**Collection:**
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73

| ID | Doc Type | Document Description | No of Pages | Doc Date | Restrictions |
|---|---|---|---|---|---|
| 134231 | MEMO | ROGER ROBINSON TO ROBERT MCFARLANE RE: SIG-IEP MEETING ON U.S.-JAPAN TRADE | 3 | 4/1/1985 | B1 |
| 134232 | TALKING POINTS | RE: U.S.-JAPAN NEXT STEPS | 2 | ND | B1 |
| 134233 | PAPER | RE: NEGOTIATIONS WITH JAPAN (INCLUDES 1 P. COVER MEMO) | 6 | ND | B1 |
| 134234 | TABLE | ATTACHMENT RE: SAMPLE ITEMS FOR ACTION | 1 | ND | B1 |
| 134235 | MEMO | SUMMARY RE: SIG-IEP MEETING ON U.S. JAPAN TRADE NEGOTIATIONS, APRIL 2 | 2 | ND | B1 |
| 134236 | LIST | OF ATTENDEES AT SIG-IEP MEETING | 1 | 4/2/1985 | B1 |
| 134237 | LIST | OF ATTENDEES AT SIG-IEP MEETING | 1 | 4/15/1985 | B1 |

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| 134232 | TALKING POINTS<br>RE: U.S.-JAPAN NEXT STEPS | 2 | ND | B1 |

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THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

March 29, 1985

UNCLASSIFIED

MEMORANDUM FOR THE SECRETARY OF STATE
THE SECRETARY OF COMMERCE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF TRANSPORTATION
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS
DEPUTY SECRETARY OF THE TREASURY

SUBJECT: Senior Interagency Group on International Economic Policy

There will be a meeting of the SIG-IEP on Tuesday, April 2, 2:00 - 3:00 p.m. in the White House Situation Room. The agenda will be:

1. Status of U.S.-Japan Trade Negotiations

2. Economic Themes for the OECD Ministerial

Papers will be circulated prior to the meeting.

James A. Baker III

James A. Baker, III

cc: Staff Secretary and Deputy Assistant to the President
Deputy Assistant to the President for Cabinet Affairs

UNCLASSIFIED

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OFFICE OF THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

April 1, 1985

~~CONFIDENTIAL~~

MEMORANDUM FOR THE SECRETARY OF STATE
THE SECRETARY OF COMMERCE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF TRANSPORTATION
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS
DEPUTY SECRETARY OF THE TREASURY

SUBJECT: Senior Interagency Group on International Economic Policy

Attached are two discussion papers for the SIG-IEP meeting scheduled to be held on Tuesday, April 2, at 2:00 - 3:00 p.m. in the White House Situation Room. The Interagency Group on Japan prepared the paper on possible trade actions that could be used as leverage in market access negotiations with Japan. The more immediate focus for discussion, however, will be a report on the Sigur mission and responses thereto. Treasury prepared the paper on economic themes for the 1985 OECD Ministerial.

Edward J. Stucky

Edward J. Stucky
Acting Executive Secretary

cc: Staff Secretary and Deputy Assistant to the President
Deputy Assistant to the President for Cabinet Affairs

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|---|---|---|---|---|
| 134234 | TABLE<br>ATTACHMENT RE: SAMPLE ITEMS FOR ACTION | 1 | ND | B1 |

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1985 OECD Ministerial

U.S. Approach and Objectives
"Partners for Growth"

Basic U.S. Approach and Overall Objective

To lay the groundwork for productive meetings of the Interim/Development Committees and the Summit countries in the following weeks, we should adopt "partners for growth" as our overall theme to the OECD Ministerial. Through the tone and substance of U.S. statements, we can take a constructive, cooperative approach to the issues, altering the impression that the U.S. does not take its trading partners' views into serious consideration. An important part of this approach would be to indicate that the U.S. takes the budget deficit seriously. However, on issues that are particularly contentious, such as the new trade round or the U.S. current account deficit, we should push other OECD countries to accept their responsibilities for improving the international economic situation.

We would like the Ministerial to conclude on a positive note with renewed optimism about U.S. understanding of other countries' problems and about the opportunities for sustained noninflationary growth in the world economy. This new tone is needed to help:

-- establish a cooperative style/framework for the Spring Interim/Development Committee meetings following a week later; and

-- ensure a successful Bonn Summit in early May.

