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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
131224	MEMO	WILLIAM CLARK TO THE PRESIDENT RE: NSSD 3-83	3	ND	B1
131225	MEMO	ROGER ROBINSON TO WILLIAM CLARK RE: MEMO TO THE PRESIDENT ON INTERNATIONAL DEBT	1	6/3/1983	B1
131226	MEMO	MARTIN FELDSTEIN TO THE PRESIDENT RE: LATIN AMERICAN DEBT CRISIS	5	6/14/1983	B1
131230	MEMO	DUPLICATE OF 131226	5	6/14/1983	B1
131232	MEMO	FRED IKLE TO THE SECRETARY OF DEFENSE RE: NSC MEETING ON INTERNATIONAL DEBT	3	6/15/1983	B1
131251	OUTLINE	RE: MEETING WITH THE NSC	1	6/16/1983	B1
131234	AGENDA	NSC MEETING	1	6/15/1983	B1
131237	TALKING POINTS	RE: MEETING WITH NATIONAL SECURITY COUNCIL	1	ND	B1

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
131240	MEMO	ROGER ROBINSON TO WILLIAM CLARK RE: NSC MEETING	2	6/16/1983	B1
131242	MEMO	ROGER ROBINSON TO WILLIAM CLARK RE: INTERNATIONAL DEBT GROUP	1	6/28/1983	B1
131243	MEMO	NORMAN BAILEY TO DONALD REGAN RE: INTERNATIONAL DEBT GROUP	1	7/6/1983	B1
131245	DRAFT MEMO	DONALD REGAN TO THE SECRETARY OF STATE ET AL RE: INTERNATIONAL DEBT GROUP	1	ND	B1
131246	MEMO	DUPLICATE OF 131242	1	6/28/1983	B1
131248	MEMO	DUPLICATE OF 131243	1	ND	B1
131249	MEMO	DUPLICATE OF 131245	1	ND	B1

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Robinson 1

Int'l Financial crisis

National Security Council
The White House

Package # 3423

MAY 19 1983
0835

	SEQUENCE TO	HAS SEEN	ACTION
John Poindexter	1	P	
Bud McFarlane	2	M	
Jacque Hill	3		
Judge Clark	4	✓	I
John Poindexter			
Staff Secretary			
Sit Room			

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

DISTRIBUTION

cc: VP Meese Baker Deaver Other

COMMENTS

Judge,

Even though the summit is over recommend we proceed ahead with a comprehensive debt briefing.

P

F

3423

2

MEMORANDUM

NATIONAL SECURITY COUNCIL

May 18, 1983

WPC HAS SEEN

INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

THROUGH: CHARLES P. TYSON

FROM: ROGER W. ROBINSON

SUBJECT: Treasury Comments on Proposed Debt Briefing

Attached (Tab I) is a note to Craig Fuller from Treasury requesting that there be no NSC staff briefing for the President on the international debt crisis and that this briefing be subsumed in the abbreviated Williamsburg briefing on this subject.

The level of preparedness and treatment of the complexities involved in providing the President with a comprehensive overview of the debt problem (What is the problem? How did it develop? Why should the U.S. be concerned? What are the upcoming vulnerabilities to the system? How do we intend to respond?) require a considerably more indepth approach (with numerous visuals) than will be provided in the context of the Williamsburg briefings. As you know, we have spent several weeks preparing this briefing along with prodigious support from the CIA. It is essential that the President have the benefit of this rehearsed, well-structured, crisp, indepth briefing (40 minutes) rather than the more cursory treatment necessitated by the time constraints that will be facing Secretaries Shultz and Regan.

We therefore recommend that we go forward with the NSC briefing when the President's schedule permits so that he is equipped with the facts necessary for the Williamsburg discussions and the future actions that will be required by the Administration to deal with this deepening crisis.

cc: Norman Bailey

Attachment
Tab I Treasury Memo

3

OFFICE OF THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

May 12, 1983

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

FROM: David L. Chew DC
Executive Assistant to the Secretary

SUBJECT: Treasury Comments on Proposed Debt Briefing

Treasury understands that a briefing on the international debt situation is now being scheduled for the President. We wish to point out that a briefing for the President on the international debt crisis and debt strategy is also called for within the Williamsburg Summit preparation process. Secretaries Regan and Shultz are scheduled to make this presentation.

Given the enormous demands on the President's time, we feel that a single briefing on international debt can both prepare the President for the upcoming Summit and adequately cover the broad subject area in sufficient detail. In anticipation of the Summit briefing, a background paper on international debt has already been sent to the NSC.

RWR

3466

MEMORANDUM

Int Financial Sys 4

NATIONAL SECURITY COUNCIL

May 20, 1983

INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK

FROM: NORMAN A. BAILEY NB

SUBJECT: International Monetary Conference

I attended the 30th annual Monetary Conference of the American Bankers Association, held in Brussels. This is the most prestigious periodic meeting of this type. I presented a short paper on strategic considerations over the next few years which was sent to you previously.

Half the membership of the IMC is made up of American bank CEO's and the other half of bank CEO's of other countries. This year several central bankers also attended, including Volcker, Wallich, Solomon and Leutwiler. As is natural, the sessions were obsessed with the international debt crisis. Once again the divergence of views between the American and the European banks was startling. I was told by a European banker that the European banks as a whole have set off (created reserves against) fully 25% of their total LDC and East European exposure. This is a huge setoff. In contrast, the Japanese banks have set off to only 2-4% (under Finance Ministry orders at that) and U.S. banks are perhaps the same or even less.

What this means is that if a crisis erupts with a major debtor suspending all payments for an extended period, which they fully expect <u>this summer</u>, the European banks will be in a relatively good position to resist the crisis <u>and ours will not</u>. They then expect the Federal Reserve to step in and prevent the failure of some large U.S. banks by floating the problem away on a flood of liquidity (concurrently, of course, creating a new inflationary spiral in the U.S.). In the meantime, they continue to withdraw funds from the interbank market and increase loan loss provisions.

Things have reached the point that one prominent former U.S. bank President told me that he had been approached by a major European central bank Chairman and prominent U.S. figures to formulate a manifesto warning of the dangers and demanding rapid remedial action. He refused because he felt it would not be appropriate for him to do so, but he stated that I

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would be "astounded" by the names involved, if he were at liberty to reveal them.

On other matters, Bill Ogden told me that he expects that the new Institute of International Finance will be operational "by the end of the year," and that the head of it will be either Manfred Lahnstein or a "Frenchman well known to you" who was supposed to have addressed the Conference. I assume he referred to Michel Camdessus.

cc: Roger Robinson
Gus Weiss

RWR Int'l Financial System
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OAS FINANCIAL CONFERENCE

QUESTION:

-- What is our attitude on the OAS financial conference scheduled for late summer in Caracas?

BACKGROUND:

-- Venezuela, through its strong position in the OAS, has obtained agreement for a regional conference on international finance to be held in Caracas this summer.

-- Most OAS members support the Venezuelan initiative. The U.S. has argued against it, primarily on the grounds that the regional meeting cannot contribute to the necessary stability in the functioning of the international financial system.

