

**EXECUTIVE SECRETARIAT
ROUTING SLIP**

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21	ES		X		
22	ER SUSPENSE				

18 Mar 86
Date

Remarks
To 5: Please have necessary work started. Get back to DCI on how this will be structured and estimate for completion.

[Redacted Signature Box]

Executive Secretary
3 Mar 86
Date

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Executive Registry

88- 0878

28 February 1986

MEMORANDUM FOR: Deputy Director for Intelligence
 Associate Deputy Director for Intelligence
 Director, Office of African and Latin American Affairs, DI
 Director, Office of Global Issues, DI

FROM: Director of Central Intelligence

SUBJECT: Economic Intelligence

1. At the Intelligence Community Senior Management Conference this week, Bob Gates made a presentation on economic intelligence. It was full of important ideas and the five of us should examine it to determine what follow-up work is indicated.

25X1

2. I would like to give first priority to a comprehensive analysis of the instabilities and exposure of selected Third World governments from the failure of centralist economic management in various places around the world and the opportunities this creates for US leverage and influence in offsetting potential instabilities, gaining influence in those countries, and by example elsewhere in the world, and out-competing the largely military assistance, the marginal aid, and the inadequate market offered by the Soviets and their allies. You will recall, with and Herb Meyer playing the leading roles, that we did something of that kind in 1984 in a special assessment entitled Economic Forces for Change in the Third World. That was a reasonably good job but I think we should undertake something deeper and more specific.

25X1

3. I visualize that this project would look not only at the economic situation and the movement away from central economic management as the 1984 project did, but I would also look at the amounts and the nature of assistance provided by AID, the World Bank, OPIC, and economic assistance from other countries. It should look at the kind of projects financed, how they are allocated between agriculture, capital projects, small ventures, infrastructure, etc. It should look at the private flows of investment, technology, and management. It should look around for the types of this kind of flow which appear to have high economic leverage. For example, I came across a finished process for a boiler to generate power which is being used in Jordan with shale, in Jamaica with bagasse, and it burned almost anything. The results appear to be extraordinary with the replacement of oil imports very high in relation to capital investment. This technology has apparently been applied in well over 15 countries with the assistance of the World Bank and AID. I can get you more information on this and I will. An intelligence assessment showing what is happening out there in the Third World can be a strong stimulus to developing an effective policy to use our economic assets to enhance our security and political influence there.

DCI
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4. I note that there is currently going on a three-day session on privatization sponsored by AID as reported in this morning's newspapers.

5. I would suggest that you consult [redacted] on this. In his private capacity, he still seems to be pursuing this subject.

25X1

6. I attach an interesting paper by Bob Keating, our Ambassador to Madagascar, who had interested McFarlane and Poindexter in this question and who had been slated to be nominated as US Director at the World Bank.



William J. Casey

Attachments

11 July 1985

INTERNATIONAL PRIVATE ENTERPRISE:

WHEN WILL THE REAGAN REVOLUTION BEGIN?

The Challenge

Economic policies in the Third World (and industrial nations) are shifting toward market-oriented approaches. Many of these countries are just beginning to initiate practical policies which will gain momentum over the next 10 years. The President's goals as spelled out at Cancun and Williamsburg thus were timely and have the potential of delivering international economic growth through the stimulation of private enterprise. The strategy and mechanisms for carrying out the goals are, however, flawed. Thus, the challenge of implementing the President's program remains unfulfilled.

The Opportunities

This changing climate presents significant economic opportunities for the United States:

- To increase the promotion of small-scale enterprises within LDCs and the acceptance of new technologies.
- To enlarge the flow of foreign direct investment, and to help state enterprises to become more efficient and find ways to relinquish some functions to the private sector.
- To strengthen its trade, finance, and investment links with LDCs based upon a growing mutuality of economic interest.

Developing countries have finally perceived that the Soviet Union and its client states represent dismal examples of economic and industrial productivity. In addition, Soviet domestic economic and foreign financial constraints over the next 10 years will make Moscow even less able to compete in non-military sectors. Thus:

- the changing climate should strengthen the West's position relative to that of the Soviet Union if we take advantage of it, and
- in specific countries US security interests will often coincide with opportunities for economic support and can be mutually reinforcing.

The Obstacles

The growing American economy is an irresistible example impelling change in the economies of both the industrial and Third World countries. Although the richer LDCs have been able to advance economically by exporting, the

poorer LDCs will have to depend on the emergence of small-scale, domestically-oriented enterprises as their main engine of growth.

- These poorer countries are groping with new approaches because they have seen their socialist-centralized economic policies fail and realize they cannot afford the burden of inefficient government bureaucracies and ponderous state enterprises.
- They have also seen how price incentives in China and elsewhere have boosted agricultural production and general economic growth.

But many Third World leaders are moving slowly because they feel threatened by a loss of political control caused by the diffusion of economic power.

- How does the US encourage a tilt toward free-market policies while helping reduce the fears as to political instability?

AID is not the solution. In fact, it is part of the problem. Western countries have built ponderous bureaucracies of their own which for the most part administer security assistance and welfare without contributing to economic growth.

- Bureaucratically, AID opposes new initiatives to address this issue which are beyond its control, as a matter of turf.

AID has an important role as part of the process. It can use its programs to create leverage for policy change and the dismantling of state enterprises. However, it has neither the philosophy nor the capability to promote private enterprise.

Thus, we are at a stalemate. The mechanism does not exist to pull together security, welfare, trade liberalization, and economic interests for the constructive promotion of private economic development in a country or region abroad.

The Crucial Questions

- Is the Administration willing to commit the political capital necessary to address this issue through legislative change?
- Is the President aware that, despite the positive climate for change, his program to encourage economic growth and more open societies through the stimulation of private enterprise remains unfulfilled?
- Is the Administration satisfied with the current means of coordination of US policy for foreign assistance, trade and security assistance to key countries and regions?
- Are we going to depend upon AID and its staff to promote international private enterprise, or is there a better way?

