

32/3

Part 2

mt

Confidential Filing

PM's Visit to China September

1982

Policy

CHINA

Part 1 May 1982

Part 2 September 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>12-10-82</del>							
<del>13-10-82</del>							
<del>10-11-82</del>							
24-2-83							
PREM 19/962							

CONFIDENTIAL

HL

24 February 1983

Aid to China

Thank you for your letter of 23 February.

The Prime Minister agrees that English language teaching should be the first charge on aid funds available for China and that its level should be gradually increased (within the existing aid programme).

JOHN COLES

John Holmes, Esq.,  
Foreign and Commonwealth Office.

CONFIDENTIAL



Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

Agree that aid for  
English language teaching in  
China should be gradually  
increased, within the aid  
programme?

23 February, 1983

A.S.C. 23.  
2

Yes  
ml  
mt

Dear John,

Aid to China

Your letter of 25 October recorded the Prime Minister's view that we should consider the desirability of a future programme of English language teaching and help for Chinese students when we had the report of a mission that was to visit China to discuss English language teaching.

The mission has completed its visit, and I enclose a short summary of its report. Its main recommendation is that the level of British aid for English language teaching be gradually increased.

There are strong political and commercial arguments for the increased (but still small) technical cooperation programme with China which would be financially possible within the current aid framework. Other western countries are already stealing a march on us, despite the advantage which the English language offers and the excellence of British science and technology. As China resumes her economic development programme the prospects for western exports are now improving. But British commercial interests will be handicapped if there are no such funds available to support worthwhile feasibility studies, consultancies or technical training.

We have considered this proposal in the light of the negotiations on the future of Hong Kong. We judge that the programme would be consistent with our general policy of continuing business as usual in as many fields of Anglo-Chinese relations as possible. We believe this is helpful to the background atmosphere of the negotiations. It also gives a public impression which helps confidence in Hong Kong. Moreover since May 1982 it has been known in Britain that we are considering a slightly increased technical cooperation programme for China; and during her visit to Peking the Prime Minister indicated this to the Chinese Premier and to Madame Deng Yingchao. The small scale of the proposed programme would avoid any risk of its being seen as an attempt to 'bribe' the Chinese. If relations with China were to deteriorate seriously, we could of course terminate the programme.

CONFIDENTIAL



If the Prime Minister agrees, we would propose to make English language teaching the first charge on aid funds available for China. Zhao Ziyang suggested to her that this might be the form of technical cooperation which the Chinese Government wanted most. From our point of view it has a useful multiplier effect. In 1983/84 the total UK aid money available for China is only £500,000; after increasing our help for English language training, we would propose to divide the remainder (something over £250,000) approximately equally between help for Chinese science and technology students or trainees coming to Britain, and a feasibility (or other) study in China by British consultants which might open up further opportunities for British firms.

Incidentally we intend that Chinese students in Britain should be eligible for the new scheme of discretionary awards which was announced in Parliament on 8 February. But the funds for this are limited (only 100-150 new awards altogether in the first year of the scheme) and we shall need to give priority to students from the Commonwealth, eg Hong Kong, Cyprus, Malaysia and certain other territories. Thus the scheme will usefully complement, but represent no adequate substitute for, that part of the proposed technical cooperation programme not committed to English language teaching and commercially-orientated feasibility studies etc.

The exact division of the money must of course depend on discussions with the Chinese, and we would like to retain sufficient flexibility to accommodate any other small proposals that they may put to us, eg for agricultural visits.

*Yours ever*

*J E Holmes*

(J E Holmes)  
Private Secretary

A J Coles Esq  
Private Secretary  
10 Downing Street

CONFIDENTIAL

IN CONFIDENCE

ENGLISH LANGUAGE TEACHING DELEGATION TO CHINA: 8 - 21 NOVEMBER 1982

1. Terms of reference

1.1 To study and assess the present state of English language teaching (ELT) in China - particularly at tertiary level.

1.2 To evaluate the current programme of ELT activities undertaken by Britain within the terms of the Sino-British Cultural and Educational Agreement.

1.3 To make recommendations on the scale and nature of future ELT activities that might be undertaken by Britain.

2. Recommendations

2.1 That the level of British aid to ELT in China be increased gradually from mid-financial year 1983/84 settling at an appropriate level by mid 1985/86.

2.2 That this aid be directed at

2.2.1 Teacher development: to provide resources to support Ministry of Education training programmes for secondary and tertiary level teachers of English in key institutions

2.2.2 Pre-departure courses: to provide resources for a centre to give English language instruction to Chinese scientists, technologists and other professional personnel coming to Britain for training and further studies

2.2.3 Distance learning: to provide resources to support the development of English language courses offered by the Central Radio and Television University

2.2.4 Evaluation: to assist the development of valid and reliable tests of language proficiency for use in the educational system.

3. Rationale

3.1 Britain and British expertise are held in high regard by the Chinese authorities: there should be a British presence in China to promote a wider understanding and appreciation of our country (most Chinese students studying abroad go to America and Australia).

3.2 English has replaced Russian as the main foreign language taught in China (the second most popular foreign language is Japanese).

3.3 China is a developing country: teaching is often undertaken in spartan conditions; local funds are spent only on bare essentials for the job; and there is a commitment on the part of students, teachers and administrators which augurs well for successful collaboration in ELT.

3.4 An increasing command of English within the country, particularly in the industrial and technological sectors, is of potential commercial advantage to Britain.

4. Costings

The Overseas Development Administration's contribution to the current ELT programme is £180,000 (1982/83). The proposals made by the delegation include project options that would require Technical Cooperation funding of the following order:

	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>
<u>Maximum</u>	240,200	£343,100	£420,400
<u>Minimum</u>	218,700	£303,450	£399,700

The basis for these figures is 1983 prices plus 5% for risen costs in 1984/85 and 1985/86.

COVERING CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

10 November 1982

A. J. C. <sup>u</sup>/<sub>u</sub>

p.a.

John Taylor

Prime Minister's Tour of the Far East

/ I enclose copies of despatches which we have received recently from HM Ambassadors in Tokyo and Peking on Mrs Thatcher's visits to Japan and China. Both are being printed for wide distribution, but as this process appears likely to take some time, you might like to have these advance copies now.

Yours ever,

(R B Bone)  
Private Secretary

A J Coles Esq  
10 Downing Street

COVERING CONFIDENTIAL



## VISIT OF THE PRIME MINISTER TO CHINA

### SUMMARY

1. Mrs Thatcher visited China from 22-26 September. It was a working visit, concentrating on discussions with Premier Zhao Ziyang and Chairman Deng Xiaoping, but allowing for short visits to Shanghai and Canton. (Paras 1-3)
2. Talks with Zhao Ziyang on world affairs centred on Sino-Soviet and Sino-US relations and showed that Chinese and British views on many international topics were close. (Paras 4 and 5)
3. On Hong Kong, the meetings resulted in a joint statement, providing for talks via diplomatic channels with the object of maintaining Hong Kong's stability and prosperity. (Paras 6 and 7)
4. The Prime Minister met resident British businessmen and had talks with the Chinese on commercial matters. (Para 8)
5. In Shanghai, where we plan to reopen a Consulate-General, Mrs Thatcher launched a ship for Sir Y K Pao, visited a biochemistry research institute and met the local British community. In Canton she had talks with the Provincial Governor on economic cooperation. (Paras 9 and 10)
6. The visit raised Sino-British relations to Prime Ministerial level, advanced commercial prospects and secured agreement to begin talks on Hong Kong. (Para 11)





BRITISH EMBASSY,  
PEKING.

7 October 1982

The Right Honourable  
Francis Pym MC MP  
etc etc etc  
Foreign and Commonwealth Office

Sir

VISIT OF THE PRIME MINISTER TO CHINA

1. I have the honour to report that the Prime Minister, the Rt Hon Mrs Margaret Thatcher MP, accompanied by Mr Denis Thatcher, visited China from the 22nd to the 26th September as part of her Far Eastern tour. Her programme here and a list of her party  
... are attached at Annexes A and B.

2. The programme, which, as is customary with Chinese arrangements, took final shape only the day before the Prime Minister arrived, was that of a working visit, concentrating on discussions with Chinese leaders in Peking for the first two and a half days, and allowing only a brief visit to Shanghai and Canton on the way to Hong Kong. It provided for two meetings of about two hours each with Premier Zhao Ziyang, and one two-hour meeting with Chairman Deng Xiaoping (now called Chairman by virtue of his position as Chairman of the Party's Military Affairs Commission and Advisory Committee). We had asked for, and I am sure would have been given, a meeting also with the Party Secretary-General, Hu Yaobang, which would have offered Mrs Thatcher the chance to assess the third member of the current ruling triumvirate. But the sudden decision of

/Kim Il Sung

CONFIDENTIAL



Kim Il Sung, the Korean leader, to visit China at the same time meant a hasty re-scrambling of arrangements on the Chinese side and Hu Yaobang disappeared into the provinces escorting his Korean guest.

3. The Prime Minister's VC10 arrived on one of those glorious still and sunny afternoons which are the mark of the Peking autumn. She was met by Vice-Foreign Minister Zhang Wenjin who, with his wife, accompanied her throughout the visit, and was driven to the State Guest House through streets decorated with bunting and across a Tian An Men Square hung for the occasion with British and Chinese flags. At a formal welcoming ceremony outside the Great Hall of the People she inspected a guard of honour. The strains of God Save the Queen, played by the band of the People's Liberation Army, rang out impressively against the unusual setting of the vast square with its distant view of the Forbidden City.

4. The first round of talks with Zhao Ziyang was devoted to a survey of world affairs with particular reference to China's relations with the United States and the Soviet Union. After Mrs Thatcher had explained that the state of the Western Alliance was good in spite of current differences over equipment for the Siberian gas pipeline, Zhao said that he had recently told ex-President Nixon that China was not in favour of anything that strengthened the Soviet Union; but the

/United States



United States should not ask its friends to do something which it was not prepared to do first. He noted that President Reagan had lifted the grain embargo when he came to office. China approved of President Reagan's determination to curb Soviet expansionism, but considered that some US policies, eg in the Middle East and South Africa, did not serve that overall objective. China attached importance to the development of relations with the United States, not merely to oppose Soviet hegemonism, but also in the interest of economic and technological cooperation. The recent joint communique on arms sales to Taiwan was an important first step in the removal of a serious obstacle to Sino-US relations but was only a beginning; the issue had not yet been thoroughly solved. China would wait and see how the United States would implement it. China had been very flexible, which showed the importance the Chinese attached to Sino-US relations.

5. Premier Zhao also described the Soviet Union's desire to expand as the fundamental cause of tension in the world and said that China's foreign policy had not changed. It was an independent policy not swayed by expediency. China wished to maintain normal state-to-state relations with the Soviet Union on the basis of the five principles of peaceful coexistence. The Russians would be sending a Vice-Foreign Minister to Peking in October to exchange views. However, if the Soviet Union

/sincerely



sincerely wanted to improve its relations with China, it would have to take practical measures to remove the threat it posed to China by its occupation of Afghanistan, its support for Vietnam, and the excessive number of Soviet troops stationed along the Sino-Soviet border and in Mongolia. Zhao ended by saying that he personally was not very optimistic about the prospects for the forthcoming talks. He also spoke at some length, but in familiar terms, about Afghanistan and Cambodia, expressing the hope that HMG could give political, moral and material support to the Cambodian coalition. In response, Mrs Thatcher was able to say that our views on these issues were similar.

6. This first round of talks with Zhao was useful in helping to establish some personal contact between the two leaders. It was followed by a welcoming banquet in the Prime Minister's honour given by Zhao Ziyang in the Great Hall of the People for some two hundred guests. In their speeches, copies  
... attached at Annexes C and D, both Prime Ministers referred to the long history of Sino-British relations and expressed the belief that the British Prime Minister's visit would further strengthen them. Both speeches made cautious reference to the subject of Hong Kong, Zhao saying merely that "in our bilateral relations there are problems left over from history that need to be solved through consultations".

/7. The



7. The second round of talks with Zhao the next morning were devoted principally to Hong Kong. With this in mind, the Governor of Hong Kong, Sir Edward Youde, joined the Prime Minister's delegation in Peking and was present throughout the talks with Zhao Ziyang and Deng Xiaoping. The substance of the Prime Minister's talks with Zhao and Deng on Hong Kong is reported separately. It is sufficient to say here that the Prime Minister was able to agree with the Chinese a brief statement, as follows:-

"Today the leaders of both countries held far-reaching talks in a friendly atmosphere on the future of Hong Kong. Both leaders made clear their respective positions on this subject. They agreed to enter into talks through diplomatic channels following the visit, with the common aim of maintaining the stability and prosperity of Hong Kong."

8. In her second round of talks with Premier Zhao Mrs Thatcher also raised a number of bilateral commercial matters, but there were no firm responses from the Chinese side. In the course of her visit she also attended a reception at the Embassy for representatives of the British community and for some of our Chinese contacts; visited the Central Music Academy, the Peking Fine Arts Academy, a British book exhibition in the National Art Gallery, and gave an impressive return banquet for

/the Chinese



the Chinese Premier in the Great Hall of the People at which the tables were decorated for the first time in that building with fine pieces of British silver. Copies of the short speeches on this occasion are attached at Annexes E and F. She was also entertained to dinner by the Association of British Commerce in China, which gave her an opportunity of discussing trade issues and learning something of the opportunities and problems for British businessmen resident here.

9. On the 25th of September, Mrs Thatcher went on to Shanghai, where she visited the British Petroleum office, a biochemistry research institute (where she deeply impressed the Chinese specialists with her knowledge of their area of expertise), and launched a ship built for the Hong Kong shipping magnate, Sir Y K Pao, naming it "World Goodwill". She also met members of the growing British community resident in Shanghai and was entertained by the Mayor at a splendid banquet where the guests ate to the strains of Auld Lang Syne, Home Sweet Home, All Through the Night, and the Last Rose of Summer. A performance of Chinese dancing and Peking opera followed. Mrs Thatcher's visit to Shanghai was relevant to our decision to open a Consulate-General there and gave valuable support to our efforts to obtain suitable accommodation for the office and staff.

/10. Finally,

CONFIDENTIAL



10. Finally, the Prime Minister paid a short visit on the 26th of September to Canton, where she was able to hold talks with the Governor of Guangdong Province, who afterwards entertained her to lunch. The talks concentrated on business opportunities and economic cooperation in Guangdong. She was present at the signing of a Letter of Intent between Cable and Wireless Ltd and a Chinese company for the establishment of an important microwave communications link in the province.

11. When plans for the Prime Minister's tour were being discussed last spring, Mrs Thatcher forecast that her visit to China might be the most strenuous part of her tour. The programme here was certainly a full one and the talks with Chinese leaders were concentrated and important. This was the first visit by a British Prime Minister in office to China and, therefore, raised Sino-British relations to Prime Ministerial level. In this we have hitherto lagged behind our friends and competitors. I hope conditions will be suitable for Zhao Ziyang to take up next year the invitation Mrs Thatcher gave him to make a return visit to Britain. On the commercial side, though no large contracts were signed, Chinese attention was concentrated on a number of important deals, which I trust, as a result, are closer to signature. Finally and most important, the visit allowed us to tackle the difficult issue of Hong Kong, which in coming months is likely to dominate

/Sino-British

CONFIDENTIAL

CONFIDENTIAL



Sino-British relations, with considerable potential for good or ill. Thanks to the Prime Minister's advocacy we were able to secure our main objective for the visit, namely an agreement to begin talks about Hong Kong via diplomatic channels with the stated object of maintaining Hong Kong's stability and prosperity. We must now follow up that initial achievement.

12. I am sending copies of this despatch to HM Ambassadors at Washington, Moscow and Tokyo, and to the Governor, Hong Kong.

I am, Sir

Yours faithfully

A handwritten signature in cursive script, which appears to read 'Percy Cradock'.

PERCY CRADOCK

CONFIDENTIAL





ANNEX A

PRIME MINISTER'S VISIT TO CHINA: WORKING PROGRAMME AS OF

21 SEPTEMBER

Wednesday, 22 September

- 1320 Arrive at Peking Airport by British special plane. Met by HMA and Lady Cradock; Vice Foreign Minister Zhang Wenjin; Ambassador Ke Hua and Mrs Ke Hua; Head of the Western European Department of the Ministry of Foreign Affairs, Wang Benzuo; and by representatives of the Protocol Department
- 1420 Arrive at the Guest House
- 1530 Members of the Prime Minister's Delegation leave the Guest House for the Great Hall of the People
- 1550 Leave the Guest House for the Great Hall of the People (Prime Minister and Mr Thatcher)
- 1600 Welcoming ceremony (in the Square outside the Eastern Entrance of the Great Hall): Embassy staff to assemble at 1540 hrs at GHP North Entrance lobby
- 1615 Courtesy call on Premier Zhao Ziyang (at the Hebei Hall)
- 1630 Talks with Zhao Ziyang (at the Eastern Hall)
- 1830 Return to the Guest House
- 1920 Leave the Guest House for the Great Hall of the People
- 1930 Welcoming banquet (at the Banquet Hall)

Afterwards - Visit Chancery

Thursday, 23 September

- 0800 Breakfast
- 0850 Leave the Guest House for the Great Hall of the People
- 0900 Continued talks with Zhao Ziyang
- 12-1300 Reception given by Sir Percy and Lady Cradock at British Embassy (Residence)
- 1330-1430 Private lunch at Guest House

/1430



1430 Leave the Guest House for a visit to the Central Conservatory of Music

1440 Arrive at the Conservatory

1540 Leave the Conservatory for the Central Academy of Fine Arts to meet some artists

1550 Arrive at the Central Academy

1650 Leave the Central Academy of Fine Arts for the Art Gallery

1700 Visit the British Book Exhibition

1730 Leave Art Gallery for Residence

1745 approx Meeting in Chancery

1900 approx Visit Residence (to change)

1925 Leave Residence for Jianguo Hotel

1930 Arrive at Jianguo Hotel for dinner given by British business community

(Afterwards (?) Prime Minister's Press Secretary briefs British press at Jianguo Hotel)

Friday, 24 September

0800 Breakfast

0935 Leave the Guest House for the Great Hall of the People

0945 Meet with Vice Chairman Deng Yingchao

1030 Meet with Vice Chairman Deng Xiaoping

1230 Luncheon given by State Councillor and Foreign Minister Huang Hua (Yangyuan Hall, Diaoyutai Guest House)

1430 Leave the Guest House for a short visit to Haidian free market en route to the Summer Palace

1500 Arrive Summer Palace

1600 Leave Summer Palace for the Guest House

1620 Arrive back at Guest House

/1720



1720 Leave the Guest House for the Great Hall of the People  
1730 Press Conference  
Later return to Guest House  
1900 Leave the Guest House for the Great Hall of the People  
1930 Return banquet  
2130 onwards Interview with radio and television correspondents at Guest House

Saturday, 25 September

0630 Luggage Call  
0700 Breakfast  
0800 Premier Zhao Ziyang arrives at the Guest House to bid farewell  
0815 Leave the Guest House for the Capital Airport  
0900 Leave Peking for Shanghai by Chinese special plane  
1030 Arrive in Shanghai (met by Mayor Wang Daohan)  
1050 approx Visit British Petroleum's Headquarters in Shanghai (near airport en route to the Guest House)  
Later arrive at the Jinjiang Guest House  
1200 Luncheon given by Sir Y K Pao  
1400 Leave the Guest House for Jiangnan Shipyard  
1430-1500 Attend the naming ceremony of MV "World Goodwill" built by Jiangnan Shipyard  
1530-1630 Visit the Institute of Biochemistry  
1700-1800 Reception given by HM Ambassador for the British community in Shanghai to meet the Prime Minister: at the Jinjiang Club  
1900 Banquet given by the People's Government of Shanghai Municipality, followed by cultural performance

/Sunday, 26 September



Sunday, 26 September

0830 Depart Shanghai Airport in Chinese Boeing 707 (VC10 to follow)

1000 Arrive Canton

~~1030~~ (?) Embassy has asked MFA for the Prime Minister to attend Cable and Wireless signing ceremony<sup>7</sup>

1100 or 1130 (to be confirmed by MFA) - Call on Guangdong Province Governor for a general discussion of economic development projects

Lunch as the guest of the Governor of Guangdong

1400 Leave Canton by VC10 for Hong Kong

CONFIDENTIAL <sup>FILE</sup>



10 DOWNING STREET

*From the Private Secretary*

25 October, 1982

HONG KONG

In my letter of 21 October I promised to let you know separately the Prime Minister's views on the attitude we should adopt to various projects in the field of Anglo/Chinese bilateral relations (your letters of 14 and 15 October refer).

The Prime Minister agrees that:-

- (a) we should maintain our bid for the Luda Destroyer project (Mrs Thatcher notes that there is no suggestion that we should improve the financial terms).
- (b) we should also maintain our interest in the Guangdong nuclear project.
- (c) BP should continue its involvement in oil activities off South China.
- (d) the proposed mission to China on 6 November to discuss English language teaching should go ahead and we should consider the desirability of a future programme of language teaching and help for Chinese students only when the mission has reported.

A. J. COLES

J.E. Holmes, Esq.,  
Foreign and Commonwealth Office

CONFIDENTIAL

E

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

15 October, 1982

Dear John,

Visit of the Prime Minister to the Far East

Further to my letter of 14 October, I promised to let you have a note on the general question (raised in your letter of 4 October) whether it is appropriate to make any further gestures to the Chinese given the current situation over Hong Kong. Your letter of 13 October, to which we shall be replying separately, gave an indication of the Prime Minister's attitude.

*note by us to reduce the number and level of our bilateral*

In essence we believe that the Chinese are not likely to be seduced into a more forthcoming attitude in the Hong Kong negotiations by gestures from us on issues not directly connected with those negotiations; but that any identifiable dealings below what the Chinese would normally expect could have a positively harmful effect on the negotiations.

Applying this to projects at present under consideration, we believe that it would be counter-productive to withdraw from the positions we have taken up on the Luda Destroyer project and the Guangdong nuclear power project. On the first, my letter of 14 October explained that there was nothing more which we could do to help at this stage, but there is still a possibility of securing a valuable contract, and for us to hold off now (eg by withdrawing our agreement to waive the Research and Development levy) would in our view send quite the wrong signal to the Chinese. Similarly, for us to slow down or arrest the discussions on the Guangdong nuclear project, in which there is a major Hong Kong interest as well as considerable involvement by British industry, could well damage our cause in the Hong Kong negotiations; energy development in South China is of especial importance for the Chinese. It would similarly not be in our overall interests to restrain BP in their current negotiations for participation.

The arguments for giving further assistance in the fields of English language teaching and fees for Chinese students are rather less clear-cut. The Chinese are aware of our plans (described in paragraph 3 of my letter of 14 October) to send a mission on 6 November to discuss English language teaching, and although this mission need not produce early results we believe that it would be wrong to cancel it. The rather wider proposals for funding awards

/in

CONFIDENTIAL

CONFIDENTIAL



in Britain for Chinese students (paragraph 4 of my letter) could however easily be delayed.

*Yours ever*

*J E Holmes*

(J E Holmes)  
Private Secretary

A J Coles Esq  
Private Secretary  
10 Downing Street

CONFIDENTIAL

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

14 October, 1982

*Dear John,*

Visit of the Prime Minister to the Far East

In your letter of 4 October you asked for advice on how we propose to follow up a number of points that remain outstanding from the Prime Minister's recent tour.

For China you asked us to consider what could be done to help with the Luda Destroyer project, English language training and fees for Chinese students in Britain. On the first, the Ministry of Defence say that there is nothing more they can do to help. They have, as you know, already undertaken to waive the Research and Development levy provided that the negotiations are successfully concluded on both the British Aerospace and Vosper Thornycroft contracts. The Chinese know this. Naval conversions are not eligible for support from the intervention fund. Nonetheless British Aerospace and Vosper Thornycroft teams now in Peking continue to negotiate. There has been progress on the British Aerospace contract, for which agreement on price has been reached, but several important contractual clauses remain unresolved. British Aerospace are cautiously optimistic of success. Vosper Thornycroft appear to have made little progress in their talks, but achievement of a successful contract with British Aerospace could persuade the Chinese that it would be in their interest to make further concessions in an effort to close the gap with Vosper Thornycroft.

For further English language teaching the British Council have put forward tentative proposals for a programme in three parts:

- (i) teaching English to those selected for technical training in Britain;
- (ii) training a professional cadre of teacher-trainers;
- (iii) training the staff of the TV University.

We plan to send a specialist mission to Peking on 6 November to discuss these proposals with the Chinese and work out a programme for ODA to finance. With paragraph 4 of your letter in mind, we should be grateful for confirmation that this is acceptable to the Prime Minister.

/A

CONFIDENTIAL



CONFIDENTIAL



A programme of technical cooperation with China would normally provide fully funded post-graduate awards in Britain for carefully selected trainees in fields relevant to national development; but a possible alternative would be to provide partial funding for larger numbers as Mr Zhao seemed to have in mind. These are questions of priorities that we can only start discussing with the Chinese when we have determined the size and scope of our programme. We would see advantage in it covering not only English language teaching and agriculture but also transport and power and other sectors of commercial and industrial - not cultural - interest. Is the Prime Minister content with this?

We have noted the Prime Minister's view that we should attempt to time the proposed visit of the Japanese Prime Minister to Britain in the way most likely to advance our economic interests. It is unlikely that the Japanese will wish the visit to take place before the end of 1983 (although the change of Prime Minister in Japan could affect this); and it is too early to say what time after that would suit us best from this point of view. But we shall of course bear the point in mind in our planning for next year and 1984.

The question of use of the term British Nationals in Hong Kong passports had already been dealt with in Roger Bone's letter of 11 October to you. I understand that the meeting to discuss this has been arranged for next week.

*Your ever*  
*J E Holmes*

(J E Holmes)  
Private Secretary

A J Coles Esq  
Private Secretary  
10 Downing Street

CONFIDENTIAL

China  
China

CHINA

4



Prime Minister

CABLE AND WIRELESS PUBLIC LIMITED COMPANY

14  
10.

MERCURY HOUSE · THEOBALDS ROAD · LONDON WC1X 8RX · TELEPHONE 01-242 4433 · LONDON TELEX 23181 CANDW G

Eric Sharp C.B.E.  
Chairman & Chief Executive

PPS R14

13 October 1982

MS

Dear Prime Minister

I am writing to express the appreciation of the Court of Directors of Cable and Wireless for your participation in the signing ceremony in Guangzhou for our joint venture with the provincial telecommunications and oil services authorities.

Against the background of a physically demanding itinerary and diplomatic negotiations of considerable complexity and sensitivity with which you had to deal, I would wish to convey my personal and sincere appreciation for the splendid way in which you identified yourself with our activities in China both by your personal presence and by your toast to our Chinese friends.

I know that Director Li of the Telecommunications Bureau and Director Zhou of the Nanhai Oil Joint Service Corporation were very impressed and flattered by your remarks, and the Governor Lieu Tien Fu also conveyed to me at the banquet celebrating the 33rd Anniversary of the establishment of the PRC held some days after you had left, how delighted he was that you had been able to visit Guangzhou and see him.

Needless to say your visit will have considerably helped Cable and Wireless in exploiting our preferential position and in the development of the exciting new business opportunities now opening up for us in that vast market.

Yours sincerely  
Eric Sharp

The Rt.Hon. Margaret Thatcher MP  
Prime Minister  
10 Downing Street  
London  
SW1



China: Policy: Pt 2

FILE  
CONFIDENTIAL



China

RM

10 DOWNING STREET

©

*From the Private Secretary*

12 October, 1982

PRIME MINISTER'S VISIT TO CHINA

I enclose a record of conversation between the Prime Minister, the Governor of Guangdong Province and the Mayor of Canton on 27 September. I also enclose an account of the Prime Minister's visit to BP in Shanghai on 26 September. Both these notes were prepared by the Embassy in Peking and have just reached us by bag - hence the delay.

I am copying this letter and enclosures to John Rhodes (Department of Trade), Jonathan Spencer (Department of Industry) and Julian West (Department of Energy).

A. J. COLES

Roger Bone, Esq.,  
Foreign and Commonwealth Office

CONFIDENTIAL

CONFIDENTIAL

China Policy HLL



S/F

10 DOWNING STREET

From the Private Secretary

4 October 1982

Visit of the Prime Minister to the Far East

I think the Prime Minister would find it helpful to have a brief note soon explaining how Departments propose to follow up the various points outstanding from her visit to the Far East. In preparing such a note you may like to bear the following points in mind.

Hong Kong

I understand that, following a brief discussion at Cabinet last Thursday, the Home Secretary may wish to let the Prime Minister have his views on the question of the use of the term "British nationals" in Hong Kong passports.

China

As you know, the Prime Minister undertook to consider whether we could help with:

- (a) The Luda destroyer project;
- (b) Fees for Chinese students in Britain and English language training for Chinese.

In considering advice on these matters, I believe that the Prime Minister will wish to consider carefully whether it is appropriate to make any further gestures to the Chinese until they have shown themselves disposed to be helpful over the future of Hong Kong (or, conversely, whether any such gestures could help to produce the solution we require).

Japan

You will recall that the Prime Minister invited the Japanese Prime Minister to visit Britain, though without naming a date. The Prime Minister told me later that she thought we should attempt to time the visit in the way most likely to advance our economic interests.

In view of the references to the future of Hong Kong in this letter, I am not copying it to other Departments, but you will doubtless consult them before replying.