Specific Objectives

A. Session I: Cooperation for Adjustment and Resumed Progress in Developing Countries.

- -- continue to stress with other OECD countries that the dialogue with LDCs should emphasize strengthening market forces and minimizing government intervention in LDC economies;
- -- note the progress that has been made in implementing the debt strategy and reaffirm it, resisting calls for increased concessional finance;
- -- encourage LDCs to liberalize trade and investment regimes;
- -- note the major U.S. contribution to addressing the crisis situation in sub-Saharan Africa.


smr 03/26/2012

B. Session II: Strengthening the Rules of the Game, Particularly in Trade

-- Secure Ministerial endorsement for a new round of multilateral trade negotiations, to be launched in early 1986. If that is not possible, the United States should at a minimum strive for a formal commitment from the Ministers for a new round, to begin in 1986;

  -- will pave way for Bonn Summit endorsement;

-- obtain agreement to hold a GATT preparatory committee meeting on the new round in July 1985;

-- endorse Trade Committee agreement to consider over the next year ways to dismantle existing OECD trade barriers. However, this work on "rollback" of protectionist measures should not be given priority over new round;

-- secure Ministerial agreement to improve discipline in the use of mixed credits by raising the minimum grant element significantly (ask for 50 percent; fallback to 30-35 percent now with a Ministerial directive that the grant element will automatically be raised to 50 percent by the next Ministerial if an effective alternative is not devised).

-- reaffirm OECD commitment to avoid new protectionist measures;

-- note in Communique need for continuing work in OECD on services, high technology, agriculture and fisheries.

C. Session III: OECD Economies in the Mid-80's.

-- Agree that industrial nations have a shared responsibility for promoting growth worldwide;

-- note that this requires actions by all countries to improve their performance:

  -- agree that for the U.S. this means reducing our budget deficit in a manner consistent with growth, i.e. by cutting spending;

  -- encourage Europeans to fulfill their responsibilities by improving the flexibility of their economies to promote stronger growth and job creation;

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- urge the Japanese to open their markets further to foreign products and to accelerate deregulation and liberalization of capital markets, reflecting their major role in the world economy;

- agree that for everyone it is imperative to maintain the anti-inflation stance of macro policy;

- secure agreement that the OECD should intensify its work in the structural adjustment area. This would involve a new, Secretariat study on the linkages between structural adjustment and job creation, and intensified work on this subject in appropriate OECD committees. The analytical paper, with progress reports from the committees, would form a major document for the 1986 Ministerial;

- provide examples of how the market-oriented approach to industrial restructuring in the U.S. has been successful.

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| *ID* | *Document Type* / *Document Description* | *No of pages* | *Doc Date* | *Restrictions* |
|---|---|---|---|---|
| 134235 | MEMO<br>SUMMARY RE: SIG-IEP MEETING ON U.S. JAPAN TRADE NEGOTIATIONS, APRIL 2 | 2 | ND | B1 |

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| 134236 | LIST<br>OF ATTENDEES AT SIG-IEP MEETING | 1 | 4/2/1985 | B1 |

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THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

April 11, 1985

MEMORANDUM FOR THE SECRETARY OF STATE
THE SECRETARY OF COMMERCE
THE SECRETARY OF AGRICULTURE
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS
DEPUTY SECRETARY OF THE TREASURY
DIRECTOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

SUBJECT: Senior Interagency Group on International Economic Policy

There will be a meeting of the SIG-IEP on Monday, April 15, 5:00 p.m. in the White House Situation Room. The agenda will be the U.S. position on negotiations for a Multilateral Investment Guarantee Agency. A discussion paper is attached.

Beryl W. Sprinkel

Beryl W. Sprinkel
Acting Secretary

cc: Staff Secretary and Deputy Assistant to the President
Deputy Assistant to the President for Cabinet Affairs

# Multilateral Investment Guarantee Agency

## Issue

The World Bank has, with U.S. encouragement, developed a proposal for a Multilateral Investment Guarantee Agency (MIGA) which would provide political risk insurance for foreign direct investment in developing countries. The Bank is seeking agreement from its membership to proceed to negotiations on establishing the MIGA. The United States must decide whether to participate in these negotiations.

## Background

Since 1981 the World Bank has been exploring the feasibility of a multilateral facility which would operate like our own OPIC, to insure investors against non-commercial risks such as currency transfer risk, expropriation and war. Following extensive discussions in the Executive Board and consultations with member countries, the World Bank staff has drafted a convention for establishing a Multilateral Investment Guarantee Agency (MIGA) and has asked members whether they wish to proceed with finalizing the convention. (This next step could be carried out by the Executive Directors meeting as a Committee of the Whole or by representatives of interested governments in a negotiating group.)

Efforts to create a MIGA-type arrangement in the 1960s and 1970s failed, largely due to objections from Latin American countries to required standards of international arbitration. The current MIGA proposal is picking up some support among both developed (Japan, Italy, Netherlands) and developing countries (African and Middle Eastern countries), although most Latin American countries still oppose it and some industrial countries (Germany and France) are skeptical. Continued U.S. support will be crucial for the eventual creation of the MIGA.