IN CHARGE OF AFFAIRS SAM DEPT, WASHINGTON 20520

TO DEPT OF STATE, ANOXE, RM 5240
FOR THE HONORABLE ROBERT B. KEATING

1. WE HAVE RECEIVED THE FOLLOWING IN THE JULY 8 POUCH AND
ARE HOLDING THE ORIGINAL AT POST

THE WHITE HOUSE

WASHINGTON

JUNE 24, 1985

DEAR BOB:

I WANT TO THANK YOU FOR ALL YOUR WORK TO IMPROVE
U.S. FOOD ASSISTANCE IN BOTH EMERGENCY AND
NON-EMERGENCY SITUATIONS. AS CHAIRMAN OF THE
NATIONAL SECURITY COUNCIL STUDY ON HUNGER RELIEF
ASSISTANCE IN THE THIRD WORLD, YOU DEVELOPED
INNOVATIVE PROPOSALS TO FEED THE WORLD'S HUNGRY.

YOUR RECOMMENDATIONS ON SPEEDING UP EMERGENCY
FOOD ASSISTANCE WILL HELP ENSURE THAT CRISES
LIKE ETHIOPIA DO NOT AGAIN TAKE PLACE. AS A
LONGER-TERM SOLUTION TO FOOD PRODUCTION PROBLEMS
IN DEVELOPING COUNTRIES, YOUR "FOOD FOR
PROGRESS" PROGRAM WILL FORM THE CORE OF OUR
NATION'S EFFORTS TO FOCUS OUR FOOD AID AS A
MEANS TO INCREASE RATHER THAN DECREASE ESSENTIAL
FOOD PRODUCTION IN COUNTRIES WHERE MANY GO HUNGRY.

I COULD GO ON RECOUNTING YOUR ACHIEVEMENTS IN
THIS AREA, BUT PERHAPS THE MOST IMPRESSIVE
ASPECT OF YOUR ACHIEVEMENTS IS THAT YOU
ACCOMPLISHED THESE REFORMS WHILE STILL CARRYING
OUT YOUR CRUCIAL RESPONSIBILITIES AS OUR ENVOY
TO MADAGASCAR AND THE COMOROS. MANY COUNTRIES
IN THE WORLD WILL BENEFIT-- IN THE FUTURE-- FROM
YOUR EFFORTS AND INNOVATIONS.

SINCERELY,

RONALD REAGAN

THE HONORABLE ROBERT KEATING
AMBASSADOR TO THE DEMOCRATIC
REPUBLIC OF MADAGASCAR AND
THE FEDERAL AND ISLAMIC
REPUBLIC OF THE COMOROS
ANTANANARIVO

2. CONGRATULATIONS AND BEST REGARDS,

SAM REA

FM AMBASSADOR ROBERT B. KEATING, ANTANANARIVO 12542 SECTION 1 OF 3
TO ROBERT C. MCFARLANE, THE WHITE HOUSE FOR
VADM JOHN M. POINDEXTER

TO: ROBERT C. MCFARLANE, THE WHITE HOUSE
VADM JOHN M. POINDEXTER

FROM: AMBASSADOR ROBERT B. KEATING

SUBJECT: THE REAGAN REVOLUTION IN DEVELOPMENT ASSISTANCE

(THE FOLLOWING EVALUATION IS THE RESULT OF OVER TWO DECADES OF CLOSE ENCOUNTERS OVERSEAS WITH AID PROGRAMS WHOSE LARGE OVERHEAD COSTS AND IMPRECISE RESULTS WITH RESPECT TO U.S. OBJECTIVES OFTEN PUZZLED AND CONCERNED ME. I HAVE OBSERVED AND INTERACTED WITH THESE PROGRAMS IN THE COURSE OF EXTENSIVE EXPERIENCE GRAPPLING WITH THIRD WORLD DEVELOPMENT PROBLEMS AS: STAFF ENGINEER WITH THE WORLD BANK; DIRECTOR OF THE CHILE-CALIFORNIA PROGRAM; SENIOR ADVISOR TO THE INTER-AMERICAN DEVELOPMENT BANK; DIRECTOR GENERAL OF THE MINISTRY OF PUBLIC WORKS IN ZAIRE; SENIOR CONSULTANT TO U.S. INDUSTRIES IN AFRICA, LATIN AMERICAN AND SOUTHEAST ASIA; U.S. AMBASSADOR TO MADAGASCAR AND THE COMOROS, AND CHAIRMAN OF THE NSC-DIRECTED THIRD WORLD HUNGER STUDY.)

IN THE PAST TEN YEARS, CHANGING CIRCUMSTANCES IN THE THIRD WORLD HAVE CREATED A NEW CONTEXT FOR ECONOMIC AND POLITICAL RELATIONS AND NEW OPPORTUNITIES FOR U.S. FOREIGN POLICY. WE HAVE SO FAR FAILED TO CAPITALIZE ON THE POTENTIAL OF THESE CHANGES. THEY CREATE AN UNPRECEDENTED OPPORTUNITY FOR THE UNITED STATES TO BUILD TIES TO THE THIRD WORLD BASED ON EMERGING MUTUALITY OF ECONOMIC INTERESTS. A REAGAN REVOLUTION IN DEVELOPMENT ASSISTANCE IS NEEDED IF WE ARE TO MEET THESE CHALLENGES.