JC

John Holmes, Esq.  
Foreign and Commonwealth Office

CONFIDENTIAL

16  
F E R Butler Esq  
Private Secretary to the PM  
No 10 Downing Street



*With the compliments of*  
THE BRITISH EMBASSY

G E Clark  
Commercial Counsellor

PEKING

## NOTE FOR THE RECORD

## PRIME MINISTER'S VISIT TO BP ESTABLISHMENT IN SHANGHAI

1. The Prime Minister and her immediate party visited the BP residence in Shanghai on 26 September for a short briefing by Mr Simon Downs, the BP China representative, on BP's activities in China.
2. Mr Downs said that, along with other oil companies, BP had put in tremendous efforts in the exploration of China's offshore waters in the belief that the prospects of finding oil in commercial quantities were "world-ranking". The seismic work done beginning in 1978/79 confirmed this belief. Most of the work done by BP was in the East China Sea off the coast near Shanghai. Under the rules of the game the data gained by their surveys was shared with all other participants, which meant 35 companies in the Shanghai area and 45 altogether for the coastal waters of China. In addition, BP had drilled two exploration wells in the Yellow Sea. The data recovered from these was shared with the Chinese but not with any other oil companies.
3. The oil companies have now made their bids, and the Chinese Oil Ministry was examining them. BP had been told informally that the Chinese were disappointed in the main with the level of bids received, but this disappointment did not extend to BP. Without going into detail, Mr Downs said that the bids contained three main aspects: the number of wells the company proposed to drill, the amount of money it was prepared to put in, and the amount of oil it wished to take out. If licences were awarded, they would be for 5 to 7 years in the first instance. Under the oil exploitation law, the companies had the right to the production of the wells which they drilled for 15 years from the start of the flow of oil. On the other hand, the Chinese would have the right to take over the well once the company had recovered its development and production costs.
4. BP would continue to maintain its main office in Peking. The seismic surveys made it necessary for BP to move the centre of gravity of its efforts in China to Canton: the South China Sea and the Pearl River delta were much more promising than the East China Sea. This had been reflected in the bidding, where very few companies had put in more than token bids for work in the East China Sea.
5. The main problems facing BP and other companies were unfamiliar contractual conditions, obviously inadequate speed of response by the Chinese authorities to practical problems, and strange arrangements for arbitration. A great deal of training of Chinese oil personnel would be necessary. BP thought the best course was honest and straightforward advice, which they had pursued with success up to now. Mr Downs expected that BP would be among the first companies to be summoned to discuss their bid, and that offshore work would begin as a result in the first or second quarter of 1983.

RESTRICTED

6. In answer to questions from the Prime Minister, Mr Downs said he thought that undersea pipe would not be required in great quantities for at least 7 years. Some of the drilling rigs would be made in China, but most would be brought in on contract as there was now a large international surplus of equipment. He hoped that the British offshore service industry would improve on its slow start and obtain a reasonable share of the business. Finally, Mr Downs predicted that not more than a dozen companies would be asked to discuss their bids in the first instance as to do more would strain Chinese negotiating capabilities.

GA.

G E Clark  
29 September 1982



010



**Commercial Department Peking**  
c/o Diplomatic Service Mails Office  
Osborn Barracks Waterloo Road Kowloon Hong Kong  
**Commercial Department**  
**British Embassy**  
11 Kuang Hua Lu Peking People's Republic of China  
Cable Prodrome Peking Telephone 521961/2/3/4

F E R Butler Esq  
Private Secretary to the  
Prime Minister  
No 10 Downing Street  
LONDON SW1

Your reference  
Our reference  
Date 29 September 1982

*John Coker*  
*Dear Robin,* This and the attached record of BP look fine. Pl. will you arrange distribution + retyping on our paper if necessary. FERB 11.10

... I attach a draft verbatim record of the conversation between the Prime Minister, the Governor of Guangdong Province and the Mayor of Canton on 27 September. I have given it no circulation.

*Yours sincerely*

*Gerald Clark*  
G E Clark

FICO  
JOT  
Jol  
Every



RECORD OF A MEETING HELD IN CANTON ON 27 SEPTEMBER AT 11 AM,  
BETWEEN THE PRIME MINISTER AND THE GOVERNOR OF  
GUANGDONG PROVINCE, MR LIU TIANFU, AND THE MAYOR  
OF CANTON, MR LIANG LINGGUANG

1. After the initial words of welcome, Mrs Thatcher asked Governor Liu what special powers Guangdong Province had. Mr Liu said that the main point was that Guangdong and Fujian Provinces can pursue specific policies and flexible measures, by which he meant that the two Provinces were even more open to the outside world than China as a whole under the present open-door policy, and had more local power of decision. This applied throughout the Province but in the Special Economic Zones the policy was even more open. The Prime Minister asked whether the Special Economic Zones decided their policies on their own or whether they had to refer for authorisation to the provincial government. Mr Liu explained that as the establishment of the Special Economic Zones had been made by the Central Government, they in fact derived their authority from it and had rather closer relations with the State Council than the Province.
2. The Prime Minister then referred to the close relations between Hong Kong and Guangdong Province, and commented on the telecommunications link which had already been established by the Cable and Wireless Company. Mr Liu said that Cable and Wireless was a very good company and there was already a long history of cooperation between Guangdong Province and it. A new agreement had just been signed for a Province-wide microwave link and later in the day a letter of intent would be signed between Cable and Wireless and the Guangdong Post and Telecommunications Bureau for a joint venture for communications with the offshore oil rigs. The Prime Minister said that she was very glad that she was going to witness this signature.
3. Mrs Thatcher then referred to the Guangdong nuclear project as an enormous example of possible cooperation between Britain, Hong Kong and Guangdong Province, and referred to her close friendship with Sir Walter Marshall as the head of the CEGB, who had recently visited Canton for discussions about the project. Mr Liu spoke in praise of Lord Kadoorie, and his great enthusiasm for the project. Four generations of his family had lived in China and now that he was over 80 he wished to do his bit for the modernisation policy. It was largely owing to his enthusiasm that the proposed joint venture between China Light and Power and the Guangdong Electric Power Company was under discussion.
4. The Prime Minister said she also wanted to mention the Dunlop company, who had nearly completed a contract for the modernisation of a tyre factory in Canton. She understood that it was only held up by a tax point. Mr Liu said that Canton town was indeed negotiating with Dunlop and the talks were going on at the moment. Mr Liang, the Mayor of Canton, said they had



almost reached agreement. Mrs Thatcher asked them both to push forward as soon as possible to achieve agreement. She understood the tax point had been referred to Peking and the Ambassador and his staff would help sort it out there.

5. The Prime Minister then asked about Guangdong's plans. Mr Liu said that Guangdong Province had a lot of light industry which provided particular areas for cooperation between Guangdong and the UK on the supply of equipment. There were also possibilities for the exploitation of non-ferrous and rare metals such as molybdenum, titanium, aluminium, tungsten, lead and tin. The Province was very rich in deposits of these along its coastal areas. Mrs Thatcher commented that Guangdong seemed very rich in natural resources if you remembered the offshore oil as well. Mr Liu said that his first priority was to develop light industry and secondly to exploit the non-ferrous metals referred to. The main difficulties Guangdong faced were in a shortage of energy resources and poor transportation. Guangdong had hardly any coal and although it was quite rich in offshore oil, it would take some time to exploit. The oil companies' bids were being examined by the Ministry of Petroleum: probably by early next year they would have derricks and drilling platforms on site. This was another area for possible cooperation with the UK. The Prime Minister welcomed this and said that it was important to have a good back-up - helicopters, supply ships and so on. Britain's North Sea experience could be very useful to Guangdong. BP, whom she had visited in Shanghai, would be very useful in this connexion. BP had developed the first big field in the North Sea and had acquired very valuable experience about what to do and not to do. She presumed that conditions were probably better in the South China Sea than in the North Sea, and asked about the incidence of typhoons, which would affect rig design.

6. The Prime Minister asked if there was a shortage of energy why Guangdong did not use solar energy. Mr Liu said that there was of course a lot of sun but much of the year was cloudy. There was more sunshine on Hainan Island than in any other part of the Province. The Prime Minister asked how electricity was generated now. Mr Liu said by hydropower and by conventional coal-powered stations. Of the total output of 2000 megawatts, 60% came from hydropower; unfortunately the water supply was erratic.

7. The Prime Minister asked about the relationship between the Mayor's powers and those of the Province. Mayor Liang said that the city was governed under the guidance of the Province. Its industrial output and financial revenues amounted to 40% of the total provincial output and revenues so he must do a good job in Canton. He was able to keep about one-third of these revenues to carry out his own plans. The Prime Minister asked whether those



plans were agreed between the city and the Province, or whether they were laid down by the Central Government, and if they were discussed annually. Mr Liu explained that the plans were discussed annually between the Province and the city; the Central Government did not come into it. Discussion was made easier by the fact that the Mayor was also a member of the provincial government. The Prime Minister commented that he was sitting on both sides of the fence. She asked if there were pressure within the city for eg. better housing, how the Mayor and the Governor decided what to do. Mr Liang said that this would be dealt with under the annual plan. When planning time came round every year that sort of question was very carefully discussed. While priority was given to energy, communications and industry as the source of future wealth, they also had to give weight to education, science and the living standards of the people. The Prime Minister said she understood the problems. They were the same the world over.

8. The meeting closed with the usual courtesies at 11.45am.

CONFIDENTIAL



all copies  
despatched  
38/9

10 DOWNING STREET

From the Principal Private Secretary

29 September, 1982.

Dear John,

I enclose a copy of a record of a conversation between the Prime Minister and Premier Zhao Ziyang about trade between Britain and China during Premier Zhao Ziyang's farewell call on the Prime Minister.

Filed on 29/9/82

I am sending copies of this letter and its enclosure to John Kerr (HM Treasury), John Rhodes (Department of Trade), and HM Ambassador, Peking.

Yours ever,

Robin Butler

John Holmes, Esq.,  
Foreign and Commonwealth Office.

CONFIDENTIAL

VS

CONFIDENTIAL

Prime Minister  
Some headings, which  
I hope may be useful.

Far East Tour - headings for report to Cabinet

PERB  
29.9.

Japan

Mainly concerned with trading issues.

Message - growing Japanese surplus (-\$11 b. in 1980, + \$5 b. in 1981, + \$17-20 b. forecast for next year) threat to open trading system.

Pressed them on 3 fronts -

- (1) Inter-industry agreements on import restraint - agreement on immediate machine tool mission.
- (2) Opening market to ~~more~~ British goods, including capital goods and defence equipment.
- (3) More investment in Britain.

Agreed in principle to agreement on technological cooperation, but must be specific.

Opportunity for friendly talk with Chairman of Nissan.

China

Talks with Zhao Ziyang and Deng Xiaoping.

On international issues, China's main preoccupation is still that West should provide a counter-force to Russia.

Also concerned with Taiwan: having compromised with US, want to see US restraining arms sales.

Hong Kong - China stated hard position on regaining sovereignty, over whole area in 1997. We stood firm on treaties, and told them that Hong Kong would only survive as financial centre under British administration.

Terms of communique - both sides stated positions and agreed to talks with common objective of maintaining Hong Kong's prosperity and stability.

/ Talks

Talks will be tough and will take time. Main problem is holding  
Hong Kong confidence in the meantime.

Hong Kong

Outcome of talks in China main preoccupation. Understandably  
much concern, and some money has started to move.

One or two bilateral issues in Hong Kong which will take up  
directly with colleagues; and will discuss with Foreign Secretary  
how to carry forward talks with Chinese on Hong Kong.

*Home Secretary*



*fine*

10 DOWNING STREET

THE PRIME MINISTER

28 September, 1982.

*Dear Sir Y.K.*

Thank you for the delightful lunch in Canton and all the arrangements made at the splendid ceremony to launch the "World Goodwill". Thank you too for your fine plaque commemorating the launching, and the beautiful presents which you have so kindly given me.

I look forward to seeing you again in London in the not too distant future.

My warm regards to Lady Pao.

*Yours sincerely*  
*Raymond Stobart*

Sir Y.K. Pao

---



# MARINE NAVIGATION COMPANY LTD

*Incorporated 1916.*

5TH. FLOOR, HILL HOUSE  
1, LITTLE NEW STREET,  
LONDON, EC4A 3TB

TELEPHONE: 01-583 1510  
CABLES: WOSHIP LONDON EC4  
TELEX: 888425 WOSHIP G  
883023 WOSHIP G

Miss Carolyn Stephens  
Personal Assistant to the Prime Minister  
No. 10 Downing Street  
London S.W.1.

*Dear Carolyn,*

With reference to our telephone conversation this morning  
I enclose herewith a telex message from Sir Yue-kong Pao  
to the Prime Minister, together with a copy of a speech which  
Sir Yue-Kong intends to give at the luncheon in honour of the  
Prime Minister on 25th September in Shanghai.

We would be grateful if you could show it to the Prime Minister  
at a convenient time.

Thank you very much for all your assistance.

With kindest regards,

*Yours sincerely,*

*Nancy*

Nancy Chu

Encl.

883023 W0SHIP G

DEAR PRIME MINISTER,

I THOUGHT YOU MIGHT LIKE TO HAVE A LOOK AT THE SHORT MESSAGE I INTEND TO DELIVER AT THE LUNCHEON IN YOUR HONOUR IN SHANGHAI ON 25TH SEPTEMBER. SHOULD YOU HAVE ANY STRONG WISHES FOR AMENDMENT PLEASE DO NOT HESITATE TO LET ME KNOW. KINDEST REGARDS

Y.K. PAO  
WORLDSHIP

883023 W0SHIP G

Prime Minister, Mayor Wang Daohan, Chairman Chai Shu-Fan, (Mr. Thatcher,) Sir Percy, distinguished guests and friends,

It is a great pleasure for me as Chairman of the World-Wide Shipping Group, to host this luncheon here today in this great city of Shanghai for the Prime Minister of the United Kingdom. I am grateful to Mayor Wang for allowing me the opportunity to extend a warm welcome to the Prime Minister and her delegation and I am, indeed, honoured to do so.

We would all like to congratulate the Prime Minister on her successful visit to Beijing in the past three days. We are sure that her talks there and her visit generally has done much to cement Sino-British ties, which are of such long standing, and to strengthen the bonds of friendship between the Chinese and British peoples.

As everyone knows, China has embarked on an intensive programme of modernisation aimed at quickening the nation's economic development and raising the living standard of its population. This programme has been looked upon by China's friends throughout the world with interest, enthusiasm and admiration.

Only 25 days ago, (Vice Chairman) Deng Xiao-Ping, in his opening address at the 12th National Party Congress, pointed out that 1980s will be an important decade in the historical development of the party and the state. He said that three major tasks lie ahead: to intensify socialist modernisation, to strive for reunification, and to combat hegemonism. He emphasised that economic construction is at the core of these three tasks, as it is the basis for the solution

of the country's international and domestic questions.

I believe (Vice Chairman) Deng's message signifies a renewed invitation to those governments and peoples who are China's friends to participate and to assist in China's modernisation programme. I believe also his message holds a particular significance for Hong Kong. Having such a close economic relationship with China, Hong Kong is uniquely placed and willing and, indeed, duty-bound, to play an even more useful role in China's modernisation programme in the future than in the past. We sincerely hope that, through this memorable visit, the Prime Minister and the government she so ably leads will see fit to give the government and people of Hong Kong their strongest possible support. I have every reason to believe that that support will be forthcoming thereby enabling Hong Kong to continue to contribute energetically towards China's efforts to achieve her goals.

It is a matter of great pride to me that one of the Prime Minister's scheduled activities in Shanghai is to honour the World-Wide Shipping Group with her sponsorship of our new vessel "World Goodwill", just completed by the jiangnan Shipyard. I would like to thank that the sponsorship ceremony this afternoon will remind us all of the kind of productive economic co-operation that can be achieved by China and Hong Kong.

Finally, I would like to thank the Prime Minister again for giving us the privilege of her presence on this occasion, together with all our other prominent guests and friends. May I now ask all of you to join me in a toast to the Prime Minister's health combined with a toast to the long-lasting friendship between the peoples of the United Kingdom and China. Thank you.



FILE

10 DOWNING STREET

THE PRIME MINISTER

28 September 1982

Dear Governor,

I write to thank you most warmly for all the arrangements made for my visit to Canton. I greatly enjoyed my discussions with you and am most grateful for your generous hospitality at lunch. I much enjoyed the tour of Canton afterwards.

There are very considerable opportunities for Anglo/Chinese co-operation in the exciting development plans for Guangdong Province. I shall continue to take a special interest in these.

Yours sincerely

His Excellency Mr. Liu Tianfu.

Raymond Stedman

---



*file*

10 DOWNING STREET

THE PRIME MINISTER

28 September 1982

*My dear Mayor,*

I write to thank you and your staff most warmly for all the arrangements made for my visit to Shanghai. It was a most memorable visit. I greatly enjoyed meeting you and recall with the greatest of pleasure the splendid banquet which you arranged for me and my party and the superb cultural performance which was given afterwards. I am deeply grateful to all concerned.

*Yours sincerely*

*Raymond Dehler*

Mr. Wang Daohan,  
Mayor of Shanghai.

—



*file*

10 DOWNING STREET

THE PRIME MINISTER

28 September 1982

*Dear Professor Wang,*

Thank you so much for all the arrangements made for my visit to the Institute of Biochemistry last week. I found our discussion fascinating - and it was extremely kind of you to conduct it in English. I much enjoyed my brief tour of your laboratories and was most impressed by the quality of the research which is being undertaken. Please pass on my warm thanks and best wishes to all your colleagues.

*Yours sincerely  
Margaret Thatcher*

Professor Wang Yinglai

---



*file*

10 DOWNING STREET

THE PRIME MINISTER

28 September, 1982.

*Dear Sir Percy,*

I am extremely grateful to you, Lady Cradock and all your staff for everything you did for me in China.

Your Embassy gave me marvellous support - if I may say so, a thoroughly professional performance in circumstances that are not altogether easy. Would you please thank all the staff for me, both those whom I saw and those whom I did not, because I know how much work is done behind the scenes to prepare for visits of this kind. Denis joins me in sending special thanks to yourself and Lady Cradock for your splendid help and hospitality.

*Yours sincerely*  
*Raymond Storer*

His Excellency Sir Percy Cradock, K.C.M.G.





FILE

10 DOWNING STREET

THE PRIME MINISTER

28 September, 1982.

Dear Premier Zhao,

I write to thank you most warmly for all you did to make my visit to China so interesting and useful. My husband and I were most grateful for all the generous hospitality which we received in Peking, Shanghai and Canton. May I thank you too for the delightful gifts which you presented to us.

I believe that my visit, and my talks with Chairman Deng Xiaoping and yourself, have opened up many possibilities for Anglo-Chinese co-operation, and clarified the problems which need to be resolved. I shall continue to pay particular attention to relations between our two countries.

Yours sincerely  
Margaret Thatcher

His Excellency Premier Zhao Ziyang



*file*

10 DOWNING STREET

THE PRIME MINISTER

28 September, 1982.

*Dear Minister*

I am most grateful to you for your role in making my visit to China so interesting and useful. It was most kind of you to accompany me on my visits to Shanghai and Canton. Your presence greatly added to the pleasure I derived from the programmes arranged for me in those two fascinating cities.

I send you my best wishes for the future.

*Yours sincerely*

*Raymond Storer*

—

His Excellency Vice Minister for Foreign Affairs Zhang Wenjin



10 DOWNING STREET

THE PRIME MINISTER

28 September, 1982.

Dear Foreign Minister,

I write to thank you warmly for the part you played in the arrangements for my visit to China. I recall with particular pleasure the splendid lunch which you so kindly gave for me and my party at the Yanyuan Hall - a most memorable occasion.

I believe that, as a result of my talks in Peking, Shanghai and Canton, there are now possibilities for greater co-operation between the United Kingdom and China and for resolving certain problems to the benefit of our two countries.

My warm thanks.

Yours sincerely  
Margaret Thatcher

His Excellency State Councillor Huang Hua

---

CONFIDENTIAL

Note of a conversation at the farewell call of Mr. Zhao Ziyang on the Prime Minister at Diaoyutai Guest House, Peking, at 8 a.m. on Saturday, 25 September, 1982

SUBJECT

cc Master Set

After an exchange of courtesies, in which Mr. Zhao Ziyang said that the Prime Minister's visit had been a great success and that the British and Chinese Governments appeared to have similar views on a broad range of international issues, Mr. Zhao Ziyang said that there were broad prospects for Sino-British cooperation in the economic, technological and trade fields. The economic situation in China was improving daily. They were starting major projects gradually and in a planned way, concentrating on the fields of energy, transportation and the exploitation of natural resources; and this would provide increasing scope for cooperation with Britain, the European Community, the United States and Japan. It was unlikely that the Chinese economy would be greatly affected by the world recession. So long as the Chinese Government pursued their present policies, the increase in major projects undertaken was likely to continue in the remaining 20 years to the end of the century. But as China was still an underdeveloped and relatively poor country, the main difficulty in developing economic relations was that they could not afford high rate loans or expensive equipment. The Chinese Government wished to develop economic relations with the European Community, including Britain, and not solely with Japan and the United States. He hoped that the United Kingdom would try to help to surmount the obstacle which high rate loans and high prices put in the way of expanded Sino-British relations. He was not asking for an immediate answer, but he wanted to draw the Prime Minister's attention to the obstacle.

The Prime Minister commented that she had already seen great changes in China since her last visit, and these were no doubt due to the prudent policies recently pursued by the Chinese Government. She felt confident that China would grow steadily

CONFIDENTIAL

/ as

as these policies were pursued over the next 20 years. She could see that they would provide opportunities for cooperation to the mutual advantage of the two countries, and hoped that these opportunities would be taken up. She took note that the Chinese would drive a hard bargain in any trade negotiations. She commented that it was worth having in mind that the best products were often worth a higher price, and that cheaper goods were not always the best. Goods that were more expensive at first tended to last longer and be a better buy in the long run. She felt that some international negotiations tended to ignore this.

The Prime Minister and Mr. Zhao Ziyang concluded with mutual expressions of thanks for the gifts which had been exchanged between the two sides.

F.R.B.

27 September, 1982.

CONFIDENTIAL



File

10 DOWNING STREET

THE PRIME MINISTER

24 September, 1982.

Dear Mr. Wang,

I am writing to thank you for your courtesy and kindness in conducting Mr. Thatcher and myself on the visit to the Haidian Farm Produce Fair, and on the tour of the Summer Palace this afternoon.

I enjoyed the Farm Produce Fair and was interested to see this development in the Chinese system for the distribution of agricultural produce. Similarly, the visit to the beautiful Summer Palace and our walk around it was delightfully refreshing after my work and discussions with Chinese leaders over the previous two days.

Yours sincerely

Margaret Thatcher

Mr Wang Xiaoyi



Fels

10 DOWNING STREET

THE PRIME MINISTER

24 September 1982

Dear Mr. Baudert,

I am writing to thank you for arranging the working meeting last evening with members of your Association and for entertaining me at dinner afterwards. I was very glad to have the opportunity to hear at first hand the experience of the members of your Association in doing business in China, and I am grateful to those who made the brief presentations which enabled me to get a good picture in the short time available to us.

I send you my best wishes for the continued success of your Association, and all its members in promoting British trade in China. My husband also sends his thanks and best wishes.

Yours sincerely

Queen Elizabeth

O. Baudert, Esq.

Private Secretary

LETTERS OF THANKS ✓

From  
London.

1. You have asked to whom letters of thanks should be sent - apart from the obvious ones to Zhao Ziyang, Foreign Minister Huang Hua and Vice Foreign Minister Zhang Wenjin.
2. Because of the concentration of power in China, we have negotiated about the visit with very few people on the Chinese side, and they are the ones who should receive letters of thanks. The principal Chinese organiser is Mr Cao Yuanxin, the Deputy Director of the Ministry of Foreign Affairs Protocol Department. In fact, he has been in charge of Chinese preparations for the visit since late August.
3. Our earlier discussions were with Tang Longbin, also a Deputy Director of the Protocol Department of the MFA. You may care, in your letter to Mr Cao, to pass on thanks also to Mr Tang Longbin.
4. The MFA's protocol desk officer, Yuan Zude, has been in charge of the detailed arrangements just before, and during the visit in Peking. He probably deserves a separate short letter.
5. A person in the Embassy whom you may not have met and who made a special contribution to the visit is Miss Elaine Robertson, who has kindly lent her Carmen hair rollers to Mrs Thatcher.

M W Atkinson

M W Atkinson

24 September 1982

cc:

HMA



GR 100  
CONFIDENTIAL  
FM PEKING 240541Z SEP 82  
TO FLASH FCO  
TELEGRAM NUMBER 591 OF 24 SEPTEMBER  
INFO FLASH HONG KONG (FOR HADDON-CAVE)

FOLLOWING TO FCO FROM DONALD

FOLLOWING IS TEXT OF AGREED PRESS LINE FOLLOWING DISCUSSION THIS MORNING BETWEEN PRIME MINISTER AND CHAIRMAN DENG:

'' TODAY THE LEADERS OF BOTH COUNTRIES HELD FAR REACHING TALKS IN A FRIENDLY ATMOSPHERE ON THE FUTURE OF HONG KONG. BOTH LEADERS MADE CLEAR THEIR RESPECTIVE POSITIONS ON THIS SUBJECT. THEY AGREED TO ENTER TALKS THROUGH DIPLOMATIC CHANNELS FOLLOWING THE VISIT WITH THE COMMON AIM OF MAINTAINING THE STABILITY AND PROSPERITY OF HONG KONG. ''

THIS LINE IS NOT TO BE USED BEFORE THE PRIME MINISTER'S PRESS CONFERENCE AT 1730 PEKING TIME.

CRADOCK

NNNN

SECRET

SECRET

No 10. D. S/

---

✓ 10

M PEKING 241830Z SEP 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 596 OF 24 SEP 82

AND TO IMMEDIATE HONG KONG (PERSONAL FOR ACTING GOVERNOR)

TO PS TO SECRETARY OF STATE

FROM PS TO PRIME MINISTER

PRIME MINISTER'S TALKS WITH DENG XIAOPING: HONG KONG

1. THE PRIME MINISTER MET DENG XIAOPING ON FRIDAY 24 SEPTEMBER. DENG IMMEDIATELY RAISED THE QUESTION OF THE FUTURE OF HONG KONG AND ASKED THE PRIME MINISTER TO SPEAK FIRST.

2. THE PRIME MINISTER REPEATED MUCH OF WHAT SHE HAD SAID TO ZHAO, STRESSING THE FOLLOWING POINTS:

- A) THE TWO SIDES HAD THE COMMON OBJECTIVE OF MAINTAINING THE STABILITY AND PROSPERITY OF HONG KONG.
- B) THAT WHAT WAS SAID OR DONE NOW (UNDERLINED) WOULD HAVE AN IMMEDIATE IMPACT ON CONFIDENCE IN HONG KONG ITSELF AND INTERNATIONALLY:
- C) SHE KNEW HOW IMPORTANT SOVEREIGNTY WAS TO CHINA BUT IT WAS ALSO A DIFFICULT ISSUE FOR HER. HOWEVER, IF THE TWO GOVERNMENTS COULD AGREE DEFINITE ARRANGEMENTS ABOUT THE FUTURE ADMINISTRATION AND CONTROL OF HONG KONG AND IF SHE WERE SATISFIED THAT THEY COULD WORK AND COMMAND CONFIDENCE, AND IF SHE COULD JUSTIFY THEM TO THE BRITISH PARLIAMENT AND IF THEY WERE ACCEPTABLE TO THE PEOPLE OF HONG KONG, THEN SHE COULD CONSIDER THE QUESTION OF SOVEREIGNTY. WITHOUT SUCH AGREEMENT SHE COULD NO MAKE RECOMMENDATIONS TO HER GOVERNMENT ON SOVEREIGNTY.
- D) THE IMMEDIATE ISSUE WAS NOT WHAT WOULD HAPPEN IN 1997 BUT WHAT PEOPLE NOW (UNDERLINED) THOUGHT WOULD HAPPEN IN 1997.
- E) THERE WAS NOT ENOUGH TIME DURING HER VISIT TO RECONCILE THE DIFFERENCES BETWEEN THE TWO SIDES BUT SHE BELIEVED THOSE DIFFERENCES COULD BE RECONCILED THROUGH TALKS AND AND IT WAS ESSENTIAL TO MAINTAIN CONFIDENCE MEANWHILE

SECRET

SECRET

- E) THERE WAS NOT ENOUGH TIME DURING HER VISIT TO RECONCILE THE DIFFERENCES BETWEEN THE TWO SIDES BUT SHE BELIEVED THOSE DIFFERENCES COULD BE RECONCILED THROUGH TALKS AND AND IT WAS ESSENTIAL TO MAINTAIN CONFIDENCE MEANWHILE.

THE PRIME MINISTER PROPOSED THAT THE TWO SIDES SHOULD ANNOUNCE BEFORE SHE LEFT PEKING THAT SHE SHOULD HAVE FURTHER TALKS, TO BE PURSUED URGENTLY, AND THAT THE COMMON OBJECTIVE OF THOSE TALKS SHOULD BE THE MAINTENANCE OF PROSPERITY AND STABILITY IN HONG KONG.

3. CHAIRMAN DENG XIAOPING SAID THAT ZHAO HAD ALREADY CLEARLY ENUNCIATED CHINA'S BASIC POSITION ON HONG KONG. THERE WERE THREE QUESTIONS - SOVEREIGNTY SEMICOLON THE CONTINUED PROSPERITY OF HONG KONG SEMICOLON AND DISCUSSIONS BETWEEN THE CHINESE AND BRITISH GOVERNMENTS ON HOW TO AVOID TURBULENCE IN HONG KONG IN THE PERIOD BETWEEN NOW AND 1997 AND HOW TO MAINTAIN HONG KONG'S PROSPERITY THEREAFTER.