The United States believes that in the long run foreign direct investment, as a source of non-debt creating external resources, technology transfer and managerial know-how, can make an important contribution to the development process and has urged developing countries to be more open to private flows. This position is reflected not only in the 1984 OECD Ministerial Declaration and the London Summit Communique, but has been a central theme in statements by the U.S. Governor at recent Development Committee meetings. Secretaries Regan and Shultz have supported World Bank efforts to develop a MIGA proposal because the concept is generally consistent with the Administration's private sector approach to development.

The potential benefits of a MIGA cannot be fully quantified in advance. A well-structured MIGA that is financially sound, leads to policy reform in developing countries, and facilitates investment protection and dispute settlement could be a positive force in facilitating foreign direct investament flows to LDCs.

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On the other hand, private sector political risk insurance has increased significantly in recent years, and is likely to continue to do so. Insurers and others in the U.S. private sector have mixed views on the appropriateness and desirability of establishing a potential competitor, although such organizations as the International Chamber of Commerce have expressed support.

Entering negotiations would not obligate the United States to participate in the MIGA. We would not do so unless the MIGA met our basic objectives. Interagency review of the MIGA proposal at the staff level indicates a general consensus that for the United States, a well structured MIGA would include the following important features: a clear mandate to encourage policy reform in developing countries; dispute settlement arrangements with automatic subrogation and arbitration; close policy and administrative ties to the World Bank; a conservative financial structure; a decision making structure which relates votes to financial contributions; and limitation of insurance coverage to foreign direct investment and to investments in LDCs. It will be difficult to achieve these objectives since many LDCs will find them objectionable.

If we successfully negotiate our objectives, there is a strong presumption that we will seek Congressional authorization and funding for U.S. participation in the MIGA. The cost could range from $20-$50 million paid-in and $150-180 million in contingent liabilities. (The U.S. contributions would probably be tranched over a 2-3 year period.) Including funding for MIGA in the budget could require trade offs with other international programs.

Recommendation

The United States should enter into negotiations on the MIGA. The draft convention for the MIGA is an acceptable basis to begin negotiations. The United States will work toward a MIGA which is consistent with U.S. development and investment policies and incorporates the important elements outlined in the paragraph above. Treasury will consult with Congress and work with other interested agencies in developing a U.S. position for the MIGA negotiations.

OASIA/IDP
4-10-85

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MEMORANDUM 2950 25

NATIONAL SECURITY COUNCIL

ACTION April 15, 1985

MEMORANDUM FOR ROBERT C. McFARLANE

FROM: DAVID G. WIGG DGW

SUBJECT: SIG-IEP Meeting On Multilateral Investment Guarantee Agency (MIGA), Monday, April 15, 5:00 p.m. Situation Room

The attached Treasury paper (Tab II) on the MIGA will serve as the basis for discussion at today's 5:00 p.m. SIG-IEP meeting in the Situation Room. I do not believe that this subject warrants either a SIG-IEP meeting or your attention at this point in time, but Treasury claims that Secretary Baker is anxious to achieve a Cabinet-level consensus on MIGA before the annual IMF/IBRD Interim Development Committee meetings begin later this week. Treasury is basically looking for a Cabinet-level endorsement to proceed to negotiate, rough consensus on a U.S. position and recognition of the potential budgetary tradeoffs accompanying membership in MIGA.

Key points are as follows:

- The World Bank is seeking agreement from its membership to proceed to negotiations on establishing the MIGA. Similar efforts failed in the 1960's and 1970's over objections from Latin American countries to required standards of international arbitration. The U.S. must decide whether to participate in these negotiations. A decision whether to join would come at a later date and would presumably hinge on the outcome of the negotiations.

- Support for MIGA is mixed -- Some developed and developing countries support it and a number do not (most Latin American countries oppose it and Germany and France are skeptical).

- Don Regan and Secretary Shultz have supported the MIGA proposal as consistent with the Administration's private sector approach to development (it will foster private direct foreign investment in LDC's) although private sector political risk insurers have mixed views on the desirability of having a new, public-sector competitor.

- The paper mentions a number of U.S. negotiating objectives, but to this list might be added the need to tie investment insurance criteria to conventional political risk analysis to help fend off political pressures to

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turn MIGA into a "soft window" to political risk coverage, and thereby undermining market pressures on LDC's to make their investment environments less risky. Attached (Tab I) are a few talking points for your use as appropriate.

m for
Bill Martin concurs.

RECOMMENDATION

That you agree with this assessment and the talking points for use in the SIG-IEP meeting on the MIGA today at 5:00 p.m. in the Situation Room.

Approve ______ Disapprove ______

Attachments
Tab I Talking Points
II SIG-IEP paper

PROPOSED TALKING POINTS

SIG-IEP Meeting On The Multilateral Investment Guarantee Agency (MIGA) on April 15 at 5:00 p.m., in the Situation Room

-- What is the proposed overall size of this program and the U.S. share? How much foreign direct investment could be supported if fully subscribed? Would the likely geographic dispersion of the program parallel IBRD lending? Is that desirable?