THE CHANGING ECONOMIC CIRCUMSTANCES

SOCIALIST SYSTEMS WHICH HAVE DOMINATED THE ECONOMIES OF DEVELOPING COUNTRIES FOR SEVERAL DECADES HAVE FAILED TO ACHIEVE ECONOMIC GROWTH. THEY HAVE EMPHASIZED URBAN DEVELOPMENT AT THE EXPENSE OF THE COUNTRYSIDE AND ITS AGRICULTURE, DRIVING FARMERS INTO MERE SUBSISTENCE. CENTRAL PLANNERS SET UP INEFFICIENT STATE ENTERPRISES AT ENORMOUS COST, BANKRUPTING THEIR ECONOMIES. TIMES GOT TOUGHER IN THE SEVENTIES. TWO OIL HIKES, TWO RECESSIONS, ACCUMULATED DEBT AND HIGH INTEREST RATES ALL MADE DEVELOPMENT MORE DIFFICULT. WITH THE FAILURE OF PRODUCER CARTELS AND OPEC'S CURRENT PROBLEMS, DEVELOPING COUNTRIES NOW REALIZE THEY HAVE LESS COLLECTIVE POWER THAN EARLIER IMAGINED.

~~LOOKING FOR WAYS OUT OF THEIR ECONOMIC DIFFICULTIES AND~~
ASSISTANCE FOR THEIR NATION-BUILDING NEEDS, DEVELOPING COUNTRIES
HAVE FINALLY PERCEIVED THAT THE SOVIET UNION AND ITS CLIENT
STATES ARE DISMAL EXAMPLES OF AGRICULTURAL AND INDUSTRIAL
PRODUCTIVITY. UNABLE TO SUPPLY MUCH ECONOMIC ASSISTANCE, THE
SOVIET UNION HAS HAD TO BIND THEM TO ITS SIDE WITH SUPPLIES OF
SURPLUS MILITARY EQUIPMENT. MEANWHILE, WESTERN DEVELOPMENT
AGENCIES BUILT PONDEROUS BUREAUCRACIES AT HOME AND ABROAD TO
ADMINISTER RURAL WELFARE TO THE POOREST OF THE POOR, WITHOUT
CONTRIBUTING TO ECONOMIC GROWTH.

IN THIS DARK LANDSCAPE, THERE IS LIGHT AND IT COMES FROM
AN EXPANDING AMERICAN ECONOMY WHICH STANDS AS A MODEL AND
PULLING ENGINE FOR WORLD ECONOMIC GROWTH. AMONG DEVELOPING
COUNTRIES, THOSE WITH THE MOST OPEN ECONOMIES AND CLOSEST TIES
WITH THE UNITED STATES (E.G., THE ASEAN COUNTRIES) HAVE MOST
EFFECTIVELY OVERCOME THE LAST DECADE'S ADVERSE ECONOMIC CIRCUM-
STANCES. TECHNOLOGIES FROM U.S.-SPONSORED RESEARCH ARE OPENING
A NEW ERA OF PRODUCTIVITY FOR THIRD WORLD FARMERS. BECAUSE OF
OIL CONSERVATION, OPEC'S CARTEL IS BROKEN WITH THE PROSPECT THAT
DEVELOPING COUNTRIES CAN NOW AFFORD PESTICIDES, FERTILIZERS AND
FUEL FOR IRRIGATION AND MACHINERY. UNDERNEATH THE SURFACE
OF STATE REGULATION, BURGEONING SECOND ECONOMIES ARE BREAKING
OPEN OLD CONTROLS, CAUSING CENTRALLY-DIRECTED ECONOMIES TO
CHANGE. THIRD WORLD LEADERS, ONCE ENAMORED OF SOCIALIST
MODELS, ARE NOW BETTING ON MARKET-ORIENTED POLICY CHANGES IN
FOUR CRITICAL AREAS:

- AGRICULTURAL PRICES
- MARKETING REFORM AND LIBERALIZATION
- INPUT SUPPLY AND DISTRIBUTION
- PRIVATE SECTOR INVOLVEMENT IN AGRICULTURE AND INDUSTRY

IMPLICATIONS FOR U.S. POLICY

THE GROWING AMERICAN ECONOMY IS AN IRRESISTABLE FORCE
IMPELLING CHANGE IN THE ECONOMIES OF THE THIRD WORLD. IN A
SYSTEM OF FREE TRADE, THE UNITED STATES AND DEVELOPING NATIONS
ARE INEXTRICABLY TIED TOGETHER BY THE MUTUALITY OF ECONOMIC
INTERESTS.

ALTHOUGH BUDGETARY CONSTRAINTS WILL REQUIRE CUTS IN OUR
DEVELOPMENT ASSISTANCE, ECONOMIC GROWTH IN THE UNITED STATES
AND THE FREE WORLD IS CREATING PRIVATE INVESTMENT CAPITAL THAT,

IF PROPERLY ENCOURAGED, COULD HELP TURN AROUND THE ECONOMIES OF DEVELOPING COUNTRIES. THIRD WORLD LEADERS ARE INCREASINGLY AWARE OF THIS AND RECOGNIZE THAT THEIR COUNTRIES' ECONOMIC SALVATION LIES IN THE WEST, WITH THE EAST PROVIDING LITTLE IN THE WAY OF CREDIBLE NATION-BUILDING ALTERNATIVES.

THE SOVIET BLOC HAS FEW REAL RESOURCES TO COUNTER THESE ECONOMIC AND POLITICAL TRENDS. IT IS NOT ABLE TO PROVIDE MUCH OF A GROWTH MARKET FOR THIRD WORLD EXPORTS. THE SUPPLY OF SOVIET OIL TO FAVORED DEVELOPING COUNTRIES WILL DIMINISH WITH FALTERING DOMESTIC PRODUCTION AND INCREASING NEEDS AT HOME. FOREIGN EXCHANGE STRINGENCIES WILL KEEP MOSCOW FROM PROVIDING HARD CURRENCY LOANS. DOMESTIC SHORTAGES OF GOODS AND SKILLED MANPOWER WILL LIMIT COMMODITY AND PROJECT AID. IN SUM, SOVIET DOMESTIC ECONOMIC AND FOREIGN FINANCIAL CONSTRAINTS WILL MAKE MOSCOW EVEN LESS INCLINED TO ACCEPT COSTLY NEW BURDENS LIKE CUBA AND VIETNAM. IN TRIMMING OUTLAYS THROUGHOUT THEIR EMPIRE, THEY ALSO MUST PARE ECONOMIC SUPPORT FOR CLIENT STATES.