4. DENG REITERATED THAT CHINA HAD NO LEEWAY ON THE SOVEREIGNTY QUESTION. IT SHOULD BE CLEAR TODAY THAT CHINA WOULD CERTAINLY RECOVER SOVEREIGNTY OVER HONG KONG IN 1997. ON THIS PRECONDITION CHINA AND BRITAIN WOULD HOLD TALKS ON FORMULAE FOR THE FUTURE OF HONG KONG AND ON POLICIES FOR MAINTAINING HONG KONG'S PROSPERITY. IN NO MORE THAN ONE OR TWO YEARS TIME THE CHINESE GOVERNMENT WOULD FORMALLY ANNOUNCE ITS DECISION TO RECOVER HONG KONG. THEY WOULD WAIT ONE OR TWO YEARS IN ORDER THAT THE TWO GOVERNMENTS COULD CONDUCT FRIENDLY CONSULTATIONS SO THAT MAJOR DISTURBANCES SHOULD BE PREVENTED AND SO THAT THE PROSPERITY OF HONG KONG WOULD BE MAINTAINED. TIME WAS NEEDED TO SETTLE THE FUTURE OF HONG KONG. BUT AN ANNOUNCEMENT COULD NOT BE PUT OFF FOR MORE THAN ONE OR TWO YEARS. HE THEN SUGGESTED THAT THE CHINESE RESUMPTION OF SOVEREIGNTY OVER HONG KONG WOULD BENEFIT BRITAIN BY BRINGING TO AN END THE PERIOD OF COLONIALISM.

5. THE PRIME MINISTER REPLIED THAT BRITAIN WAS NOT COLONIALIST SEMICOLON WE SIMPLY WANTED TO CARRY OUT OUR MORAL DUTY TO HONG KONG. WE KNEW THAT IN 1997 SOVEREIGNTY OVER 92 PERCENT OF HONG KONG WOULD PASS TO CHINA. THE BRITISH GOVERNMENT KEPT TO ITS TREATIES AND WAS NOT CONTESTING THE TERMINATION OF THE LEASE. SHE STRESSED AGAIN THE NEED TO BOLSTER INVESTOR CONFIDENCE NOW (UNDERLINED). SHE SUGGESTED THAT WE SHOULD BEGIN TALKS IMMEDIATELY IN ORDER TO OBTAIN AN AGREEMENT ACCEPTABLE TO CHINA, HONG KONG, AND THE BRITISH PARLIAMENT AND WHICH WOULD PRESERVE PROSPERITY, FOR IF WE DESTROYED PROSPERITY IT WOULD NEVER RETURN. SHE RECOGNISED THAT CHINESE HAD ITS OWN POSITION ON SOVEREIGNTY. WE

SECRET

IN ORDER TO OBTAIN AN AGREEMENT ACCEPTABLE TO CHINA, HONG KONG, AND THE BRITISH PARLIAMENT AND WHICH WOULD PRESERVE PROSPERITY, FOR IF WE DESTROYED PROSPERITY IT WOULD NEVER RETURN. SHE RECOGNISED THAT CHINESE HAD ITS OWN POSITION ON SOVEREIGNTY. WE TOO HAD OUR POSITION. BUT THESE POSITIONS WERE RECONCILABLE AND IN THAT SPIRIT WE COULD ENTER TALKS.

SECRET

6. DENG REPLIED THAT HE HOPED WE WOULD UNDERSTAND THAT CHINA WOULD RECOVER SOVEREIGNTY OVER THE WHOLE OF HONG KONG BY 1997. HE DID NOT THINK HONG KONG'S PROSPERITY COULD ONLY BE MAINTAINED UNDER BRITISH ADMINISTRATION. THE MAINTENANCE OF PROSPERITY WOULD DEPEND FUNDAMENTALLY ON THE POLICY PURSUED BY CHINA TOWARDS HONG KONG AFTER IT HAD RECOVERED SOVEREIGNTY AND WHEN HONG KONG WAS ADMINISTERED BY CHINA. SOME CHANGES WOULD BE MADE BUT HONG KONG WOULD REMAIN A CAPITALIST SOCIETY.

7. DENG CONTINUED THAT IT WAS UNAVOIDABLE THAT THERE WOULD BE SOME QUOTE FLUCTUATIONS UNQUOTE AFTER CHINA ANNOUNCED THAT IT WOULD RECOVER SOVEREIGNTY. CHINA WOULD TRY TO AVOID MAJOR FLUCTUATIONS AND, WITH COOPERATION, THIS COULD BE DONE. MANY PEOPLE SAID THAT IF PROSPERITY IN HONG KONG COULD NOT BE MAINTAINED THIS WOULD EFFECT CHINA'S MODERNISATION DRIVE. THERE WOULD BE SOME EFFECT BUT IT WOULD NOT BE GREAT. WITH REGARD TO THE FLIGHT OF INVESTMENTS FROM HONG KONG, PROVIDED CHINA PURSUED APPROPRIATE POLICIES FOREIGN INVESTMENTS WHICH HAD LEFT WOULD RETURN. WHEN CHINA ANNOUNCED ITS INTENTION TO RESUME SOVEREIGNTY, IT WOULD AT THE SAME TIME ANNOUNCE THE POLICIES AND MEASURES TO BE ADOPTED. IF THERE WERE VERY LARGE AND SERIOUS DISTURBANCES IN THE NEXT FIFTEEN YEARS THE CHINESE GOVERNMENT WOULD BE FORCED TO CONSIDER THE TIME AND FORMULA FOR THE RECOVERY OF ITS SOVEREIGNTY. NOT ONLY SHOULD THE TWO GOVERNMENTS NOT DO ANYTHING TO THE DETRIMENT OF PROSPERITY, BUT THEY SHOULD PREVENT BUSINESSMEN FROM DOING THINGS DETRIMENTAL TO THE PROSPERITY AND STABILITY OF HONG KONG. HE PROPOSED THAT THE TWO SIDES SHOULD AGREE TO START DISCUSSIONS THROUGH DIPLOMATIC CHANNELS ON THE PRECONDITION THAT IN 1997 CHINA WOULD RECOVER SOVEREIGNTY OVER HONG KONG. ON THIS PRECONDITION THEY WOULD DISCUSS HOW TO ENSURE A GOOD TRANSITIONAL PERIOD AND WHAT WOULD BE DONE THEREAFTER.

8. THE PRIME MINISTER REPLIED THAT SHE WAS WORRIED BY DENG'S REFERENCE TO DISTURBANCES. SHE WAS NOT CONTEMPLATING DISTURBANCES SEMICOLON SHE WOULD DO EVERYTHING TO PREVENT THEM. SHE ALSO WANTED TO PREVENT FINANCIAL COLLAPSE. SHE URGED DENG NOT TO MAKE THE KIND OF STATEMENT HE HAD SUGGESTED AND ASKED HIM TO AGREE THAT THE TWO SIDES SHOULD SAY THAT THEY HAD HAD TALKS, THAT THIS HAD BEEN THE FIRST EXCHANGE, IT HAD NOT BEEN POSSIBLE TO SOLVE ALL

SECRET

SOVEREIGNTY OVER HONG KONG. ON THE  
DISCUSS HOW TO ENSURE A GOOD TRANSITIONAL PERIOD AND WHAT WOULD BE  
THE THEREAFTER.

SECRET

8. THE PRIME MINISTER REPLIED THAT SHE WAS WORRIED BY DENG'S REFERENCE TO DISTURBANCES. SHE WAS NOT CONTEMPLATING DISTURBANCES SEMICOLON SHE WOULD DO EVERYTHING TO PREVENT THEM. SHE ALSO WANTED TO PREVENT FINANCIAL COLLAPSE. SHE URGED DENG NOT TO MAKE THE KIND OF STATEMENT HE HAD SUGGESTED AND ASKED HIM TO AGREE THAT THE TWO SIDES SHOULD SAY THAT THEY HAD HAD TALKS, THAT THIS HAD BEEN THE FIRST EXCHANGE, IT HAD NOT BEEN POSSIBLE TO SOLVE ALL PROBLEMS IN THIS SESSION, BUT THEY HAD AGREED TO ENTER INTO FURTHER TALKS THROUGH DIPLOMATIC CHANNELS WITH THE COMMON AIM OF MAINTAINING PROSPERITY AND STABILITY IN HONG KONG. MR DENG HAD MADE KNOWN HIS POSITION ON SOVEREIGNTY BUT SHE WAS NOT FREE TO ABROGATE TREATIES WITHOUT REFERENCE TO HER CABINET AND PARLIAMENT.

9. THE PRIME MINISTER AND DENG THEN AGREED THE STATEMENT IN MY TELNO 591 OF 24 SEPTEMBER.

10. THE PRIME MINISTER WISHED THE CONTENT OF THIS REPORT TO BE VERY CLOSELY GUARDED. IT SHOULD THEREFORE BE GIVEN EXTREMELY RESTRICTED CIRCULATION.

11. PLEASE COPY TO NO. 10 DOWNING STREET.

CRADOCK

NNNN

SECRET

GRS 400



SECRET

9

VZCZCDFG144

HH

OO RBDWDFG

SECRET

DE RBDWC 3619 2671625

ZNY SSSSS

O 241600Z SEP 82

FM MODUK

TO RBDWDFG/HMA PEKING

INFO RBDWDFG/FCOTYONDON

BT

S E C R E T

SIC A2N/A2R/ZBH/ZMZ

FCO LONDON ILSTK+9(PUS), FCO(FED), DU(SPD).

DESKBY 242200Z SEP. FOR PRIVATE SECRETARY TO PRIME MINISTER FROM

DUS(FB) IN ABSENCE OF PUS(MODUK).

051 PROJECT. PEKING TEL NO 586 OF 23 SEPTEMBER REFERS.

1. THE SITUATION REGARDING THE BAE CONTRACT IS EITHER DIFFERENT FROM

THAT INDICATED IN PARAGRAPH 3 OF YOUR TUR. BAE ASSESS THE GAP

BETWEEN THEM AND THE CHINESE TO BE BETWEEN POUNDS 3M AND POUNDS

4.5M IT IS NOT POSSIBLE TO BE MORE PRECISE SINCE THEIR CALCULATIONS

ARE BASED ON A NUMBER OF VARIABLES WHICH HAVE NOT YET BEEN AGREED,  
SUCH AS PRICE INDEX AND BANK GUARANTEE ARRANGEMENTS.

2. THE VT CONTRACT IS COMPLICATED BY THE FACT THAT EACH SIDE HAS  
CALCULATED ITS OFFER ON A DIFFERENT BASE DATE. THE LATEST CHINESE  
OFFER OF POUNDS 49.9M REJECTED BY VT, WAS ASSESSED ON A BASE DATE

PAGE 2 RBDWC 3619 S E C R E T

OF SEP 82. THE VT OFFER OF POUNDS 50.9M WAS CALCULATED ON A BASE DATE  
OF 1 APR 82. HOWEVER IF THE VT PRICE WERE TO BE ADJUSTED TO SEP 82 IT  
WOULD HAVE TO BE INCREASED TO ABOUT POUNDS 53.7M, LEAVING A GAP OF  
POUNDS 3.8M. BUT AS IN THE BAE CASE, THE VT FIGURES ARE SUBJECT TO  
AGREEMENT BETWEEN THEM AND THE CHINESE ON THE PRICE VARIATION  
FORMULA PROPOSED BY VT. SO FAR, THE CHINESE HAVE NOT ACCEPTED THIS  
FORMULA, AND THE REAL GAP IS THEREFORE CONSIDERABLY GREATER THAN  
POUNDS 3.8M

3. THUS, ALTHOUGH THE TOTAL PRICE GAP ON THE WHOLE PROJECT APPEARS  
TO BE OF THE ORDER OF POUNDS 6.8 TO 8.3M, THIS DIFFERENCE WOULD BE  
GREATER IF THE CHINESE DO NOT ACCEPT THE PRICE INDEX/PRICE VARIATION  
FORMULA PROPOSED BY BAE AND VT.

4. AS REGARDS GOVERNMENT ASSISTANCE, MOD HAS ALREADY UNDERTAKEN TO WAIVE THE R AND D LEVY PROVIDED THE NEGOTIATIONS ARE SUCCESSFULLY CONCLUDED ON THE TWO CONTRACTS, AND THE CHINESE ARE AWARE OF THIS. NAVAL CONVERSIONS ARE NOT ELIGIBLE FOR SUPPORT FROM THE INTERVENTION FUND, AND FURTHER ASSISTANCE DOES NOT APPEAR TO BE POSSIBLE, THEREFORE, UNLESS THE COMPANIES WERE TO DECIDE THAT IT WOULD BE IN THEIR COMMERCIAL INTEREST TO REDUCE THEIR PRICES STILL FURTHER, AND THIS IS SOMETHING WHICH THEY HAVE INDICATED THEY ARE NOT

PAGE 3 RBDWC 3619 S E C R E T

PREPARED TO DO.

5. THE MISUNDERSTANDING OVER THE PRICE INDEX REPRESENTS A SERIOUS SETBACK, AND MAKES AGREEMENT BETWEEN THE CHINESE AND BAE, AND ANY RESUMPTION OF NEGOTIATIONS WITH VT, LESS LIKELY. NEVERTHELESS, OUR ASSESSMENT CONTINUES TO BE THAT THE BEST PROSPECTS OF SUCCESS ARE FOR NEGOTIATIONS TO CONTINUE ON THE BAE CONTRACT, IN THE HOPE THAT AN ACCOMMODATION CAN BE REACHED ON THE OUTST-



ANDING ISSUES, BUT THIS WOULD SEEM TO DEPEND ON THE CHINESE BEING  
PREPARED TO MAKE A MOVE ON THE PRICE INDEX IN PARTICULAR.

6. THE FCO AND DOI HAVE BEEN CONSULTED.

BT

NNNN

00 PEKING DESKBY 242200Z

GRS 59

CONFIDENTIAL

DESKBY 242200Z

FM FCO 241700Z SEP 82

TO IMMEDIATE PEKING

TELEGRAM NUMBER 447 OF 24 SEPTEMBER

FOR PS/PM FROM PS/PUS

YOUR TELNO. 586: 051 (LUDA) PROJECT

1. MOD ARE REPLYING DIRECT TO YOUR TUR AND HAVE CLEARED THEIR  
DRAFT WITH FED. WE ARE CONFIDENT THAT MOD ARE FULLY AWARE OF THE  
POLITICAL CONSIDERATIONS.

2. PUS RETURNS TOMORROW FROM MEXICO CITY.

PYM

NNNN



(Translation)

Premier Zhao Ziyang's Toast at the Return Banquet  
Given by the British Prime Minister Mrs. Thatcher

24 September 1982

The Right Honourable Prime Minister Margaret Thatcher and  
Mr. Denis Thatcher,  
His Excellency Ambassador Sir Percy and Lady Cradock,  
Comrades and Friends,

This evening, I am most pleased to attend the banquet given by the Right Honourable Prime Minister and meet joyously again with the distinguished British guests. On behalf of all my Chinese colleagues present here and in my own name, I wish to express our heartfelt thanks to you, Prime Minister, for your kind invitation and the friendly remarks you have just made.

This morning Prime Minister Margaret Thatcher had a sincere conversation with Comrade Deng Xiaoping, and an amicable meeting with Vice-Chairman Deng Yingchao. Over the last few days the Prime Minister and myself have also held wide-ranging and in-depth talks. We have had a full exchange of views on the current international issues and bilateral questions of common concern, which is very helpful to the deepening of our mutual understanding. I am glad to say that the two sides share identical or similar views on some important international issues. We are also pleased to note that over the last few years new progress has been made in the cooperation between our two countries in the economic, trade, scientific-technological, cultural and educational fields. During the talks the two sides put forward constructive proposals for the further development

of this cooperative relationship. Not long ago, the two sides reached an agreement in principle to exchange consulates-general. This marked another development of Sino-British relations.

We consider that the Prime Minister's visit is successful. It has not only helped to strengthen the good personal relations between leaders of our two countries but also promoted the further development of Sino-British relations. Moreover, it is of great significance to the maintenance of world peace and stability.

Tomorrow the Prime Minister will leave for Shanghai, an industrial city and the largest port of China, and then to another big city Guangzhou. On the eve of your departure from Beijing, Prime Minister, I wish you a pleasant journey.

I now propose a toast  
to the friendship between the Chinese and British peoples,  
to the health of Her Majesty the Queen,  
to the health of the Right Honourable Prime Minister Margaret Thatcher and Mr. Denis Thatcher,  
to the health of His Excellency Ambassador Sir Percy and Lady Cradock, and  
to the health of all the ladies, gentlemen and comrades present here!

SECRET

et to Future of Hong Kong

8



10 DOWNING STREET

From the Private Secretary

24 September 1982

Dear John,

Prime Minister's Visit to Peking

I enclose a copy of the discussion between the Prime Minister and Chairman Deng Xiaoping in Peking on 24 September.

I am copying this letter and enclosure to Sir Percy Cradock and Sir Edward Youde.

I should be grateful if the contents of this letter could be very closely guarded. Copies should be circulated only to those who have a strict need to know the contents.

Yours ever

John Cole

John Holmes Esq  
Foreign and Commonwealth Office.

SECRET

5

SUBJECT

cc Mosler Set  
& Future of Hong Kong  
Part 2

SECRET

7

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND VICE CHAIRMAN  
DENG XIAOPING AT THE GREAT HALL OF THE PEOPLE ON FRIDAY 24 SEPTEMBER  
AT 1030 A.M.

---

Present

Prime Minister

H.E. Ambassador

Governor of Hong Kong

Mr. F.E.R. Butler

Mr. A.E. Donald

Mr. A.J. Coles

Mr. A. Galsworthy

Mr. R. Peirce

Vice Chairman Deng Xiaoping

Mr. Huang Hua

Mr. Zhang Wenjin

Mr. Ke Hua

Mr. Wang Benzao

Mr. Cao Yuanxin

Mr. Lu Ping

Mr. Zheng Yaowen

\* \* \* \* \*

After an exchange of courtesies Mr. Deng Xiaoping said that he had read the minutes of the Prime Minister's discussions with Premier Zhao Ziyang. They had had good talks on international issues, and there were not big differences between Britain and China. Observing that Sir Edward Youde was a member of the Prime Minister's party, he suggested that the present talks should concentrate on Hong Kong, on which Premier Zhao Ziyang had expressed the basic viewpoint of the Chinese Government in the talks on the previous day. Mr. Deng Xiaoping said that he would like to hear the Prime Minister's comments on what Premier Zhao Ziyang had said. The Prime Minister said that she was grateful to Mr. Deng for raising this question. Its importance was evident from the presence in Peking of the Hong Kong press and journalists from all over the world. She believed that Mr. Deng had seen the record of the discussion on Hong Kong on the previous day and the carefully drafted press statement which had been issued afterwards. At present there were some differences between the positions of the two sides which she hoped that it would be possible to resolve through co-operation and consultation. She would start by emphasising one or two points and would then hope to get down to discussion and to agree what the two Governments would do and what they would say to the press.

/ The Prime Minister

SECRET

SECRET

- 2 -

The Prime Minister said that the British and Chinese Governments had a common objective: they shared the aim of maintaining the prosperity and stability of Hong Kong in the interests of the people who lived there. She believed that if the two Government co-operated together they could achieve that objective. She noted that Premier Zhao Ziyang also said that the time was now ripe to settle the question of Hong Kong's future.

The Prime Minister said that she was conscious that the present talks were taking place with the eyes of the world upon them and that anything which was now said or done would have an immediate impact on confidence both in Hong Kong itself and internationally; and confidence was essential to the continued economic well-being of Hong Kong. As she had said to Premier Zhao Ziyang she understood how important the principle of sovereignty was to China; but sovereignty was also a difficult issue for her. She had read the records of the talks between Premier Zhao Ziyang and Mr. Humphrey Atkins and between Mr. Deng Xiaoping and Mr. Edward Heath, <sup>which</sup> had included a similar point about the Chinese position on sovereignty. On this issue she had to convince the British Parliament and Mr. Deng had to convince the Chinese people. So sovereignty was a difficult point for both sides.

The Prime Minister said that she wanted to repeat what she had said to Premier Zhao Ziyang, namely that if the two Governments could agree definite arrangements about the future administration and control of Hong Kong, and <sup>if</sup> the Prime Minister were satisfied that they would work and that they would command confidence, and if she could justify them to the British Parliament, and they were acceptable to the people of Hong Kong, there would be a new situation in which the Prime Minister could consider the question of sovereignty. But without agreement on concrete arrangements on administration and control, she would not be able to make any recommendations to the British Government on the question of sovereignty.

/ Interjecting

SECRET

SECRET

- 3 -

Interjecting at this point Mr. Deng Xiaoping asked what the Prime Minister meant by control. The Prime Minister said that Hong Kong owed its prosperity to the system which it had had during 140 years of British administration. This system was compounded of several different elements - a political system which was different from that of China; an assured legal system; and an independent currency.

Mr. Deng Xiaoping asked whether "control" meant rule of a place by a country.

The Prime Minister said that she drew a distinction between sovereignty and administration. There had been examples of one country exercising administration in territory of which another country was sovereign. It could be said that this situation had existed in the New Territories, where Britain had had a lease from China. It was the firm belief of the British Government that unless people believed that the present arrangements for administering Hong Kong would continue for a long time, there would be a most damaging effect on confidence: and if changes in the administrative control of Hong Kong by the United Kingdom were introduced or announced now, the result would be disastrous for Hong Kong confidence.

The Prime Minister emphasised that as she had explained to Premier Zhao Ziyang the immediate issue was not what would happen by 1997 but what people now in 1982 believed would happen: it was that which would determine what they would do with their investments in the coming months and how far they would support the Hong Kong dollar. So the problem was an immediate one. Things would change in China as in the wider world, but people would make their present judgements against the background of recent Chinese history, of a difference / <sup>between</sup> the political systems of China and Hong Kong and of a modernisation programme which had only just begun in China. Against this background, if a change in Hong Kong's future status was announced now on the lines suggested by the Chinese Government, those with money and skill would immediately begin to leave the territory, and this would bring about an economic collapse which could be irreversible, if it went fast.

/ The Prime Minister

SECRET



SECRET

- 4 -

The Prime Minister said that there was no time in the present short visit to reconcile the differences on this issue which existed between the British and the Chinese Governments, but she believed that those differences could be reconciled and that it was essential to maintain confidence while they were reconciled. That was why she proposed that it should be announced, while she was in Peking that further talks were to take place between the two Governments and that those talks would have a common objective to maintain prosperity and stability in Hong Kong. A Press Conference on the whole of her visit to Peking had been arranged for later that day and she would have to say something on this issue then. She would like to discuss before the end of the meeting what she proposed to say with the aim of maintaining confidence while talks went on. But she could not make any statement which misrepresented the genuine views of Mr. Deng Xiaoping and herself. She then invited Mr. Deng to raise any points or details in her statement which he wished to discuss.

Mr. Deng Xiaoping said that Premier Zhao Ziyang had enunciated the Chinese basic position on Hong Kong frankly on the previous day. There were three questions - sovereignty; the continued prosperity of Hong Kong; and discussions between the Chinese and British Governments on how to <sup>avoid</sup> turbulence in Hong Kong between now and 1997 and how to maintain prosperity in Hong Kong thereafter. He said that the Prime Minister had talked about prosperity after 1997 but not in the intervening period. As Premier Zhao Ziyang had said, on sovereignty there was no leeway for China: sovereignty was not a matter which could be discussed. In Premier Zhao Ziyang's words, the time was ripe for settlement of the Hong Kong issue. It should be clear today that in 1997 China would certainly recover sovereignty over Hong Kong. It was under this pre-condition that China and the United Kingdom would hold talks between the two sides on formulae for the future of Hong Kong and on policies for maintaining Hong Kong's prosperity.

Mr. Deng Xiaoping said that if in 1997 the People's Republic of China had not recovered Hong Kong the Chinese leaders and the Chinese Government would not be able to account for it to the Chinese people or to the people of the world. If sovereignty

SECRET

/ were not

-5-  
**SECRET**

were not recovered, it would mean that the new China was like the China of the Ching dynasty and the present leaders were like Li Hongzhang. The Chinese People's Republic had waited for 33 years for the recovery of Hong Kong, and they would have to wait another 15: it was only because the Chinese Government enjoyed the full trust and faith of its people that it could wait such a long time. But if in 15 years they had not recovered Hong Kong, the people would have every reason no longer to put faith in their leaders and the Chinese Government ought to retire voluntarily from the political arena.

Mr. Deng Xiaoping said that this decision need not be announced now; but that in no more than one or two years time the Chinese Government would formally announce their decision to recover Hong Kong. The only reason why they were postponing this decision for a year or two was so that the Chinese and British Governments could conduct friendly consultations so that major disturbances should be prevented and so that the prosperity of Hong Kong would be maintained. Time was needed to settle the future of Hong Kong: during that period the Government would also listen to certain circles in Hong Kong and have discussions with them on the policies and principles to be followed after the 15 year period. The Chinese Government recognised that the policies would need to be acceptable not only to the people of Hong Kong but also to investors including investors from Britain. Time was needed. But an announcement could not be put off for more than one or two years.

Mr. Deng Xiaoping said that he noted from Mrs. Thatcher's statement that there were difficulties on the British side over sovereignty. In his view an announcement of the Chinese resumption of sovereignty over Hong Kong would bring a much bigger benefit because it meant that the period of colonialism would have ended in Britain. In the past Britain had been known as the empire where the sun never set, but Britain had ended her colonial role in very many former colonies e.g. India, Singapore, Malaysia and many others. The Prime Minister interjecting said that there were 45 members of the United Nations which were former colonies brought to independence by Britain. That was Britain's normal policy: the reason why it could not be done in the case of Hong Kong was because of the complications of the lease from China. She wanted to emphasise that the British Government derived

**SECRET**

/no revenue

SECRET

- 6 -

no revenue from Hong Kong, and Hong Kong received no aid. Her duty, which she felt deeply, was to reach a result acceptable to the people of Hong Kong. Britain was not a colonialist country : we had moved beyond that. Britain simply wanted to carry out her moral duty to Hong Kong. The British Government knew that in 1997 sovereignty over 92% of the territory would pass to China when the lease ended. The British Government kept to its treaties and was not contesting the termination of the lease.

/ Mr. Deng Xiaoping

SECRET

SECRET

-7-

Mr. Deng Xiaoping said that previous Governments had already solved bigger and more difficult issues. If the Hong Kong problem were to be solved during the Prime Minister's period in office, it would mean that Britain's colonial era had been brought to an end. This would redound to British credit. The British Government should therefore support China's policy and decisions on this issue. He hoped that both sides would co-operate and handle the issue in such a way as to maintain the prosperity of Hong Kong.

The Prime Minister said that there was still a certain amount of misunderstanding between the two sides. She wished to clarify the position so that comprehension was complete.

As regards sovereignty we understood China's position. She had explained to Mr Zhao Ziyang that it was for that reason that for the last ten years we had not reported to the United Nations on Hong Kong as a colonial territory. Under existing treaty arrangements 92 per cent of the total area i.e. the New Scheduled Territories would return to China in 1997. She was not asking for an extension of the lease. That left the treaty arrangements covering Hong Kong and Kowloon. China did not recognise these treaties but she believed that they were valid in international law. Her aim was that, if those treaties were to be changed, they should be changed by agreement and not abrogated by one side or another. She was striving to come to an agreement that was acceptable to China and the people of Hong Kong and would maintain prosperity and would be accepted by the British Parliament.

Mr. Deng Xiaoping had referred to the maintenance of prosperity between now and 1997. It was not only British investors who were involved but investors from the United States, Japan, Australia and from other parts of the world who invested in the territory. Many had put their whole savings and their whole future in Hong Kong. An investment

SECRET

/was

SECRET

-8-

was normally placed for at least 20-25 years. Any investor who saw 1997 approaching would question whether he should put his money in Hong Kong and in reaching his decision would take into account the fact that the situation would change in 1997 and that China would acquire sovereignty over a large part of the area at that time. So he would have to consider how to assess China. He would take into account the recent turbulent past, the very different political system and the fact that the modernisation programme was only just beginning. Those factors would lead him to conclude further investment was too risky. There were already signs that investments were moving out. The process might continue in the coming months and years. At the moment, the investor was bound to see, at best, uncertainty. The atmosphere for investment was very bad. The likelihood was that a good deal more people would move money to other financial centres which offered a more certain prospect of return. This was why she was proposing talks based on a certain formula. She wanted to provide enough assurances for investors to keep their money in Hong Kong so that prosperity could be maintained. To this end, we should agree, in further talks, that after 1997 British administration would continue with the same certain system of law, the same certain political system and the same certain independent currency. She believed that this would provide the certainty after 1997 that investment would continue and prosperity be maintained. This would not only benefit the people of Hong Kong but would continue to benefit China which profited greatly from a prosperous Hong Kong. If we could through talks at a later stage arrive at such an agreement there would be a tremendous upsurge in confidence. She could then go to the British Parliament and say that because there was agreement on the continuation of British administration for a considerable time and because prosperity would thereby be maintained we could consider the whole question of sovereignty, including sovereignty over Hong Kong and Kowloon. China would get what she wanted. Prosperity would be maintained both before and after 1997. The solution would be acceptable to Hong Kong because every survey showed that the people of Hong Kong wished the British system of administration to be maintained.

/Her

SECRET

SECRET

-9-

Her attitude was not that of a colonial power. She was trying to carry out her duty to the people of Hong Kong just as Mr. Deng did in performance of his duty to the people of China. Her suggestion was, therefore, that we should begin talks immediately in order to obtain an agreement which was acceptable to China, Hong Kong and the British Parliament and would preserve prosperity. For if we destroyed prosperity it would never return. Meanwhile it was necessary to issue a very careful statement today. The aim was to maintain confidence. We wished to be able to say publicly that the two sides had entered into talks with the purpose of maintaining prosperity. She recognised that China had its own position on sovereignty. We too had our own position. But these positions were reconcilable and in that spirit we could enter into talks.