-- The U.S. has left open its decision whether or not to attend the conference and will be giving serious consideration to this issue in light of regional and global financial developments in the next few weeks.

POINTS TO BE MADE:

-- The international financial system is based upon global management and policies epitomized by the IMF. Multilateral lending, assistance, and management of the international financial system effectively depends upon global commitments by both lending and borrowing countries.

-- In the case of Latin America approximately 4/5 of outstanding loans are held by private institutions which have reached bilateral arrangements with entities in the borrowing countries. These bilateral arrangements are not subject to regional conditions. Likewise, the US Government has bilateral arrangements with a number of Latin American countries which arrangements follow the individual requirements of a bilateral nature.

-- In both cases, multilateral and bilateral, relations with individual governments are highly confidential and the conduct of discussions is completely denied to media and nonparticipating organizations.

-- In the present difficult circumstances faced by many countries trying to meet their financing requirements, numerous suggestions for miracle solutions have been raised in the press. Some of these suggested solutions contain great dangers to the stability provided by the present international financial system. While the present system may have shortcomings requiring changes, the overall system is functioning remarkably well under extremely difficult conditions. We believe the system should be strengthened to meet these problems and our multilateral and bilateral actions have had that effect. We do not believe that major revisions in the system can be usefully incorporated during times of great stress such as we've recently encountered.

-- The decision to attend the conference or not will be taken in the near future. A factor in our decision will be our estimate of the positive influence we may have on the outcome.

of the Council of Economic Advisers. To restore liquidity to the needier nations, he insists, the United States must be prepared to run significant trade deficits with the developing countries for at least as long as American budget overruns remain high.

Other experts have suggested that the only way the international debt crisis can be managed over the long term is to take it out of the hands of the commercial banks. Under a plan proposed by Princeton University Prof. Peter B. Kenen and Sen. Bill Bradley of New Jersey, the IMF or some other international agency would buy up the banks' loans at 90 cents on the dollar. The agency would pay the banks in long-term bonds while simultaneously extending longer and more generous credit terms to troubled borrowers. Norman Bailey, a member of the National Security Council staff, has an even more radical proposal to replace developing countries' debt with something akin to stock, entitling banks to a share of the countries' export earnings.

Such ideas have little chance of being considered seriously unless disaster strikes. For the moment, the only real hope financial stability is the recovery that is now under way. "The overhanging deb the developing countries will be the pr lem of the '80s just the way OPEC was problem of the '70s," says one influen private banker. "And the debt will m that economic prosperity won't be as h as it could be." The real trick will be ensure that economic growth continues, without steady growth the world could headed for a serious decline.

HARRY ANDERSON with CHRISTOPHER
in Washington, HOPE LAMPERT in New Y
BARRY CAME in Rio de Jan
and bureau rep

The Superbowl Syndrome

In 1971, when Valéry Giscard d'Estaing first suggested the idea of a Western economic summit, he had in mind an intimate gathering of the few Western leaders who "really count." His friend Helmut Schmidt immediately seconded the motion. As their countries' finance ministers at the time, they had been meeting quietly every few months with their British and American counterparts in the paneled splendor of the White House library. The discreet, consciously elitist "library group" had helped keep the Western economies afloat amid dizzily fluctuating currencies, and the future French president and the German chancellor-to-be believed that heads of state could make the technique work even better. But it was not to be.

In the eight years since the first economic summit at Rambouillet in France, Giscard's fireside idyll has become an international superbowl. Contention and point-scoring have replaced cooperative discussion. French President François Mitterrand was so upset by the rancor of the Versailles summit last year that he considered not coming to Williamsburg at all. There is a growing consensus that the formula must be radically changed or the custom be allowed to die.

Bennotte—Sipa-Black Star

Ford, Giscard at Rambouillet: High hopes

'Media Circus': Summit historians, who now comprise a thriving cottage industry, agree that the institution has passed through three distinct phases. First came the golden, brandy-warmed era of the "library group." Then Jimmy Carter's election began a period of summits at which legions of officials labored over "substance" and "specificity." The third, or "media circus," phase of summitry is said to have opened with Ronald Reagan's debut at the Ottawa get-together in 1981. The ranks of attendant journalists swelled into the thousands, and participants openly began playing to their home-country television audiences rather than to their summit peers.

This schematization is oversimplified: the Venice summit in 1980 was already a world-girdling media event, and, for all the hoopla, Ottawa still provided room for intense, quiet discussion. Nevertheless, the trend is clear enough. The quest for an enhanced domestic political image has displaced serious economic reflection. Even the character of the participants has changed. Giscard and Schmidt were highly trained economists; neither Ronald Reagan nor François Mitterrand has any such pretensions. And, back in 1975, all the summit participants spoke good English; today, only the American, British and Canadian leaders can handle the language comfortably.

Unity: Then, too, the nature of the problems has changed. Throughout the early summit years, OPEC served as a common antagonist uniting the Western nations. It is no accident that the Tokyo summit of 1979, universally regarded as the most successful of the series, focused almost exclusively on energy problems, particularly ways to escape the domination of the oil producers' cartel. In the early 1980s, the combination of prolonged recession with uneven rates of recovery has undercut the loose community of interest that existed earlier.

Defenders of the summit process argue that, even if they produce no substantial results, the sessions enhance understanding among the leaders. But Jimmy Carter and Helmut Schmidt saw one another at four successive summits and their mutual dislike only grew deeper. At the Versailles summit last year all parties worked hard to reach face-saving compromise language on the explosive issues of East-West trade and currency intervention. But no sooner was the meeting over than American and European spokesmen gave diametrically opposed versions of what had been agreed to.

For all their flaws, however, summits are undoubtedly here to stay—if only because no nation wants to take the rap for halting them. In preparing for Williamsburg, U.S. officials pushed hard for greater "informality," but the result has been an even shriller exchange of presummit charges than usual and more journalists on board than ever. Giscard himself may have pointed the way to one kind of improvement when he wrote last week that summits should be held only "when needed," and so cease being "annual meetings uselessly solemnized." A host country might contribute to the cause by stretching out the interval between summits from a year to 18 months. Whatever happens, though, we will not soon escape what diplomatic historian Harold Nicolson described in the 1930s as "the fatal and pernicious habit of personal contact between the statesmen of the world."

SCOTT SULLIVAN

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9

Int Fund Sup

INTERNATIONAL DEBT AND INTERNATIONAL TRADE: PROPOSAL FOR A TEMPORARY OFFICIAL TRADE FINANCING FACILITY

Prepared by: William F. Kolarik, Jr.
Ronald G. Oechsler
International Economics Division
Office of Trade and Investment Analysis
U.S. Department of Commerce
June 1983

This document should not be construed as a statement of Department of Commerce policy.

Controlled by Allen J. Lenz
Decontrolled June 1984

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sm 02/15/2012

EXECUTIVE SUMMARY

- o The USG and other industrial countries should create a temporary, officially-funded trade finance facility to support exports to financially distressed LDCs. The facility would be designed to partially compensate for the drying up of a large volume of short-term, non-bank trade credit traditionally provided by exporters to LDCs. Global financial instability has caused a precipitous decline in such credits, contributing to the slowdown in world trade, weakening the U.S. trade position, increasing the strain on the world banking system, and threatening IMF stabilization programs in key LDCs.