AT THE SAME TIME, THIRD WORLD LEADERS ARE UNEASY ABOUT THEIR ABILITY TO STAY IN POWER DURING THE DIFFICULT PERIOD OF TRANSITION TO A HEALTHIER ECONOMY. THIS GIVES GREATER EMPHASIS TO SECURITY ISSUES IN EAST-WEST COMPETITION FOR THE THIRD WORLD. MOSCOW WILL HAVE TO RELY MORE HEAVILY ON SHIPMENTS OF ARMS TO SUSTAIN ITS INFLUENCE. THE UNITED STATES HAS A GREAT ADVANTAGE IN SECURITY ASSISTANCE BECAUSE IT CAN TAILOR SUCH PROGRAMS TO MEET REAL DEFENSE NEEDS. IF THE PRICE IS RIGHT, THE WEST IS PREFERRED FOR THIRD WORLD SECURITY ASSISTANCE.

THE CHALLENGE OF THE INTERIM PERIOD

THIRD WORLD GOVERNMENTS, ONCE DOMINATED BY SOCIALIST ECONOMIC SYSTEMS, ARE NOW ATTEMPTING TO LIBERALIZE THEIR ECONOMIES AND MAKE THEM MORE EFFICIENT. THEY HAVE AGREED TO THE POLICY REFORMS STIPULATED BY THE IMF, AND HAVE MADE PROGRESS TOWARDS BETTER ECONOMIC AND FINANCIAL MANAGEMENT. BUT RESTORING GROWTH TO STAGNANT ECONOMIES IS A DIFFICULT AND LENGTHY TASK. MOREOVER, THE ACTUAL IMPLEMENTATION OF CRITICAL POLICY MEASURES, LOANS AND PROJECTS HAS SLIPPED IN MANY OF THESE COUNTRIES. THIS MEANS THAT EVEN LONGER PERIODS OF ECONOMIC AUSTERITY MUST BE ENDURED BEFORE HEALTHIER ECONOMIES CAN EVOLVE, IN SOME INSTANCES UP TO FIVE YEARS.

WE MUST ALSO RECKON WITH THE POLITICAL VULNERABILITY OF THIRD WORLD LEADERS WHO HAVE TAKEN THE HARD POLICY DECISIONS. WHILE SETTING IN MOTION NEW REFORM MEASURES WHICH WILL YIELD POSITIVE RESULTS SEVERAL YEARS HENCE, THESE LEADERS MUST

SIMULTANEOUSLY CONTEND WITH URGENT POLITICAL AND SOCIAL PRESSURES EXERTED BY THE INTERIM PERIOD OF ECONOMIC HARDSHIP. IF NOT HANDLED CORRECTLY, SUCH PRESSURES COULD DERAILED EFFORTS TO RESTORE ECONOMIC GROWTH AND CREATE THE KIND OF INSTABILITY WHICH THE SOVIETS SO SKILLFULLY EXPLOIT.

THE CHALLENGE TO U.S. FOREIGN POLICY IS TO HAVE THESE LEADERS STAY ON COURSE AND NOT YIELD TO SHORT-TERM POLITICAL EXPEDIENCY AT THE EXPENSE OF THEIR COUNTRIES' FUTURE ECONOMIC INTERESTS. AT THIS POINT IN HISTORY, WE HAVE, IN MANY THIRD WORLD COUNTRIES, A MAJOR SUNK INVESTMENT IN THE FORM OF WORLD BANK LOANS, IMF STAND-BY ARRANGEMENTS AND COMMERCIAL FINANCING THAT WILL BE LOST IF POLICY CHANGES ARE NOT UPHELD AND ECONOMIC GROWTH RENEWED. IN THIS CONTEXT, THE NEW ECONOMIC POLICY INITIATIVE TO SUPPORT POLICY REFORM IN SEVERAL AFRICAN COUNTRIES OVER THE NEXT FIVE YEARS WILL HELP BRIDGE THE GAP BETWEEN ECONOMIC STAGNATION AND RECOVERY. PLACED ALONGSIDE THIS WILL BE THE KEATING-GROUP "FOOD FOR PROGRESS" PROPOSAL WHEREBY USG-OWNED FOOD STOCKS WILL BE USED FOR A FOUR-YEAR PERIOD TO REDUCE THE FOOD RISK TO THIRD WORLD GOVERNMENTS UNDERTAKING AGRICULTURAL PRICE AND POLICY REFORM.

WE NEED AS WELL EMERGENCY RECOVERY PROGRAMS DESIGNED TO INCREASE PRODUCTION ON SMALLHOLDER FARMS CLOSE TO URBAN CENTERS. RECORDS IN MANY COUNTRIES SHOW THAT SUCH AREAS HAVE, IN THE PAST, PRODUCED SIGNIFICANT QUANTITIES OF FOOD BY FARMERS CAPABLE OF QUICK PRODUCTION RESPONSE IF GIVEN A FAIR PRICE FOR THEIR PRODUCE. OUR AMBASSADORS IN THIRD WORLD COUNTRIES SHOULD HAVE THE AUTHORITY TO DEVELOP AND FUND, IN CONSULTATION WITH AID TEAMS, PRODUCTION IMPACT PROJECTS WHICH WOULD HELP UNLEASH THIS POTENTIAL BY PROVIDING INFRASTRUCTURE REPAIR AND FARMER SERVICES ACCORDING TO LOCALLY DETERMINED NEEDS. WHILE LONGER-TERM AGRICULTURAL DEVELOPMENT EFFORTS MUST CERTAINLY BE MADE, THE CRISIS OF THE INTERIM PERIOD DEMANDS EMERGENCY PROGRAMS WHICH WOULD BOOST PER CAPITA AGRICULTURAL OUTPUT AS QUICKLY AS POSSIBLE. UNFORTUNATELY, AID IS NOT ALLOCATING RESOURCES TO SUCH SHORT-TERM RECOVERY EFFORTS.