Mr Deng Xiaoping said that he was very sorry. He hoped we would understand that sovereignty over the entire area, including Hong Kong Island and Kowloon, would be recovered by 1997. That was certain. China had no other choice. On the question of maintaining prosperity, China hoped to enjoy the co-operation of Britain. But that did not mean that the prosperity of Hong Kong could be maintained only under British administration. The maintenance of prosperity when sovereignty had been recovered by China, and Hong Kong was administered by China, depended fundamentally on the policy pursued by China towards Hong Kong, including the political, economic and administrative systems which were used. The laws enacted in Hong Kong would also be relevant. Of course, some changes would be made. But Hong Kong would remain a capitalist society. Many systems which were favourable to the maintenance of prosperity would remain in the future. He wished to cite, as an example, Singapore. After the end of colonial rule in Singapore it had managed its own affairs and had done so quite well.

SECRET

/He thought

SECRET

-10-

He thought it unavoidable that some fluctuations would take place after China had announced that it would recover sovereignty. But China would try to avoid major fluctuations and, with co-operation, this could be done. But he could tell the Prime Minister that when the Chinese Government had formulated its policy decisions it had taken various factors and possibilities into consideration. Many people said that if the prosperity of Hong Kong could not be maintained, this would affect China's modernisation drive. There would be some effect but it was incorrect to believe that it would affect this policy to a large extent. If the modernisation programme was based on the maintenance or decline of prosperity of Hong Kong, then the modernisation decision was not a sound one. As regards the flight of foreign investment, provided China pursued appropriate policies the foreign investment which had left would come back.

When China announced its intention to resume sovereignty, it would at the same time announce the policies to be pursued and the measures to be taken with regard to Hong Kong systems. In the next year or two, China would solicit widespread views from various circles in Hong Kong about this issue. The Chinese side was pleased that on this matter the British Government had put forward many suggestions. He meant by this the proposals relating to 1997. China hoped that in the intervening period no big fluctuations would take place and that, after the recovery of sovereignty, China would benefit from British suggestions in the spirit of co-operation.

There was one point upon which he did not want to dwell but which he wished to make. If there were very large and serious disturbances in the next fifteen years, the Chinese Government would be forced to consider the time and formula relating to the recovery of its sovereignty over Hong Kong. The Prime Minister had said there might be a disastrous effect. China would have to make its decisions in the face of such a situation. / he hoped that after the current visit the two Governments would hold consultations and discussions. There had been no decision on the level of such talks but they could be conducted through diplomatic channels and the issue discussed with a view to avoiding major

SECRET

/disturbances.

SECRET

- 11 -

disturbances. He was sure that, as a result of full consultation, the defined policies to be pursued after 1997 would be acceptable to the people of Hong Kong and to investors from various countries. These would not be adversely affected nor would their interests be affected. That was not the point which worried him. What China worried about was how to ensure a good transitional period in the coming fifteen years so that major disturbances did not occur. If they did occur they would be man-made (artificial), not natural.

The Prime Minister said that all disturbances were created by man. Mr. Deng Xiaoping said that he meant that the disturbances would be created, not by Governments, but by individuals, some Chinese, some British. Take for instance the Hong Kong and Shanghai Bank. No-one knew how many banknotes it had issued. Sir Edward Youde said that we knew. Mr. Deng Xiaoping agreed that we knew but said that the Hong Kong people he talked to did not. In any event, it would be easy for some people to create disturbances. The consultations would be aimed at solving these problems. Not only should the two Governments not do anything which was detrimental to the maintenance of prosperity. They should also prevent some businessmen from doing things which were detrimental to the prosperity and stability of Hong Kong.

Mr. Deng Xiaoping then suggested that the two sides should reach agreement to the effect that the two Governments would start discussions through diplomatic channels. The pre-condition was that in 1997 China would recover sovereignty over Hong Kong. Under this pre-condition, they would discuss how to ensure a good transitional period of fifteen years and what would be done after fifteen years.

/ Mr. Deng Xiaoping

SECRET



SECRET

-12-

Mr Deng Xiaoping was at this point handed a piece of paper by his advisers. He read the following text:

"Today leaders of the two countries have had deep ranging discussions on the question of Hong Kong in a friendly atmosphere. Although there existed differences, both sides believe that discussions were useful in order to seek an appropriate settlement of the Hong Kong question. Both sides agreed to maintain contact on the question of Hong Kong through diplomatic channels, following this visit."

The Prime Minister said that she wished to make a number of points. As regards Mr. Deng's reference to Singapore, she had great admiration for that country and for Mr. Lee Kuan Yew but it was a sovereign, independent country, whose position did not equate to that of Hong Kong. Under normal circumstances we would bring Hong Kong similarly to sovereign independence but we could not because China would not accept this and the people of Hong Kong knew that.

What really worried her was Mr. Deng's attitude to disturbances. She was not contemplating disturbances. She would do everything to prevent them. She was however contemplating the possibility of a financial collapse and she also wished to prevent that. The fact was that Hong Kong had been financially prosperous and very well run under British administration. If disturbances occurred, they would not have been caused by British administration in any way. So she urged him not to make the kind of statement that he had suggested. Instead, we might take the first sentence and then record the agreement of the two sides to enter into talks about the future of Hong Kong. We should not disturb the prosperity of the Chinese people of Hong Kong, most of whom had worked extremely hard for it. Reverting to the proposed statement, she suggested that the two sides should say that they had talks, these were a first exchange, all problems

/could

SECRET

SECRET

-13-

could not be solved in this session, but there was agreement to enter into further talks through diplomatic channels with a common aim of maintaining prosperity and stability. Mr. Deng had made his position on sovereignty known. But she was not free to abrogate treaties without reference to her Cabinet and Parliament.

Mr. Deng Xiaoping suggested that we should add to the proposed formula a statement to the effect that the leaders of both countries had clearly expressed their respective positions on the future of Hong Kong.

After some further discussion, it was agreed to issue the following statement:-

"Today the leaders of both countries held far reaching talks in a friendly atmosphere on the future of Hong Kong. Both leaders made clear their respective positions on this subject. They agreed to enter talks through diplomatic channels following the visit with the common aim of maintaining the stability and prosperity of Hong Kong."

The Prime Minister commented to the effect that diplomatic channels might be used to agree upon a framework for the talks. If either side wanted to conduct talks through special emissaries these can be brought in. Mr. Deng Xiaoping agreed.

The discussion ended at 1245.

A.S.C.

24 September 1982

SECRET

computer Set  
SUBJECT

CONFIDENTIAL

ce 1/14 Ambassador, Peking ✓  
S. H. Shiner, No ✓ 28/9

NOTE FOR THE RECORD

The Prime Minister called on Vice Chairman Deng Yingchao at 1000 a.m. on 24 September at the Great Hall of the People. The meeting was essentially taken up with courtesies. The only points of substance were as follows.

The Prime Minister said that she had been impressed by the music she had heard at the Peking Conservatoire the previous day. She hoped that we might be able to hear some of these talented young people perform in London. Madame Deng asked the Chinese Ambassador to London to see what we could do to promote this.

The Prime Minister said that she was very happy to see that the policies of Premier Zhou Enlai were now being followed in China. Madame Deng said that they were not only the policies of Zhou, but also those of Mao and other past and present leaders of the Communist Party. These policies had been disrupted by the Gang of Four and were now being restored. Present policies were therefore a continuation of previous policies, with a few changes to accommodate the times.

Madame Deng asked how the Prime Minister felt about the two sessions of talks she had held with Premier Zhao. The Prime Minister replied that they had been friendly. She felt that they had got on well together. This mattered, because a good personal relationship would assist in a happy outcome to the talks. We held many views in common.

At a later point the Prime Minister said that Premier Zhao had been very interested in seeing more Chinese students coming to Britain for study. She would pursue this. She would also look into the possibility of providing more English language training in China, and more technical training. She added that many thousands of tourists wished to come to China. The Chinese Ambassador said that about 30,000 British tourists visited China every year. The Prime Minister supposed that the numbers were limited by the number of hotels available. The Chinese Ambassador felt that it was more a question of the distance.

/ Finally

CONFIDENTIAL

CONFIDENTIAL

- 2 -

Finally Madame Deng said that she hoped that the Prime Minister's visit would enable some important questions to be solved satisfactorily. She wished the Prime Minister every success in this. The Prime Minister said that we were working hard to solve such questions, and she believed that we could do so.

A. J. C.

24 September 1982

CONFIDENTIAL



HMA

PS to HM

AC 24.  
9051 PROJECT - UPDATE AS AT 241700 LOCAL

1. It has become evident during the day from signals and our own information that a misunderstanding over the price escalation index has occurred during the BAE London talks. This means that there is now also a price gap in the BAE negotiations. The current overall position is:-

DIFFERENCESBAE

- a. Price escalation index figure on total price.  
Varies with base date.
- b. Bank guarantees. Possibly a compromise can be reached but may cause rise in BAE price.
- c. Termination clause. To be negotiated further
- d. Payment arrangements. Further negotiations by bank.

Best estimate of current gap is some £3 - 4.5 million.

/VOSPER THORNYCROFT



VOSPER THORNYCROFT

- a. Payment conditions attached to latest Chinese offer.
- b. Five contractual points of substance still unresolved.

Estimate of current gap is £3 million.

2. Total estimated gap is now therefore £6 - 7.5 million.

*HP*  
*EDR.*

BRITISH EMBASSY

PEKING

24 September 1982



10 DOWNING STREET

THE PRIME MINISTER

24 September 1982

Dear Mr. Zhou.

I am most grateful to you for accompanying me on my visit yesterday. The music at the Central Conservatory was most exhilarating and my admiration for Chinese art was again excited by our tour of the Central Academy of Fine Arts.

It was a great pleasure to meet you. Thank you so much for sparing your time.

Yours sincerely

Raymond Storer

His Excellency Deputy Minister Mr Zhou Weizhi



File

10 DOWNING STREET

THE PRIME MINISTER

24 September 1982

*Your Excellency,*

I am writing to thank you most warmly on behalf of my husband and myself and of the British Delegation for your courtesy and hospitality in giving a Banquet for me today at the Yangyuan Hall. It was a wonderful experience for me to enjoy such a magnificent Chinese Banquet in those beautiful and interesting surroundings, and I enjoyed my conversations with you and your other guests.

My husband joins me in sending our thanks and best wishes.

*Yours sincerely  
Huang Hua*

State Councillor and Foreign Minister Huang Hua





10 DOWNING STREET

THE PRIME MINISTER

24 September, 1982.

*Dear Premier Zhao,*

I am aware that time was very short for our discussion of bilateral and commercial matters on 23 September. There was one important contract which I was unable to mention in the time available, namely the proposals made by the British consortium of Wimpey, Kleinwort Benson and Freeman Fox for the provision of modern container port facilities at Xiamen in Fujian Province. I understand that while the consortium has reached agreement with the provincial authorities, both are awaiting the approval of the State Planning Commission for the project.

If approved, this contract would be the biggest civil contract for British companies to sign with China for some years. The British Government has given the companies its full support and attaches great importance to this fine example of possible co-operation between our two countries. Speedy signature of the contract would give the greatest possible encouragement to the expansion of trade between our two countries, which as you pointed out is the object of our two Governments.

*Yours sincerely*

*Raymond Delisle*

His Excellency Premier Zhao Ziyang



Mr Coles

THE FUJIAN FORT MODERNISATION PROJECT

... 1. We spoke. I attach a draft of a possible letter for the Prime Minister's signature to Mr Zhao Ziyang drawing his attention to our wish to see this contract concluded as soon as possible.

*G E Clark*

G E Clark

24 September 1982

Registry  
No.

DRAFT LETTER

Type 1 +

## SECURITY CLASSIFICATION

Top Secret,  
Secret.  
Confidential.  
Restricted.  
Unclassified.To:- His Excellency  
Premier Zhao ZiyangFrom  
PRIME MINISTER  
Telephone No. Ext.

Department

## PRIVACY MARKING

..... In Confidence

I am aware that time was very short for our discussion of bilateral and commercial matters on 23 September. There was one important contract which I was unable to mention in the time available, namely the proposals made by the British consortium of Wimpey, Kleinwort Benson and Freeman Fox for the provision of modern container port facilities at Xiamen in Fujian Province. I understand that while the consortium has reached agreement with the provincial authorities, both are awaiting the approval of the State Planning Commission for the project.

If approved, this contract would be the biggest civil contract for British companies to sign with China for some years. The British Government has given the companies its full support and attaches great importance to this fine example of possible cooperation between our two countries. Speedy signature of the contract would give the greatest possible encouragement to the expansion of trade between our two countries, which as you pointed out is the object of our two Governments.



copied to all  
35/9

VB

10 DOWNING STREET

From the Principal Private Secretary

24 September 1982

Dear John,

Prime Minister's meeting with the Association for British Commerce  
in China

---

I attach a note of a meeting which the Prime Minister held with representatives of the Association of British Commerce in China during her visit to Peking on 23 September 1982. Attached to the record are notes of presentations made to the Prime Minister by representatives of the various groups of industries which constitute the Association.

I am copying this letter for information to John Kerr (H.M. Treasury), Jonathan Spencer (Department of Industry), Richard Mottram (Ministry of Defence), Julian West (Department of Energy), Brian Fall (Foreign and Commonwealth Office) and the Ambassador in Peking.

Yours sincerely,

Robin Butler

John Rhodes, Esq.,  
Department of Trade.

VB

SUBJECT

Note of a meeting between the Prime Minister and the Association for British Commerce in China at the Jianguo Hotel at 1930 on Thursday, 23 September, 1982

---

cc Mr & Mrs Selk

Present:

Prime Minister	Mr. O. Baudert - M.D. Ewart & Co. (Chairman)
HE The Ambassador	Mr. D. Evans - British Airways
Mr. R.W. Gray	Miss K. Trenholme - Marconi Avionics
Mr. F.E.R. Butler	Mr. K. Sly - British Aerospace Dynamics
Mr. A. Donald	Mr. R. Bates - Marconi Company
Mr. B. Ingham	Mr. I. Cambell-Carrott - Rolls Royce
Mr. G. Clark	Mr. Y.F. Leung - Wogen Resources
Col. G. Gilhead	Mr. D. Mathew - Jardines
	Mr. M. Langley - Hongkong & Shanghai Bank
	Mr. D. Markham - Midland Bank Group
	Mr. P. Rock - Barclays Bank International
	Mr. H. Liller - Chartered Bank
	Mr. T. Mathieson - Sedgwick Group
	Mr. S. Downs - BP
	Mr. R. Williams - Shell
	Mrs. M. Jack - Price Waterhouse
	Mr. L. Browne - Davy Corporation

Mr Baudert said that, with the aim of giving the Prime Minister a picture of the problems of trading in China, representatives of the main companies operating in China would give brief presentations, covering banking, aerospace, energy, heavy industry, and trading.

Selected spokesmen then made brief addresses of which the texts are attached. In a brief discussion, the Prime Minister said that she understood the difficulties for companies trading in China. Things took so long to negotiate, and it was expensive to maintain an office during that period. Only that day she had been discussing the Project 051 negotiations which had taken three years to reach the present stage. Premier Zhao Ziyang had said to her that day

/ that

that  
/British prices were still too high. She had noted from the presentations that it was suggested that an element of aid should be switched to trade, and the British Government were doing this. But it was the richest countries which could afford to do most, and in Britain the consequence of giving aid to trade terms very often did no more than offset the lack of competitiveness of British companies. There were representatives of companies round the table which had had the benefit of large amounts of tax payers' money in assisting their bids for overseas contracts.

In discussion, the following points were made:

(i) The policy of giving aid in the form of trade had not been extended to China. A little pump priming of this sort would be disproportionately helpful in opening the way for British exports.

(ii) Although in certain cases it appeared that the prime contractor received a large amount of help in securing orders, this help was widely distributed among sub-contractors, and benefited large areas of British industry.

(iii) The Chinese tended to ask for detailed technical specifications and to be acutely slow in reaching decisions. They were also very anxious to secure the keenest possible price. The 10 years investing programme announced in 1978 had given a large boost for orders, but since it had been abandoned in 1979, the tap orders for heavy industry had been completely turned off.

(iv) The Chinese also tended to be much influenced by statements of their leaders. For example, when Vice Chairman Deng had commended joint projects, this had stimulated a spate of enquiries about joint projects for a time, but most of these had not been followed up.

(v) There were a large number of overseas banks in Peking, but the reason for their presence was very often political rather than the volume of business which they conducted.

(vi) There was scope for interesting the Chinese in purchases of aerospace and defence equipment, but frequent changes of policy had taken place. In the case of the Spey Engines, Phase I had been completed, and the Chinese had made and tested a few engines. But Phase II had not been proceeded with, although the Chinese were believed to be making some accessories.

(vii) The main trading competitor was Japan. China was selling Japan increasing amounts of oil, and in return Japan was rapidly increasing its sales to China.

F.R.B.

24 September, 1982.

## BANKING / INSURANCE

+ 4 mins

There are now four British banks and one insurance group with resident representatives in Beijing - Barclays

Chartered

Hongkong & Shanghai

Midland

Sedgwick

Other British banks and insurance companies certainly have relationships with their Chinese counterparts, and visit China from time to time, but have no permanent presence.

The Hongkong Bank and the Chartered Bank have a long history of China trade, and have had an almost unbroken presence in for example Shanghai for well over 100 years; but the opportunity for them and other foreign banks to open offices in Beijing came only in the latter part of 1980. There are now nearly 40 foreign banks with offices here.

The dramatic expansion of trade which was expected a few years ago did not materialise; instead we had readjustment. Readjustment is a continuing process, but as China's balance of payments improves we would expect to see an upturn in trade.

Meanwhile banks must look to the prospects of lending direct to Chinese institutions both in Beijing and the provinces, or to Chinese or foreign partners in joint ventures or cooperative projects in China. High interest rates and the availability of relatively cheap funds from other sources have kept China's commercial borrowings to a minimum, but we do expect them to venture into the market more frequently as time goes on.

On the insurance side, Sedgwick have now placed, predominantly on the London market, some 23% of the total insurance business which has arisen and will arise from China's offshore oil programme; furthermore they have succeeded in bringing back to the London market a substantial volume of other classes of insurance business.

- cont'd -



The programme of offshore oil development should provide more activity for banking and insurance alike. While we are excited about Britain's prospects in areas such as oil, defence, telecommunications, mining and nuclear power, we would like to see positive interest in China from a much broader front of UK manufacturers and suppliers. We are disturbed to see figures which show Britain's exports to China declining at a rate which could lead to a £100 million deficit by the end of this year. We have the means to help trade with favourable financing, but the facilities remain largely unutilised. The market is becoming increasingly competitive, and as British banks we are disturbed by reports from Chinese delegations to Europe that other EEC members are still offering supported finance at below OECD consensus rates. In this context we would like to know whether our Government is now in a position to make any specific gestures which could strengthen Britain's trading position in China.

Meanwhile we do what we can to bring buyers and sellers together, and to generate business wherever possible. The Chinese have stressed to us their desire to deal more with the European Community to avoid excessive dependence on Japan and the USA. Our European partners, particularly France, Belgium, Italy, Germany and Denmark are very active here, and we are confident that your visit will give support to British efforts here and encourage our industries to seek a larger role in China's progress, and to earn a larger share of the rewards this market will ultimately offer.

Prime Minister,

In my address, I'd like to say how British defence, aerospace, and avionics industries are represented in China, and something of their successes and prospects for the future. The industries are strongly represented by larger companies who can perhaps afford the special effort and expense involved by the slowness, the great depth of preliminary technical information required, and the special commercial deals on price demanded by the Chinese customer before a commercial decision can be made.

We have worked with, and seen in China, many other British non-represented companies within the industries. Each Company has, and makes, its own history of business, but the pressures of doing so are common to all.

I would like to mention briefly the main past successes :-

British Aerospace. Sales of 6 Viscount aircraft with R-R dart engines and 35 Tridents with R-R Spey engines by 1972. The Viscounts are probably up for re-sale by the Chinese, but the Tridents continue to form the backbone of the airline's domestic flights.

Marconi. Have signed a defence contract for £1 million for artillery computer equipment for evaluation; and have orders for aircraft radios, radars, and head-up displays amounting to about £40 million.

Rolls-Royce. The Spey 202 aero-engine manufacturing licence was purchased by the Chinese between 1975 and 1980.

All this represents a substantial amount of business grounding done by the industries. However, there have been as many attempts to land contracts, some of which have been lengthy and costly to the British Company. The present economic lull in China puts immediate prospects for business very low. With China's re-structuring and economic re-adjustment the flavour of business is changing towards preference for some form of investment in China, and conditions are only slowly emerging. In the long term, however, there are hopes good enough to encourage a continued presence.

British Aerospace: Discussions have taken place in four major areas :

- Harrier
- Missiles
- Up-date Chinese Navy
- BA 146 (80-100 seater jet aircraft)

Marconi: Several joint ventures under discussion in particular for offshore communication equipment. Possible sale of Stingray. An agreement to set-up a service and repair shop has been signed; this will be opened in Beijing before the year end. Manufacture under licence is being discussed for aircraft radios, radars and head-up displays.

Rolls-Royce: Rolls-Royce is anxious to help in whatever applications of the Spey 202 may be forthcoming. Collaboration efforts in industrial and marine development of the Spey 202 are under discussion. There are fields for marketing R-R products in aero, marine, electric generating, and oil and gas pumping. There is also a recent interest shown in use of gas from coal, involving British Gas Corporation and R-R industrial gas turbine electric generating sets.

I have left British Airways to the last, because of its particular flavour:

An air services agreement between UK and China was concluded in 1979, covering services on the trunk route between UK and China, and also regional services between Hong Kong and China.

The trunk route agreement is reasonably satisfactory but there is a dramatic imbalance in a regional route agreement.

A review of the 1979 Agreement held in March broke down and was postponed until November 1982. British negotiating position is untenable without the final sanction of being able to terminate the regional agreement. So far the Department of Trade negotiations have not been given this latitude.

Dealing with the Chinese is a slow business. Pressure to give low prices is considerable and continuous, the Chinese almost invariably insisting that a low price must meet the highest quality. In a difficult social, domestic and business climate, the Beijing representations of the defence, aerospace and avionics industries have a good foothold and are determined to maintain their presence in China.

## ENERGY

On the assumption that the PRC's target growth rate in GNP in period 1980 - 2000 will be of the order of 5% p.a., then GNP/capita in 2000 A.D. would be just over US\$1000, a level comparable to moderately industrialised countries.

To achieve a sustained economic growth in the short and medium term, assuming a stable political regime and that the socialised centrally planned economy continues, then energy availability is thought to be the main factor possibly constraining this growth performance. Currently high industrial growth rates, low energy efficiency and stagnating primary energy production has led to a tight energy situation and serious power shortages, rated as one of the major bottlenecks in industry.

The PRC's demonstrated resources of coal, hydropower and oil shales are extremely large and adequate to cover consumption well into the 21st century. However, the level of crude oil, gas and condensate resources remains uncertain. Onshore oil and gas resources at current extraction rates probably provide 20 years extraction. While some offshore oil and gas discoveries are reported and onshore exploration has been intensified, at least a further 3 to 8 years will be required to establish an indication of additional reserves and to bring some new discoveries into production.

The following table gives an indication of Chinese aims over the 1980s in the energy sector.

	<u>Units</u>	<u>1980</u>	<u>1981</u>	<u>1990</u>	
<u>Production:</u> Coal	Million tonnes (as mined)	630	620	890	
Oil	Million tonnes	106	101	110	
Gas	Billion cu. meters	14	13	12	
Hydro and nuclear	Billion watt/ hour	58	66	112	
Oil Shale	Million tonnes	0.35	0.35	2.5	
	Million tonnes	Coal Equivalent	635	680	907
<u>Net Exports:</u> Coal	Million tonnes (as mined)	6	8	17.5	
Oil	Million tonnes	15	12	13.5	

The figures in this Scenario indicate that a 43% growth is hoped for in energy availability in the period 1980 - 1980.

We propose to highlight in our verbal presentation the offshore oil and the coal potential in relation to British financing, insurance, technology and manufacturing investment opportunities. Further opportunities are present in hydro and nuclear, but these are subjects outside the knowledge of the BP and Shell representation in the PRC.

BP Petroleum Development Limited, Beijing  
Shell Exploration (China) Limited, Beijing

16.09.82

In March 1978 China announced a massive if somewhat over-ambitious ten-year investment programme for heavy industry and overnight China became the new Klondyke. In a relatively short period, British contractors signed some \$420 million worth of turnkey projects. The original Chinese plan was subsequently abandoned in 1979, with the announcement of a three year period of economic readjustment. These three years have been a barren period for all contractors, a period characterised by cancellation or delays in the execution of signed contracts, suspension of project talks and abrogation of letters of intent.

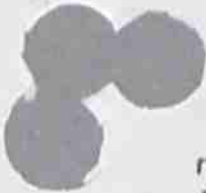
With reforms now under way in China to resolve those problems which rendered the original plan impractical, there are indications that economic readjustment is entering a new phase: China is headed for a record trade surplus and the sanguine view is that they will want to spend it soon. In refreshing contrast to many developing nations, China has borrowed and bought very little, has an excellent credit rating and still needs almost everything.

However, due to delays on the Chinese side, Davy alone has over 1000 tons of equipment with expired or expiring warranties lying idle in packing cases in China. If China cannot build what she has bought and paid for already, then is there still a market for us now? I believe so. There is a market in terms of plant modernisation, downstream processing and finishing and last but not least the South West China Energy Corporation responsible for developing a region in South West China, at a total estimated investment cost of over \$6 billion. If Britain can organise an integrated approach,

/ providing

providing suitable credits, technology and equipment, and counter-trade - a complete circle - then we can obtain a substantial share of this important project.

The China market is a difficult market and much patience is required. But especially with the current economic crisis in Mexico, Latin America, Africa and Eastern Europe, the world market for engineering and construction companies has recently shrunk radically and we cannot afford to ignore the Chinese market. And do not intend to do so.



Trading and Light Industry Group

There are four trading companies who are members of our association and permanently resident in China. These are:

1. M.D. Ewart & Co. Ltd., in association with Anning, Chadwick & Kiver Ltd., represented by myself, who employ 3 people in Peking and have a turnover of £12 million per annum, of which 60% is in exports of animal byproducts and 40% in imports of machinery and equipment, mainly from the U.K.

Joint ventures: pineapple project in Nanning and ships equipment servicing in Canton.

2. Jardine, Matheson & Co., Ltd., represented by David Mathew, have an office in Peking with 10 people, one in Shanghai with 4 people, and one in Canton with 3 people, backed up by a large office in Hong Kong. Out of group net earnings of £65 million in 1981, about 2-3% is attributable to China operations in a wide range of activities, including shipping, ship-broking and chartering, aircraft handling, engineering, insurance, money-broking, trading in natural resources and commodities such as rare earths, essences, ship supplies, and marketing and distribution of such items as wines and spirits. They also have investment in two major joint venture companies, the China-Schindler Elevator Company and Beijing Air Catering Co. Ltd. (with CAAC).

3. Wogen Resources Ltd., represented by Fu and Nancy Leung, have a staff of 2 in Peking, mainly engaged in metals and minerals trading, and representing a number of U.K. engineering and



instrument manufacturing companies. Their Chairman, Bernard Buckman, is also Vice-Chairman of the Sino-British Trade Council.

4. Inchcape, with offices in Peking, Shanghai and Canton, have established a joint venture in the South of China, providing a 20-vehicle bus service between Kowloon and various Chinese cities. The buses are the Leyland National model. The company is also involved in a range of exports from China and imports of machinery and technology transfer from the U.K.

With the exception of Jardine Matheson, who provide a wide range of services to Chinese organisations, the other three trading companies are this year barely covering the costs of their China operations. All of us have a long-standing history of trading relationships with China going back to before 1949. It was the trading companies who established over many years the foundations for business relationships which have been developed further by the more specialised industrial companies. In some cases these companies were originally introduced to China by the trading companies.

The trading companies have the advantage of holding a portfolio of business interests and services, and of being involved in both imports and exports, with the possibility also of being involved in compensation trade, important to a poor country like China with a shortage of foreign exchange. This has enabled the trading companies to survive the bad times such

as the Cultural Revolution, to maintain their relationships with Chinese corporations through such periods, and to amass and develop a body of knowledge about the workings of the bewildering Chinese bureaucracy which can be of great value to manufacturers wishing to enter the China market.

The trading companies' wide range of interests also enables them to sustain the considerable expense of maintaining offices in China over the very long periods necessary to get any business under way here. It is only a patient and insistent approach, with constant pressure, that leads to a breakthrough in the end. Yet this expense is a heavy burden and often not cost-effective for specialised product companies. For instance, the current cost of maintaining a 3-person operation in Peking is £160,000 per annum at the minimum. All four of our companies have seen instances of individual British manufacturers or exporters trying to go it alone through the lengthy period necessary to introduce a new product or service, involving many costly visits to China, but without making any headway. Our Japanese competitors, on the other hand, make full use of the services of the large trading companies, Mitsui, C. Itoh, and Marubeni: much of Japan's trade and introduction of new products to China is conducted through these trading companies.

We feel that over the last few years many British businessmen have grown very disillusioned with the China market, and have lost interest in it in preference to other markets. While this is understandable because of the difficulties involved and the persistence needed, we feel it has happened partly because

some do not fully realise to what extent the Chinese look for a balance between their various trading partners, especially Japan, the U.S.A. and the European countries; this means that there certainly are opportunities open for British trade. We also feel it has happened because some have shown too much interest in large-scale, one-off projects. We believe there is more future in relatively small-scale bread-and-butter business, such as medical equipment, pharmaceutical and industrial chemicals, testing instruments, speciality metals, and light industrial production machinery. Our confidence in this is reflected by the fact that some of us employ full-time professionally qualified staff (e.g. doctors) who travel around China promoting certain technically sophisticated products. Service aspects of contracts are also most important and a continuous presence in China can ensure attention to this.

In addition, trading companies permanently represented in China, especially with a strong Hong Kong back-up, provide a window for the Chinese on to Western methods of doing business as well as on to British technology and products.