- o The facility would mobilize, via a mechanism similar to the recent "Friends of Yugoslavia" exercise, existing official credit agencies to boost short-term credits or insurance cover for shipments to selected LDCs:

  -- Credit lines would be on a "revolving" basis, i.e., once drawings reach a pre-set country limit, new credits would be limited to amounts repaid on outstanding credits. Maturities would be limited to 6 months and repayment would be strictly enforced to insure that new lending would go for trade, not balance-of-payments, support.

  -- As a result, the facility would have substantial trade sustaining power, e.g, an average maturity of 6 months on new credits would mean that each dollar lent could support about $2 of trade annually.

  -- All LDCs would not be treated alike. A selective country-by-country approach would be used to reward borrowers which handle their finances responsibly and to penalize those which are lax. Continued access to the facility could be linked to compliance with IMF performance targets.

  -- Priority would be given to preserving minimum levels of vital LDC imports, especially the purchase of inputs needed for production of export goods that earn foreign exchange.

  -- A percentage of all new credit commitments would be allocated for the exclusive use of LDC private-sector firms, including affiliates of U.S. companies, which are being hurt by LDC government policies that channel most available credit and foreign exchange to the public-sector.

  -- All official credit commitments would represent "new" money (i.e., net of expected repayments on other official credits and amounts being rescheduled) and would be in addition to--not at the expense of--official funds assembled to fill other holes in LDCs' balance-of-payments.

- The facility would encourage--not discourage--orderly LDC economic adjustment, improve LDC liquidity and the viability of IMF programs, help restore some calm to the world trade and financial system, help stem the erosion in the U.S. trade position, and possibly improve the climate for additional lending by commercial banks.

- The proposal is therefore consistent with the USG's debt strategy, which holds that temporary official financing may be necessary, from time to time, to cushion the LDC transition and preserve global economic stability.

- In effect, the goal of the proposal is to build a temporary bridge of exporter confidence to span the period until LDC adjustment and OECD recovery begin to produce a much more favorable LDC financial outlook. Without such a bridge, the Administration's current debt strategy may not have time to prove itself.

- Because it would only fill a portion of the trade financing gap created by risk-averse exporters, the proposal would not address the need for more trade financing by banks nor the need for additional medium-term balance-of-payments assistance to LDCs from banks and governments.

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Overview of Proposal*

The U.S. Government and other industrial countries should create a temporary, officially-funded trade finance facility. The facility should be specifically designed to a plug a growing trade financing gap caused by the increasing reluctance of exporters to assume any financial risk when shipping to high-debt LDCs.

The facility would furnish short-term credit for industrial country exports to financially troubled developing nations. The facility would feature revolving credit lines, with fixed lending limits for each LDC and strictly enforced repayment schedules. It would enable LDCs to maintain vital imports (e.g., inputs needed for export production), facilitate orderly LDC economic adjustment, help restore stability to the world trade and financial systems, and help stem the erosion of the U.S. trade position. Although the facility could significantly improve LDC liquidity and the viability of IMF programs, the objective is limited to restoring a portion of the large volume of trade credit traditionally provided outside the world banking system. The proposal therefore does not address the need for more trade financing by banks or the need for additional medium-term balance-of-payments assistance from banks and governments.

Background

Unprecedented global financial instability and country liquidity crises are making it increasingly difficult for industrial country exporters (especially U.S. exporters) to assume the risks they have customarily borne in financing sales to developing country markets. As a result, exporters are greatly scaling back the volume of short-term credits granted to buyers--including their corporate subsidiaries and affiliates--in financially troubled LDCs (see Appendix for examples). A substantial share of international trade

* This proposal is based on extensive, though unsystematic, consultations with approximately two dozen U.S. exporters, banks, credit managers, and factoring firms over the past 6-8 weeks. Unquestionably, more needs to be done to quantify the problem, both for specific countries and in the aggregate, but there are no hard statistical data or completed research papers on this issue. Nevertheless, the problem seems to be real and growing in importance. This paper, therefore, is intended to stimulate internal USG discussion and encourage further work on possible policy responses. It follows that our outline for a temporary short-term trade credit facility is a beginning--comments and suggestions are welcome.

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has traditionally been handled via such credits, which are largely outside the world banking system.* Although there are no reliable statistics on this "self-financing" of exports by industrial country companies, the volume of credit granted in more normal times to certain key LDCs was unquestionably massive.**

Now, however, many exporters have drastically curtailed all forms of credit, including very short-term "open account" business, and are now minimizing risk-taking by demanding that further shipments be either pre-paid, covered by a commercial bank guarantee (e.g. a confirmed letter of credit), or backed by an official export credit agency.*** Exporter caution has been further reinforced by a severe tightening of the risk-sensitive secondary market for LDC trade paper (discounting with banks, "factoring" firms, etc.), which increases the chances that a company might find itself unable to unload LDC receivables and promissory notes should it wish to do so.

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* This includes open account transactions; drafts not discounted with banks, as well as unconfirmed letters of credit. These and similar techniques place the exporter at risk if default occurs. Other techniques such as confirmed letters of credit and bankers' acceptances require banks to assume risk although not necessarily to extend funds.

** USDOC corporate and banking sources suggest that private companies--in addition to banks--have become a primary source of short-term credit in international trade. One responsible factor has been the postwar explosion in foreign direct investment, which has led to large-scale "intercompany" trade via open account. Another factor has been the desire of both importers and exporters to avoid the cost of commercial bank or official cover for short-term, routine transactions.

The case of Mexico will help to illustrate the prominence of short-term non-bank credit: USDOC's industry and banking sources report that prior to its financial collapse some 50%-70% of Mexico's total imports from the U.S. were arranged using some form of exporter credit, primarily purchases on open account with terms of 90-120 days. In other words, in 1981 (the last "normal" trade year) Mexico was receiving an estimated $8-12 billion in non-bank U.S. credit which had an average maturity of anywhere from 3-6 months. Much of this credit evaporated when Mexico became illiquid in August 1982, greatly enlarging the financing gap and contributing importantly to the sudden contraction in U.S.-Mexico trade in the third and fourth quarters. Credit obligations owed to U.S. exporters that were paid were not subsequently renewed (i.e., "rolled over"), and those exporters who were not paid are still refusing to extend any more credit on their own account.

*** These developments, as well as other financial pressures, are leading to a growing number of requests from LDCs for clearing arrangements and countertrade transactions.