THE AFRICAN DILEMMA

THE LAND IS DYING IN MANY PARTS OF AFRICA. SOUTH OF THE STEADILY ENCROACHING SAHARA DESERT, 29 OF THE WORLD'S 36 POOREST NATIONS ARE APPEALING FOR EMERGENCY AID TO WARD OFF FAMINE. HUNGER AND EXTREME MALNUTRITION NOW THREATEN OVER 14 MILLION PEOPLE THROUGH THE END OF 1985. A DROUGHT FAR WORSE THAN ANYTHING HITHERTO EXPERIENCED IN THE REGION, PLUS THE INSTABILITY OF REGIMES AND THEIR ILL-ADVISED POLICIES,

HAVE BADLY DAMAGED AGRICULTURAL SECTORS, DRIVING MANY FARMERS INTO MERE SUBSISTENCE. DESPERATION HAS CAUSED OVERPLANTING AND OVERGRAZING OF MARGINAL LANDS. PEASANTS CUT DOWN TREES FOR MONEY TO BUY FOOD, DEPLETING FORESTS AT AN ALARMING RATE. RAIN IS NO LONGER RECYCLED, AND IRRIGATION IS DETERIORATING. MOREOVER, IN SPITE OF EPIDEMICS AND HIGH INFANT MORTALITY, POPULATION PRESSURES ARE AMONG THE GREATEST IN THE WORLD WITH NET ANNUAL GAINS OF THREE PERCENT OR MORE, OR ABOUT 20 MILLION PEOPLE A YEAR.

WHAT TO DO? WE SHALL CONTINUE, OF COURSE, TO SEND FOOD TO FEED THE STARVING. THE PRESIDENT LAST YEAR APPROVED THE KEATING GROUP'S TEN RECOMMENDATIONS FOR ACHIEVING MORE RAPID RESPONSE TO THIRD WORLD FOOD CRISES, AND A TREMENDOUS OUTPOURING OF ASSISTANCE HAS TAKEN PLACE. BUT TODAY'S FOOD EMERGENCY REEMPHASIZES THE NEED TO TACKLE THE UNDERLYING STRUCTURAL PROBLEMS OF AGRICULTURAL STAGNATION. ARRESTING AND REVERSING DECLINING FOOD PRODUCTION CAN ONLY HAPPEN THROUGH FUNDAMENTAL CHANGES. IF THEY DO NOT TAKE PLACE, THEN WE MUST BE PREPARED TO UNDERWRITE INDEFINITELY SUBSAHARAN AFRICA'S SURVIVAL WITH EVER INCREASING FOOD AID PROGRAMS, KNOWING THAT MENDICANCY TENDS TO BECOME INSTITUTIONALIZED AND PERMANENT.

OBVIOUSLY, OUR BUDGET WILL NOT PERMIT US TO ADDRESS PROBLEMS OF THIS MAGNITUDE WITH BROADLY-BASED DEVELOPMENT FROM THE BOTTOM RUNG UP, IN THE MODE OF CURRENT AID POLICY. HELPING THE LANDLESS POOR WITH HEALTH, EDUCATION OR OTHER SOCIAL PROGRAMS, HOWEVER LAUDABLE, WILL NOT PRODUCE BADLY-NEEDED ECONOMIC GROWTH, PARTICULARLY DURING THE TRANSITIONAL PERIOD TO MORE MARKET-ORIENTED ECONOMIES. WE MUST CONCENTRATE OUR RESOURCES INTO THE AREAS WHICH MATTER MOST IF WE ARE TO "TURN-AROUND" THE ECONOMIES OF KEY AFRICAN STATES. THIS IS POSSIBLE IF WE REALLOCATE OUR AVAILABLE RESOURCES TO STRENGTHEN FOOD PRODUCING CAPACITY, IF WE PUSH RIGOROUSLY FOR AGRICULTURAL POLICY REFORM, AND IF WE HELP MOBILIZE THE PRIVATE SECTOR TO PROVIDE AGRICULTURAL INPUTS, FOOD PROCESSING, STORAGE AND MARKETING. AFRICA COLLECTIVELY HAS THE GREATEST UNTAPPED AGRICULTURAL POTENTIAL IN THE WORLD. SHARPLY FOCUSED AND SKILLFULLY DIRECTED U.S. ASSISTANCE CAN BRING THAT POTENTIAL TO FRUITION.

THE REAGAN REVOLUTION IN DEVELOPMENT ASSISTANCE

IN ITS FIRST TERM, THE REAGAN ADMINISTRATION MISSED AN OPPORTUNITY TO MAKE AID AN EFFECTIVE INSTRUMENT OF ADMINISTRATION FOREIGN ASSISTANCE GOALS. HOWEVER, THE SUCCESS OF THE ADMINISTRATION'S ECONOMIC POLICIES NOW ENHANCES ITS ABILITY TO GENERATE A FOREIGN ASSISTANCE PROGRAM WHICH AMERICAN PEOPLE

CAN UNDERSTAND AND THE AMERICAN CONGRESS CAN SUPPORT. AT THE SAME TIME, A COMPLEX OF FACTORS HAS GIVEN US ANOTHER CHANCE TO PROMOTE ECONOMIC GROWTH AND STRENGTHEN POLITICAL RELATIONS IN THE THIRD WORLD. WE CANNOT AFFORD TO LET THE OCCASION SLIP BY AGAIN. IN SUM, I CONCLUDE THAT:

