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PRIME MINISTER

RELATIONS WITH DEVELOPING COUNTRIES

Sir Robert Armstrong sent me a copy of his minute to you of 14 July. As he says, decisions are not needed at this stage on any of the possibilities he lists (paragraph 8); he correctly describes them as "hypothetical and illustrative options". I can understand why they have been assembled. But since he has circulated them now, and they will be in our minds at Ottawa, I should sound a note of caution at this stage.

2. We may not find ourselves in as comfortable a position on this subject as some of our partners at Ottawa and Cancun. But we shall not be isolated. In addition to President Reagan, Chancellor Schmidt will, as Sir Robert Armstrong says, be worried about the budgetary implications of more aid. In any case the Mexico Summit meeting is likely to be too big, too short and too diffuse to cause us serious concern. We can afford to adopt a low profile. Our record on aid is a good one; so is our record in the international financial institutions. Our general economic policy is also in line with that of most partners. And there does not seem to me any need for a major shift in our policy merely because we risk some rather unfocussed criticism from the LDCs.

3. For my part I believe we should adhere to the "stand firm" option in paragraph 7 of Sir Robert's note which, as he says, is not at all a negative position. I believe we can present positively and sympathetically our concern for the things which really matter to LDC development: the maintenance of private flows; the confidence and security of the international banking system; the ability of the international institutions to raise funds from both the developed countries and their financial



markets, and from OPEC; the concentration of official aid on the poorest. Compared with this, the possibilities for expenditure or change of emphasis listed in paragraph 8 seem unlikely to make much impact at Mexico or elsewhere. Many of them do however raise quite serious policy issues for us.

4. I need not go into detail now, but:-

#### Energy

We support whatever arrangement will attract substantial OPEC funds and enable the World Bank Group to borrow satisfactorily in the markets. Without US backing an Affiliate will not achieve this.

#### Finance

(a) We cannot unilaterally propose an increase in the IBRD gearing ratio until Clausen himself proposes it (though if he does we can probably back him).

(b) The "partial guarantees" proposal is still under study; we are not sure that it will attract any additional investment, and some versions may well involve a high and unnecessary risk.

(c) We should not advocate a further allocation of SDRs, particularly if "skewed" in favour of LDCs. IMF resources should be used for balance of payments support during adjustment, not as semi-permanent sources of aid.

#### Global Negotiations

You know my views about these. I fear that they would institutionalise the unreal division between North and South, and add to recrimination. If we express enthusiasm for them, we make it more difficult to obtain the necessary safeguards for the IMF and World Bank.



Aid

We cannot possibly contemplate adding £83 million and £88 million to Public Expenditure in the next 2 years (option 6). Our need is to reduce planned levels of expenditure still further, and we are already faced, as you know, with additional bids of around £6 billion.

Overseas Students' Fees

It seems perverse to reverse our policy on overseas student fees at a time when we are having to cut back expenditure on our own students in our own universities.

5. Given this, I am sure that our existing policies should stand until we make a decision together to change them. We should make our plans for the series of international meetings on this basis. If the Foreign Secretary wishes to pursue any of the possibilities in the paper, I hope he will circulate firm proposals to OD for early discussion.

6. I am copying this to the Foreign and Commonwealth Secretary, the Secretaries of State for Industry, Trade and Energy, the Minister of Agriculture and Sir Robert Armstrong.

(G.H.)  
16 July 1981