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Implications

By placing a greater proportion of international commerce on a cash and carry basis, industrial country companies are:

o Contributing to the slowdown in world trade due to the logistical difficulties (increased documentation, processing of payment, approvals for shipment, etc.) of placing large volumes of business on a cumbersome cash basis. Exporters' willingness to provide their customers with credit--especially short-term credit--is an essential lubricant of international business which has been an important factor in the post-war growth of world trade.

o Weakening the U.S. trade position. Even where LDC customers (e.g., Mexico) are able to obtain government authorization for priority imports, U.S. exporters' growing unwillingness to ship without bank or official cover is being translated into lost sales.*

o Increasing pressure on the hard-pressed world banking system to boost trade credit availability to plug the financial gap left by the reduction of open account trade and other exporter credits. To the extent that banks bow to exporter requests to fill this credit vacuum, they will seek to compensate by making further cuts in already-squeezed balance-of-payments loans to cash-short countries.

o Increasing near-term liquidity pressures on financially strapped nations, e.g., Mexico, Brazil, Argentina. IMF stabilization programs for these countries assume continued refinancing (i.e., "rollover") of most short-term credits--including exporters' credit. As reported above, however, this is simply not happening, which gives further reason to doubt IMF cash flow projections underlying economic recovery programs for Latin debtors.

Just as there has been a need for "bridge" financing prior to IMF programs for key debtors, there is presently a need for official measures to build a "bridge" of exporter confidence to span the period until LDC adjustment measures and OECD recovery begin to produce a much more favorable developing country financial outlook. Without such a bridge, the Administration's current debt strategy

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* Additionally, U.S. firms' increasing reluctance to accept LDC financial risks is apparently having adverse effects on this country's "export mentality", particularly among companies that are new to international business.

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may not have sufficient time to prove itself. Failure to take major confidence-building measures in the immediate future will, in all probability, result in a further serious deterioration in exporter attitudes--particularly in the U.S.* Action is especially urgent in view of reports that IMF stabilization programs in Latin America are in growing danger, at least in part because of problems caused by shortfalls in exporter credits and other non-bank capital inflows.

Details of Proposal

A temporary official financing facility should be specifically designed to plug the growing trade financing gap caused by the increasing reluctance of exporters to assume any financial risk when shipping to high-debt LDCs. The most promising approach would be to mobilize existing official credit agencies (e.g., Exim, ECGD, COFACE) to boost short-term credits or insurance cover (for both political and commercial risks) for shipments to selected LDCs. The aggregate ceiling on increased exposure for each LDC, and relative burden-sharing by participating countries, could be the subject of a series of multilateral understandings arranged on a country-by-country basis. Terms and conditions for each LDC's access to these additional credit lines (see below) could also be made part of each agreement.

Such understandings could be negotiated using a mechanism similar to the recent "Friends of Yugoslavia" exercise. LDCs would be considered individually (Friends of Mexico, Friends of Brazil, Friends of Ecuador, etc.) and potential donor countries could be invited to participate as deemed appropriate to their interests. An industrial country which has a "special relationship" with a particular LDC would be expected to take the lead on that country (e.g., chair meetings, provide necessary staff support). Conversely, in certain instances it may be desirable for a neutral party to host the proceedings (as Switzerland took the lead on Yugoslavia). As in the Yugoslav case, contributions to each package could be based on some objective measure, such as the donor country's market share of an LDC's industrial country imports or imports from the donor group, and/or the exposure of the donor's commercial banks as a proportion of total bank lending to the LDC in question.

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* Among the various industrial countries, U.S. exporters appear to be reacting much more cautiously than most of their competitors. Possible reasons include: the fact that U.S. firms generally lack the "export or die" orientation of European/Japanese companies, that a greater proportion of European and Japanese shipments to LDCs is already covered by official agencies like ECGD, COFACE, etc., and that U.S. exports are much more concentrated in the very LDC markets which are experiencing the greatest financial difficulty.

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To have maximum effectiveness any special trade financing facility should include most of the following:

- All credit lines should be on a "revolving" basis, i.e., once total drawings reach a pre-set country limit, new credits should be limited to amounts repaid on outstanding credits. Also, maturities should be kept short, preferably not exceeding 6 months. Such a short-term revolving facility permits rapid amortization, so that repaid principal can be continually re-used to finance new deals. Thus, each new increment of lending exposure can be "leveraged" to support a maximum volume of trade over time.

- A workable revolving facility requires that vigorous efforts be made to insure that the facility is not gradually corrupted into furnishing medium or long-term balance-of-payments support. Timely repayment must therefore be strictly enforced. Non-payment should result in termination of access to the facility and possible loss of other official support (e.g., Exim "project" credits, foreign aid). Although possibly difficult to implement, new official credit facilities for debt-plagued LDCs could in certain cases be collateralized (e.g., against gold, other precious metals, or other reserve assets that are not immediately usable).

- Disbursements should also be "tranched"--by amount and possibly by maturity. For example, a $600 million line might be disbursed in increments of $100 million, $200 million, and $300 million, with respective maturities of 2 months, 4 months, and 6 months. Disbursement of new tranches would therefore be keyed to successful repayment of earlier tranches until the credit ceiling is reached. This would initially give the cash-short LDC a vested interest in adhering to the ground rules, provide time for the scheme to demonstrate its value (thereby further reducing risks of non-payment), and allow creditors to gradually accumulate an experience base with only limited increases in exposure.

- All official credit commitments should represent "new" money, i.e., net of expected repayments on other official credits and amounts being folded into rescheduling agreements. Also, new liquidity for trade purposes must be in addition to--not at the expense of--official funds assembled to plug other, equally critical, holes in developing countries' balance of payments. Prospective official donors must therefore be prepared to make commitments on the basis of net additions to existing exposure.

- A substantial percentage of the new money should be earmarked for the exclusive use of LDC private-sector firms, including local subsidiaries of U.S. and other industrial country companies. Although a vigorous private-sector is vital to the recovery of many LDCs, private firms are currently being strangled by LDC

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government policies that allocate most available foreign exchange to public-sector purposes (primarily social programs and the preservation of public-sector creditworthiness). A properly designed trade facility could provide private enterprise with some relief, help preserve soundly-managed LDC firms, and create a more favorable climate for continued foreign investment and other important financial inflows from multinational corporations.

- Facility should be limited to countries experiencing serious balance-of-payments problems, and which are either performing under or negotiating IMF economic stabilization programs. Under certain circumstances, the facility could form part of bridging efforts leading into new or revised IMF programs. Where IMF programs are in place, continued compliance with IMF performance targets for the domestic economy or external accounts could be required to retain access to the trade credit facility.

- Facility should be carefully designed to avoid providing excessive short-term liquidity which might undercut LDC incentives to make necessary economic adjustments. The goal is to ease adjustment, not prevent it. Careful consultations with LDC officials and the IMF would therefore be necessary to accurately quantify any trade financing gap resulting from cutbacks in short-term exporters' credit.

- Financing of LDC imports should be limited to products designated as vital by the government of the purchasing country, and considered as such by lending countries. Current Eximbank procedures could serve as a guide for certifying products eligible for financing. The objective here is to encourage LDCs to allocate the official trade credit lines as prudently as possible (e.g., for imports needed to support export production, as opposed to non-essential consumer imports such as scotch whiskey or perfume).

Potential Benefits and Supporting Arguments

- A revolving facility would mean that financing would be highly leveraged in terms of trade sustaining power, e.g., if the average credit maturity were 6 months, each dollar of new credit could support about $2 of trade annually.