-- How would the MIGA relate to the OPIC and Eximbank programs and those of private firms and other OECD governments? We do not want to be in a situation where potential political pressures on a multilateral insurer to lower insurance norms undercut conventional political risk standards.

-- What is the basis for objections from other OECD countries? Do we have a realistic chance of moving the Latin American countries from their positions or will we end up in a situation where we have inadequate leverage?

-- Will U.S. support for this effort translate into political capital and leverage vis-a-vis the Latin debtors? On that subject, is anything unfavorable going to surface at the Interim meetings later this week?

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THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

April 11, 1985

MEMORANDUM FOR THE SECRETARY OF STATE
THE SECRETARY OF COMMERCE
THE SECRETARY OF AGRICULTURE
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS
DEPUTY SECRETARY OF THE TREASURY
DIRECTOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

SUBJECT: Senior Interagency Group on International Economic Policy

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Beryl W. Sprinkel

Beryl W. Sprinkel
Acting Secretary

cc: Staff Secretary and Deputy Assistant to the President
Deputy Assistant to the President for Cabinet Affairs

Multilateral Investment Guarantee Agency



## Issue

The World Bank has, with U.S. encouragement, developed a proposal for a Multilateral Investment Guarantee Agency (MIGA) which would provide political risk insurance for foreign direct investment in developing countries. The Bank is seeking agreement from its membership to proceed to negotiations on establishing the MIGA. The United States must decide whether to participate in these negotiations.

## Background

Since 1981 the World Bank has been exploring the feasibility of a multilateral facility which would operate like our own OPIC, to insure investors against non-commercial risks such as currency transfer risk, expropriation and war. Following extensive discussions in the Executive Board and consultations with member countries, the World Bank staff has drafted a convention for establishing a Multilateral Investment Guarantee Agency (MIGA) and has asked members whether they wish to proceed with finalizing the convention. (This next step could be carried out by the Executive Directors meeting as a Committee of the Whole or by representatives of interested governments in a negotiating group.)

Efforts to create a MIGA-type arrangement in the 1960s and 1970s failed, largely due to objections from Latin American countries to required standards of international arbitration. The current MIGA proposal is picking up some support among both developed (Japan, Italy, Netherlands) and developing countries (African and Middle Eastern countries), although most Latin American countries still oppose it and some industrial countries (Germany and France) are skeptical. Continued U.S. support will be crucial for the eventual creation of the MIGA.

The United States believes that in the long run foreign direct investment, as a source of non-debt creating external resources, technology transfer and managerial know-how, can make an important contribution to the development process and has urged developing countries to be more open to private flows. This position is reflected not only in the 1984 OECD Ministerial Declaration and the London Summit Communique, but has been a central theme in statements by the U.S. Governor at recent Development Committee meetings. Secretaries Regan and Shultz have supported World Bank efforts to develop a MIGA proposal because the concept is generally consistent with the Administration's private sector approach to development.

The potential benefits of a MIGA cannot be fully quantified in advance. A well-structured MIGA that is financially sound, leads to policy reform in developing countries, and facilitates investment protection and dispute settlement could be a positive force in facilitating foreign direct investament flows to LDCs.

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On the other hand, private sector political risk insurance has increased significantly in recent years, and is likely to continue to do so. Insurers and others in the U.S. private sector have mixed views on the appropriateness and desirability of establishing a potential competitor, although such organizations as the International Chamber of Commerce have expressed support.

Entering negotiations would not obligate the United States to participate in the MIGA. We would not do so unless the MIGA met our basic objectives. Interagency review of the MIGA proposal at the staff level indicates a general consensus that for the United States, a well structured MIGA would include the following important features: a clear mandate to encourage policy reform in developing countries; dispute settlement arrangements with automatic subrogation and arbitration; close policy and administrative ties to the World Bank; a conservative financial structure; a decision making structure which relates votes to financial contributions; and limitation of insurance coverage to foreign direct investment and to investments in LDCs. It will be difficult to achieve these objectives since many LDCs will find them objectionable.

If we successfully negotiate our objectives, there is a strong presumption that we will seek Congressional authorization and funding for U.S. participation in the MIGA. The cost could range from $20-$50 million paid-in and $150-180 million in contingent liabilities. (The U.S. contributions would probably be tranched over a 2-3 year period.) Including funding for MIGA in the budget could require trade offs with other international programs.

<u>Recommendation</u>

The United States should enter into negotiations on the MIGA. The draft convention for the MIGA is an acceptable basis to begin negotiations. The United States will work toward a MIGA which is consistent with U.S. development and investment policies and incorporates the important elements outlined in the paragraph above. Treasury will consult with Congress and work with other interested agencies in developing a U.S. position for the MIGA negotiations.

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