You will have heard, and you will continue to hear, a great deal about the difficulties of doing business in China, such as the lack of efficient economic planning, the absence of a well-established legal system, the difficulty of identifying the ultimate decision-makers on any project, the dead weight of the bureaucracy, and the conflicts between centralising and decentralising tendencies, all compounded by the sheer size of the country. [It is not surprising that the reaction of many of those who look at the Chinese economy is confusion.]

It is the long-established relationships and continuous presence of the resident British trading companies which make them best placed to tackle these problems. All four of us are here for the long term, have active plans for expansion, and feel the prospects for China trade remain encouraging.

We would ask you, Prime Minister, and the Board of Trade to help us make British businessmen more aware of the experienced trading services available to them, and to encourage them to make full use of them.



*File*

10 DOWNING STREET

THE PRIME MINISTER

23 September, 1982.

*Dear Professor Zhao*

I cannot adequately express my delight at hearing your enormously talented young musicians perform for us. Their youth, vitality and musicianship was a revelation, and I look forward to hearing them in years to come on the platforms of our own concert halls.

My warmest congratulations on your splendid work. It has been a privilege to hear its fruits.

*Yours sincerely  
Margaret Thatcher*

---

Professor Zhao Feng



*Luc*

10 DOWNING STREET

THE PRIME MINISTER

23 September, 1982.

*Dear Professor Wu,*

I have long admired the great tradition of Chinese classical painting, and I was therefore most interested to visit your Academy and see for myself how that tradition is being nurtured in the younger generation. I congratulate you and your colleagues on the impressive work which we saw. The future of Chinese art is obviously in very good hands indeed.

Thank you for inviting me to visit your Academy and for the beautiful scroll which you presented to me. It will be a delightful memento of my visit.

*Yours sincerely*

*Raymond Richards*

Professor Wu Zuoren

DWF NR G 006/01

LDX 806

LIM 623/01

OO HONG KONG

GR 1400

SECRET

FM PEKING 010001Z OCT 82  
TO IMMEDIATE HONG KONG  
UNNUMBERED TELEGRAM OF 1 OCTOBER

PERSONAL FOR GOVERNOR

FOLLOWING REPEATED TO YOU:

FM PEKING 231500Z SEP 82  
TO IMMEDIATE FCO  
TELNO 588 OF 23 SEP 82.

PERSONAL FOR PS TO SECRETARY OF STATE  
FROM PRIVATE SECRETARY TO PRIME MINISTER.

PRIME MINISTER'S TALKS WITH ZHAO ZIYANG: FUTURE OF HONG KONG.

1. THE PRIME MINISTER BEGAN THE SECOND SESSION WITH ZHAO ZIYANG ON 23 SEPTEMBER WITH A STATEMENT ON HONG KONG. RECALLING WHAT ZHAO HAD TOLD MR ATKINS IN JANUARY AND DENG XIAOPING'S REMARKS TO MR HEATH IN APRIL SHE SAID SHE HAD IDENTIFIED TWO MAIN ELEMENTS IN THE CHINESE THINKING. THE FIRST WAS SOVEREIGNTY WHICH WAS LIKELY TO BE A DELICATE MATTER SEMICOLON SHE WOULD RETURN TO THAT LATER. THE SECOND WAS THE NEED TO MAINTAIN THE PROSPERITY OF HONG KONG.

2. THE PRIME MINISTER DESCRIBED WHAT SHE SAW AS THE FUNDAMENTAL ELEMENTS ON WHICH CONFIDENCE IN HONG KONG DEPENDED. BRITISH ADMINISTRATION HAD PROVIDED THESE. CHANGES SUCH AS THOSE ENVISAGED IN DENG'S REMARKS TO MR HEATH WOULD IF IMPLEMENTED OR EVEN ANNOUNCED AS A DECISION OF THE CHINESE GOVERNMENT HAVE A DISASTROUS EFFECT UPON CONFIDENCE IN HONG KONG. THERE WOULD BE ECONOMIC COLLAPSE, A FLIGHT OF CAPITAL FROM THE TERRITORY, MANY PEOPLE IN HONG KONG WOULD SUFFER FINANCIAL HARDSHIP, MANY WOULD SEEK TO LEAVE, THERE WOULD BE INTERNATIONAL REPERCUSSIONS AND BRITAIN WOULD HAVE FAILED IN ITS DUTY TO HONOUR ITS OBLIGATIONS TO THE PEOPLE OF HONG KONG WHO HAD LACED THEIR FAITH IN BRITISH ADMINISTRATION FOR MORE THAN A CENTURY. THE PROBLEM WAS NOT WHAT WOULD HAPPEN IN 1997, BUT WHAT PEOPLE BELIEVED NOW IN 1982 WOULD HAPPEN TO THE FUTURE ADMINISTRATION OF HONG KONG. THE COMMON OBJECTIVE OF THE TWO SIDES TO MAINTAIN THE PROSPERITY OF HONG KONG COULD ONLY BE ACHIEVED IF PEOPLE BELIEVED THAT THE PRESENT ARRANGEMENTS FOR ADMINISTERING HONG KONG WOULD CONTINUE FOR A LONG TIME, BEYOND 1997. A CHANGE AWAY FROM BRITISH ADMINISTRATION WOULD HAVE A VERY DESTRUCTIVE EFFECT.

3. SOMETHING HAD TO BE DONE VERY SOON. THE PRIME MINISTER WAS FAMILIAR WITH THE CHINESE POSITION ON SOVEREIGNTY, BUT SHE COULD ONLY MAKE RECOMMENDATIONS TO HER GOVERNMENT ON THE QUESTION OF SOVEREIGNTY IF THERE WAS AGREEMENT BETWEEN THE TWO SIDES ON CONCRETE ARRANGEMENTS FOR THE ADMINISTRATION AND CONTROL OF HONG KONG AND SHE WAS SATISFIED THAT THEY WOULD COMMAND CONFIDENCE AND WERE ACCEPTABLE TO THE PEOPLE OF HONG KONG. THE PRIME MINISTER PROPOSED THAT OFFICIAL TALKS SHOULD BEGIN SOON TO SEEK AGREEMENT ON SUCH ARRANGEMENTS WHICH WOULD MEET THE WISHES OF CHINA, BRITAIN AND THE PEOPLE OF HONG KONG AND PRESERVE THE PROSPERITY OF HONG KONG. SHE PROPOSED THAT THESE TALKS SHOULD BEGIN VERY EARLY AND THAT THERE SHOULD BE A PUBLIC ANNOUNCEMENT TO THIS EFFECT BEFORE SHE LEFT PEKING.

4. ZHAO ZIYANG SAID THAT THE CHINESE GOVERNMENT HAD ALL ALONG STATED THAT THIS PROBLEM LEFT OVER FROM HISTORY WOULD BE SETTLED IN THE PROPER WAY WHEN CONDITIONS WERE RIPE. IT COULD BE SAID THAT CONDITIONS WERE RIPE NOW. CHINA COULD NOT BUT RECOVER ITS SOVEREIGNTY OVER HONG KONG, NO LATER THAN 1997. CHINA DID NOT ACCEPT THE TREATIES BUT IN ANY CASE BRITAIN WOULD HAVE NO LEGAL BASIS TO ADMINISTER THE NEW TERRITORIES AFTER 1997. HONG KONG ISLAND AND KOWLOON WERE SIMILARLY INSEPERABLE FROM

ADVANCE COPY

IMMEDIATE

6

PS / NO ID

DOWNING STREET.

NO 1/10

k.a.

ADMINISTERING HONG KONG WOULD CONTINUE FOR A LONG TIME, BEYOND 1997. A CHANGE AWAY FROM BRITISH ADMINISTRATION WOULD HAVE A VERY DESTRUCTIVE EFFECT.

3. SOMETHING HAD TO BE DONE VERY SOON. THE PRIME MINISTER WAS FAMILIAR WITH THE CHINESE POSITION ON SOVEREIGNTY, BUT SHE COULD ONLY MAKE RECOMMENDATIONS TO HER GOVERNMENT ON THE QUESTION OF SOVEREIGNTY IF THERE WAS AGREEMENT BETWEEN THE TWO SIDES ON CONCRETE ARRANGEMENTS FOR THE ADMINISTRATION AND CONTROL OF HONG KONG AND SHE WAS SATISFIED THAT THEY WOULD COMMAND CONFIDENCE AND WERE ACCEPTABLE TO THE PEOPLE OF HONG KONG. THE PRIME MINISTER PROPOSED THAT OFFICIAL TALKS SHOULD BEGIN SOON TO SEEK AGREEMENT ON SUCH ARRANGEMENTS WHICH WOULD MEET THE WISHES OF CHINA, BRITAIN AND THE PEOPLE OF HONG KONG AND PRESERVE THE PROSPERITY OF HONG KONG. SHE PROPOSED THAT THESE TALKS SHOULD BEGIN VERY EARLY AND THAT THERE SHOULD BE A PUBLIC ANNOUNCEMENT TO THIS EFFECT BEFORE SHE LEFT PEKING.

4. ZHAO ZIYANG SAID THAT THE CHINESE GOVERNMENT HAD ALL ALONG STATED THAT THIS PROBLEM LEFT OVER FROM HISTORY WOULD BE SETTLED IN THE PROPER WAY WHEN CONDITIONS WERE RIPE. IT COULD BE SAID THAT CONDITIONS WERE RIPE NOW. CHINA COULD NOT BUT RECOVER ITS SOVEREIGNTY OVER HONG KONG, NO LATER THAN 1997. CHINA DID NOT ACCEPT THE TREATIES BUT IN ANY CASE BRITAIN WOULD HAVE NO LEGAL BASIS TO ADMINISTER THE NEW TERRITORIES AFTER 1997. HONG KONG ISLAND AND KOWLOON WERE SIMILARLY INSEPERABLE FROM THE TERRITORY OF CHINA, SO THE ONLY WISE AND PRACTICAL COURSE WAS THAT THE WHOLE TERRITORY SHOULD BE RETURNED TO CHINA. THE CHINESE PEOPLE WOULD NOT PERMIT THE CHINESE GOVERNMENT TO FAIL TO RECOVER SOVEREIGNTY OVER HONG KONG BY 1997, 48 YEARS AFTER THE FOUNDING OF THE PEOPLE'S REPUBLIC. ANY CHINESE GOVERNMENT WHICH FAILED TO RECOVER SOVEREIGNTY WOULD NOT BE ABLE TO ACCOUNT TO ITS PEOPLE. ON THIS ISSUE THERE WAS NO ALTERNATIVE AND NO LEEWAY FOR THE CHINESE GOVERNMENT. THE DIFFICULTIES OF BOTH SIDES ON THIS QUESTION WERE DIFFERENT IN NATURE.

5. ZHAO SAID THAT AFTER THE RECOVERY OF SOVEREIGNTY THE CHINESE GOVERNMENT WOULD PURSUE SPECIAL POLICIES DESIGNED TO MAINTAIN STABILITY AND PROSPERITY IN HONG KONG. HONG KONG COULD BECOME A SPECIAL ADMINISTRATIVE ZONE ADMINISTERED BY LOCAL PEOPLE AND ITS EXISTING ECONOMIC AND SOCIAL SYSTEM AND LIFE STYLE COULD REMAIN UNCHANGED. THE CAPITALIST SYSTEM IN HONG KONG WOULD REMAIN AS WOULD THE FREE PORT AND THE INTERNATIONAL FINANCIAL CENTRE. THE HONG KONG DOLLAR WOULD CONTINUE TO BE USED AND TO BE CONVERTIBLE. CHINA WOULD TAKE INTO PROPER CONSIDERATION THE ECONOMIC RELATIONSHIP BETWEEN BRITAIN AND HONG KONG, BRITISH GOVERNMENT FUNCTIONARIES COULD REMAIN AT THEIR POSTS WHEN THE SPECIAL ADMINISTRATIVE ZONE WAS SET UP.

6. TO SUM UP THE TWO ELEMENTS OF CHINA'S BASIC POLICY ON THE HONG KONG QUESTION - RECOVERY OF SOVEREIGNTY AND MAINTENANCE OF PROSPERITY - WERE INSEPERABLE, BUT RECOVERY OF SOVEREIGNTY WAS THE PREREQUISTIE. ON THE PREMISE OF RECOVERING SOVEREIGNTY, CHINA COULD EXPLORE WAYS OF MAINTAINING AND DEVELOPING THE PROSPERITY OF HONG KONG. ZHAO SAID THAT CHINA WOULD NOT MAINTAIN AND DEVELOP THE PROSPERITY OF HONG KONG AT THE EXPENSE OF THE RECOVERY OF SOVEREIGNTY. CHINA WOULD NOT LET OTHERS ADMINISTER HONG KONG ON ITS BEHALF, NOR PLACE HONG KONG UNDER OTHERS TRUSTEESHIP.

7. ZHAO THEN MISQUOTED THE PRIME MINISTER AS SAYING THAT IF CHINA RECOVERED SOVEREIGNTY, CONFIDENCE AND PROSPERITY IN HONG KONG WOULD BE DESTROYED. THE PRIME MINISTER CORRECTED THIS, REITERATING THAT THE PRESENT FLOURISHING SYSTEM IN HONG KONG DEPENDED UPON BRITISH ADMINISTRATION. SHE STRESSED AGAIN THAT THE URGENT NEED WAS TO RETAIN CONFIDENCE NOW. IF WHEN SHE REACHED HONG KONG AFTER LEAVING CHINA SHE HAD TO SAY THAT THERE HAD BEEN NO MEETING OF MINDS ABOUT THE FUTURE OF BRITISH ADMINISTRATION, CONFIDENCE WOULD FAIL NOW.

8. ZHAO REPEATED THAT THE CHINESE PUT THE RECOVERY OF SOVEREIGNTY BEFORE THE MAINTENANCE OF PROSPERITY. NO SOVEREIGN STATE COULD DO OTHERWISE. HE COULD NOT AGREE WITH WHAT THE PRIME MINISTER HAD SAID ABOUT THE PROSPERITY OF HONG KONG BEING DESTROYED IF CHINA RECOVERED SOVEREIGNTY. HE THOUGHT THAT AS LONG AS THE TWO SIDES SHOWED FULL COOPERATION, IT WOULD BE POSSIBLE TO AVOID CONFUSION IN HONG KONG DURING THE TRANSITIONAL PERIOD. HE THOUGHT THAT 'RECENT DEVELOPMENTS' IN HONG KONG DERIVED FROM MANY REASONS, BUT THE MAIN REASON WAS NOT (UNDERLINED) THE SPREAD OF THE NEWS THAT CHINA WOULD RECOVER SOVEREIGNTY. HE DID NOT BELIEVE THAT CHINESE INVESTORS WOULD FIND BETTER



THE CHINESE PEOPLE WOULD NOT  
TO FAIL TO RECOVER SOVEREIGNTY OVER HONG KONG BY 1997, 48  
YEARS AFTER THE FOUNDING OF THE PEOPLE'S REPUBLIC. ANY CHINESE GOVERNMENT WHICH FAILED TO RECOVER SOVEREIGNTY WOULD NOT BE ABLE TO ACCOUNT TO ITS PEOPLE. ON THIS ISSUE THERE WAS NO ALTERNATIVE AND NO LEEWAY FOR THE CHINESE GOVERNMENT. THE DIFFICULTIES OF BOTH SIDES ON THIS QUESTION WERE DIFFERENT IN NATURE.

5. ZHAO SAID THAT AFTER THE RECOVERY OF SOVEREIGNTY THE CHINESE GOVERNMENT WOULD PURSUE SPECIAL POLICIES DESIGNED TO MAINTAIN STABILITY AND PROSPERITY IN HONG KONG. HONG KONG COULD BECOME A SPECIAL ADMINISTRATIVE ZONE ADMINISTERED BY LOCAL PEOPLE AND ITS EXISTING ECONOMIC AND SOCIAL SYSTEM AND LIFE STYLE COULD REMAIN UNCHANGED. THE CAPITALIST SYSTEM IN HONG KONG WOULD REMAIN AS WOULD THE FREE PORT AND THE INTERNATIONAL FINANCIAL CENTRE. THE HONG KONG DOLLAR WOULD CONTINUE TO BE USED AND TO BE CONVERTIBLE. CHINA WOULD TAKE INTO PROPER CONSIDERATION THE ECONOMIC RELATIONSHIP BETWEEN BRITAIN AND HONG KONG, BRITISH GOVERNMENT FUNCTIONARIES COULD REMAIN AT THEIR POSTS WHEN THE SPECIAL ADMINISTRATIVE ZONE WAS SET UP.

6. TO SUM UP THE TWO ELEMENTS OF CHINA'S BASIC POLICY ON THE HONG KONG QUESTION - RECOVERY OF SOVEREIGNTY AND MAINTENANCE OF PROSPERITY - WERE INSEPERABLE, BUT RECOVERY OF SOVEREIGNTY WAS THE PREREQUISTIE. ON THE PREMISE OF RECOVERING SOVEREIGNTY, CHINA COULD EXPLORE WAYS OF MAINTAINING AND DEVELOPING THE PROSPERITY OF HONG KONG. ZHAO SAID THAT CHINA WOULD NOT MAINTAIN AND DEVELOP THE PROSPERITY OF HONG KONG AT THE EXPENSE OF THE RECOVERY OF SOVEREIGNTY. CHINA WOULD NOT LET OTHERS ADMINISTER HONG KONG ON ITS BEHALF, NOR PLACE HONG KONG UNDER OTHERS TRUSTEESHIP.

7. ZHAO THEN MISQUOTED THE PRIME MINISTER AS SAYING THAT IF CHINA RECOVERED SOVEREIGNTY, CONFIDENCE AND PROSPERITY IN HONG KONG WOULD BE DESTROYED. THE PRIME MINISTER CORRECTED THIS, REITERATING THAT THE PRESENT FLOURISHING SYSTEM IN HONG KONG DEPENDED UPON BRITISH ADMINISTRATION. SHE STRESSED AGAIN THAT THE URGENT NEED WAS TO RETAIN CONFIDENCE NOW. IF WHEN SHE REACHED HONG KONG AFTER LEAVING CHINA SHE HAD TO SAY THAT THERE HAD BEEN NO MEETING OF MINDS ABOUT THE FUTURE OF BRITISH ADMINISTRATION, CONFIDENCE WOULD FAIL NOW.

8. ZHAO REPEATED THAT THE CHINESE PUT THE RECOVERY OF SOVEREIGNTY BEFORE THE MAINTENANCE OF PROSPERITY. NO SOVEREIGN STATE COULD DO OTHERWISE. HE COULD NOT AGREE WITH WHAT THE PRIME MINISTER HAD SAID ABOUT THE PROSPERITY OF HONG KONG BEING DESTROYED IF CHINA RECOVERED SOVEREIGNTY. HE THOUGHT THAT AS LONG AS THE TWO SIDES SHOWED FULL COOPERATION, IT WOULD BE POSSIBLE TO AVOID CONFUSION IN HONG KONG DURING THE TRANSITIONAL PERIOD. HE THOUGHT THAT "RECENT DEVELOPMENTS" IN HONG KONG DERIVED FROM MANY REASONS, BUT THE MAIN REASON WAS NOT (UNDERLINED) THE SPREAD OF THE NEWS THAT CHINA WOULD RECOVER SOVEREIGNTY. HE DID NOT BELIEVE THAT CHINESE INVESTORS WOULD FIND BETTER PLACES FOR THEIR MONEY IF CHINA PURSUED POLICIES TO MAINTAIN THE PROSPERITY AND DEVELOPMENT OF HONG KONG. THE PRIME MINISTER INTERJECTED THAT DISINVESTMENT WAS ALREADY IN PROGRESS. ZHAO REJOINED THAT PERHAPS A FEW, BUT NOT MANY WERE DISINVESTING.

9. ZHAO SAID THAT THE PRIME MINISTER HAD PROPOSED THAT AFTER HER VISIT THE TWO SIDES SHOULD MAINTAIN CONTACT ON HONG KONG. CHINA HELD THE SAME VIEW. BOTH SIDES SHOULD CONTINUE TO DISCUSS THE RECOVERY OF SOVEREIGNTY OVER HONG KONG AND, ON THIS PREMISE, HOW TO MAINTAIN THE STABILITY AND PROSPERITY OF HONG KONG.

10. THE PRIME MINISTER REITERATED THE DIFFICULTIES OF THE SOVEREIGNTY ISSUE FOR BRITAIN. THE TWO SIDES NEEDED TO CONSULT AND AGREE ABOUT HOW TO ACHIEVE A CONTINUATION OF BRITISH ADMINISTRATION IN HONG KONG. SUCH AN AGREEMENT WOULD ENABLE HER TO CONSIDER THE QUESTION OF SOVEREIGNTY. SHE THOUGHT THAT THERE WAS MUCH IN COMMON BETWEEN THE TWO SIDES. SHE HAD NOTED CHINA'S NINE POINT PROPOSALS ON TAIWAN. IF BRITAIN AND CHINA COULD REACH A SATISFACTORY AGREEMENT ON HONG KONG THIS COULD BE AN EXAMPLE. THE PRIME MINISTER SUGGESTED THAT BOTH SIDES SHOULD NOW REFLECT ON WHAT HAD BEEN SAID AND THAT DISCUSSIONS ON HONG KONG SHOULD BE RESUMED WITH DENG XIAOPING ON 24 SEPTEMBER. ZHAO AGREED.

11. THE PRIME MINISTER AND ZHAO AGREED TO ISSUE THE FOLLOWING STATEMENT TO THE PRESS. "THE TWO SIDES BEGAN DISCUSSION OF HONG KONG TODAY IN A FRIENDLY ATMOSPHERE. THE TALKS WERE USEFUL. THEY WILL BE CONTINUED TOMORROW."

12. THE PRIME MINISTER WISHES THE CONTENT OF THIS REPORT TO BE VERY CLOSELY GUARDED. IT SHOULD THEREFORE BE GIVEN EXTREMELY RESTRICTED CIRCULATION.

13. PLEASE COPY TO NO. 10 DOWNING STREET.

GRS 200

IMMEDIATE

GBUNCLASSIFIED

FM HONG KONG 231030Z SEPTEMBER 82  
TO IMMEDIATE PEKING

TELEGRAM NUMBER 470 OF 23 SEPTEMBER

INFO PRIORITY F C O

MY TELNO 469 AND YOUR TELNO 90: PRIME MINISTER'S VISIT

1. PREMIER ZHAO ZIYANG'S REMARKS TO HONG KONG REPORTERS THIS

MORNING ARE ~~FIVE~~ <sup>FRONT</sup> PAGE NEWS IN ALL AFTERNOON PAPERS. THE

ENGLISH LANGUAGE "THE STAR" HAS A BANNER HEADLINE

"WE'LL TAKE BACK HONG KONG". THE (COMMUNIST) XIN

WAN BAO (NEW EVENING POST)'S HEADLINE IS "ZHAO ZIYANG TODAY

TELLS REPORTERS CHINA WILL TAKE BACK HONG KONG SOVEREIGNTY".  
THE REMARK ON SOVEREIGNTY IS ALSO HIGHLIGHTED BY OTHER PAPERS,  
THOUGH SOME PLACE MORE EMPHASIS ON THE ASSURANCE THAT CHINA WILL

ADOPT MEASURES WHICH WILL GUARANTEE PROSPERITY AND STABILITY.

2. THE AGREED PRESS STATEMENT ISSUED AFTER THIS MORNING'S TALKS

(SECOND TUR) WAS TOO LATE FOR AFTERNOON EDITIONS.

HADDON-CAVE

NNNN

GR 430  
S E C R E T  
FM PEKING 231015Z SEP 82  
O IMMEDIATE F C O  
TELNO 586 OF 23 SEPTEMBER  
AND TO IMMEDIATE MODUK (FOR PUS MODUK).

FOLLOWING FOR PUS F C O FROM PRIVATE SECRETARY TO PRIME MINISTER.

051 LUDA DESTROYER REFIT PROJECT

1. PREMIER ZHAO ZIYANG RAISED WITH THE PRIME MINISTER THIS MORNING THE LUDA DESTROYER PROJECT. HE SAID THAT THE CONTRACT WAS CLOSE TO AGREEMENT AND THAT THE MAIN OUTSTANDING PROBLEM WAS THE ESCALATION CLAUSE. HE SAID THAT HE HOPED THAT THE PRIME MINISTER WOULD USE HER INFLUENCE TO ENSURE THE NEGOTIATION WAS SUCCESSFULLY COMPLETED.

2. SUBSEQUENTLY AT THE AMBASSADORS RECEPTION LAI JIAN THE SENIOR CHINESE NEGOTIATOR WAS PRESENTED TO THE PM. THE PM TOLD HIM THAT SHE HAD BEEN ASKED BY PREMIER ZHAO TO LOOK INTO THIS. LAI JIAN ALSO MENTIONED THE QUESTION OF BANK GUARANTEE AND OF THE INCREASE IN THE ECGD INTEREST RATE WHICH THE PM EXPLAINED WAS THE CONSEQUENCE OF AN INTERNATIONAL AGREEMENT.

3. THE PM HAD ALREADY BEEN INFORMED THAT VOSPER THORNYCROFT HAD REJECTED THE CHINESE PROPOSALS ON PRICE BECAUSE VT WISH THE ESCALATION CLAUSE TO COME INTO EFFECT EARLIER. SHE UNDERSTANDS THAT BRITISH AEROSPACE CAN MEET THE CHINESE PROPOSALS ON PRICE ON THEIR PART OF THE CONTRACT AND THAT A BRITISH AEROSPACE DELEGATION IS READY TO COME TO PEKING BY THE BEGINNING OF NEXT WEEK IF THE CHINESE INDICATE THAT AN AGREEMENT CAN BE REACHED ON THE BANK GUARANTEE AND METHOD OF PAYMENT FOLLOWING CERTIFICATION.

4. <sup>B</sup>SUBJECT TO THE CHINESE RESPONSE TO THESE POINTS IT APPEARS THAT THE MAIN POINT BLOCKING COMPLETION OF THE WHOLE AGREEMENT IN THE NEAR FUTURE IS THE PRICE NEGOTIATION WITH VOSPER THORNYCROFT AND IN PARTICULAR THE DATE FROM WHICH THE ESCALATION CLAUSE TAKES EFFECT. OUR UNDERSTANDING IS THAT THIS BRINGS THE AMOUNT AT STAKE BETWEEN THE TWO SIDES TO ABOUT POUNDS THREE MILLION. PM HAS ASKED WHETHER GOVERNMENT COULD DO ANYTHING TO REMOVE THIS STUMBLING BLOCK AND IN PARTICULAR WHETHER IT WOULD BE WORTH INCREASING GOVERNMENT ASSISTANCE IN VIEW OF CONSEQUENCES FOR REDUNDANCIES AT VOSPER THORNYCROFT IF THEY DO NOT GET THE PROJECT. GRATEFUL YOUR EARLY ASSESSMENT AND ADVICE IF POSSIBLE SO THAT THE PM CAN SAY SOMETHING FURTHER TO CHINESE GOVERNMENT BEFORE SHE TAKES HER LEAVE ON SATURDAY 250001Z SEP.

CRADOCK  
BT

NNNN

PRIME MINISTER

MG

Anglo-Chinese Cultural Co-operation

You will remember that Premier Zhao said this morning that the Chinese Government were having to reduce the numbers of Chinese students in Britain because of the level of fees. He asked whether we could help. You said that you would explore the possibilities.

At tomorrow's return dinner you could say to Zhao if you wished:

"I promised you yesterday that I would look into the possibility of helping over the problem of fees for Chinese students in Britain.

I have done so and could now offer to increase our programme of technical co-operation to cover;

- a) provision of studentships to enable more Chinese to study and carry out research in the United Kingdom.
- b) an expanded programme of English language training through the provision of more teachers and of counterpart training in Britain.
- c) an expanded programme of exchanges in science and technology, medicine and agriculture.

The details could be discussed with our Embassy here."

I suggest you do not mention figures but there is in the aid programme £1 million for 1983/84, £2 million for 1984/85 and £3 million for 1985/86.

Please let me know if you tell him, so that I can tell the Embassy.

Will probably tell him.

A. J. C.

23 September 1982

GRS 250

UNCLASSIFIED

FM HONG KONG 230525Z SEPTEMBER 82

TO IMMEDIATE PEKING

TELEGRAM NUMBER 469 OF 23 SEPTEMBER

INFO PRIORITY F C O

FOR PRIME MINISTER'S PARTY

FUTURE OF HONG KONG

IMMEDIATE



RTHK'S CHINESE LANGUAGE NEWS BULLETIN AT 1030 THIS MORNING CARRIED A REPORT ON THE PRIME MINISTER'S VISIT WHICH INCLUDED ZHAO ZIYANG'S VIVAVOCE REPLIES TO QUESTIONS ABOUT THE FUTURE PUT TO HIM BY HONG KONG REPORTERS BEFORE THE BEGINNING OF THIS MORNING'S TALKS.

2. TRANSLATED TRANSCRIPT OF RELEVANT EXCHANGES ARE AS FOLLOWS:-

(REPORTERS) DO YOU THINK HONG KONG PEOPLE SHOULD BE WORRIED ABOUT THE FUTURE ?.

(ZHAO) I THINK HONG KONG PEOPLE DO NOT HAVE TO WORRY ABOUT HONG KONG'S FUTURE

(REPORTERS) WHY ?.

(ZHAO) WHY WORRY ?

(REPORTERS) THEY ARE WORRIED ABOUT THE QUESTION OF SOVEREIGNTY.

(ZHAO) SOVEREIGNTY, CHINA OF COURSE HAS TO RESUME IT, BUT  
I THINK THE QUESTION OF SOVEREIGNTY WILL NOT AT ALL AFFECT  
HONG KONG'S STABILITY AND PROSPERITY.

(REPORTERS) WHY ?.

(ZHAO) THIS IS BECAUSE IF CHINA RESUMES SOVEREIGNTY, IT WILL  
CERTAINLY ADOPT MEASURES WHICH WILL GUARANTEE PROSPERITY  
AND STABILITY TO HONG KONG.