1. CHANGING ECONOMIC CIRCUMSTANCES GIVE US NEW OPPORTUNITIES TO BUILD LASTING TIES TO THE DEVELOPING WORLD.
2. WE MUST MAKE A SPECIAL EFFORT TO SUPPORT THIRD WORLD COUNTRIES IN THEIR DIFFICULT TRANSITIONAL PERIODS TO MORE MARKET-ORIENTED ECONOMIES.
3. WE CANNOT CONTINUE TO PLACE OUR AVAILABLE RESOURCES ON UNPRODUCTIVE, ALBEIT WORTHY DEVELOPMENT PROJECTS. THEY MUST BE REGROUPED INTO THE AREAS WHICH MATTER MOST: AGRICULTURAL DEVELOPMENT, POLICY REFORM AND PRIVATE SECTOR INITIATIVES.
4. WE NEED A DISCIPLINED APPROACH TO DEVELOPMENT IMPLEMENTATION. LOOKING AT AID, AS IT IS NOW CONSTITUTED, I FIND IT EXCESSIVELY LAYERED WITH MINUTE SUBDIVISION OF LABOR WHICH DOES NOT RESULT IN INCREASED PRODUCTIVITY. I ASK THE FOLLOWING QUESTIONS:
 - A) ARE THE "FOUR PILLARS" OF DEVELOPMENT, AS INTERPRETED BY AID, THE RIGHT ONES?
 - B) ARE FINANCIAL RESOURCES TARGETED AT THE PRIORITY AREAS OF OPPORTUNITY?
 - C) ARE PERSONNEL RESOURCES DEPLOYED IN A RATIONAL MANNER CONSISTENT WITH PRIORITY TASKS?
 - D) DOES CURRENT AID POLICY FORMULATION EFFECTIVELY SUPPORT U.S. FOREIGN POLICY, NATIONAL SECURITY AND TRADE INTERESTS, WHETHER BY REGION OR COUNTRY?
 - E) ARE AID PROGRAMS, OTHER THAN EMERGENCY RELIEF, COMPREHENSIBLE TO THE AMERICAN PUBLIC AND CONGRESS?
 - F) IS AID DECISION-MAKING PLUGGED INTO AN ANALYTICAL FRAMEWORK WHICH EXAMINES ALL FOREIGN ASSISTANCE INSTRUMENTALITIES IN TERMS OF OBJECTIVES AND TRADE-OFFS?
 - G) HAS AID SUCCEEDED IN PROMOTING PRIVATE ENTERPRISE IN THIRD WORLD NATIONS?

I CONCLUDE THAT THE ANSWER TO EACH OF THE ABOVE CRITICAL QUESTIONS IS IN LARGE PART "NO". AID MUST BE RESTRUCTURED IF NEW OPPORTUNITIES ARE TO BE SEIZED AND THE GOALS OF THE REAGAN

ADMINISTRATION REALIZED. TO TURN THE AGENCY AROUND, WE FIRST
NEED TO REMOVE THE ORGANIZATIONAL DISTANCE BETWEEN AID AND
STATE TO ENSURE THAT OUR FOREIGN POLICY, NATIONAL SECURITY
AND TRADE INTERESTS ARE PROPERLY MESHED. THEN WE MUST
STABILIZE AID AS AN ORGANIZATION BY FURTHER INTEGRATING IT
INTO THE FOREIGN SERVICE, CUTTING AWAY THE DEAD WOOD,
ATTRACTING NEW TALENT AND REWARDING PRODUCTIVE WORK WITH
CAREER INCENTIVES. FINALLY, AID PROGRAMS MUST BE DEvised
THAT ARE DEMONSTRABLY PRODUCTIVE AND MARKETABLE TO THE AMERICAN
PEOPLE AND CONGRESS.

KEATING

C O N F I D E N T I A L

BT

#2542

NNNN

Proposal for a Program of US-Third World Partnership

Since 1980, the Administration has focused on revitalizing the US economy. The results to date have been impressive. Growth has increased and millions of new jobs have been created. Unemployment has been driven down and the back of inflation has been broken. At the same time, the United States has been a major purchaser of goods from the rest of the world.

Simultaneously our defense buildup has helped increase the security of both the United States and the free world. At the same time, country after country in the Third World has turned more towards democracy. Uruguay, Argentina, Brazil, Honduras, Guatemala and now the Philippines are examples of this.

Taken together, all of these positive developments have helped slow the pace of Soviet gains in the Third World. Increasingly the Kremlin's glamour as an economic model has dimmed and rusted. Most of Moscow's links are now through arm supply, internal security, military forces, and the like. While the United States and the other countries of the Western Alliance have maintained their commitment to development aid, the Soviet Union has done little or nothing to help the economic well being of people throughout the Third World.

As it is, numerous socialist countries have been tilting towards the West because they can see what capitalism has to offer. In West Africa alone, Guinea, Mali, Guinea-Bissau, the Congo, Cape Verde and Benin have begun to moderate their socialist tendencies in an attempt to become more closely linked with the economic vitality and advanced technology of the West.

From a Third World perspective, it is hard to ignore the lessons of what is being referred to as Newly Industrialized Countries. Much of the surge in their growth has rested on their outward looking export-led policies that are capitalist in nature.

Now is the time to embark on a new program to solidify the gains that have been made and to provide a base for future economic growth that would enhance prospects for political stability throughout the Third World. To the extent we succeed, we can help ensure that the freedom numbing influence of Communist expansion is checked and indeed is reversed.

From a Third World perspective, now is the time to act. In recent years the Third World has been buffeted by low commodity prices, weakened export sales to Western markets hit by recession, and a growing debt burden. From an LDC perspective, this is only the first wave of economic problems. Unless things begin to change, these difficulties will be joined further down the road by the impact of the high technology revolution, continued population growth, and a host of food, water, and other resource problems.