- Can provide a certain measure of stability on the trade scene, thereby reducing prospects for a complete loss of confidence by banks and suppliers. If industrial country governments make it clear that they will not permit continued deterioration of the world trading system, possibilities would be further reduced for a "downward spiral" or "snowball effect" which might disrupt the international trade/financial system and/or dampen the OECD recovery.

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- In combination with other financial assistance already granted, can help key LDCs maintain minimum levels of vital imports needed for export production and to guard against abrupt, excessive trade shocks to LDC economies (and to political stability) during the adjustment process.

- Help restore and/or preserve the short-term liquidity traditionally furnished to LDCs via open account trade, supplier credit, etc. It follows that this could help to reduce trade credit demands on private banks and improve bank confidence and prospects for further lending. Conversely, there is nothing in the proposal that would signal banks that a bailout is in the offing, thereby reducing their incentives to provide additional credit.

- Provided that a fixed percentage of all new money is earmarked for LDC private-sector companies and/or U.S. corporate affiliates, trade facility could play an important role in rescuing endangered LDC private enterprise. As noted above, private LDC firms are being starved of foreign exchange by LDC governments, which are using most available cash to preserve public-sector creditworthiness and social programs.

- There is nothing in the proposal that would encourage LDCs to further postpone long-delayed economic adjustments which are a prerequisite for a lasting recovery. Indeed, the trade credit facility is designed to promote orderly adjustment and is consistent with the USG debt strategy, which holds that temporary official financing may be necessary, from time to time, to cushion the LDC transition and preserve global economic stability.

- The selective country-by-country approach allows donors to reward those borrowers which behave responsibly and to penalize those which are lax. The proposal does not treat all LDCs alike.

- Proposal is heavily anchored in precedents set in putting together recent emergency multilateral assistance packages for Yugoslavia, Turkey, and Mexico. Also, in the past Exim has authorized "Emergency Foreign Credit Loans" precisely to help countries such as Britain, Canada, and Italy in sudden BOP crises. Although Exim has not authorized such loans in recent years, there has been no change in Exim legislation that would prevent the bank from doing so again.

- Employs existing on-the-shelf institutions and programs, thereby minimizing the need for Congressional action and/or formal consultations.

- Could be implemented comparatively quickly, without the administrative delays that would inevitably accompany the start-up of totally new institutions or programs.

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- Likewise, avoids the thicket of problems associated with any substantive modification of IMF credit facilities, e.g., time-consuming obligatory consultations with all members, ratification of major changes by legislatures (including Congress), etc.

- Any increase in short-term credit could, in the right circumstances, be used as a lever to move key LDCs in our direction on outstanding trade policy issues (export subsidies, import barriers, etc.)

- A multilateral approach implemented via national export credit agencies gives each participating government maximum flexibility in tailoring credit packages to the needs of its exporters, while at the same time setting common lending guidelines required to promote continued LDC adjustment and productive use of new credits.

- All U.S. contributions to the facility would be tied to purchases of U.S. goods, with obvious benefits for the U.S. trade position.

- In some industrial countries, the increase in official short-term credit--either insurance or direct loans--could be achieved by reprogramming unused medium and long-term lines presently earmarked for large capital purchases. Many of the projects which these lines are intended to support (e.g., nuclear power stations) have already been shelved, or will likely be shelved in the future.

Potential Problems and Counter-Arguments

- Would substantially increase lending exposure of USG and other governments to financially shaky LDCs.

- Might be perceived by certain segments of the public and Congress as a further "bailout" for LDCs and the banks. Might have negative--but probably not decisive--effects on Congressional consideration of IMF replenishment.

- Availability of large amounts of government-supported short-term export credits may further discourage private-sector supplier risk-taking, enlarge the role of governments in international trade, and generate Congressional/public concerns that not only banks, but also companies, are now being "bailed out."

- Might be viewed by Europeans and the Japanese as a solution to a primarily "American problem," since Latin nations with major ties to the U.S. would benefit most. Such a perception could increase the difficulty of implementing the proposed trade facility on a multilateral basis, although if the U.S. were to take the lead, others might follow.

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- o Any multilateral facility would likely require several months of negotiations to set up, and thus might not be available in time to cushion trade disruptions resulting from near-term liquidity crises in Brazil and elsewhere.

- o Introduces possibly serious problems into FCIA/Exim relationship. Could be difficult to implement under current FCIA procedures.

- o Facility would compete with and compromise the integrity of traditional Exim credit programs. Official export credit agencies of other countries would perceive similar problems.

- o By itself does not "solve" the LDC debt problem and thus falls short of radical, sweeping solutions favored by some observers. Proposal is designed only to plug the short-term trade financing gap left by the contraction in exporter credit, and does not address the equally pressing need for additional medium-term balance-of-payments assistance from banks and official lenders. Proposal only deals with trade credits traditionally furnished outside the banking system, and does not address need for more bank financing of trade.

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APPENDIX

21

Impact of LDC Debt Problems on Trade Financing, Supplier Credit, and Country Liquidity: Some Examples

o A large multinational producer of processing equipment (1982 worldwide export sales $250 million) has totally ceased unsecured financing of shipments to unaffiliated Mexican firms and has slashed shipments to its own subsidiary to the bare minimum of spare parts necessary to prevent plant shutdown. Shipments to the subsidiary are presently running about one-tenth last year's $5 million level, and will be increased only if the Mexican Central Bank can provide concrete assurances as to its intentions regarding payments to foreign suppliers. In the opinion of this company's international credit manager, the business community's complete uncertainty at present as to when and if payments will be received for goods shipped has severely disrupted U.S. exports to Mexico, with many firms deciding to suspend further sales efforts until the situation improves.

o This same executive described the supplier credit situation for Venezuela, as "almost as bad as Mexico right now," owing to exporters rampant confusion over the government's policies regarding the rescheduling of private sector debt, access by foreign-owned firms to the preferential exchange rate, and future payments intentions. He said that many firms are restricting activities in Venezuela to old customers able to make payments from dollar accounts in U.S. banks. Purchase requests from non-traditional clients not holding dollar balances abroad are being turned down, resulting in a loss of present and probably future export business.

o He went on to say that although many multinationals are continuing to ship to "old line accounts" in Brazil, based on that country's generally satisfactory recent payments record, most companies are now demanding confirmed L/Cs or prepayment in dollars before shipping to new clients. Given the unwillingness of nearly all banks to increase exposure in Brazil beyond that mandated by the IMF/commercial bank financial rescue package, the tightening of credit terms by U.S. firms will likely translate into significant losses of present and future business in that country as well.

o A top credit executive of another New York-based multinational estimated that in 1983 the contraction of supplier credit for Latin America will in itself be responsible for a 25 percent drop in U.S. exports to the region above and beyond export losses which can be expected to result from IMF-mandated stabilization measures. As happened last year, Mexico will account for the bulk of the drop in U.S. Latin sales.

Prepared by: W. F. Kolarik, R. G. Oechsler, TD/OTIA/IED, X4691.

Controlled by Allen Lenz. AJL
Decontrol 4-12-84.

