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PRIME MINISTER

Relations with developing countries

Over the next three months we face a series of eleven international meetings at which the problems of the developing countries will be on the agenda, beginning with the Ottawa Summit next week, culminating in the Cancun Summit at the end of October, and including by the way (amongst others) the preparatory meeting of Foreign Ministers at Cancun at the beginning of August; the United Nations General Assembly beginning in mid-September, the Commonwealth Finance Ministers' meeting, followed by the Annual Meetings of the International Monetary Fund and the World Bank at the end of September, and the Commonwealth Heads of Government meeting early in October.

2. I thought that it would be useful if, by way of preparation for this series of meetings, Ministers could be furnished with a general background brief, which would indicate what our objectives should be and how we could make the best of our position. The resulting paper - attached to this note - is related specifically to the Cancun Summit, as the last meeting and culmination of the series, but provides a point of reference for the whole series.

3. I have reviewed the paper with Permanent Secretaries of the Departments most closely concerned. We think that it presents a good account of the objectives we should pursue and the stance we should adopt on present policies. The central question for your judgment and that of your colleagues is whether the position outlined in the paper - presented in the best possible way - will carry us through this series of international conferences.

4. The paper assumes that the aid programmes for 1982-83 and subsequent years already approved are confirmed. It is thus relevant to the review of public expenditure which begins next week and which will come to a head after the recess. In this review the Chancellor of the Exchequer is likely to be seeking further economies from the aid programme; other home economic Departments will be worried about the link between aid and export opportunities; and the Foreign and Commonwealth Secretary is likely to be pressing at least to preserve the present programme and may argue for some increase.

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5. In this series of international meetings we are likely to find ourselves in a rather exposed position. Apart from the pressures from the developing countries themselves, we are likely to find Canada (in the chair at Ottawa), Australia (in the chair at Melbourne) and the Japanese wanting to increase levels of aid and move quickly into the global negotiations. The position of the Italians will be similar. The Federal Chancellor will be worried about the consequences of more aid for his budgetary and balance of payments deficits, but will be constrained by the views of Herr Genscher and his other coalition partners. President Mitterrand is likely to commit France to increasing aid. Even the United States Government is taking credit for asking Congress to approve an increase in its aid provision in real terms for the financial year 1982. It is against this background that Ministers will have to consider, as both a political and an economic issue, whether the present programme and the stance suggested in this paper are sustainable and in the best interests of the United Kingdom.

6. It will not be possible to take a fully informed decision on these matters until after Ottawa and after the Foreign and Commonwealth Secretary returns from his Cancun preparatory meeting in early August. Thereafter the sooner we can come to a considered view the better - no doubt on the basis of specific proposals by the Foreign and Commonwealth Secretary. Even at this stage, however, Ministers may like to have in their minds the range of options within which the choices will have to be made.

7. The first broad option is to stand firm on our present policies (with or without a reduction in the aid programme), and to concentrate on presenting ourselves and our policies in the best possible light. This is not as negative as it sounds, as paragraph 30 of the attached paper shows.

8. The second broad option is to make some more or less marginal modification in our policies, so as to improve our image and reduce the risk of being isolated in the international discussion. Possibilities include:

(i) Energy

We could join other Community countries in favour of setting up an energy affiliate of the IBRD, as a means of securing substantial additional funds, particularly from the OPEC countries, for energy development in the developing countries.

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(ii) Finance

- (a) We could commit ourselves more strongly to the idea of raising the gearing ratio of the World Bank.
- (b) We could give stronger support for practical guarantees of commercial bank loans to developing countries (but *No*, this might mean a contingent claim on the aid budget).
- (c) We could support the idea of new allocations of SDRs by the International Monetary Fund, organised so as to benefit low-income countries: this would help developing countries short of reserves, at no cost to OECD aid budgets.

(iii) Global Negotiations

As the Presidency, we are obliged to support the Community position agreed at the last European Council (calling for preparations to be completed as soon as possible); we could make a virtue of this by sounding more enthusiastic ourselves about the Global Negotiations.

(iv) Aid

If Ministers were prepared to contemplate an increase in the aid programme, various possibilities would be open:-

- (a) An addition of, say, £25 million a year to the aid programme.
- (b) A decision to hold the aid programme in real terms steady at this year's level (cost about £83 million in 1982-83 and £88 million in 1983-84).
- (c) A decision to hold the programme level in real terms next year and set it on a rising trend thereafter (a 1 per cent increase in 1983-84 would cost about £100 million).

(v) Overseas Students Fees

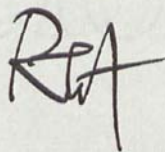
The decision to increase overseas students fees is saving £100 million a year on the Education vote, but has attracted strong criticism in the Commonwealth and in Britain, and

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will no doubt be attacked at the Commonwealth Heads of Government meeting. It might be possible to mute some of the criticism by introducing an expanded scholarship programme for students from developing countries. The cost would depend on the number of scholarships: about ^{100,000} £1 million for every 20 scholarships.

9. These are not decisions nor even recommendations; they are hypothetical and illustrative options, to show what might be available if Ministers wanted to consider the possibilities for some improvement in the United Kingdom's posture in international discussions over the coming months. Decisions do not need to be taken until after Ottawa and after the Foreign and Commonwealth Secretary's visit to Cancun; but it seemed sensible to provide this background briefing before the series of meetings began.

10. I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretaries of State for Industry, Trade and Energy, and the Minister of Agriculture, Fisheries and Food.



Robert Armstrong

14th July, 1981