

✓ Overseas Policy File

cc Sir Anthony Parsons

MR. COLES

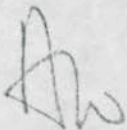
US ECONOMY AND THE WILLIAMSBURG SUMMIT

Foreign and Commonwealth Secretary's minute of 8 March. I think the Foreign Secretary's ideas spring from somewhat vague and misleading remarks that were made by Don Regan and George Shultz. During the visit of Vice President Bush and Martin Feldstein I brought up the press reports that had appeared intimating that Don Regan was more interested in some exchange control mechanism and intervention than he had hitherto appeared to be.

Feldstein said that both Regan and Shultz were apt to talk in rather vague terms about possible initiatives which might have some desirable consequences. However, they would not be proposing any such initiatives themselves. In fact in some cases Feldstein said they were merely saying there were "two sides to the question."

I think much of the Foreign and Commonwealth's Secretary's understandings should be reviewed in that light. For example, it is quite inconsistent with existing decisions by the United States to "do more through the IDA". Indeed they have already announced that they are proposing a substantial reduction in the replenishment for IDA 7. And they have already reduced to about one-third their contributions to the Inter-American Development Bank and the Asian Development Banks. At least these are the proposals of the Administration which need to be ratified by Congress. But it is very unlikely Congress will propose any increase; on the contrary they are more likely to decrease the contributions.

I suspect this will be the main message about aid from San Diego.



ALAN WALTERS
22 March 1983

MR. COLES

MULTILATERAL VERSUS BILATERAL AID

I have read with interest Alan Walters' two minutes of 16 and 22 March in so far as they relate to the above subjects. I have also discussed the question with Alan Walters.

I have served in a number of developing countries which have been the recipients of British bilateral aid, and I have also had a fair amount of experience of multilateral aid in my association with the UN. Personally, I believe that the arguments are more finely balanced than Alan Walters suggests.

It is certainly true that bilateral aid has the twin advantages that it can be directed to countries for political reasons of national interest and that it is normally tied to British goods and services. Nevertheless, the first of these blessings is to some extent mixed, and the second can be a two-edged sword. Many developing countries tend to resent the fact that they are recipients of aid with political strings, however carefully disguised, attached to it. They also are inclined to resent aid being tied. The bilateral management of aid can also cause irritations for what might be described as "neo-Colonialist" reasons. Hence, the advantages of bilateral aid are not unalloyed.

They give us jobs for our money.

As regards multilateral aid, it is equally true that it is at the mercy of huge international bureaucracies and is frequently directed to countries which are hostile to the United Kingdom. On the other hand, there is no doubt that we do acquire political credit from important developing countries for being generous contributors to multilateral aid agencies. Furthermore, if the multilateral agency is at all efficient, its task of managing project aid is often easier than in the case of bilateral aid. Receiving countries do not resent being bossed about by a management team from a club of which they are themselves members. In these circumstances, the "neo-Colonialist" stigma disappears.

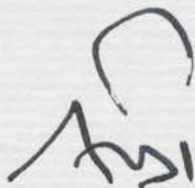
From the point of view of national interest, we do pretty well out of off-shore purchases from multilateral agencies. In the case of IDA, I believe that we get 14% of off-shore procurement, ie 140 pence for

/every £1

every £1 that goes into our 10% contribution to IDA. As regards UNDP, and the "soft" funds of the Asian and African Development Banks, I think that we get back more than twice what we put in. I think that we get about 30% back from what we put into LOME. Presumably the French get a great deal more because of the mainly Francophone nature of the ACP countries.

Against this background, I for one would not recommend a major switch in our aid programme away from multilateral aid in the direction of bilateral aid. From my three years in New York, my own feeling is that we have got the balance about right.

I hasten to add that I am strongly opposed to our getting carried away into making exaggerated promises in the jungles of the multilateral talking shops such as UNCTAD and Global Negotiations.



A.D. PARSONS
23 March 1983

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MR. COLES

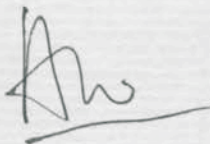
MULTILATERAL VERSUS BILATERAL AID

I hope this complements Sir Anthony Parsons memorandum of 23 March. Fortunately, I think there is a high degree of agreement. I was not proposing that we change the existing balance of multilateral/bilateral aid. Although I would like to do it, I don't think it is feasible.

However, if multilateral aid is allowed to grow at the built-in rates the whole aid package would be eventually multilateral. What I was suggestion was that we should contain the very rapidly growing multilateral component. This is entirely consistent with Tony Parsons' view that the present balance is about right.

From the point of view of national interest, I think it is not true that we "do pretty well" out of IDA compared with other contributing countries. The 20 year review (page 33) shows that, relative to our contribution, our procurement share was lower than those of Germany, Japan and France - our major competitors. And our contributions are larger relative to our national income than any other major country. For example in IDA 6 we contributed twice as much as France, yet the French national income is 40% or 50% higher than ours. Similarly, Germany contributed about 30% more than we did, but her national income is almost 80% more than ours.

I judge that these statistics are clearly consistent with a considerable reduction in our IDA contribution. The fact that the Americans are also unilaterally reducing their contribution, quite dramatically, is a window of opportunity which we should not miss.



ALAN WALTERS
24 March 1983

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