L. Paul Bremer, III
Executive Secretary
Department of State

SUBJECT: Cancun -- Development Poli[illegible]

The Secretary has read your memo of October 9 on Cancun and asked me to convey to you his reactions.

He is in complete agreement with the substance of the memo. However, he believes that the way the position is stated in the paper would, if stated in public or even if used in private conversations, be seen as needlessly contentious.

He suggests instead that the last sentence of paragraph 3 on page 2 be modified to add after the phrase "on the basis of UN Res. 34/138", "The President would ask the Cancun countries to agree to instruct their delegations and lobby with the others to put aside the substance and agenda of UN Res. 34/138, and begin afresh to work out a procedural basis and agenda which would offer the prospect of meaningful progress." If this were the case we would then be prepared to resume preparatory talks."

In paragraph 4, Secretary Haig suggests that letter "d" be modified to read "such talks must be entered into in a cooperative spirit rather than one in which views become polarized and thus chances for compromise are needlessly sacrificed."

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Authority State Waiver
BY [illegible] NARA DATE 11/15/2019

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL

10/9/81

Craig Fuller

Dick Allen wanted you to see this as a basis for developing a decision paper from the discussion yesterday on GNs.

HN

Henry Nau

DRAFT PRESIDENTIAL DECISION MEMORANDUM

On the matter of Global Negotiations, the President decided the following:

1. That the U.S. would not say yes to Global Negotiations (GNs) as defined in U.N. Resolution 34/138, adopted in December 1979.

2. That if pressed on the matter of accepting U.N. Resolution 34/138, the U.S. would note that the Resolution is vague and would go on to present its own agenda of specific questions concerning the roadblocks to international economic growth and development.

   a. What are the roadblocks and potential for development in each developing country?

   b. What are the roadblocks in the policy of industrial countries -- barriers to trade and to access to capital markets?

3. That the U.S. would commit itself to discuss~~ions~~ and work together with other countries to resolve these specific issues in the context of individual country situations.

4. That the U.S. would not say no to returning to the preparatory talks for GNs in New York.

5. That if we returned to the preparatory talks in New York in November, it would be clear that we were prepared to discuss only those issues consistent with our agenda of specific issues related to individual countries (see 2 above), even if others interpreted these preparatory talks as a means to launch GNs under U.N. Resolution 34/138.