To meet these challenges, the United States is embarking on a new Program of Partnership with the developing world. Seen in its totality, this program

consists of bureaucratic changes and new funding mechanisms coupled with hard hitting programs to be aimed at directly meeting local development needs.

Bureaucratic Changes

To help begin implementing this program, a special interagency task force will be established that will coordinate US policy towards the Third World and monitor its implementation. This group will be chaired by the NSC to stress the fact that Third World economic developments directly and indirectly affect the national security interests of the United States.

This task force will draw together the relevant elements of the Department of Commerce, State, and Treasury, as well as key elements elsewhere in the Executive Branch--such as the EXIM Bank, AID and the like--that have resources which can be brought to bear in a systematic manner.

The group will be tasked with laying out the specifics of a plan of action to offer development help and funds, and at the same time mobilize private sector involvement in Third World countries willing to move toward a capitalist model of development and growth. The group will also help set up regional based institutes to tackle longer term issues, such as infrastructure integration, food development and the like.

Looking at the aggregate level, the goals will basically be to redirect aid to where host government response is positive and at the same time ensure our government departments and agencies are finding creative ways to not only capitalize on private sector expertise, but to ensure a broader regional perspective in implementing development planning.

Carrying out these changes:

- o The EXIM Bank will place highest priority on backing trade between US business and foreign companies that have been "privatized". This will help provide even greater incentive for foreign governments to eliminate wasteful and inefficient state-owned enterprises.
- o AID will be expected to develop a parallel strategy. In the future each AID proposal will be expected to fully explain up front, how our AID dollars will be linked with the private sector and at the same time how the funds will be used to strengthen the private sector and middle class elements of the AID recipients.

Moving beyond the bilateral arena, the task force will be expected to establish regional development centers throughout the Third World. In establishing these centers, the United States will provide the funding and expertise while the host governments will be expected to come forth with the land, building, and the like that will be needed.

These regional centers will serve as clearinghouses for economic and technical information and at the same time will be expected to zero in on problems particular to a given region of the world. For example, in West Africa the success of a program in Kenya could be quickly explained to

officials in Somalia through such a regional device. Likewise, the regional center could be working on longer-term issues for that part of the world. Again using the East African example, food might be the focus. In this case, the center could provide a catalyst for drawing together private sector expertise in the area of bio-technology and genetic engineering. Here the goal would be to help develop drought-resistant, disease-immune seed types that are adaptable to the climatic conditions of the region. These centers could also help provide advice on the best ways to establish manpower training centers that could help bolster the skill of local work forces. Because of the interconnecting nature of these regional centers, the experience and approaches used in the Far East for example could be modified and adapted to Latin American and African experiences.

Funding Mechanisms

Embarking on this new program and partnership will not be costless. Moreover, it comes at a time of budgetary tightness in the United States.

In order to ensure the needed funds, a number of special funding mechanisms will be established:

- o A special \$1 per barrel oil import tax will be established. The revenues from this scheme will go into a Third World Development Trust Fund that will be earmarked for our Program in Partnership. In effect what we are doing is helping ensure that a small portion of the oil price decline dividend is directed at pro-Western Third World states. In a period of falling oil prices, such a tax will bearly make a dent from the standpoint of the consumer but will generate enough revenue to be extremely meaningful to the nations of the Third World.
- o US firms that join in this effort by purchasing special classes of non-traditional LDC exports, providing technical assistance to the regional centers and private LDC companies and making investments in LDCs as part of this new joint US-private sector effort, will be able to enjoy special tax considerations. To ensure that a fair and equitable incentive system is created, a special blue ribbon commission will be established. This commission will seek not only the advice of experts in the private sector, but also the relevant agencies in the special interagency task force.

Meeting Local Needs

The goal of this overall program is to help ensure that our efforts are directed in a coherent manner at the right areas. This is why government and private sector expertise must be linked together.

In zeroing in on local needs, the task force will be expected to develop a plan which builds up from the country through the regional and into the global level. This will help ensure that proposals for individual countries are consistent from a bigger picture perspective.

At each level the plan should carefully pinpoint where aid and private sector involvement can make a difference--both individually and together.

Such a plan could look at elements like rail and road development and maintenance as well as public health facilities, all of which impact the productive capability of a country. The plan could also, for example, call for a resource base review to help catalogue and indeed in some cases set the stage for exploring areas of mineral and agricultural potential which have never been tapped. The plan could also draw on the advice of private sector businessmen in an attempt to focus on real impediments to investment.

The plan would also pinpoint those areas and countries where entrepreneurial talent is now flourishing. Specific industries and sectors would be reviewed with an eye towards places where US funding and private sector expertise could help develop a more vigorous middle class.

The regional centers would help provide an institution for looking at the consistency of the individual country plans while the NSC-chaired oversight committee would help ensure that efforts in one part of the world were not at odds with those in other areas.

Some Added Incentives

Obviously the most difficult part of this program for partnership will be getting it off the ground. Nothing succeeds like success and because of this we will be paying particular attention to countries and areas where the program can make the biggest difference in the shortest period of time. In this regard it is absolutely critical that foreign governments are committed to working together with the United States to make a difference.

In an effort to ensure active Third World participation, the United States government stands ready to waive debt repayments on official loans to any Third World country willing to step forward and join us in this endeavor. Because of the long-run nature of this program, the loans and associated interest will be frozen in place and in effect a special grace period will be instituted so that debt servicing responsibility does not kick in until the year 2000. Moreover, agencies that manage US government stockpiles will be expected to give the highest priority to countries which have joined us in this program.

