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From the Principal Private Secretary

2 August 1979

Dear George,

MEETING BETWEEN THE PRIME MINISTER AND PRESIDENT ZIA OF BANGLADESH

When President Zia of Bangladesh, who was accompanied by his Foreign Minister and the Bangladeshi High Commissioner in London, entertained the Prime Minister and the Foreign and Commonwealth Secretary to breakfast today in his villa in Mulungushi Village, Lusaka, the discussion concentrated almost wholly on British aid to Bangladesh.

The President said that Bangladesh had a major problem in trying to feed itself. The World Bank had recently reported that the Bangladeshi agricultural programme should be four times its present size. Food imports were at a high level, notwithstanding successful efforts in recent years to increase food production. This year food imports would be even higher than usual because his country was suffering from an unprecedented drought. They also had difficulties in the field of energy, though in the long term this should not be a problem. Bangladesh had enormous reserves of coal and its reserves of natural gas were estimated to be the eleventh largest in the world. No oil had yet been discovered but a number of oil firms, including BP, were showing an interest once more in exploration. In the immediate future, however, Bangladesh was very dependent, in both the industrial and agricultural fields, on foreign aid. He understood the reasons why the United Kingdom was contemplating making reductions in the aid which it gave to his country and he wondered whether it might ease our difficulties if our assistance took the form of long-term loans.

The Bangladeshi High Commissioner then gave some examples of the activities of British firms in Bangladesh. A company known as Imeg, which was being backed by a consortium of American, Swiss, German and British banks, was negotiating for a contract to explore a natural gas field, convert the gas into LNG and then export it. Bangladesh's natural gas potential was huge: there were proven reserves of 9,000 billion cubic feet. There were extensive opportunities for British firms to exploit. The President added that the Americans had described Bangladesh as "floating on a sea of gas".

The High Commissioner continued that following a conversation with the British Secretary of State for Employment, his Government were now in touch with British firms about the development of the fishing potential of the Bay of Bengal. The United Kingdom was also one of the biggest participants in a consortium that was constructing a large petro-chemical plant for the production of fertilisers. This was a typical aid project and its successful completion would have considerable

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benefits at a number of levels of the economy right down to individual peasant farmers. The scheme was now approaching its final phase, but unfortunately, as part of its plans for reducing its aid programme, the United Kingdom was now threatening to cut back its contribution, even though the orders for the equipment which was needed to finish the plant had already been placed. In 1978/79 Britain had disbursed aid worth £40 million to Bangladesh. The comparable figure for 1979/80 was estimated to be £66 million. Britain was now proposing to limit expenditure in 1979/80 to the 1978/79 level. Much of current expenditure was required to finance projects which had been started as long ago as 1972 and which, like the petro-chemical plant, were now well advanced. Similarly, there were technical assistance programmes which were already being implemented but which now appeared to be jeopardised by the proposed cuts in the British aid programme. Bangladesh had planned to send 320 students to the United Kingdom in the present year. Of these, some 90 were either already in the United Kingdom or were virtually on their way when the order to freeze the programme came. The rest had been preparing to leave for Britain but had now been told to stand down. This sudden turn of events had inevitably had political repercussions in his country. The possibility of reductions in British aid had come as a severe shock to the system in Bangladesh. The sums of money involved were a drop in the ocean for Britain, but for Bangladesh they were substantial. If necessary, Britain should give Bangladesh special treatment. Bangladesh had been receiving aid for only eight years, whereas India, Pakistan and Sri Lanka had been enjoying British assistance for over thirty years. It was unjust - and he used this word advisedly even though he recognised that it was a strong term - for Britain to treat his country in exactly the same way as others when cuts in aid had to be made. Bangladesh had given 1½ million lives for democracy, and it should therefore be protected. Britain had a special relevance in this situation. Moreover, Britain not only gained the direct and immediate benefits of the exports tied to its aid for Bangladesh, but the future leaders of the country who were being educated in the United Kingdom would be encouraged to look to Britain to help meet Bangladesh's needs in the long term.

The Foreign and Commonwealth Secretary said that President Zia and the High Commissioner had made a very eloquent case against any reduction in Britain's aid to Bangladesh. Unfortunately, many other countries could make exactly the same case. It had to be borne in mind that Britain was already giving aid only to deserving countries. If we said that we could no longer afford to maintain our aid programme at its planned level, this was bound to seem unjust to countries like Bangladesh. But the British Government faced major economic problems. It had inherited from its predecessor public expenditure programmes which the country could no longer afford and which therefore had to be reduced. It would be impossible to convince the British public that the United Kingdom's aid programme should be left untouched, when other public expenditure programmes such as the education service, housing and the road programme were being reduced.

The Prime Minister said that the cut in the aid programme was in fact very small. She had come to listen to what President Zia had to say, and she recognised that there were longstanding projects which were coming to maturity this year and next. She understood the difficulties that would arise if these programmes were denied adequate finance in their final stages. The British Government would review their aid programme to Bangladesh project by project before deciding on any changes as a result of the need to cut public expenditure. If the problem of Rhodesia could be solved, it would no longer be necessary to give aid to Mozambique, which was running at £22 million in the present year.

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After she had left President Zia's villa, the Prime Minister asked the Foreign and Commonwealth Secretary to arrange for a review of our aid programme to Bangladesh to be carried out on the lines she had described to the President. She also said that we should look closely for savings in our aid programmes which were not tied to British exports. It was a pity that we could not make more use of the European Community's food surpluses for countries like Bangladesh which were having very real difficulties in feeding their populations.

The Foreign and Commonwealth Secretary said that he and the Chancellor of the Exchequer had instituted a study to see how to make the best use of the available money in the aid programme. There was at present some disagreement about what our approach should be. There were those on the one hand who argued that we should concentrate our aid on Commonwealth countries, for to do otherwise implied that the Commonwealth meant nothing. On the other hand, there were others who felt that we should concentrate our aid on projects that brought the best return for British firms. A possible way forward was to tie aid to British industry but, in the process, to do as much as possible for Commonwealth countries.

The Prime Minister would be grateful if the Foreign and Commonwealth Secretary could let her know, in due course, what conclusions he and the Chancellor of the Exchequer had come to as a result of their review of the aid programme.

I am sending a copy of this letter to Tony Battishill (HM Treasury) and Martin Vile (Cabinet Office).

Yours ever,  
Muriel.

G.G.H. Walden, Esq.,  
Foreign and Commonwealth Office.