HADDON-CAVE

NNNN

SECRET



10 DOWNING STREET

From the Private Secretary

23 September 1982

Dear John,

Prime Minister's visit to China

I enclose a copy of the record of the conversation at the Prime Minister's second round of talks with Premier Zhao Ziyang which took place on 23 September.

I am copying this letter and enclosure to Sir Percy Craadock in Peking and Sir Edward Youde in Hong Kong.

I should be grateful if the contents of this record could be closely guarded and the circulation restricted strictly to those who need to know.

I am making separate arrangements for additional distribution of pages 7-10 which concern bilateral issues other than Hong Kong.

Yours ever  
John Cole.

John Holmes, Esq.,  
Foreign and Commonwealth Office.

SECRET

VS.

to Folder of Hong  
Kong File. 4

SECRET



10 DOWNING STREET

From the Private Secretary

23 September 1982

Dear John,

Prime Minister's visit to China

I enclose a copy of the record of the conversation at the Prime Minister's second round of talks with Premier Zhao Ziyang which took place on 23 September.

I am copying this letter and enclosure to Sir Percy Craoock in Peking and Sir Edward Youde in Hong Kong.

I should be grateful if the contents of this record could be closely guarded and the circulation restricted strictly to those who need to know.

I am making separate arrangements for additional distribution of pages 7-10 which concern bilateral issues other than Hong Kong.

Yours ever  
John Cole.

John Holmes, Esq.,  
Foreign and Commonwealth Office.

SECRET

VS

to Future of Hong  
Kong File.

4



cc Master Set  
+ Future of Hong Kong file

SECRET

3

SUBJECT

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND PREMIER ZHAO ZIYANG AT THE GREAT HALL OF THE PEOPLE, PEKING ON THURSDAY 23 SEPTEMBER 1982 AT 0900

---

Present:

Prime Minister	H.E. Premier Zhao Ziyang
H.M. Ambassador, Peking	Mr. Huang Hua
Governor of Hong Kong	Mr. Zhang Wenjin
Mr. F.E.R. Butler	Mr. Jia Shi
Mr. A. Donald	Mr. Ke Hua
Mr. A.J. Coles	Mr. Wang Benzhuo
Mr. G. Clark	Mr. Lu Ping
Mr. A. Galsworthy	Mr. Wang Changyi
Mr. R. Peirce	Mr. Cao Yuanxin
	Mr. Zheng Yaowen

\* \* \* \* \*

Invited to open the discussion on bilateral questions, the Prime Minister made the statement at Annex A to this record.

Mr. Zhao Ziyang said that he had listened very carefully to the considerations advanced on the British side. The Hong Kong question was an issue left over from history. China considered that the time had come when the issue must be settled. It was ready in a spirit of friendship to seek the co-operation of the British Government and resolve this problem properly. In order to enhance mutual understanding and arrive at a proper solution, he wished to expound China's views very candidly. The entire Hong Kong area, including Hong Kong Island and Kowloon, were part of Chinese territory. Since the founding of the People's Republic of China, its Government had stated that this problem, left over from history, would be settled in the proper way when conditions were ripe. Pending this, the status quo in Hong Kong was to be maintained. 140 years had elapsed since 1842 and 33 years had gone by since the founding of the People's Republic. By 1997, about 155 years would have elapsed - more than one and a half centuries. So it could be said that conditions were now ripe for settlement of the Hong Kong question.

SECRET

/ At this

SECRET

- 2 -

At this point he must state formally that China could not but recover its sovereignty over Hong Kong in 1997 - and no later. It had been China's consistent position that the Chinese Government was not bound by treaties signed between the British Government and the Ching dynasty. The Chinese people had never recognised those treaties. By 1997 the legal basis on which Britain administered the New Territories would no longer exist. So the British Government would have no reason not to return the New Territories to China. Hong Kong Island and Kowloon were similarly inseparable from the territory of China. So the only wise and practical course was that the entire area, including Hong Kong Island and Kowloon, should be returned to China. Recovery of sovereignty over Hong Kong was an issue concerning Chinese sovereignty, territorial integrity and the national feelings of the Chinese people. The Chinese people would not permit the Chinese Government to fail to recover sovereignty over the territory by 1997, 48 years after the founding of the People's Republic. Any Chinese Government which failed to recover sovereignty would not be able to account to its people. On this issue there was no alternative and no leeway for the Chinese Government.

The Prime Minister had just said that the British side had difficulties, but it was not a question of greater or lesser difficulties for either side. The difficulties of the two sides were different in nature. He hoped that the Prime Minister and the British Government would understand this and that the two sides would work to solve the issue successfully in a spirit of friendship and co-operation. A settlement of the problem would mean not only the healing of a wound left over from history, but would also promote friendship and co-operation between the two countries.

The Chinese believed that solving the problem in this way would not only be in conformity with the interests of the Chinese people, but would also conform with British interests. From a fundamental and long term point of view, this would not adversely affect the prosperity of Hong Kong.

The Prime Minister had just referred to the need for both sides to maintain the prosperity and development of Hong Kong. China understood that. After the recovery of sovereignty,

SECRET

/ the

SECRET

- 3 -

the Chinese Government would take into full consideration the actual conditions in Hong Kong and would pursue special policies there designed to maintain stability and prosperity. Thus, in future, Hong Kong could become a special administrative zone administered by local people and its existing economic and social system and style of life could remain unchanged. The capitalist system in Hong Kong would remain, as would its free port, and its function as an international financial centre. The Hong Kong dollar would continue to be used and to be convertible.

China would take into proper consideration the economic relationship which existed between Hong Kong and Britain and would take into account British interests in industry, commerce, finance, shipping and aviation. The British Government functionaries could remain at their posts when the special administrative zone was set up.

To sum up, the basic policy of China on the question of Hong Kong was to recover the sovereignty of Hong Kong and maintain its prosperity. The two elements were inseparable and were a unity. But recovery of sovereignty was the pre-requisite. China could not place the maintenance of prosperity above this consideration. On the premise of recovering sovereignty, China could explore ways of maintaining and developing the prosperity of Hong Kong. He wished to repeat that China would not maintain the prosperity of Hong Kong and develop it at the expense of recovering sovereignty. China would not let others administer Hong Kong on its behalf nor place Hong Kong under the trusteeship of others.

The Prime Minister had said that if China recovered sovereignty, then confidence and prosperity in Hong Kong would be destroyed.

The Prime Minister stated that this was not quite what she had said. She had stated that Hong Kong now flourished to the advantage of the people of Hong Kong, of China and of Sino/British relations. The present flourishing system in Hong Kong was due to British administration - including the predictability of British law and confidence in the Hong Kong currency. Its prosperity depended

/ and would

SECRET

SECRET

-4-

and would continue to depend on British administration. Without a British administration, there would be no confidence. She was not talking about 1997. If when she reached Hong Kong during her current visit she said that there had been no meeting of minds about the future of British administration, what did the Chinese side think the effect would be? The consequences would occur not in 1997 but in 1982. We had to retain confidence now.

Resuming his statement, Premier Zhao Ziyang said that there were two principles - sovereignty and the prosperity and stability of Hong Kong. If it came to a choice between the two, China would put sovereignty above prosperity and stability. Sovereignty was a matter of principle, and no sovereign state would do otherwise. He had to say that he did not agree with the Prime Minister's statement that if China recovered sovereignty, prosperity would be destroyed and that large amounts of capital would leave Hong Kong. He did not think it impossible to maintain the confidence of investors and maintain the interests of the Hong Kong people in stability and prosperity after the Chinese Government had recovered the sovereignty. There were 15 years to go, and it was very important that the British Government should show a spirit of co-operation during that period. So long as both sides showed full co-operation he believed that it was possible to avoid confusion in Hong Kong during the transitional period. China did not want to see a mess in Hong Kong, and he believed that this would not be beneficial to the United Kingdom. The Prime Minister interjected that it would not be beneficial to China either. Continuing, Premier Zhao Ziyang referred to the Prime Minister's remarks about recent developments in Hong Kong markets. There were many reasons for those developments, but in the opinion of the Chinese Government the spread of the news that China would recover sovereignty over Hong Kong was not the main reason. Looking at the matter analytically, he had to say that if China pursued a policy of maintaining prosperity and stability in Hong Kong, there was no reason why Chinese investors should not stay there: where else were they to go? The Prime Minister interjected that they could go to Singapore, the Philippines, or even New York, and indeed were doing so now. She had an obligation to talk frankly to the Chinese Government because the people to whom they talked in Hong Kong would not

/dare

SECRET

SECRET

- 5 -

dare to do so. Premier Zhao Ziyang said that a few investors were putting money elsewhere, but not many; he repeated that he believed that if investors got benefits in Hong Kong, they would stay there.

Referring to the Prime Minister's suggestion that the British and Chinese Governments should maintain contact on this issue after the Prime Minister's visit, Premier Zhao Ziyang said that the Chinese Government had the same wish that both sides should continue discussions. These discussions should cover the question of recovery of sovereignty, and, on this premise, of how to maintain the prosperity and stability of Hong Kong. With regard to the Prime Minister's proposal of a public statement, Premier Zhao Ziyang suggested that she should discuss this with Vice Chairman Deng Xiaoping tomorrow.

The Prime Minister, responding to Premier Zhao Ziyang's statement, said that the British Government understood the Chinese Government's position on sovereignty. It was for that reason that the British Government had not for the last 10 years reported Hong Kong to the United Nations under the Colonial Sections of the UN Charter. Hong Kong was the only dependency which the British Government had omitted in this way. The British Government also agreed that by 1997 the legal basis for the British Administration of the new territories would end: the British Government honoured its agreements and accepted that this was the legal position. By the same token, the legal basis for British retention of Hong Kong and Kowloon would continue as a matter of international law. She understood that the Chinese Government wished this Treaty to be abrogated, but the Chinese Government had to recognise that abrogation would have to be achieved through a law passed by the British Parliament. The point which would be made was that, if the Chinese Government abrogated one agreement valid at international law, what assurance could there be that they would keep any other agreement. The British Government therefore preferred not to abrogate agreements, but to reach new ones which superseded them.

/ The

SECRET

SECRET

- 6 -

The Prime Minister said that her view was that now and for a long time in the future the prosperity and stability of Hong Kong would depend on confidence that the present administration would continue. Perhaps this would not be for all time, since things changed everywhere and would change in China. But British administration would certainly be needed for a long time beyond 1997. She was proposing that the two Governments should set out to consult and agree on how to achieve that: if they were successful, and she could commend the outcome to Parliament, then the British Government would consider the question of sovereignty. She was convinced that there was not so much difference between herself and Premier Zhao Ziyang as might appear from their opening statements, or, to put it another way, there was much in common between them.

Continuing, the Prime Minister said that she had noted that in the record of the conversation between Mr. Edward Heath and Vice Chairman Deng Xiaoping, Deng Xiaoping had referred to the Nine Point Proposals when referring to Taiwan. If the British and Chinese Governments could reach a satisfactory agreement on Hong Kong, this might act as an example for others in dealing with other problems which China had.

The Prime Minister said that the Chinese Government had a principle about sovereignty: the British Government also had a principle, which ran strongly throughout the British character, about duty to those who for 140 years had put their faith, their future and their investment in Hong Kong under British administration. The British Government owed it to the people of Hong Kong to reach agreement through discussion and consultation with the Chinese Government. Nor was it only a question of Chinese and British investors in Hong Kong: there was much international money invested there because of confidence in British administration, the certainty of the British legal system and the existence of the Hong Kong dollar as an international currency. Did the Chinese Government suppose that a similar financial centre should be established under Chinese rule in, say, Shanghai or Canton?

/ Concluding

SECRET

SECRET

- 7 -

Concluding, the Prime Minister said that she hoped to carry forward the discussions in a constructive way. She was conscious that she was going to Hong Kong immediately after China. She wanted to be able to say something which would retain confidence there. For the time being she suggested that they could not carry their discussions any further, but that they should be resumed with Vice Chairman Deng Xiaoping tomorrow. Premier Zhao Ziyang agreed, saying that he would not be present at the talks with Vice Chairman Deng Xiaoping, but that Vice Chairman Deng Xiaoping would be fully informed of what had passed today.

The Prime Minister and Premier Zhao Ziyang agreed that the statement made to the Press today should be: "The two sides began discussions on Hong Kong today in a friendly atmosphere. The talks were useful. They will be continued tomorrow."

#### Guangdong Nuclear Project

Turning to other bilateral issues, the Prime Minister **said** that the British Government were deeply interested in the Guangdong Nuclear Project. They were ready to work with any nuclear partner of China's choice. She was glad to have been informed that a visit to the United Kingdom by the Guangdong Power Company and the China Light and Power Company had indicated that GEC would be **competent** to make turbine island.

Premier Zhao Ziyang said that there had been contacts between the Guangdong Power Company and interests in Hong Kong about the nuclear project, and there had also been contact with the British and French. If the prices and agreed terms were favourable, they were planning to use French-made reactor equipment and British generating equipment, although the arrangements had not yet been completed. The Prime Minister asked whether this was a decision: she understood that the Guangdong Power Company had been **also** considering the Americans as the partner in the project.

/ Premier

SECRET

SECRET

- 8 -

Premier Zhao Ziyang said that he had seen reports of contacts with the Americans, but his enquiries indicated that the Guangdong Power Company were not pursuing **formal contacts with the** United States. The Prime Minister said she was interested in this news. She was aware that Sir Walter Marshall had visited China for discussions with the appropriate Ministry.

#### Commercial Relations

The Prime Minister said that Britain shared China's wish to maximise trade between the two countries. She suggested that China's Minister for Economic Relations and Trade, Madame Chen Muhua, might visit London. Premier Zhao Ziyang said that China attached importance to developing trade and economic relations as well as an increase in contacts in the scientific and technological field. Although trade between Britain and China was not yet on a large scale, there was a broad prospect for further advances arising from China's determination to pursue a policy of modernisation. The Chinese Government would not change their policy of opening China to foreign trade. In the coming 20 years the Chinese Government wished to exploit their energy resources, to develop transport and communications, and to modernise their existing production capacity in a planned way. He hoped that British businessmen would pay attention to these areas in particular, and try to be competitive, since increases in cooperation on these matters depended not only on Government collaboration but on the **competitiveness** of businessmen. He also hoped that the British Government, like other countries such as Denmark and Belgium, would provide low rate long-term loans in the interests of promoting exports and cooperation in economic and technological matters.

Turning to specific issues, Premier Zhao Ziyang said that the joint venture for a float glass plant in Shanghai, in which Pilkingtons were involved, looked promising. The prospects

/ were

SECRET



SECRET

- 9 -

were also good for the involvement of British companies in offshore oil exploration in the Yellow Sea, for which Shell and BP had both made bids: tenders had been opened and were now being assessed. In coal exploitation too, agreements of intent had been reached on joint ventures in Shandong Province and Guizhou. The Prime Minister welcomed these agreements of intent and expressed the hope that they would be carried forward to fruition.

#### Project 051

The Prime Minister referred to the Luda destroyer project, about which she had corresponded with the Chinese Ambassador. Premier Zhao Ziyang said that he knew that the Prime Minister had made efforts to ensure that the negotiations on the Luda destroyer were successful. Success had almost been achieved; there remained a problem about the clause covering fluctuations and costs. He hoped that the Prime Minister could help in finding a way of overcoming this problem. (At this point Premier Zhao Ziyang was handed a telegram indicating that British Aerospace were about to send a delegation to carry negotiations forward.) The Prime Minister said that she hoped that a solution to the problem could be found: Britain wanted to help with this project.

#### Consulates

The Prime Minister welcomed the agreement between the Governments of the United Kingdom and China to open Consulates in Shanghai and Liverpool. The British Government hoped that it would be possible for the Chinese Government to provide premises which fitted the distinction of the Shanghai Consulate. It would not be satisfactory for the Consulate to be placed in a hotel. The British Government had had a nice Consulate building up to the time of the Cultural Revolution in 1967 and it would be a happy solution if that could be restored. Premier Zhao Ziyang said that there would be no difficulty in establishing the Consulate in Shanghai as soon as the preparatory work was finished. As regards the site, he regretted that another use had been found for the former Consulate building and it would not be possible to give it back. But compensation would be provided and the Office of Foreign Affairs in the Shanghai municipality would assist in providing premises.

SECRET

/Technical

Technical Co-operation

Premier Zhao Ziyang said that the Chinese Government valued the arrangements for sending students to Britain but said that the Chinese Government were having to reduce the numbers because of the level of fees. He wondered whether the British Government could provide help with this, and referred to the assistance given by the United States Government in the form of provision of materials and bursaries. The Prime Minister said that if this was the form of technical co-operation which the Chinese Government wanted most she thought that it should be possible to do something about it and she would explore the possibilities.

Conclusion

The Prime Minister expressed her appreciation of the friendly and constructive atmosphere <sup>of the discussions</sup> with Premier Zhao Ziyang, and referring to their earlier discussion on Hong Kong reiterated her confidence that the two Governments would be able to reach a satisfactory agreement on the basis of consultation and co-operation.

23 September 1982

SECRET

ANNEX A

OPENING STATEMENT BY THE PRIME MINISTER

"I should like to begin by saying how pleased I was with our full and fruitful discussions yesterday on international matters. I was grateful for the information you provided, especially about Chinese relations with the Soviet Union and the United States, and I was pleased to see that there was substantial agreement between us on many issues.

As I indicated to you yesterday, I should like with your permission to speak to you today about Hong Kong. It is a problem which affects us both. Moreover, I understand that you have taken a close personal interest in it.

Hong Kong is a unique example of successful Sino/British co-operation. It flourishes well. Against this background I hope we can solve the problem of how to agree about its future while maintaining its prosperity. I note that on previous occasions you and your colleagues have said that you want to solve the issue by consultation and co-operation. That is our approach too.

I have studied very carefully what you said to Mr. Humphrey Atkins when he came to China in April and Mr. Deng Xiaoping's private remarks to Mr. Heath in April.

If my understanding is correct the two main elements of the Chinese view concern sovereignty and the continued prosperity of Hong Kong. I believe those were your own words when you spoke to Mr. Atkins. The first of these elements - sovereignty - is likely to be a delicate matter for both sides and I should like to return to this point a little later.

First I should like to discuss the second element - prosperity. I note that you think that to maintain Hong Kong's prosperity it should continue as a free port and an international centre of commerce and finance and that there should be a continuity of systems. I agree with those points but general assurances that

SECRET

/ the present

SECRET

- 2 -

the present local systems will be preserved and that Hong Kong must be maintained as an international centre will not be enough by themselves to maintain confidence. This was seen very vividly recently in financial fluctuations in Hong Kong.

It is quite clear that the prosperity of Hong Kong depends on confidence. Of course this cannot exist unless we have good relations between Britain and China bilaterally and directly over Hong Kong. But confidence also depends on other things as well, such as:

- a stable and internationally respected currency
- a financial and tax regime favouring business enterprise and which is not liable to sudden change. As you know Britain derives no revenue from Hong Kong
- a formal and internationally respected system of law
- the maintenance of public order
- the freedom of its political and economic systems

/ British administration

SECRET

British administration has in fact provided efficient and consistent government policies and without them Hong Kong would not have developed the way it has.

Mr. Deng went on to make several points to Mr. Heath. First he said that sovereignty over Hong Kong would have to belong to China. He raised the possibility of Hong Kong becoming a special administrative zone of China with the name "Hong Kong: China" and with a local government formed by the inhabitants (whether Chinese, British or other nationality). He also said that Hong Kong could remain a free port and an international financial centre and expressed the view that foreign investment would not be affected under those new arrangements. And he said that the local government in Hong Kong could manage its own non-governmental trade and commercial relations with other countries.

I have to say that the changes envisaged in Mr. Deng's remarks to Mr. Heath are such that we are convinced that if that plan were to be introduced or even announced as a decision of your government, the effect on confidence in Hong Kong would be disastrous. You will obviously wish to know why we came to that conclusion. If any drastic changes in the administrative control of Hong Kong by the UK were to be introduced or announced now there would certainly be a wholesale flight of capital from Hong Kong. This is not something which Britain would prompt: indeed we should do everything we could to prevent it because the difficulties which it would cause us are nearly as great as those it would cause you. But the simple truth is that we could do nothing to control it.

I am referring not simply to British money, but to very large investments by local Hong Kong residents and to American, Japanese, Australian and many other foreign investments, the great majority of which are controlled by private companies and individuals and are free to move about the world. This money, having left Hong Kong, would not return.

/ It

SECRET

It would be impossible to revive the Hong Kong economy, should it collapse. We believe that the announcement of your plan would have the effect that what has been built up over years would be destroyed as the inevitable consequence of a single act. We are therefore in the position that we agree with the objective of maintaining prosperity but we do not agree with the means for achieving it. Indeed, we believe that that plan would lead to the collapse of Hong Kong as a financial centre.

I should also add that there would be very considerable financial hardship for many people, and deep alarm among some sections of the population. Many would seek to leave, and some of the skills and expertise which have made Hong Kong what it is today would no longer be there. A collapse of Hong Kong would be to the discredit of both Britain and China. It would have repercussions throughout the Far East and South East Asian region, as well as wider international implications. We feel that our two Governments would be cast in a very bad light if we had failed to reach a workable agreement that would maintain the prosperity of Hong Kong.

I realise that some of these points may be unwelcome. But I must be candid.

The most important point of all is that we should honour a moral obligation to the people of Hong Kong which British Governments have sustained for more than a century. We have long had a flourishing system. Many people went to Hong Kong, putting their faith in British administration. That gives us a moral obligation which we must honour.

Confidence in Hong Kong, and thus its continued prosperity, depend on British administration.

SECRET

/ Any drastic

SECRET

- 5 -

Any drastic change away from that would destroy confidence. We all admire the way in which the Chinese leaders and people have tackled the huge problems of modernisation: and much will no doubt change in the years to come.

But the problem is not what will happen by 1997 but what people believe now will happen in Hong Kong. We cannot wait until 1997 because investors have to consider investment now. If confidence cannot be sustained now, Hong Kong will not be prosperous in 1983, let alone 1997. Then the very things we seek to preserve might have disappeared by the time the lease ends. Against the background of recent Chinese history, and given China's political system which is so different from that in Hong Kong, time would be needed for people in Hong Kong and abroad to have sufficient faith in new and untried arrangements to keep their money and skills in the territory and make new investments. But we cannot wait for this.

It seems to us that our common objective of maintaining the prosperity of Hong Kong can only be achieved if people believe that the present arrangements for administering Hong Kong will continue for a long time. There would be a most damaging effect on confidence if changes in the administrative control of Hong Kong by the UK, were introduced or announced now.

So we have to do something very soon and agree what it will be.

Can I now return to sovereignty. The Chinese position on sovereignty is well-known, and I understand it, but it is politically difficult for me just as an assertion of your sovereignty is important to you. Acceptance of this would involve Britain abrogating by Act of Parliament the treaties under which the British administer Hong Kong.

To settle the future of Hong Kong by abrogating the treaties alone would be unthinkable. It would produce immediate panic in

/ Hong

SECRET

~~SECRET~~<sup>6</sup>

Hong Kong. It would be a dereliction of British responsibility and would be rejected by the British Government and Parliament and by the people of Hong Kong.

But - and perhaps most important of all - if our two governments could agree defined arrangements about the future administration and control of Hong Kong, and I was satisfied that they would work, that they would command confidence, and that they were acceptable to the people of Hong Kong, and if I could justify them to the British Parliament, there would then be a new situation in which I could consider the question of sovereignty.

/ But

SECRET



SECRET

- 7 -

But without agreement on concrete arrangements on administration and control, I could not make any recommendations to my Government on the question of sovereignty.

To sum up so far, if we did not keep confidence now, money will leave Hong Kong. It could collapse as an international financial centre. We have to make arrangements to maintain confidence by keeping British administration and we have to do it now. I could then consider making recommendations to the British Parliament on sovereignty - and I hope that the arrangements would be acceptable to both China and Britain as well as to the people of Hong Kong.

Because the situation is so sensitive and so immediate, I propose that we should start official talks to reach an agreement on arrangements for the administration and control of Hong Kong after 1997 which would meet the wishes of China, Britain and the people of Hong Kong and preserve its prosperity.

These discussions could cover whatever proposals China may wish to make about how present arrangements might be varied. The issues are complex and should be explored thoroughly by officials as soon as possible.

There is a further point we must consider. Since I am going to be pressed hard on this issue in Hong Kong and London I hope that we can reach agreement during our talks both on the next steps in handling the problem and on what we should say in public. What we say in public is very important. Confidence in Hong Kong will be affected by what I say at my Press Conference here in Peking and later, and by any statement made on the Chinese side. I therefore propose:

- (a) that we make it clear that our common objective is to strengthen and maintain the prosperity of Hong Kong
- (b) that we should agree on a very early date for the start of official talks on how that objective can be maintained
- (c) that before I leave for Peking we should make a public announcement to this effect.

SECRET

/ Finally,

SECRET

- 8 -

Finally, may I stress that my purpose is to reach an arrangement acceptable to China and the United Kingdom and which will preserve Hong Kong's flourishing economy to the advantage of the people of Hong Kong. I believe that we can achieve that in a spirit of co-operation."

SECRET

SECRET



he 2

all copies 3879

SUBJECT  
cc Mr. Sel

10 DOWNING STREET

From the Private Secretary

23 September 1982

Prime Minister's visit to China

During her talks with Premier Zhao Ziyang on 23 September, the Prime Minister dealt with a number of bilateral trade and defence sales issues.

I enclose an extract from the record.

I am copying this letter and its enclosure to Jonathan Spencer (Department of Industry) and Richard Mottram (Ministry of Defence).

AJC

John Rhodes, Esq.,  
Department of Trade.

SECRET

VB

SECRET

- 8 -

Premier Zhao Ziyang said that he had seen reports of contacts with the Americans, but his enquiries indicated that the Guangdong Power Company were not pursuing formal contacts with the United States. The Prime Minister said she was interested in this news. She was aware that Sir Walter Marshall had visited China for discussions with the appropriate Ministry.

#### Commercial Relations

The Prime Minister said that Britain shared China's wish to maximise trade between the two countries. She suggested that China's Minister for Economic Relations and Trade, Madame Chen Muhua, might visit London. Premier Zhao Ziyang said that China attached importance to developing trade and economic relations as well as an increase in contacts in the scientific and technological field. Although trade between Britain and China was not yet on a large scale, there was a broad prospect for further advances arising from China's determination to pursue a policy of modernisation. The Chinese Government would not change their policy of opening China to foreign trade. In the coming 20 years the Chinese Government wished to exploit their energy resources, to develop transport and communications, and to modernise their existing production capacity in a planned way. He hoped that British businessmen would pay attention to these areas in particular, and try to be competitive, since increases in cooperation on these matters depended not only on Government collaboration but on the competitiveness of businessmen. He also hoped that the British Government, like other countries such as Denmark and Belgium, would provide low rate long-term loans in the interests of promoting exports and cooperation in economic and technological matters.

Turning to specific issues, Premier Zhao Ziyang said that the joint venture for a float glass plant in Shanghai, in which Pilkingtons were involved, looked promising. The prospects

/ were

SECRET

SECRET

- 9 -

were also good for the involvement of British companies in offshore oil exploration in the Yellow Sea, for which Shell and BP had both made bids: tenders had been opened and were now being assessed. In coal exploitation too, agreements of intent had been reached on joint ventures in Shandong Province and Guizhou. The Prime Minister welcomed these agreements of intent and expressed the hope that they would be carried forward to fruition.

#### Project 051

The Prime Minister referred to the Luda destroyer project, about which she had corresponded with the Chinese Ambassador. Premier Zhao Ziyang said that he knew that the Prime Minister had made efforts to ensure that the negotiations on the Luda destroyer were successful. Success had almost been achieved; there remained a problem about the clause covering fluctuations and costs. He hoped that the Prime Minister could help in finding a way of overcoming this problem. (At this point Premier Zhao Ziyang was handed a telegram indicating that British Aerospace were about to send a delegation to carry negotiations forward.) The Prime Minister said that she hoped that a solution to the problem could be found: Britain wanted to help with this project.

#### Consulates

The Prime Minister welcomed the agreement between the Governments of the United Kingdom and China to open Consulates in Shanghai and Liverpool. The British Government hoped that it would be possible for the Chinese Government to provide premises which fitted the distinction of the Shanghai Consulate. It would not be satisfactory for the Consulate to be placed in a hotel. The British Government had had a nice Consulate building up to the time of the Cultural Revolution in 1967 and it would be a happy solution if that could be restored. Premier Zhao Ziyang said that there would be no difficulty in establishing the Consulate in Shanghai as soon as the preparatory work was finished. As regards the site, he regretted that another use had been found for the former Consulate building and it would not be possible to give it back. But compensation would be provided and the Office of Foreign Affairs in the Shanghai municipality would assist in providing premises.

SECRET

/Technical

SECRET

Technical Co-operation

Premier Zhao Ziyang said that the Chinese Government valued the arrangements for sending students to Britain but said that the Chinese Government were having to reduce the numbers because of the level of fees. He wondered whether the British Government could provide help with this, and referred to the assistance given by the United States Government in the form of provision of materials and bursaries. The Prime Minister said that if this was the form of technical co-operation which the Chinese Government wanted most she thought that it should be possible to do something about it

CONFIDENTIAL



10 DOWNING STREET

*From the Private Secretary*

23 September, 1982.

*Dear John,*

Prime Minister's Visit to China

I enclose a copy of the record of conversation between the Prime Minister and Premier Zhao Ziyang at their first round of talks which took place in Peking on 22 September.

I am copying this letter and enclosure to HM Ambassadors in Peking, Tokyo, Washington and Moscow.

*Yours ever  
John G. G. G.*

John Holmes, Esq.,  
Foreign and Commonwealth Office.