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o A senior officer of one of the largest "regional" banks in the Midwest has told us that "in Ohio virtually all export activity to Latin America--especially Mexico--has come to a standstill. Except for some spare parts shipments, mostly on letters of credit, the activity level is near zero."

o According to this banker, his corporate clients used to grant 90-120 day credits for about 2/3 of their shipments to Latin America. This credit has almost entirely evaporated. Roughly half of the credit was open account business for spare parts and intercompany sales (i.e., shipments to subsidiaries and affiliates), while the other half was extended via documentary collections for capital goods shipments.

o In his view, the cutback on short-term self-financing of spare parts sales could be especially damaging to Latin economies, since it may impair the functioning of industrial plants. In this connection, he did not think that subsidiaries and affiliates of U.S. firms would be much better off than indigenous Latin American private sector companies. U.S. firms located in the Midwest, he said, are being extremely cautious in dealing with even those Latin firms in which they hold equity. Evidence of this is the drastic cutback in supplier financing of spare parts.

o At another large Midwestern bank, an account manager for Latin America told us that "intercompany shipments to U.S. subsidiaries in Brazil are being handled much more carefully, and in many cases parent firms are reducing these shipments and really tightening credit terms."

o The same banker went on to cite trade financing difficulties as posing important logistical problems which are reducing the velocity, and hence the volume, of export transactions: "Exports to Mexico from companies around here have really slowed down, because before you can ship you have to make sure that the T's are crossed and the i's are dotted on all the payment arrangements."

Robinson

SYSTEM II
90723

23

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Int'l / Financial System

CIRCLE ONE BELOW

MODE

PAGES 4

IMMEDIATE

DACOM # 39

RELEASER DY

PRIORITY

DEX #

DTG 041838Z JUN 83

ROUTINE

TTY #

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1. THE SITUATION ROOM

TO/LOCATION/TIME OF RECEIPT

TOR 041931Z

1. DAVE FISCHER FOR THE PRESIDENT /CAMP DAVID/

2.

3.

4.

INFORMATION ADDEES/LOCATION/TIME OF RECEIPT

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2.

SPECIAL INSTRUCTIONS/REMARKS:

ATTACHED:

83 JUN 4 P3: 44

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131224	MEMO WILLIAM CLARK TO THE PRESIDENT RE: NSSD 3-83	3	ND	B1

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National Security Council
The White House

Package # 90723

4 June

27

	SEQUENCE TO	HAS SEEN	ACTION
John Poindexter	1		
Bud McFarlane	5	HAS SEEN	I
Jacque Hill	2	✓	
Judge Clark	3	✓	A
John Poindexter			
Staff Secretary			
Sit Room	4	✓	DACOM TO CAMP

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

DISTRIBUTION

cc: VP Meese Baker Deaver Other ____

COMMENTS

URGENT

Judge,
I told Roger to show this to Marty. Feldstein thinks it is an excellent piece. You might pen in on the last page that Marty concurs with this. Suggest we send to Camp David today. You also have a proposed tasker for Pres to send to Don Regan. That can be discussed (over)

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131225	MEMO ROGER ROBINSON TO WILLIAM CLARK RE: MEMO TO THE PRESIDENT ON INTERNATIONAL DEBT	1	6/3/1983	B1

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TAB 6

5/31

Norman Bailey

Subject: Informing the President on the implications of the debt problem.

I read your most recent paper (3466) reporting on your participation at the Monetary Conference of the ABA convention.

The President simply has not absorbed the implications of the looming crisis. He is particularly vulnerable on the effects of bailouts and has not absorbed the inflationary consequences.

I think it would be useful to get a "fundamental" paper to him. If you agree, could you see if you ahve one of your earlier memos from last year which we could resurrect; update it and send it over?

Many thanks

Bud

Bud

P.S. The occasion of his signing the NSDD on Debt Strategy might be a good (although ironic in view of the "whistling past the graveyard cast of that document") occasion.

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Department of the Treasury

Deputy Assistant Secretary for Developing Nations

to: Mr. Roger Robinson

room: ________ date: 6/7/83

Int'l Financial System

IMF FACT Sheet

Thomas C. Dawson
room 3222
phone 566-8243

Fact Sheet on Increase in IMF Resources

(in SDR millions or percent; figures in ( ) are in $ millions) 1/

I. IMF Quotas

a. Increase

	Current Quotas	Increase Amount	Increase Percent	New Quotas
Total	61,059.8 (66,828.1)	28,975.0 (31,712.3)	47.5	90,034.8 98,540.4)
U.S.	12,607.5 (13,798.5)	5310.8 (5,812.5)	42.1	17,918.3 (19,611.0)

b. Country Shares (percent)

	Current	New
United States		
Quota Share	20.648	19.902
Voting Share	19.522	19.153
Other Voting Shares		
U.K.	6.819	6.638
Germany	5.036	5.795
France	4.487	4.812
Japan	3.884	4.535
Total Industrial	58.583	60.404
Major Oil Exporters	10.759	11.413
Non-oil LDCs	30.658	28.183

c. Other Elements

-- 40/60 split between equiproportional/selective distrubution of overall increase.

-- 25 percent paid in SDRs or foreign currencies; 75 percent in members' own currency.

-- Implementation of quota increase by end 1983.

1/ All conversions from SDR to dollar figures are made at the exchange rate of 1 SDR = $1.09447, the official IMF rate on February 11, 1983.

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II. GAB

a. Increase

	Current GAB	Increae	New GAB
Total	6,337.5	10,622.5	17,000
U.S. Amount	1,827.4 (2,000.0)	2,422.6 (2,651.5)	4,250 (4,651.5)
U.S. Share			25%

b. Other Elements

-- Broaden use of GAB to any IMF member in situations involving serious systemic threats and inadequacy of other IMF resources.

III. Increase in Total U.S. Financing for IMF

	SDR milliions	$ millions
Quota increase	5,310.9	5,812.6
GAB	2,422.6	2,651.5
Total	7,733.5	8,464.1

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131226	MEMO MARTIN FELDSTEIN TO THE PRESIDENT RE: LATIN AMERICAN DEBT CRISIS	5	6/14/1983	B1

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Bailey 38

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WHITE HOUSE STAFFING MEMORANDUM

RWR

DATE: June 15 ACTION/CONCURRENCE/COMMENT DUE BY: ----

SUBJECT: MEMORANDUM FROM MARTIN FELDSTEIN RE THE LATIN AMERICAN DEBT CRISIS: A SUGGESTION

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☐	HARPER	☐	☐
MEESE	☐	☐	HERRINGTON	☐	☐
BAKER	☐	☐	JENKINS	☐	☐
DEAVER	☐	☐	McMANUS	☐	☐
STOCKMAN	☐	☐	MURPHY	☐	☐
CLARK	☐	✓	ROGERS	☐	☐
DARMAN	☐P	☐SS	ROLLINS	☐	☐
DUBERSTEIN	☐	☐	VERSTANDIG	☐	☐
FELDSTEIN	☐	☐	WHITTLESEY	☐	☐
FIELDING	☐	☐	BRADY/SPEAKES	☐	☐
FULLER	☐	☐	______	☐	☐
GERGEN	☐	☐	______	☐	☐

REMARKS:

RESPONSE:

