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 Ronnie P...
 (1)

Foreign and Commonwealth Office

London SW1A 2AH

24 October 1980

Paras 5-9 of the attached
 paper are the heart of the matter.

Do you agree that we should be
 guided by the argument summarised
 here?

Ph... 27/7

B/F 15/XII

Dear ...

The Soviet Union and Aid

You will recall that there was some discussion at Venice as to whether the West should encourage the communist countries to accept a greater share of the burden of aiding the developing countries. In the event, the section of the communique dealing with the developing world did mention the industrialised communist countries. Since then both Herr Schmidt and Mr Muskie have called in separate fora for greater communist aid to the Third World.

I now attach the summary of a paper by the FCO Planning Staff which argues that we should ourselves adopt a similar line to that already taken by the Germans and Americans. The full paper is available if the Prime Minister wishes to see it. Since it is a Planning paper it has not been cleared outside the FCO and ODA.

The Foreign and Commonwealth Secretary agrees with the paper's conclusions. The idea, to which Herr Schmidt is attached, of involving the Russians more closely in efforts to tackle the economic problems of the developing countries, breaking down their isolation and persuading them to play a more constructive role will only be realised in the long term, if at all. In the short to medium term, there is little likelihood of a positive change in Soviet aid policy, with or without Western pressure. For practical purposes, therefore, the issue turns on whether there are propaganda benefits to be gained. The paper concludes that there are, but that such propaganda will need to be carefully handled if we are not to alienate Third World opinion. It could also have some effects on domestic opinion.

Lord Carrington therefore proposes that the paper should form the basis of our future policy on the subject; and that in particular it should guide the Prime Minister's Personal Representative when the work of the Aid Policy Group, envisaged at Venice, gets under way.

I am copying this letter to John Wiggins in the Treasury and to Sir Robert Armstrong.

[Handwritten signature]

M O'D B Alexander Esq
 10 Downing Street

(G G H Walden)
Private Secretary

THE SOVIET UNION AND AID: SUMMARY

Introduction

1. The arguments for and against stepping up Western pressure on the communist countries to give more development aid can be summarised as follows:

Arguments for

- a) The developing world needs more aid, and a greater communist contribution would add to the total amount provided;
- b) Engaging the Russians in a more cooperative approach to Third World development problems could help to build a more constructive relationship between East and West;
- c) There are propaganda advantages to be gained from exposing the poor Soviet aid performance.

Arguments against

- d) Greater communist aid would mean greater communist involvement in developing countries, to the West's detriment;
- e) The Russians could turn the propaganda weapon against us.

Soviet and East European economic aid

2. Soviet and East European economic aid has hitherto been concentrated on the Third World members of the Council for Mutual Economic Assistance (CMEA), with only a relatively small amount going to non-communist countries, and this primarily for political purposes. Development aid has not constituted the main Soviet weapon in the struggle for influence in the Third World; military aid has been of far more immediate effect. But in the longer-term, the pacity of Soviet development aid, and the insensitivity with which it is often given, can lead to disillusionment on the part of the developing world and a more objective view of the Soviet Union generally. This may not, however, be before the Russians have secured certain short-term advantages.

3. Only in countries where Soviet aid has been massive (Cuba and the Vietnamese empire) can it be said to have been the decisive factor in establishing and consolidating a dominant Soviet influence. Neither the Soviet Union nor the countries of Eastern Europe, all of whose economies are likely to grow more slowly in the next decade, will

will be well-placed to take on significant new commitments in the near future. But they will no doubt continue to interfere, perhaps with the carrot of some development aid, in places where they stand to gain substantial benefits.

4. Western pressure will neither persuade the Russians and their allies to give more aid, nor prevent them from using it for political ends. Although in the longer-term we may eventually succeed in creating a more constructive partnership with the East in North/South (as in other) affairs, this will not be before political and economic priorities in the USSR have first changed substantially. In such circumstances, the West's best policy for the immediate future is to take the necessary measures (aid, trade, political contacts, military improvements etc) to counter Soviet advances in the Third World.

Propaganda and counter-propaganda

5. Since the Soviet performance is unlikely to improve in the short term, the question of how the West should treat the subject of Soviet aid-giving must be seen primarily in terms of public relations. The West can gain certain propaganda advantages by drawing attention to the poor Soviet aid record. This can be achieved either by encouraging the communist countries to do better, or by direct criticism of the Soviet aid performance. Encouragement may be preferable to criticism in many cases because it is less likely to draw accusations of 'propagandising'; but we can, according to the circumstances, do both.

6. In pressing for more aid, the West should be robust in rebutting the Soviet argument that the responsibility for helping the Third World rests solely with the ex-colonial powers. We should criticise Soviet multilateral aid; additional Soviet aid of this type would be more likely to be spent according to genuinely developmental criteria and would allow less room for political meddling, than greater bilateral aid. An improved multilateral contribution means in the first place the payment of the Soviet contributions to multilateral agencies in convertible currencies or, at least, the ending of the practice whereby the Soviet Union earns convertible currencies by providing equipment for projects financed by multilateral aid, while its nominal contribution, being in non-convertible roubles, remains underspent. A larger Soviet contribution would be a second objective.

7. When criticising the Soviet bilateral aid record we can point to the small size and heavily biased distribution of their aid effort, the extent to which their aid is 'tied' and 'double-tied', the low grant element and harsh repayment terms. Other shortcomings such as the very high ratio of Soviet defence expenditure to aid volume, the poor Soviet trade record and Soviet unwillingness to cooperate in ad hoc debt relief operations, can also be brought out.