CONFIDENTIAL

5



Pres

6  
2

10 DOWNING STREET

*From the Principal Private Secretary*

AMBASSADOR

Technical Co-operation to China

As you will see from my note of bilateral issues for the Prime Minister to raise tomorrow, I have not included technical co-operation since I understand that you are not happy about the proposals in the attached telegram.

This is a pity since this would have been a nice little thing for the Prime Minister to offer and I think she might have wanted to do so. Could we please have a word about what if anything the Prime Minister should say under this heading and perhaps give her a manuscript note during the meeting.

RB

22 September 1982



(Translation)

Speech by Premier Zhao Ziyang at the Banquet in Honour of  
the Rt. Hon. Margaret Thatcher, Prime Minister of the  
United Kingdom  
22 September 1982

The Rt. Hon. Prime Minister Margaret Thatcher and  
Mr. Denis Thatcher,  
Distinguished British Guests,  
Friends and Comrades:

During the Cancun Meeting last year, I had my first meeting and a friendly talk with Prime Minister Margaret Thatcher. Today we take particular pleasure in welcoming the Rt. Hon. Prime Minister in Beijing. Mrs. Thatcher visited China in 1977. She is a British political leader well-known to the Chinese people. Now, she has come on an official visit as the first serving British Prime Minister. This visit will have a far-reaching impact on the relations between our two countries. On behalf of the Chinese Government and people and in my own name, I wish to extend our warm welcome to the Rt. Hon. Prime Minister and Mr. Denis Thatcher as well as the other distinguished British guests.

The friendly contacts between the Chinese and British peoples started several hundred years ago. The founding of New China in 1949 opened the way for the establishment and development of relations between China and other countries in the world on the basis of genuine equality. In 1954, China and Britain reached an agreement on the exchange of *chargés d'affaires*. In 1972, we reached an agreement on the exchange of ambassadors, thus fully

normalizing Sino-British relations. In recent years, these relations have developed steadily. There have been frequent exchanges of visits between the two Governments and peoples. The British Foreign Secretary, Defence Secretary, Lord Privy Seal and other Cabinet Ministers visited China successively. The Chinese Premier, Vice-Premiers and Ministers also paid visits to Britain. Political consultations between us have increased. Our two countries have signed agreements on cooperation in the fields of the economy, education and culture, science and technology and civil air transport, which have served to strengthen and enhance our bilateral contacts and cooperation. The volume of two-way trade has increased. Our bilateral economic cooperation has expanded to cover more areas, including such important areas as aviation, electronics, chemical industry and energy. The Prime Minister's current visit has provided an opportunity for leaders of our two countries to have a wide-ranging exchange of views on international issues of common concern and on bilateral matters. This will certainly help deepen the mutual understanding between our two peoples and promote the development of our bilateral relations.

Your Excellency Prime Minister, the world today is even more turbulent and unstable. New aggressions have kept taking place before old ones are stopped. The Kampuchean and Afghan peoples have waged heroic and sustained struggles against foreign aggressors in defiance of brute force. The Israeli authorities have not only refused to withdraw from the Arab territories occupied by them and obstructed the Palestinian people from regaining their legitimate rights, but have also occupied large tracts of the territory of Lebanon

and its capital Beirut. Recently, Israel has gone so far as to carry out bloody massacre of innocent Palestinian civilians, including women and children. The Chinese Government and people strongly condemn Israel's savage aggression and atrocities. Israel must pull out all its aggressor troops from Lebanon immediately and unconditionally. It has become increasingly clear that the hegemonists are locked in rivalry on a world-wide scale, which has become the root cause of instability and turbulence in the world. The Chinese Government and people are ready to join all the other peace-loving and justice-upholding countries and peoples in a common endeavour to combat the superpowers' hegemonism, resist all aggression and expansion and to safeguard world peace. It is our hope that the development of Sino-British relations will contribute to promoting the cause of world peace.

As you all know, the Communist Party of China recently held its Twelfth National Congress, which adopted a programme guiding the Chinese people in their drive for all-round socialist modernization. In the days to come, there will be even greater stability and unity in China's political situation. China's economy will develop even more steadily. We firmly pursue the policy of maintaining independence and relying on our own efforts. We will continue to follow the policy of opening to the outside world and broaden external exchanges on the basis of equality and mutual benefit. The Five Principles of Peaceful Coexistence have been and will remain the basic principles guiding the development of China's relations with other countries of the world.

Your Excellency Prime Minister, since you came to office, you have made valuable contributions to the development of Sino-British relations. Your current visit to China is a major event in our bilateral relations and an important indication of their progress. I believe that with our joint efforts, your visit will be fruitful. Cooperation between our two countries in the economic, cultural and other fields will be further strengthened. True, in our bilateral relations, there are problems left over from history that need to be solved through consultations. However, I believe that problems of this kind are not difficult to solve so long as both sides approach and develop Sino-British relations in a long-term strategic perspective and take the Five Principles of Peaceful Coexistence as the basis in dealing with problems existing between us. I wish the Prime Minister a successful visit.

Now I propose a toast  
to the continued development of friendship  
between the Chinese and British peoples and of our  
bilateral relations,  
to the health of Her Majesty Queen Elizabeth II,  
to the health of the Rt. Hon. Prime Minister  
and Mr. Denis Thatcher,  
to the health of the other distinguished  
British guests present, and  
to the health of friends and comrades present here!

SUBJECT cc Master Set

**CONFIDENTIAL**

Copies to HM Amb.  
Peking  
Tokyo  
Washington

CONFIDENTIAL

Note of a meeting between the Prime Minister and Premier Zhao Ziyang at the Great Hall of the People, Peking, on 22 September, 1982, at 1630

Present:

- |   |   |
|---|---|
| Prime Minister  | HE Premier Zhao Ziyang  |
| Sir Percy Cradock<br>(HM Ambassador)  | Huang Hua,<br>(State Councillor and Foreign Minister)                                   |
| Sir Edward Youde<br>(Governor of Hong Kong)   | Zhang Wenjin,<br>(Vice-Minister of Foreign Affairs)                                     |
| Mr. R.W. Gray<br>(Department of Trade)  | Jia Shi<br>(Vice-Minister of Foreign Economic Relations and Trade)                      |
| Mr. A. Donald<br>(Foreign and Commonwealth Office)                                  | Ke Hua<br>(Ambassador to the United Kingdom)  |
| Mr. M.W. Atkinson<br>Mr. A.C. Galsworthy<br>Mr. R.N. Peirce<br>(HM Embassy, Peking) | Wang Benzhuo<br>(Director, West European Department, Ministry of Foreign Affairs)       |
| Mr. F.E.R. Butler<br>Mr. A.J. Coles<br>Mr. B. Ingham<br>(Prime Minister's Office)   | Cao Yuanxin<br>(Deputy Director, Protocol Department, Ministry of Foreign Affairs)      |
|   | Wang Changyi<br>(Deputy Director, Information Department, Ministry of Foreign Affairs)  |
|   | Lu Ping<br>(Adviser to the West European Department, Ministry of Foreign Affairs)       |
|   | Zheng Yaowen<br>(Division Chief, West European Department, Ministry of Foreign Affairs) |

Mr. Zhao Ziyang proposed that at their first session he and the Prime Minister should cover international issues and should tackle bilateral issues on the following day. He invited the Prime Minister to speak first. The Prime Minister said that she would <sup>not</sup> seek to cover all issues of concern to the United Kingdom and China, since on many of them their respective

**CONFIDENTIAL**

/positions

CONFIDENTIAL

- 2 -

positions were well known, and had been discussed before. She would therefore concentrate on some specific matters, starting with East/West relations and the state of the Western Alliance.

The Prime Minister said that the state of the Western Alliance and of NATO was good despite minor differences, <sup>/e.g.</sup> over the Siberian Gas Pipeline of which the Chinese Government would be aware. In her view, President Reagan was entirely justified in applying pressure on Russia to give Poland more freedom to determine her own affairs. There was no <sup>dispute</sup> / over this objective, but the Western European countries involved had not been happy about the method adopted in the case of the Siberian Pipeline. Before the United States acted, contracts had been made in good faith, and should be completed: it was not as if direct hostilities had broken out with Russia which would justify the breaking of contracts. So the United Kingdom and other Western European countries were resolved that <sup>these</sup> / contracts would have to be completed. In the meantime, we were seeking to arrange meetings through which we could persuade the United States to find a different way of exerting pressure. We knew from the Versailles Summit that President Reagan had wanted to reduce credit to Russia and subsidisation of interest rates. The United Kingdom supported this. But agreement was not reached, and this was probably the cost of the US action on the pipeline.

The Prime Minister said that, despite this problem and one on steel exports, the differences between Europe and America were small compared with the things which united them, and which would continue to do so.

Referring to the balance of arms control, the Prime Minister said that Russia had a superiority of conventional forces on its border with Europe and currently one of nuclear weapons too in the form of their SS 20s. The NATO countries had said that they would station cruise missiles in NATO countries unless Russia reduced the SS 20s. But this was not NATO's preference: NATO would prefer to have equality of arms with lower expenditure on both sides. Talks with Russia on this basis were going slowly, and if Russia did not agree to reduce her missiles, the European countries which

CONFIDENTIAL

/ had

had agreed to the stationing of cruise missiles on their territory would be resolute in doing so. The change of government in Germany would make no difference to this position.

Turning to Afghanistan, the Prime Minister said that Russian aggression must not become accepted and therefore forgotten. She considered that the invasion of Afghanistan had been a blunder by Russia. She noted that the freedom fighters in Afghanistan continued to do well, and regarded it as important that they should continue in one way or another to be supplied with the weapons they need.

The Prime Minister said that the West's strategic aims had not changed. Russia's amassing of military might was consistent with the objectives of expansionism so deeply rooted in Russian history. There were three main methods by which Russia had sought to achieve this expansion, by military might or threat - by proxies, such as the Cubans, or by subversion - and to these there should perhaps be added a fourth - the replacement of civilian by military government, as in Poland. The Prime Minister said that she would welcome the Chinese assessment of what was likely to happen in Russia when Mr. Brezhnev left the scene: the European countries were wondering about this with interest and anxiety, and in particular whether there would be changes introducing a younger generation of leaders who did not remember the last war. She remembered that on her last visit to China Premier Zhao Ziyang had gently advised her that the West had not sufficiently studied the Russian character, and that, if they did, they would be firmer still.

Premier Zhao Ziyang recalled that President Nixon had mentioned the Siberian gas pipeline during a recent visit, and the Chinese had commented that, if the Americans did not want their friends to sell to Russia, they should be the first to refrain from doing so. In this connection it was anomalous that one of President Reagan's earliest acts had been to lift the grain embargo. Premier Zhao Ziyang said that after reflecting on this, Mr. Nixon had said that the Chinese views were very like those of Mrs. Thatcher's. The Prime Minister commented that the situation could be described even more adversely. Even after pressing the European countries to support the pipeline, the United States had renewed their grain contract. But she now thought that the Americans

CONFIDENTIAL

- 4 -

wanted to find an alternative way of putting pressure on the USSR. The sanctions being applied were not as severe as had been threatened. Nevertheless, the Americans were lucky in having understanding friends.

Premier Zhao Ziyang, continuing his exposition, said that on many occasions the Chinese had told United States leaders that they approved the US determination to curb Russian aggression. But very often US actions in particular areas were not in accordance with this policy, and indeed contradicted one another: under this heading he referred particularly to American policies in the Middle East and Southern Africa, which were positively helpful to the Soviet Union. He had heard that President Reagan heeded Mrs. Thatcher's advice, and hoped that she would use her influence on the Americans.

Turning to Chinese views on international issues, Premier Zhao Ziyang said that their general assessment was unchanged, although the world had become more turbulent and tense as old contradictions remained unresolved and new problems were emerging. In China's view the cause of tension was the ambition of the super powers for hegemony and expansion. But the difficulties of the Russians had mounted: they had taken on heavy burdens through their actions in Afghanistan, Kampuchea and Poland, and their domestic position had deteriorated, as a result of high expenditure on arms and their people's pressures for improved standards of living. They also faced acute problems over nationalities within their population and over the leadership succession.

Premier Zhao Ziyang continued that despite these difficulties, Russia's policy of seeking supremacy in the world was unchanged. They were still engaged in arms expansion, and were still on the offensive. The main threat to peace was still from the Soviet Union. Russia had maintained a low posture in Europe and Asia and had launched a number of peace offensives, but the Chinese regarded this as changes of tactics rather than of underlying policy. It remained China's view that Russia provided the main threat to world peace and security. China's policy was still that the Chinese should get together with the Third World and

/ other

CONFIDENTIAL



CONFIDENTIAL

- 5 -

other peace-loving countries to curb Russian expansion and support world peace. They also wished to establish and develop normal relations with other countries on the basis of their five Principles of Peaceful Co-existence. China's policies were not swayed by expediency. As Hu Yaobang had stated to the 12th Congress, China does not play the Russian card against the Americans, or the American card against Russia, and does not allow others to play the China card. They sought to pursue an independent foreign policy without attaching themselves to any third power.

Turning to Sino-US relations, Mr. Zhao Ziyang emphasised the importance which China attached to their development. Not only did China share a common interest with America in opposing Russian hegemonism and expansion, but also it was in the interests of the Chinese people to develop common interests with America on economic and technological matters. Since China had established diplomatic relations with America, there had been developments in trade and technological fields, and an increase in exchanges between the two countries. But one serious obstacle to improved relations with America remains; and that was American arms sales to Taiwan.

The raising of this matter with President Reagan at the Cancun Meeting had led to a visit by Foreign Minister Huang Hua to Washington and to talks lasting ten months. The joint communique reached on 17 August represented a major step to removing this obstacle to the improving of relations with America. But, speaking frankly, Premier Zhao Ziyang said that the communique had not thoroughly settled the matter. It was only just beginning to be seen how the US would implement the communique. The Chinese Government would hope that the US would seriously implement the undertaking which they had explicitly made in the joint communique to reduce gradually and finally terminate their arms sales to Taiwan. But some American officials were trying to distort the agreement by saying that termination of arms sales was pre-conditioned on China's peaceful settlement of the Taiwan issue. This was a distortion of both the spirit and the letter of the communique, since the two issues were quite separate. The peaceful reunification of Taiwan with China was an internal

CONFIDENTIAL

/ matter

CONFIDENTIAL

- 6 -

matter which was China's own business, and they would brook no interference on it. An even worse distortion was to link the ending of arms sales with the United States' unilateral policy on Taiwan. Mr. Zhao Ziyang said that the Taiwan Relations Act was contrary to the principles on which diplomatic relations had been resumed with America, and an interference in China's internal affairs.

Mr. Zhao Ziyang said that in saying this he wished to stress the importance which China attached to Sino-American relations. In signing the agreement, China had made the greatest allowance for America's concerns at the same time as upholding the principle that Chinese sovereignty should not be encroached nor their internal affairs interfered with. It was of the utmost importance that the US proceed swiftly to implement the agreement.

Turning to Sino-Soviet affairs, Mr. Zhao Ziyang recalled that these had been covered by Hu Yaobang in his report to the 12th Congress. China believed that Russia had not departed from the policy of hegemonism, and so China had not changed its own policy which was based on the Five Principles. Since Russia had often said that they

/ wanted

CONFIDENTIAL

CONFIDENTIAL

- 7 -

wanted to improve relations, China had had some contacts with Russia, and in October Russia was sending a Vice Foreign Minister to China to exchange views on relations. If Russia was sincere, they should take practical steps to remove the threat they posed to Chinese security, but Mr. Zhao Ziyang said that China was not looking forward to the talks with optimism. The Soviet Union had supported the invasion of Cambodia and carried out the invasion of Afghanistan. It had deployed massive numbers of troops on the Chinese border and in Mongolia. All this posed a threat to Chinese security: relations between the Soviet Union and China were faced by very serious differences. It was therefore difficult to predict the outcome of the talks. Personally, he was not very optimistic.

#### Sino-Japanese Relations

This year marked the tenth anniversary of the normalisation of Sino-Japanese relations. Generally speaking, the relationship had developed considerably in various fields since normalisation. There had recently been a dispute relating to Japanese textbooks. This was now over. The Japanese would be responsible for correcting the errors in the textbooks. The Chinese Government assessed positively the attitude of the Japanese Government and Prime Minister Suzuki in upholding relations with China. Last May he (Zhao) had visited Japan. Very soon Suzuki would visit China - this would provide an opportunity to exchange views on international and bilateral issues. The establishment of peaceful, friendly and long term relations on a basis of equality and mutual benefit conformed with the fundamental interests of both peoples and was conducive to the maintenance of stability in Asia and the world at large.

#### Kampuchea

There had been some new developments in the Kampuchean situation. The three patriotic forces had come together and set up a coalition government, to the establishment of which China attached importance. It represented a new stage in the struggle of the Kampuchean people to safeguard its sovereignty and independence and oppose the Vietnamese aggressor. China's support for the three patriotic forces was not a matter of expediency - it was long term policy. Although

CONFIDENTIAL

/ there

**CONFIDENTIAL**

-8-

there were still differences and contradictions among the three patriotic forces, the situation inside Kampuchea would improve as long as unity of the forces was preserved, the coalition government was sustained and the struggle was maintained against Vietnamese aggression. It would be possible for Kampuchea to drive the Vietnamese forces out of the country. The essence of the situation was Vietnam's invasion of Kampuchea, a small and weak country. The Hang Semrin clique was propped up by Vietnam. The sole legal regime was the Government of Democratic Kampuchea. More support should be given to the coalition government led by Sihanouk. He hoped that the Prime Minister would adopt an even more positive attitude to the Government of Democratic Kampuchea and give political, material and moral support to the coalition government.

The Kampuchean issue would be one of the priority issues at the current session of the UN General Assembly. Sihanouk was in New York attending the Assembly. China considered that, now that the coalition government had been established, the Government of Democratic Kampuchea would get more support and sympathy. It seemed that there would still be a big struggle to safeguard its legitimate seat at the United Nations. The Soviet Union and Vietnam were trying hard to keep the seat vacant. He hoped that the Prime Minister would use her influence and help people to see through this Soviet/Vietnamese plot, thereby helping Democratic Kampuchea to obtain its seat at the United Nations. China considered that the Kampuchean problem would eventually be settled by political means but the conditions were not yet ripe. Vietnam faced many difficulties and these were increasing but they were not yet of sufficient magnitude to force it to withdraw from Kampuchea. Vietnam had recently put forward proposals for a so-called partial troop withdrawal and the holding of an international conference. This was presented as a policy for peace and reconciliation but it was just a Vietnamese trick. Vietnam was still pursuing a policy of promoting regional hegemony, serving the interests of the Soviet Union's strategic drive to the south. So it would not withdraw its troops.

**CONFIDENTIAL**

/The reason

CONFIDENTIAL

-9-

The reason why Vietnam was making this overture was to take advantage of the desire of some people for compromise and encourage others in the same direction. Recently, the ASEAN Foreign Ministers had held a special meeting in Bangkok. This had been held after <sup>the</sup> Vietnamese Foreign Minister's visit to some ASEAN countries. China approved of the meeting's conclusion that Vietnam had not changed its position which was one of maintaining its occupation and controlling the whole of Indo-China. Any change had been purely tactical.

In supporting Kampuchea in its struggle against Vietnam China was upholding the norms of international relations. It had no selfish interests to pursue. It did not harbour an intention of setting up a pro-China regime in Kampuchea. It hoped that Kampuchea would become independent, neutral and non-aligned in the future - and one day become a member of ASEAN. After the withdrawal of Vietnamese troops China hoped to see a government of national unity, uniting all the patriotic forces in the country. The Chinese Government had decided to support Democratic Kampuchea because it regarded it as the only effective anti-Vietnamese resistance force. China's support went beyond the Government of Democratic Kampuchea to all three patriotic forces whom it was supplying with arms. If support was not given to the only effective resistance force, then there was no prospect for a settlement in the future. More and more people in ASEAN countries had come to understand China's position on this issue. Some, like Malaysia <sup>and Indonesia</sup> had been apprehensive but others, like Thailand <sup>and the Philippines,</sup> had shown a better understanding.

#### Afghanistan

He did not have much to say about Afghanistan because he believed that we shared his views. Before the Soviet Union had despatched troops to Afghanistan it had not anticipated that there would be so much resistance. There were now some 100,000 Soviet troops in the country who could still not crush the resistance. This involvement amounted to a very heavy burden for the Russians but they did not regret this because they had taken a major step forward in their strategy of driving southward to the Persian Gulf.

CONFIDENTIAL

/Despite

CONFIDENTIAL

-10-

Despite the difficulties, the Soviet Union would not change its policy and strategy and would not withdraw its troops. By launching a peace offensive, the Soviet Union aimed to win time to consolidate its occupation. It was now infiltrating and subverting that area in an attempt to meddle in the affairs of Pakistan and Iran. There was no probable shortcut to a political settlement. The only way out was to help strengthen the resistance so as to increase the difficulties facing the Soviet Union.

The Prime Minister thanked Mr. Zhao Ziyang for his fascinating statement. We had similar views on the Kampuchean/Vietnamese issue. We had never recognised Heng Samrin. We had reservations about Pol Pot but supported its retention of the United Nations seat. We now warmly supported the new coalition. We had confidence in the ASEAN judgment which Zhao Ziyang had described. It was right for Kampuchea to settle its future in its own way.

As regards relations with the United States, differences were inevitable from time to time. But America did not wish to extend its influence by military means. It was a defensive power. This meant that there was an enormous difference between the two super-powers - we regarded the United States in a very different light to the Soviet Union. China was non-aligned. We were staunch allies of America. If the United States and Europe did not stand together their ability to deter the Soviet Union would be much diminished.

With regard to Taiwan, we were very pleased that China had reached agreement with the United States at the end of the recent negotiations. We were aware of China's **views** and of American legislation on Taiwan; similarly we were aware of China's nine principles relating to Taiwan and knew that under them Taiwan would be permitted to defend its own territory. Given all the circumstances, the communique which had been issued seemed to us to represent an act of statesmanship - and we hoped things would turn out that way.

CONFIDENTIAL

/As regards

CONFIDENTIAL

- 11 -

As regards the Soviet Union we were in broad agreement. It had difficulties with its satellites and in its internal political and economic affairs. There were additional difficulties relating to credit and the countries of Eastern Europe faced problems of debt and interest repayment. The Soviet Union faced more problems in the economic, military and political spheres, than it had for a long time past. We had noted the visit of the Soviet Deputy Foreign Minister to China.

If there were a change in the Soviet leadership it might be tempted to distract attention by military adventures. This would be very damaging for all of us. As Zhao Ziyang had rightly said, Iran was the danger point. It was a troubled country with a terrible regime. If the Russians reached the Gulf the prize to them would be great. Instability in the Middle East could be a great advantage to the Soviet Union. We were constantly pointing out to the United States that the Arab/Israel problem would not be settled until the problem of the Palestinians was tackled.

With regard to the European Community, there were differences between Member States but these were differences between friends. Let there be no doubt that Britain would stay in the Community. Among other things, European political co-operation was valuable both for Europe and for the world as a whole.

She had been grateful for Zhao's detailed exposition of Sino/Soviet and Sino/US relations.

Mr. Zhao Ziyang said that he wished to comment on the Prime Minister's remarks about changes at the top in the Soviet Union and the possible policy of a new leadership. China did not know the Soviet Union very well. But its foreign policy was not determined by the personality of a single leader. It was determined by the way in which the Soviet ruling clique assessed the international situation and various other factors. Some statesmen in the West saw Brezhnev as a moderate. But it had been precisely in the Brezhnev period that the Soviet Union had built up its armaments and changed from a position of military inferiority to one of superiority. During the same period, the troops stationed

CONFIDENTIAL

/ along

CONFIDENTIAL

-12-

along the Sino/Soviet border had been increased to several dozens of divisions. Russia was taking advantage of conflicts among third world countries. It was actively pursuing a policy of expansion in order to control other countries and it had gained from this policy. So we should not think that a change in leadership would necessarily lead to a fundamental change in policy - though there might be minor differences owing to changes in personalities.

With regard to the Middle East, it was the misguided policy of the United States which had created opportunities for the Soviet Union to exploit. The crux of the issue was that Israel was arbitrarily pursuing a policy of expansion. It dared to do so because it was supported and abetted by the United States. There was division, among the Arab countries, between **rejectionists** and moderates. The Soviet Union would have little room for manoeuvre in the Middle East once the United States ceased to stand in opposition to 100m Arabs, on the side of a few million Israelis. China was not in favour of wiping Israel off the map. All countries of the Middle East were entitled to the right to independence, survival and peace. China approved of the position of the United Kingdom and other EC countries in the area.

The discussion ended at 1820.

A. J. C.

22 September 1982

CONFIDENTIAL



Prime Minister

You may want to take an opportunity to do this.

mb A.S.C. 22/9

INVITATION TO MRS CHEN MUHUA TO VISIT BRITAIN

1. The main commercial brief proposes that an invitation should be given to Mrs Chen Muhua, Minister of Foreign/Economic Relations and Trade and State Councillor, to visit the UK in the near future. It would be courteous to mention this to Premier Zhao Ziyang at an early stage and there may be an opportunity at one of the receptions to invite Mrs Chen personally.
2. There are two possible contexts. During his visit to China last December, Mr Rees conveyed an invitation to Mrs Chen's predecessor as Minister, which he did not have time to take up. The Prime Minister could simply extend it to Mrs Chen.
3. The other and perhaps more productive context would be to suggest that she visits Britain to preside over an ad hoc meeting under the 1979 Economic Cooperation Agreement signed during Mr Varley's visit to Peking. The Agreement provides for ad hoc meetings to review the progress of trade and economic cooperation between our two countries; no such meeting has ever taken place.

British Embassy

PEKING

22 September 1982



## A HASTY GUIDE TO THE HISTORY OF CHINA

### I. Prehistory

China evidently developed agriculture along the Yellow River approximately at the same time as that in Egypt and Babylon along the Nile and the Euphrates. These farming communities, living off wheat not rice, may have numbered a million by 3000 BC. Archaeological remains of these numerous early communities can be easily visited (e.g. in Sian).

But early historical evidence of China is later than in the Near East. Thus the earliest dynasty, the Hsia (about 2000 BC) is still legendary, despite recent claims to have found their capital at a village at Erlitu between Loyang and Chengzhou.

The legends about the Hsia dynasty make them out as philosophers or master-irrigators. It seems likely that real historical evidence about this dynasty will be found, in the next generation or so. But remember that even so, this will still be late compared with Egypt (first dynasty c.3200 BC) or Babylon.

### II. The SHANG Dynasty. c.1600-1000 BC

This dynasty also once used to be regarded as legendary. But it is now accepted that its 30 kings had various capitals in the region of the Yellow River and ruled most of the plain dependent on it or its tributaries, i.e. about half of what is now north China (north of the Yangtse). This kingdom did not include Peking and the north, then desolate, nor Manchuria, while all China south of the Yangtse was lived in by ethnically non-Chinese peoples related to the Thais.

This dynasty is that of the bronze age in China. The perfect casting of bronze vessels of all sorts, was remarkable (the best vessels are now in the museum in Taiwan) and has never been surpassed.

The population of China proper may have been five million in 1000 BC when the Shang dynasty collapsed. That in what

.../..

Note: a map on page 11 gives approximate geographical positions of places mentioned.



is now China south of the Yangtse may have been one million.

Shang officials made careful astronomical observations. They also used an advanced pictographic script fairly close to that of China of to-day. They worshipped the sun and there appears to have been a priestly bureaucracy at the last capital Anyang, where many oracle bones for divination were dug up in the 1920s.

### III. The CHOU Dynasty. 1000-770 BC

This dynasty extended the size of the area in settled agriculture and the Yangtse basin also began to be brought under cultivation. Rice was apparently introduced from the south (Thailand?). But the rulers failed to establish any real political control over the extended area. China gradually broke up into feudal entities, which eventually seem to have been not quite dissimilar to that in the European feudal system. The kings at Loyang became increasingly the formal rulers of a network of independent fiefs among whom which still interspersed 'barbarian' (i.e. non-Chinese) tribes.

### IV. EASTERN CHOU. Epoch of Warring States 770-230 BC

The disintegration of the political unity continued but the population increased thanks to the further extension of agriculture south of the Yangtse. This must have been because of widespread cultivation of rice. There may have been about 25 million in northern China by 400 BC and about another 2 or 3 million south of the Yangtse in the region now known as China.

Eventually the feudal entities coalesced round six main entities, themselves subdivided feudally. Each one encouraged schools of philosophy, art and pottery etc. Confucius (551 - 479 or later) preached clear thinking, self-discipline, and kindly paternalism effectively enough to secure his survival as a dominant influence until the 20th century. But he was only one of many



exploratory thinkers, whose number, diversity and ingenuity recalls Greece of the same time. The books of these thinkers were soon written on silk, the most remarkable of Chinese products, whose culture probably dates from the Hsia dynasty.

V. The CHIN Conquest. 230-221 BC

After many generations of fighting and the eclipse of the old dynasty, the whole of what was then China was swiftly conquered by the prince of Ch'in, a fief at the western end of the Yellow River. He gave China its current name. The victory was achieved by the accumulation of a vast and efficient army well led by Shih Huang Ti, who proclaimed himself "the first emperor", a title which few have disputed and which in practical terms he deserved. He was as it were the Napoleon of China. He broke up all the old feudal states and replaced the old nobility with his officers. The country was reorganised into 36 provinces; law, weights, coinage and measures, were standardised. So were axle widths of carts, to encourage inter-provincial commerce along the cart tracks where irregular axle widths had caused innumerable delays and accidents. There was a general proscription of all but basic books on practical matters on the grounds that free thought as well as feudalism had led to decay. This illiberal move was accompanied by the standardisation of script. Old complex script was forgotten. Seventy "official scholars" alone were allowed to possess books.

Shih Huang Ti reigned a very short time but his rule transformed China. He is the emperor commemorated in his tomb outside Sian by the "buried army". The frontier wall against northern barbarians (Huns) known as "The Great Wall" was also begun by him. Mao is said to have envied him, and to have even boasted that he killed more philosophers than he.