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Richard G. Darman

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131230	MEMO DUPLICATE OF 131226	5	6/14/1983	B1

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ID	*Document Type* / *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
131232	MEMO FRED IKLE TO THE SECRETARY OF DEFENSE RE: NSC MEETING ON INTERNATIONAL DEBT	3	6/15/1983	B1

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131251	OUTLINE RE: MEETING WITH THE NSC	1	6/16/1983	B1

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131234	AGENDA NSC MEETING	1	6/15/1983	B1

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131237	TALKING POINTS RE: MEETING WITH NATIONAL SECURITY COUNCIL	1	ND	B1

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131240	MEMO ROGER ROBINSON TO WILLIAM CLARK RE: NSC MEETING	2	6/16/1983	B1

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ID	*Document Type* *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
131242	MEMO ROGER ROBINSON TO WILLIAM CLARK RE: INTERNATIONAL DEBT GROUP	1	6/28/1983	B1

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

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

B-1 National security classified information [(b)(1) of the FOIA]
B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
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ID	*Document Type* / *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
131243	MEMO NORMAN BAILEY TO DONALD REGAN RE: INTERNATIONAL DEBT GROUP	1	7/6/1983	B1

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

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

B-1 National security classified information [(b)(1) of the FOIA]
B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
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ID	*Document Type* *Document Description*	*No of pages*	*Doc Date*	*Restrictions*
131245	DRAFT MEMO DONALD REGAN TO THE SECRETARY OF STATE ET AL RE: INTERNATIONAL DEBT GROUP	1	ND	B1

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

B-1 National security classified information [(b)(1) of the FOIA]
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Int'l Financial System

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THE WHITE HOUSE

Office of the Press Secretary

FOR RELEASE AT 10:00 AM EDT,
TUESDAY, SEPTEMBER 27, 1983

TEXT OF REMARKS BY THE PRESIDENT TO THE ANNUAL MEETINGS OF THE BOARD OF GOVERNORS OF THE WORLD BANK AND INTERNATIONAL MONETARY FUND

Sheraton Ballroom
Sheraton-Washington Hotel
Washington, D. C.

September 27, 1983

On behalf of my fellow Americans, I am delighted to welcome you to the United States and to our Nation's Capital. And I am honored to have this opportunity to speak again to your distinguished members.

I say honored because I believe your institutions, the World Bank and affiliates, and the International Monetary Fund, serve noble purposes. There can be no higher mission than to improve the human condition and to offer opportunities for fulfillment in our individual lives and the life of our national and world communities. You are the leaders of the world community in bringing a better life to the diverse and often tragically poor people of our planet. You have worked tirelessly to preserve the framework for international economic cooperation and to generate confidence and competition in the world economy.

The unending quest for economic, social and human improvement is the basic drive that inspires and unites all of us. In 1945, when your great institutions were established, the civilized world had been brought to its knees by a wave of totalitarian violence that inflicted suffering, sacrifice, and the suppression of human rights on millions of innocent people.

Security, freedom and prosperity were very much on the minds of the citizens of the world in 1945. They should be on our minds today. The institutions you represent could not have been born, could not have flourished -- and may I add, will not survive -- in a world dominated by a system of cruelty that disregards individual rights and the value of human life in its ruthless drive for power. No state can be regarded as preeminent over the rights of individuals. Individual rights are supreme.

In this civilization we have labored so faithfully to resurrect, preserve and enhance, let us be ever mindful: It is not just development and prosperity, but ultimately our peace and freedom that are always at stake. Too often, the demands of prosperity and security are viewed as competitors when, in fact, they are complementary, natural and necessary allies. We cannot prosper unless we are secure, and we cannot be secure unless we are free.

The goals of the great international, political and economic insitutions -- the United Nations where I spoke yesterday, and the World Bank, its affiliates, and the IMF you represent here today -- were to be reached by trusting in a shared and enduring truth: The keys to personal fulfillment, national development, human progress and world peace are freedom and responsibility for individuals, and cooperation among nations. When I addressed the delegates of the United Nations yesterday I reminded them: You have the right to dream great dreams, to seek a better world for your people. And all of us have the responsibility to work for that better world. As caring, peaceful peoples, think what a powerful force for good we could be.

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Today, I come before your distinguished assembly in that same spirit -- a messenger for prosperity and security through the principles of freedom, responsibility and cooperation.

When our nations trusted in these great principles in the postwar years, the civilized world enjoyed unparalleled economic development and improvement in the human condition. We witnessed a virtual explosion of world output and trade, and the arrival of many free, self-determined, independent nation states as new members of the international system.

And, as I said when I last spoke to you, the societies that achieved the most spectacular, broad-based economic progress in the shortest period of time have not been the biggest in size, nor the richest in resources and certainly not the most rigidly controlled. What has united them all was their belief in the magic of the marketplace. Millions of individuals making their own decisions in the marketplace will always allocate resources better than any centralized government planning process.

Trust the people, this is the crucial lesson of history. Because only when the human spirit is allowed to worship, invent, create and produce, only when individuals are given a personal stake in deciding their destiny and benefitting from their own risks -- only then do societies become dynamic, prosperous, progressive and free.

In the turbulent decade of the 1970's, too many of us -- the United States included -- forgot the principles that produced the basis for our mutual economic progress. We permitted our governments to overspend, overtax and overregulate us toward soaring inflation and record interest rates. Now we see more clearly again. We are working and cooperating to bring our individual economies and the world economy back to more solid foundations of low inflation, personal incentives for saving and investment, higher productivity, and greater opportunities for our people.

Our first task was to get our own financial and economic houses in order. Our countries are interdependent, but without a foundation of sound domestic policies, the international economic system cannot expand and improve. Merely providing additional official development assistance will not produce progress. This is true for all countries, developed and developing, without exception. As the 1983 development report of the World Bank notes, "International actions can greatly improve the external environment confronting developing countries, but cannot supplant the efforts that the developing countries must make themselves."

I believe the United States is making real progress. Since we took office, we have reduced the rate of growth in our federal government's spending by nearly 40 percent; we have cut inflation dramatically, from 12.4 percent to 2.6 percent for the last 12 months; the prime interest rate has been cut nearly in half, from 21½ percent to 11 percent. Figures released last week reveal our Gross National Product grew at an annual rate of almost 10 percent in the second quarter and about 7 percent in the third.

In the United States, we still face large projected deficits which concern us because deficit federal spending and borrowing drain capital that could otherwise be invested for stronger economic growth. But as Secretary Regan correctly pointed out, in the Interim Committee Sunday, the deficit is coming down as a result of economic growth. Revenues are higher than anticipated and we expect continued improvement. We will continue to work for greater restraint in federal spending. But we will not risk sabotaging our economic expansion in a short-sighted attempt to reduce deficits by raising taxes. What tax increases would actually reduce is economic growth -- by discouraging savings, investment and consumption.

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One other point about the United States deficit: Let me make clear that it is caused in part by our determination to provide the military strength and political security to ensure peace in the world. Our commitment to military security is matched by our resolve to negotiate a verifiable nuclear arms reduction treaty. Only then can we safely reduce military expenditures and their drain on our resources. As I mentioned at the outset, there can be no lasting prosperity without security and freedom.