8. But we should be ready for Soviet counter-propaganda. The Russians have a number of points in their favour: their total aid to the Third World as a percentage of GNP is higher than that of many Western countries, Soviet aid has frequently gone to the poorest LDCs, their trade may well improve in the near future, and on many issues in the North/South dialogue their interests either coincide with those of the Third World or are such that they can afford to indulge in propaganda against the West. And Western aid cannot itself entirely escape criticism either on the grounds of volume or of self - interested motivation.

9. Finally, we should not expect that by bringing greater pressure to bear on the communist countries we will ease Third World pressure on ourselves. Nevertheless, provided Western propaganda is carefully handled, there is something to be said for reminding developing countries from which side they get the better deal.

Planning Staff
Foreign & Commonwealth Office

1 October 1980



S. Union

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

16 January 1981

G H Walden Esq
Private Secretary
Foreign and Commonwealth Office
Downing Street
LONDON SW1A 2AL

h.s.
Am

Dear George,

THE SOVIET UNION AND AID

Roderic Lyne

You wrote to me on 15 December about this.

I am now writing to confirm that the Treasury does not wish to pursue further the points in my letter to Michael Alexander of 4 November, in the light of the explanations you have now provided.

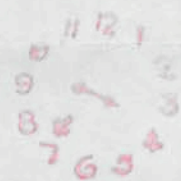
I am copying this letter to Michael Alexander, Brian Norbury, and David Wright.

Yours ever

John Wiggins

A J WIGGINS
Principal Private Secretary

16 JAN 1981



See Unit



10 DOWNING STREET

I have suggested to F.C.O.
that the question of our attitude
to Soviet aid policy should
be wrapped up in a broader
consideration of Aid Policy.
They agree.

L.S.

Perkins 7/11



10 DOWNING STREET

Michael

your note on David Wright's
minute of 23 December.

Hmt are not going to
comment.

C. M. H.
6/1.



B/F 2/1/81

Ser Union

B/F with Mr Wiggins' letter when rec'd.

Aunt

Ref A03891

MR. ALEXANDERTHE SOVIET UNION AND AID

You asked me for advice on the line the Prime Minister might take on the proposal discussed in correspondence beginning with Mr Walden's letter of 24 October.

2. Although the Chancellor of the Exchequer was prepared to accept that this topic should be excluded from the general discussion on development policy with Lord Carrington and other Ministers (which has now been postponed until late January), I understand that he is not happy with the line advanced by the Foreign and Commonwealth Secretary. The Prime Minister may prefer not to express a view until she has seen what line the Chancellor takes.

D J WRIGHT

23 December 1980

CONFIDENTIAL

Soviet Union



Foreign and Commonwealth Office

London SW1A 2AH

R^d 15.12.80

R/F with the Wiggins' reply

Am

Dear John,

The Soviet Union and Aid

You wrote on 4 November to Michael Alexander.

We have now consulted the Ministry of Defence, who confirm that Mr Pym is content that we should proceed as suggested in my letter of 24 October. Lord Carrington feels that it would not be appropriate for the meeting of Ministers on development policy on 17 December to discuss the minor alteration to existing policy which was proposed in my letter: that, in addition to criticising the Russians for their poor aid performance, we should henceforth encourage them to improve it. As we have pointed out, both the Germans and the Americans are already taking this line, which was also reflected in the Venice communique.

On the question of Soviet participation in the World Bank and the IMF, it was not our intention to suggest that membership, however unlikely, should be welcomed. We recognise that Soviet membership would have serious implications for the effectiveness of these organisations and the strength of the West's position in them. Paragraph 6 of the paper was intended to apply only to those agencies of which the Soviet Union is already a member, such as the UN Development Programme. As you know, at the latter's Governing Council this year the Americans made considerable play with the question of the non-convertibility of Soviet contributions. We would hope to capitalise on this at next year's Council, when non-convertibility is due to be discussed as a specific issue. In general we feel that we should not let pass the opportunity to draw attention to those issues on which the West and the developing countries are together in disagreement with the Soviet Union.

/The

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The Foreign and Commonwealth Secretary therefore hopes that we can now agree to proceed to use the paper as a basis for future policy, as proposed in George Walden's letter of 24 October.

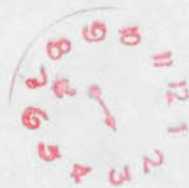
I am copying this letter to Michael Alexander, Brian Norbury, and David Wright.

Yours ever
Robert Lyne

(R M J Lyne)
Private Secretary

A J Wiggins Esq
Treasury

15 DEC 1980





Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

4 November 1980

M O'D B Alexander Esq
Private Secretary
Prime Minister's Office
No.10 Downing Street
LONDON SW1

Dear Michael,

THE SOVIET UNION AND AID

I have seen a copy of the letter from Lord Carrington's Private Secretary of 24 October suggesting that we should press the Soviet Union to give more aid, and also make more propaganda use of their poor aid performance.

The Chancellor will shortly be discussing with the Foreign Secretary and others the whole question of aid policy and our relationship with the Third World. There is also the remit to the special representatives following the Venice Summit. The question of our attitude to the Soviet Union's aid performance is only a small part of this, but we think more consideration is necessary before treating the paper as the basis of future policy. As the paper itself recognises, the case for taking the initiative in criticising Soviet aid performance and urging them to do better, rather than using the material defensively and leaving initiatives to others, is a balanced one. We suggest it would be right to consult the Ministry of Defence. And we ought to consider whether we should say anything which would imply that we would welcome Soviet participation in the World Bank and IMF. Paragraph 6 of the paper as now drafted seems to point in that direction.

I am copying this letter to George Walden and to Sir Robert Armstrong.

Yours ever

John Wiggins

A J WIGGINS
Private Secretary