

SECRET

FROM UKDEL IMF/IBRD WASHINGTON

TO IMMEDIATE FCO

TELNO 104

OF 082130Z APRIL 86

INFO PRIORITY TEL AVIV, AMMAN, CAIRO, JERUSALEM, DAMASCUS

INFO PRIORITY BEIRUT

MODEV 56

US PROPOSAL FOR A DEVELOPMENT FUND FOR THE MIDDLE EAST

1. US PROPOSAL CAME UP IN DISCUSSION TODAY BETWEEN THE CHANCELLOR OF THE EXCHEQUER AND THE US TREASURY SECRETARY, AND DURING A MEETING BETWEEN THE PERMANENT SECRETARY ODA AND THE HEAD OF USAID (MCPHERSON).

2. BAKER SAID THAT THE PROPOSAL WAS ESSENTIALLY POLITICAL AND CONCEDED THAT THE PROSPECTS OF ITS GETTING OFF THE GROUND WERE POOR. THE CHANCELLOR AGREED THAT IT WAS UNLIKELY, TO GET OFF THE GROUND AND CAUTIONED AGAINST THE IDEA OF ANY UK CONTRIBUTION, EVEN IF IT DID.

3. SIR C TICKELL RAISED THE ISSUE WITH MCPHERSON IN CONTEXT OF A DISCUSSION OF EGYPT'S ECONOMIC PROBLEMS. MCPHERSON APPEARED LESS THAN ENTHUSIASTIC. HE SAID HE WAS TO VISIT EGYPT AT THE END OF APRIL AT SHULTZ'S BEHEST TO DISCUSS ECONOMIC POLICY ISSUES. HE HAD DONE THE SAME BEFORE BUT WITH LITTLE RESULT. EVEN IF FISCAL/EXCHANGE RATE ISSUES WERE SORTED OUT (AND HE BELIEVED THAT MUBARAK WOULD NOT SHY AWAY FROM SOME FURTHER MEASURES DESPITE THE RIOTS) THE GRIP OF THE BUREAUCRACY IN EGYPT MEANT THAT MACRO ECONOMIC REFORMS DID NOT LEAD TO AN ADEQUATE MICRO RESPONSE. ON THE SHULTZ INITIATIVE HE COMMENTED THAT THE POLITICAL SIDE OF STATE DEPARTMENT WAS BELATEDLY BECOMING SERIOUSLY WORRIED ABOUT THE ECONOMIC PROSPECTS FOR EGYPT. THE IDEA OF A MARSHALL PLAN OR DEVELOPMENT FUND FOR THE MIDDLE EAST WAS SOMETHING THAT HAD BEEN PROPOSED TO THE US BY PRIVATE SAUDI SOURCES AS WELL AS PERES (WHOSE ENDORSEMENT HE THOUGHT WAS NOT NECESSARILY A KISS OF DEATH). USAID WERE LOOKING AT WAYS OF USING ANY SUCH NEW FUND EXCLUSIVELY FOR PROJECTS REQUIRING COOPERATION AMONG COUNTRIES IN THE REGION. THIS WAS THE REAL PRIORITY. MCPHERSON SAID THAT THE US WOULD HOPE TO DISCUSS PROGRESS (IF THERE WAS ANY) WITH SUCH COUNTRIES AS BRITAIN LATER ON. HE MADE NO APPEAL FOR FINANCIAL SUPPORT.

4. FCO PLEASE ADVANCE TO PS/NO 10, PS/CHANCELLOR (HMT) AND PS/SIR CRISPIN TICKELL (ODA).

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