Some Concluding Thoughts

In essence we are calling, quite simply, for a program of partnership. The United States stands ready to provide the funds and the technical expertise that are needed as our part of the commitment. What we require from Third World countries is their active commitment to moving towards a capitalist market-oriented economic structure, a dedication to outward looking and open market policies, and a firm desire for economic development and political freedom.

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MEMORANDUM FOR: Director of Central Intelligence

FROM: Robert M. Gates
Deputy Director for Intelligence

SUBJECT: Economic Intelligence

1. After reading your memorandum of 28 February 1986, I fully agree that we should push ahead along the lines you outlined. The effort will not be costless and it will have to take on a multi-office and multi-directorate flavor. Even so I fully believe the investment is well worth the costs of the endeavor.

2. As I see it, the product we should shoot for would have a general overview which lays out in both broad and narrowly defined terms the issues at hand. This overview section which might end up running 15 or 20 pages would be supported by two sets of annexes. The first annex grouping would focus on a handful of Communist client states. The second set would zero in on some strategically placed Third World countries which have pro-Western tendencies.

3. The way I see it, the overview should start off briefly summarizing the thrust of the earlier study you mentioned in your memorandum. It would quickly run through the broad historical shifts in East/West balance in the Third World, move on to explore current and future pressures on the LDCs and finally highlight the lessons of the market-oriented country strategies. At this point, a new section would be introduced where we would focus in on the insights that have been learned from the failure of centralist economic management. The essence of this portion of the report would draw from the annexes on Communist client states. There we would have a detailed run-down of Nicaragua, Cuba, Angola, Ethiopia, Viet Nam, North Korea and perhaps other appropriate Soviet clients. These annexes will provide a contrast with the annexes on the more pro-Western oriented states, while at the same time making it clear in at least a number of cases--such as Angola--the Western linkages that exist are about the only things propping up the regimes from an economic standpoint.

4. After we march through this material, the paper will then turn to the heart of the analysis--a look at strategically placed pro-Western LDCs. The goal will not be to include every single LDC, but rather to focus in on a handful of about 15 countries which capture the essence of the Third World problem from the US perspective. This section of the report will also draw on annex material which will be provided on each of the 15 countries. The section as I see it will take a look at the aid, trade, technology, and

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investment flows, linkages with the West, and what they imply for Third World countries. The section will not only look at aggregate numbers, but will also zero in on specific examples of where Western input has made a real difference and contrast that to the shortfalls experienced by the Soviet clients. The final section of the overview will then turn and look at areas of untapped potential in these countries. This final section will try to draw out both generic opportunities as well as some specific case studies for individual countries.

5. After the overview section, the paper will then unfold into the two sets of annexes. The annexes on the pro-Western states would consist of brief country studies on Honduras, Guatemala, El Salvador, Peru, Chile, Zaire, Senegal, Somalia, Kenya, Morocco, Egypt, Jordan, Pakistan, Philippines, and South Korea. At the beginning of each of the country sections, there will be a brief description of the country's economic situation and an explanation in general terms of how it has unfolded over the past few years. Each country study would then go on to explore policy shifts which have occurred in the specific country. Here the emphasis will be to lay out steps individual governments have taken to adapt a more pro-Western approach to economic life. In this material, we will focus not only on general policy steps but also the specific implementation in individual sectors and the opportunities they have generated.

6. Next the country sections will take an across-the-board look at both East and West linkages. Here we can look at aggregate trade, aid, loans, technology transfer, investment, managerial input, economic advisors, and military sales. As I envision it, this could be presented partially in a matrix form. For each country we could march down each of these elements and show linkages from both an Eastern and Western perspective. Taking this type of approach would make clear where the economic benefits are coming from and where they are falling well short of what anyone would think is reasonable. The annex would then march on to another section which would look in detail at trade, aid, loans, and technology transfer lined up against the sectors in the economy. Here the emphasis would be on the specific sector, the jobs generated, the incomes earned, new products that are created, and spillover effects through other sectors of the economy. Finally the annex would march down and look at untapped potential in agriculture, minerals, fuel, and the like. Here we would emphasize the roadblocks and impediments that exist in tapping this potential. In this regard, we would take a look at policies, such as pricing, trade restrictions, and investment barriers as well as the impact of state owned enterprises. This final section would also look at the infrastructure shortages which make it exceedingly difficult to capitalize on the resources a country has at hand.

7. As far as the logistics are concerned, I would envision that this paper would basically be a team approach. As I see it, [redacted] who is presently the Acting Deputy Director of OGI will oversee this effort. Carol could devote herself to this endeavor full time [redacted] [redacted] In the interim, I would think someone like [redacted]-who did the work on newly industrialized countries you liked so much--could oversee the

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beginnings of the effort. Probably the best way to proceed would be to commission a number of the annexes. The idea would be take a quick look across the board to determine which countries provide the most readily available database. We would then focus on these countries to ensure that we had good role models for the other annexes that would follow. In putting together the annex I would envision a team approach that would draw on analysts from both OGI and the regional offices responsible for the country in question. Their efforts would be supplemented by tapping into OCR's biographical/bibliographical files. Moreover, I would expect OSWR to provide some serious input on the technology issue.

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11. As far as the timing issue is concerned, the scope of the endeavor that we are undertaking makes precise estimation extremely difficult. Rather

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than picking a date out of the air, I would suggest that we first do a number of country annex studies. Once we have that material in hand, I believe we can more effectively assess the timing of a final intelligence product.

12. Finally as far as the paper Bob Keating sent you, I think you'll find that the short think piece that [redacted] did helps focus in on the general issue. Obviously, that piece is a first step but I believe it is moving us in the right direction.

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13. If you find it useful, we might pull a team of people together and sit down and talk about the approach we are taking. John Helgerson and myself as well as [redacted] are certainly ready to explore the ideas raised in this note and think about other concepts that might help flesh out a final report.

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Robert M. Gates

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DDI/ALA [redacted] (4 March 1986)

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