Turning more directly to economic development, all signs point to a world economic recovery gaining momentum. As early as last February, the Conference Board predicted that economic growth rates in the U.S. and six major industrial countries spell economic recovery in any language. Since then, industrial production in the OECD countries has been moving up. Your own IMF economists are predicting growth in the world economy of at least three percent next year. This is the brightest outlook in several years.

As the U.S. economy picks up steam, our imports rise with it. When you consider that half of all non-OPEC developing country manufactured goods exported to the industrialized countries come to the United States, it's clear what a strong stimulus our imports provide for economic expansion abroad. And as other economies prosper, our exports, in turn, increase. We all gain. Many nations are moving steadily forward toward self-sustaining growth. And like us, they are doing it by relying again on the marketplace. This period of adjustment has not been easy for us; in fact it has been very painful. But it is the one way that does work, and it is beginning to pay dividends.

Economic recovery is spreading its wings and taking flight. We all know those wings have not spread far enough. And I would add, recovery alone is not good enough. Our challenge is far greater: Lasting, worldwide economic expansion. Together, we must make the 1980's an historic era of transition toward sustained, non-inflationary world growth.. I have every confidence that we can -- and with our combined leadership and cooperation -- we will.

The IMF is the linchpin of the international financial system. Among official institutions, it serves as a counselor, coaxing the world economy toward renewed growth and stability. At various times in its history, the IMF has provided important temporary balance of payments assistance to its member nations -- including my own.. At times, it must play the "Dutch uncle," talking frankly, telling those of us in government things we need to hear, but would rather not. We know how significant the IMF's role has been in assisting troubled debtor countries, many of which are making courageous strides to regain financial health.

My Administration is committed to do what is legitimately needed to help ensure that the IMF continues as the cornerstone of the international financial system. Let me make something very plain: I have an unbreakable commitment to increased funding for the IMF. But the U.S. Congress so far has failed to act to pass the enabling legislation. I urge the Congress to be mindful of its responsibility, and to meet the pledge of our government.

The IMF quota legislation has been pending for several months, and I do not appreciate the partisan wrangling and political posturing that have been associated with this issue during recent weeks. I urge members of both political parties to lay aside their differences, to abandon harsh rhetoric and unreasonable demands, and to get on with the task in a spirit of true bipartisanship. The stakes are great. This legislation is not only crucial to the recovery of America's trading partners abroad, and to the stability of the entire international financial system, it is also necessary to a sustained recovery in the United States.

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The sum we are requesting will not increase our budget deficit and it will be returned with interest as loans are repaid to the IMF. What's more, it will keep the wheels of world commerce turning and create jobs. Exports account for one out of eight manufacturing jobs in the United States. Forty percent of our agricultural products are exported. I am afraid that, even today, too few in the Congress realize the United States is interdependent with both the developed and developing world.

Examine the record: The United States has been a dependable partner, reaching out to help developing countries who are laboring under excessive debt burdens. These major debtor countries have already undertaken difficult measures in a concerted effort to get their economic houses in order. Most of them are working closely with the IMF to overcome economic hardships. They continue to demonstrate a commendable willingness to make necessary adjustments. That is why I can state that our participation in the IMF quota increase is not a government bailout of these debtor countries, or of the banks which are sharing the burden. On the contrary, IMF plans to assist financially troubled countries call for the banks to put up more new money than the IMF itself.

This is by nature a cooperative enterprise. If the Congress does not approve our participation, the inevitable consequence would be a withdrawal by other industrialized countries from doing their share. At the end of this road could be a major disruption of the entire world trading and financial systems -- an economic nightmare that could plague generations to come. No one can afford to make light of the responsibility we all share.

We strongly support the World Bank; in fact, the United States remains its largest single contributor. We recognize its key role in stimulating world development and the vital assistance it provides to developing nations. Here again, I have proposed legislation to the Congress to meet our commitment for funding the World Bank, and especially the International Development Association. It is important that these funds be available to help the people in the poorest countries raise their standards of living. Tomorrow, Secretary Regan will be discussing both the Fund and the Bank in more detail. Because our investment in the World Bank's operations is so large, we feel a special responsibility to provide constructive suggestions to make it more effective.

Let me simply underscore again a fundamental point. And I say this as the spokesman for a compassionate, caring people. The heart of America is good and her heart is true. We have provided more concessional assistance to developing nations than any other country -- more than $130 billion over the last three decades. Whether the question at hand be bank project financing or fund balance of payments assistance, it must be considered a complement to, not a substitute for, sound policies at home. If policies are sound, financing can be beneficial. If policies are irresponsible, all the aid in the world will be no more than money down the drain.

As we work together for recovery, we must be on guard against storm clouds of protectionist pressures building on the horizon. At the recent Economic Summit in Williamsburg, my fellow leaders and I renewed our commitment to an open and expanding world trading system. The Williamsburg Declaration reads, "we commit ourselves to halt protectionism, and as recovery proceeds, to reverse it by dismantling trade barriers."

Whether such words will prove to be empty promises, or symbols of a powerful commitment, depends on the real day-to-day actions which each of our governments take. Everyone is against protectionism in the abstract. That is easy. It is another matter to make the hard, courageous choices when it is your industry or your business that appears to be hurt by foreign competition. I know. We in the United States deal with the problem of protectionism every day of the year.

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We are far from perfect, but the United States offers the most free and open economy in the world. We import far more goods than any nation on Earth. There is more foreign investment here than anywhere else. And access to our commercial and capital markets is relatively free.

Protectionism is not a problem solver, but a problem creator. Protectionism invites retaliation. It means you will buy less from your trading partners, they will buy less from you, the world economic pie will shrink and the danger of political turmoil will increase.

You know I have made this analogy before. But we and our trading partners are in the same boat. If one partner shoots a hole in the bottom of the boat, does it make sense for the other partner to shoot another hole in the boat? Some people say yes and call it getting tough. I call it getting wet -- all over.

We must plug the holes in the boat of open markets and free trade and set sail again in the direction of prosperity. No one should mistake our determination to use our full power and influence to prevent anyone from destroying the boat and sinking us all.

I firmly believe that we can and must go foward together, hand in hand, not looking for easy villains to explain our problems, but resolved to pursue the proven path on which these institutions embarked almost four decades ago -- a path of economic progress and political independence for all countries and for all people.

In closing, let me share with you a very deep personal belief I hold. We are all sovereign nations and, therefore, free to choose our own way as long as we do not transgress upon the sovereign rights of one another. But we cannot really be free as independent states unless we respect the freedom and independence of each of
our own individual citizens. In improving their lot, which is the only reason you and I hold high offices in our lands, we cannot forget that how we help them progress economically must be consistent with this highest objective of all -- their personal dignity, their independence and ultimately their freedomm. That is what this job of ours is all about.

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131246	MEMO DUPLICATE OF 131242	1	6/28/1983	B1

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

B-1 National security classified information [(b)(1) of the FOIA]
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131248	MEMO DUPLICATE OF 131243	1	ND	B1

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131249	MEMO DUPLICATE OF 131245	1	ND	B1

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