It seems likely that the population reached about 50 million as a result of this reunification by 200 BC, a figure which it inexplicably stayed at for approximately a thousand years - this demographic sluggishness matching that of Europe in the late Roman and early medieval eras almost exactly.

.../..



VI. The HAN Dynasty. 202 BC - 220 AD

(except for interregnum of Wang Mang of 23 AD, Hsin Dynasty)

This was really the golden age of China, comparable to the contemporaneous Roman empire in Europe. After the "first emperor's" death, a short period of confusion followed. But a new strong man came forward from a new family to manage, more humanely, the great achievements of his predecessor. The Han were tolerant managers of the Chin achievement, private scholarship and speculation being soon allowed. The emperors ran China with civil servants not feudal nobles nor soldiers. Confucius's ideals became the conscious philosophy of the civil servants after 140. These were all trained at a Grand College after 124 BC and after 6 AD examinations were introduced not very unlike those introduced in England by Sir Chas. Trevelyan in 1860.

Under this dynasty, all the primitive tribes in south China were mopped up and Sinkiang conquered, so that by 100 BC China had approximately its present dimensions. Subsequent expeditions took Chinese generals to Turkestan and even the Persian Gulf and the Caspian, opening the way for a trade in silk with Rome.

But population continued static at about 45 million to 60 million, the first census of households being in the year 2 AD.

Missionaries from India brought Buddhism in the first century AD. It was tolerated and in many respects (and people) combined with Confucianism. A more earthy but mystical religion, Taoism, appeared in the second century AD. It too was tolerated.

The intellectual and technological achievements of the Han included the invention of paper (traditionally 105 AD) which replaced silk for writing; an accurate rendering for  $\pi$ ; the astrolabe (third century); charts of the heavens; elaborate figure painting and calligraphy; and probably a primitive form of porcelain.

This sunny era was interrupted only by Wang Mang (9-23 AD) who sought a socialist revolution by e.g. nationalisation of land, manumission of slaves, high taxes on wine and a price freeze, bans on usury etc.

.../...



VII. Era of Division 220-589.

The collapse of the Han led to the division of China, for much of this time, into two or three sub kingdoms each beset by barbarian invasions and conquests from central Asia. Each barbarians' victory over Chinese Kingdoms was followed as a rule by slavish emulation of Chinese precedents - a rule followed by subsequent invaders.

This era again mysteriously reflects events in Europe, at the end of Rome.

The main technological development was the devising of the stirrup, though perhaps this was in Korea, about 500 AD. Political weakness enabled the further flourishing of Buddhism, sometimes repressed, and sometimes enhanced by the introduction of Greek patterns.

The Mongols incidently began their career as the scourge of north China about 400 AD.

VIII. Reunification under the CH'EN (589-618) and T'ANG (618-907)

The empire was reunited by conquest by dynasties which more or less accepted Buddhism as their official religion though Confucianism still marked the bureaucratic mandarinat. Chinese Buddhism also developed many characteristics of its own. With the capture of so much of India by Islam, China became really the centre of Buddhism.

The greatest of the restored emperors was the T'ang emperor Li Shih Min (627-649), who combined military conquests with patronage of art and letters, and a liberal tolerant spirit. Chinese suzerainty was recognised by the petty states of central Asia. Persian and Indian culture thereby penetrated. A Nestorian Christian church was even set up in Ch'ang An (Sian) the T'ang capital. The beautiful T'ang tricoloured pottery and painting dates from his day, and the charming murals on the walls of uncovered tombs show the T'ang court as elegant, free and gay.

.../..



The combination of strength and charm, however, could not last. The most brilliant of the T'ang emperors Hsuan Tsing (712-756) founded schools in every district, patronised painting (particularly landscape) and under him was devised the first real porcelain. Greek patterns were very popular. Buddhists probably produced the first wood blocks for printing on paper in his time. But the emperor was much under the influence of his famous concubine Yang Kuei-Feu, recalled at Sian. Perhaps she was the imperial lady who was said only to have laughed when she heard the sound of tearing silk. At all events she was expensive and led her emperor to ruin. The later T'ang emperors suffered numerous setbacks from gathering barbarians.

IX. Five Dynasties (607-59) and THE SUNG (960-1279)

There followed five dynasties of short duration and then China was again united under the Sung, who were like the T'ang: also humane, scholarly and philosophically minded. Their capital was at Kaifeng. Under them printing made considerable progress. Thus a Buddhist canon was printed in Szechuan by imperial order from 130,000 blocks. Various administrative reforms were introduced by Wang An Shih (1069-1074), a socialist prime minister. This was the golden age of landscape painting, usually done on silk. One emperor, Hui Tung, was himself a fine painter. Two great encyclopedias were published. Tea → began to be drunk widely. The mariners' compass began → to be employed and there was much commerce with the Arabs, → who had many representatives in Chinese ports. Celladon → glazed porcelain was invented and the porcelain produced by high fired glazes at this time has perhaps never been equalled. It was also under the Sung that the population began to increase substantially, based on the further exploitation of the rice growing potential of the Yangtse valley. There was a definite shift in the country's political centre of gravity towards the south. Explosives seem to have been made under the Sung also, though they made little use of them.

.../..



X. The MONGOLS c.1194-1368 (The YUAN Dynasty 1260-1368)

The Sung were displaced by the most violent eruption in the history of Asia, the Mongols, who rapidly expanded by means of a powerful military machine, employing strict discipline, extreme mobility, espionage, terror and superior siege equipment. The Mongols captured Chinese towns easily but had a good deal of trouble imposing themselves on the countryside. They therefore changed from a policy of execution in punishment for rebellion to one of massacre of whole populations. Some suggest that China lost 35 million people in these wars ( a good example of how conventional wars can cause much loss of life ?). The Mongol King, Genghiz Khan, first established himself in North China, and his grandson Kublai conquered the south (1260). He established his capital at Peking, then an innovation. Once he had won, he ruled, as was usual with barbarians, according to Chinese precedents, imposing his own warrior aristocracy on the remains of the old bureaucracy. Muslims and Nestorian Christians were tolerated and Buddhists favoured. Some painters continued, and Yuan cobalt blue porcelain was original and beautiful.

The Mongols sought to expand further. They failed to capture Japan (1281) and Indo China (1288), but secured the submission of Burma and nearly all central Asia. At home, Kublai and his successors improved the roads, and secured the grand canal from the Yangtse to Peking, facilitating both commerce and repression. Their currency declined through excessive use of paper money.

The Mongols introduced both the theatre and novels to China thought both were looked upon as debased, and so remained for many centuries so that the best classical Chinese novels (of the 17th and 18th centuries) were anonymous.

XI. The MING 1368-1644

The Mongol emperors declined with power, following a familiar pattern. In the upheavals that followed the death of Kublai's last descendant, a Buddhist monk turned rebel, found an army, seized Nanking in 1356, set up an orderly government there, and eventually drove the Mongols out of the north.

The Ming were an indigenous Chinese dynasty, but they

.../..





accepted the Mongol capital at Peking (1420) in order to secure the northern frontier against barbarian attack.

A series of extraordinary naval expeditions under the eunuch Cheng Ho took Chinese fleets to Africa, to Java, and the straits of Hormuz.

The next century saw the beginning of Western trade, after the Portuguese reached Canton in 1520. A permanent Portuguese trading post was established at Macao in 1557 while the Jesuits, led by the great monk Matteo Ricci, were allowed to establish themselves at Peking in 1601 after they had shown the benefits of certain western products such as maps, calendars, cannon and clocks.

Most of the 16th century the Ming were busy fighting the Japanese and later the Manchus, a semi Mongolian people whose capital was established at Mukden.

The Ming emperors commissioned a vast quantity of porcelain, distinguished by overglaze enamel, often very successfully in combination with underglaze blue.

## XII The MANCHUS (CH'ING Dynasty) 1644-1912

The last Ming emperor hanged himself on a (still pointed out) tree when a bandit occupied Peking. The Regent asked a Manchu general to help him remove the bandit. He did so but remained as the first Manchu emperor. The Manchus behaved in the beginning like a more humane version of their distant kinsmen the Mongols. They filled the central administration with their own countrymen but insisted that they adopt Confucian principles and go through the old competitive examinations. Manchus were appointed as colleagues of Chinese in all posts of provincial administration. The conquest was accompanied by the imposition of the Manchu shaved head with the queue.

China in 1644 probably had a population of 150 million. By 1801 it was 300 million thanks no doubt to the maintenance of peace and the decline of the great plagues.

.../..



But by then there was little further scope for the extension of land under cultivation. This must have been one reason for the serious troubles of the 19th century such as the Taiping rebellion (1857-65), in which many died, in a kind of primitive Christian revolt, and the rise of militant nationalism in the 20th.

The Chinese had no special interest in the various Portuguese, Dutch and Russian traders who arrived in the 16th and 17th centuries. They were treated as the Chinese had always treated merchants, Arab, Persian or Indian; tolerantly, provided they remained at a distance. The Western trade with China in the 18th century was still entirely in the latter's favour: we bought silk and tea and had little to offer in return. After 1780, however, the opium trade to Canton became of importance, as did Western manufactured goods. This led to the eventual establishment of the British at Hong Kong in 1842 (the population there was then barely 10,000 in comparison with 5 million (?) to-day) alongside Macao. Other Western interests led to the growth of Shanghai and the eventual system of concessions (the French, British, Russian and German communities were secure from Chinese law) in several cities.

The vast increase of Western goods as a result of the manufacturing revolution of the 19th century transformed our trade balance with China. By 1900 Western Europe had jointly reduced the enfeebled Chinese empire to the status of an economic satellite, supported occasionally by the use of troops (1860, 1900).

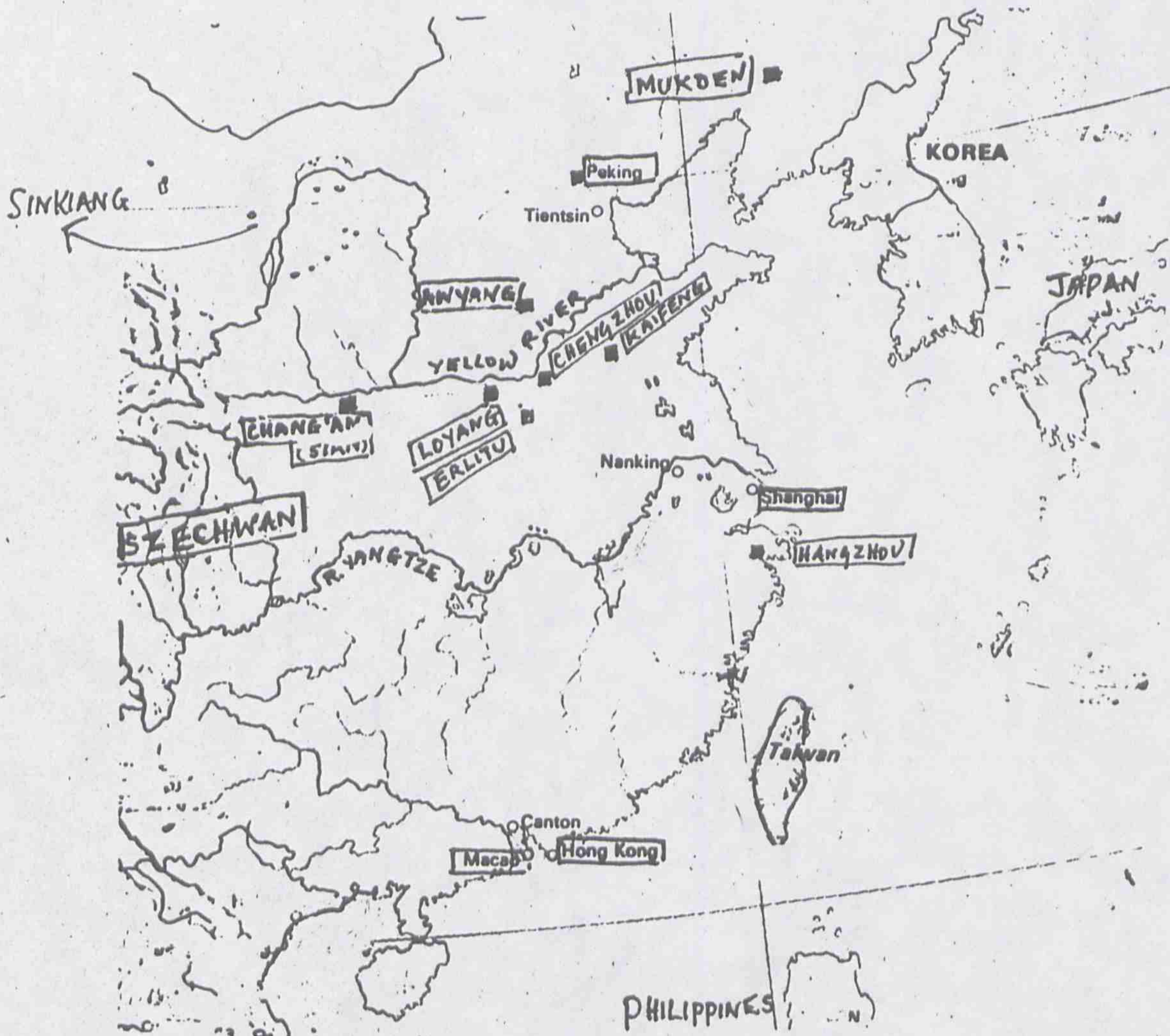
Discontent deriving from over-population and mal-administration first took the form of reactionary nationalism. Where this got nowhere, radical nationalism seemed the only alternative. The Manchus had meantime always continued to be resented as foreigners and their defeat in the Sino Japanese War over Korea 1894-95 ruined what prestige they had. A final effort was made at saving the empire by means of a liberal constitution in 1908 but this scheme was overtaken by the Revolution of 1911 which led to the eclipse of the last emperor and a long and complicated period of confusion and violence.

.../...



Mingled with foreign intervention and international war, the outcome was the eventual triumph of the Communist party in 1949. This followed the conversion of the once radical nationalist party the Kuomintang of Sun Yatsen into a somewhat corrupt place-mongering organisation when Chiang Kai Shek, Sun's successor, returned to Peking in 1945. The long Japanese war and occupation of most of east China including Peking (1937-1945) had enhanced nationalism among the educated and prepared the way for the victory of a party which seemed to promise national regeneration. How it soon became more bureaucratic, brutal, and more concerned with place mongering than even the most extravagant dynasty in the past is another story.

September 1982



John  
Have you seen this  
A

JOHN COLES FROM MICHAEL SCHOLAR

It has just been announced that the Incorporated Liverpool School of Tropical Medicine have signed an agreement for a programme of exchanges of staff and research with Jinan Medical College near Canton. The sums are coming from the Wolfsan Foundation for a period of 5 years. The major areas for discussion/information are malaria, parasitology, entomology and tropical medicine. Apparently this will be of considerable potential benefit to China, Great Britain and the developing world, with possible extension to military, commercial and tourist spheres.

|

The above is drawn from a letter from the Liverpool School, and Michael Scholar thinks you may wish to have this for speech material for visit to Canton.

JD  
18.9.82

Prime Director

I doubt if it warrants a reference in the speech - but you may wish to know about it.

A.S.C. 25/9.

LDW 538  
LIM 393/17

00 TOKYO

00 HONG KONG

00 FCO

GR 500  
SECRET

FM PEKING 170244Z SEP 82  
TO IMMEDIATE TOKYO (FOR PM'S PARTY)  
TELEGRAM NUMBER 26 OF 17 SEPTEMBER  
INFO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR), FCO (FOR FED)

FOR PRIME MINISTER'S PARTY

PRIME MINISTER'S VISIT.

1. THE PRIME MINISTER MAY FIND IT HELPFUL TO HAVE SOME IDEAS ON HOW SHE MIGHT BEST USE THE TIME AVAILABLE TO HER IN PEKING FOR DISCUSSIONS WITH LEADERS.

2. ALTHOUGH THERE IS NOW SOME SIGN OF GIVE ON THE QUESTION OF A SECOND TALK WITH DENG XIAOPING, WE CANNOT RELY ON THIS AND IT WOULD BE PRUDENT TO BUDGET FOR ONLY ONE MEETING WITH HIM FOLLOWING TWO ROUNDS OF TALKS WITH ZHAO ZIYANG. BY AGREEMENT WITH THE CHINESE THE FIRST ROUND OF TALKS WITH ZHAO WILL BE DEVOTED TO THE INTERNATIONAL SCENE. THE MAIN POINTS OF INTEREST FOR US WILL BE CHINESE COMMENTS ON SINO-US AND SINO-SOVIET RELATIONS. BUT IT WILL BE IMPORTANT TO ENSURE THAT THESE TALKS DO NOT SPILL OVER ON TO THE SECOND DAY. I THINK THE CHINESE ARE ALSO AWARE OF THIS.

3. ROUND 2 WITH ZHAO WILL BE DEVOTED TO BILATERAL ISSUES WHICH WILL BE ON OUR SIDE ALMOST ENTIRELY HONG KONG, THOUGH SINCE WE HAVE ABOUT TWO-AND-A-HALF HOURS IN ALL IT WOULD BE REASONABLE TO ALLOW FOR HALF-AN-HOUR AT THE END IN WHICH THE PRIME MINISTER COULD COVER OUR MAIN COMMERCIAL EXPECTATIONS. OTHERWISE TRADE WOULD GO UNMENTIONED.

4. THIS UNDERLINES THE POINT MADE IN OTHER TELEGRAMS OF THE NEED FOR THE PRIME MINISTER TO MOVE IN VERY FAST ON THE SUBJECT OF HONG KONG, OPEN THE DISCUSSION AND DELIVER A CONVINCING CRITIQUE OF THE DENG PLAN. WE CANNOT EXPECT ANYTHING REALLY NEW FROM ZHAO. HE IS LIKELY TO BEGIN BY RESTATING WITH GREAT EMPHASIS THE CHINESE POSITION ON SOVEREIGNTY. HE WILL THEN NO DOUBT RESPECTFULLY REHEARSE WHAT DENG SAID TO MR HEATH. HOWEVER, HE WILL NOTE WHAT WE HAVE SAID AND REPORT TO DENG. THE CHINESE ARE VERY QUICK AND ACCURATE IN THIS.

5. THE MEETING WITH DENG COULD LAST FOR ALMOST TWO HOURS, THOUGH WE CANNOT BE SURE THAT HE WILL USE UP ALL THIS TIME. HE MAY WISH TO MAKE SOME OBSERVATIONS ON GEO-POLITICS BUT WILL UNDERSTAND THAT HONG KONG IS THE KEY ISSUE. WE SHOULD BE ABLE TO ASSESS FROM THE TALKS WITH ZHAO WHETHER IT IS REASONABLE TO ATTEMPT TO ACHIEVE MORE THAN OUR MINIMUM OBJECTIVE WITH DENG OR WHETHER WE SHALL NEED TO USE ALL OUR TIME WITH HIM PERSUADING HIM THAT AN AGREEMENT TO HOLD TALKS WITHOUT PRECONDITIONS IS ESSENTIAL FOR SHORT-TERM CONFIDENCE IN HONG KONG. THERE MAY COME A POINT WHEN IT WILL BE NECESSARY TO SUGGEST TO DENG THAT THERE IS LITTLE PROFIT IN REHEARSING DIFFERENCES OF PRINCIPLE AND THAT IT WOULD BE BETTER TO PUT THESE DIFFERENCES ASIDE FOR THE MOMENT AND SEE IF WE COULD CONDUCT A FACTUAL STUDY OF THE PROBLEM WHICH MIGHT LEAD TO THE DEFINITION OF COMMON GROUND.

6. THE LUNCH WITH HUANG HUA WHICH FOLLOWS THE TALK WITH DENG WILL BE UNLIKELY TO PRODUCE ANYTHING NEW SINCE HUANG HUA WILL LACK THE NECESSARY AUTHORITY, BUT IT WOULD GIVE US AN OPPORTUNITY TO CONSULT THE CHINESE ON HOW BEST TO PRESENT THE RESULTS OF OUR TALKS TO THE PRESS LATER THAT AFTERNOON. SOME FURTHER TIME THAT AFTERNOON COULD PROFITABLY BE SPENT IN PRIVATE PREPARATION FOR THE PRESS CONFERENCE, THOUGH THIS IS LIKELY TO BE AT THE COST OF SOME REDUCTION IN SIGHTSEEING.

CRADOCK

NNNN

*China Pdy Prime Minister*  
*MS*  
*A-J-C. 17/9*

# CYPHER

LDW 496/16

LIM 379/16

OO TOKYO

RR FCO

RR HONG KONG

GR 800

CONFIDENTIAL  
FM PEKING 160845Z SEP 82

TO IMMEDIATE TOKYO (FOR PRIME MINISTER'S PARTY)

TELEGRAM NUMBER 25 OF 16 SEPTEMBER

INFO ROUTINE FCO, HONG KONG (PERSONAL FOR GOVERNOR)

PRIME MINISTER'S VISIT: POLITICAL AND E

CONOMIC SCENE

1. THE PRIME MINISTER MAY FIND IT HELPFUL TO HAVE SOME BROAD-BRUSH IMPRESSIONS OF THE SCENE ON THE EVE OF HER VISIT.

POLITICAL

2. IT IS STILL VERY MUCH DENG'S CHINA. AT THE RECENT PARTY CONGRESS HE AND HIS SUPPORTERS SECURED A STRANGLEHOLD ON THE PARTY SECRETARIAT WHICH RUNS ALL DAY-TO-DAY BUSINESS, ESTABLISHED A FIRM MAJORITY ON THE POLITBURO, PROBABLY FOR THE FIRST TIME, AND OBTAINED THE ELECTION OF A YOUNGER CENTRAL COMMITTEE MORE LIKELY TO BE SYMPATHETIC TO REFORMIST POLICIES. THE CONGRESS UNRESERVEDLY ENDORSED THE ECONOMIC POLICIES WHICH DENG HAS INTRODUCED PROGRESSIVELY SINCE 1980, AS WELL AS THE QUOTE OPEN DOOR UNQUOTE FOREIGN POLICY. ALTHOUGH IT ALSO ADOPTED A HARD LINE IDEOLOGICALLY, THERE IS NO REASON TO SUPPOSE THAT DENG DISAGREES WITH THIS.

3. DENG'S ONLY FAILURE WAS HIS INABILITY TO SECURE THE RETIREMENT OF THE OLD MARSHALS, WHO REMAIN A NUCLEUS OF OPPOSITION WITHIN THE POLITBURO. THERE IS A CONTINUING RIFT BETWEEN THE PARTY AND THE HIGHEST LEVELS IN THE MILITARY, WHICH COULD BECOME TROBLESOME IF, FOR INSTANCE, DENG DIED SOON. THE SUCCESSION TO DENG OF HU YAOBANG AND ZHAO ZIYANG IS THEREFORE NOT YET ASSURED, AND IT IS SYMPTOMATIC THAT DENG HIMSELF HAS HAD TO RETAIN LEADERSHIP OF THE PARTY'S MILITARY COMMISSION, AS WELL AS ACCEPTING CHAIRMANSHIP OF THE PARTY'S NEW ADVISORY COMMISSION. THIS IS SOMEWHAT CONTRARY TO THE COLLECTIVE LEADERSHIP PRINCIPLE WHICH HE ADVOCATES.

4. AT RECENT INTERVIEWS DENG HAS SEEMED OLDER AND DEAFER, THOUGH HE IS STILL MENTALLY VERY ALERT. HU YAOBANG STILL LACKS POLITICAL STATURE, PARTICULARLY WITH THE ARMY, BUT HE IS ENERGETIC AND A FORCE TO BE RECKONED WITH. ZHAO ZIYANG HAS GAINED IN STATURE AND CONFIDENCE.

5. IN THE COUNTRY AT LARGE DENG STILL ENJOYS CONSIDERABLE POPULARITY, BOTH IN RURAL AREAS WHERE MORE LIBERAL AGRICULTURAL POLICIES HAVE BROUGHT CONSIDERABLE INCREASES IN WEALTH AND THROUGH POSSIBLY TO A LESSER EXTENT, IN THE CITIES, WHERE THE PERCEPTIBLE INCREASE IN MATERIAL WELL-BEING IN THE PAST THREE YEARS IS TEMPERED BY SOME RESENTMENT OF TOUGHER IDEOLOGICAL POLICIES INTRODUCED SINCE 1980. IN CONTRAST, SUPPORT FOR THE COMMUNIST PARTY AS A WHOLE IS PROBABLY LOWER IN THE COUNTRY THAN AT ANY TIME SINCE 1949, AND THERE IS WIDESPREAD CYNICISM ABOUT ABUSE OF PRIVILEGE AND CORRUPTION AMONG SENIOR OFFICIALS. RECENT CAMPAIGNS AGAINST THESE ILLS HAVE LACKED CONVICTION. SUPPORT FOR DENG IS THEREFORE LARGELY PERSONAL, AND IT COULD PROVE BRITTLE IF THERE WERE ANY CHECK IN THE MATERIAL PROGRESS OF THE COUNTRY. THIS IS NO DOUBT WHY ECONOMIC MODERNISATION IS NOW THE FIRST PRIORITY.

ECONOMIC

6. THE ECONOMY IS PERFORMING QUITE WELL. THE OVERALL GROWTH RATE IN 1981 WAS 3% AND SHOULD BE HIGHER THIS YEAR. THE CHINESE BELIEVE THAT THE WORST EFFECTS OF THE QUOTE READJUSTMENT UNQUOTE PROCESS ARE NOW OVER. AGRICULTURE HAS DONE ESPECIALLY WELL. THE BALANCE OF PAYMENTS WAS IN SURPLUS LAST YEAR. EFFORTS TO CONTROL INFLATION BY CHECKING OVER-AMBITIOUS STATE INVESTMENT PLANS AND THUS DECREASING THE RATE OF GROWTH OF THE MONEY SUPPLY HAVE BORNE SOME FRUIT. AVAILABLE INVESTMENT RESOURCES HAVE LARGELY BEEN SWITCHED FROM TRADITIONAL HEAVY INDUSTRY INTO MORE CONSUMER RELATED LIGHT INDUSTRIES.

7. BUT THERE REMAIN SERIOUS PROBLEMS. THE ECONOMY IS CONSTRAINED BY A SHORTAGE OF ENERGY, AND ALTHOUGH ADEQUATE ENERGY RAW MATERIALS EXIST, IT WILL TAKE TIME TO EXPLOIT THEM. THE STATE ECONOMIC MACHINERY IS CUMBERSOME AND INEFFICIENT, AND ATTEMPTS TO REFORM IT REMAIN RATHER TENTATIVE. SOME INDUSTRIES ARE STILL PRODUCING GOODS FOR WHICH THERE IS NO MARKET. THE PRICING STRUCTURE IS ANTEDILUVIAN AND UNECONOMIC. SUBSIDIES ON STAPLE FOODSTUFFS HAVE GROWN VERY RAPIDLY AND ARE A SERIOUS BURDEN ON THE BUDGET, THOUGH CIVIL UNREST COULD RESULT FROM ANY ATTEMPT TO DECREASE THEM. THE TENTATIVE BUDGETARY BALANCE ACHIEVED LAST YEAR IS VERY FRAGILE.

FOREIGN POLICY

8. RELATIONS WITH THE US HAVE BEEN SAVED, AND SHOULD NOW PERMIT IMPROVED SINO-US COOPERATION IN PRACTICE, THOUGH THERE ARE LIKELY TO BE SQUALLS FROM TIME TO TIME AND A GOOD DEAL OF ANTI-US RHETORIC. ON THE OTHER SIDE OF THE SINO-US-SOVIET TRIANGLE THE CHINESE WOULD NO DOUBT LIKE MORE FREEDOM TO MANOEUVRE, AND THERE ARE SIGNS OF ATTEMPTS TO REDUCE SINO-SOVIET TENSIONS, BUT SUBSTANTIAL PROGRESS REMAINS UNLIKELY. DESPITE MUCH THIRD WORLD VERBIAGE, THE IMPORTANT POLICY AREA FOR CHINA REMAINS RELATIONS WITH THE BIG POWERS AND THE DECISIVE FACTOR THE SOVIET THREAT.

CONCLUSION

9. GENERALLY THE SITUATION IS STABLE AND LIKELY TO REMAIN SO, THOUGH THERE ARE INEVITABLY QUESTION MARKS ABOUT THE LONGER-TERM (EG THE UNDERLYING CONTRADICTION BETWEEN ECONOMIC PROGRESS AND IDEOLOGICAL CONTROL). GIVEN DENG'S PRAGMATISM AND POWER, THIS IS AS GOOD A MOMENT TO DEAL AND NEGOTIATE WITH CHINA AS WE ARE LIKELY TO FIND, BUT THE POLITICAL/EMOTIONAL FACTORS ON THE ISSUE THAT CONCERNS US MOST SHOULD NEVER BE UNDERESTIMATED.

CRADOCK

NNNN

IMMEDIATE

*Prime Minister*

*[Handwritten initials]*

Safam Policy

CYRNER

LDW 489

LIM 374/16

00 FCO DESKBY 150830Z

00 TOKYO

GR 370  
CONFIDENTIAL  
DESKBY 150830Z  
FM PEKING 160654Z SEP 82  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 564 OF 16 SEPTEMBER  
AND TO IMMEDIATE TOKYO (FOR DONALD)

IMMEDIATE

100%

h.c.

FOR FED

YOUR TELNO 375: TECHNICAL CO-OPERATION

1. THIS IS DISAPPOINTING NEWS BUT PERHAPS IT WOULD NOW BE BEST TO POSTPONE FURTHER CONSIDERATION OF THIS MATTER UNTIL WE CAN SEE HOW THE PRIME MINISTER'S VISIT HERE PROGRESSES.

2. THE ARGUMENTS IN FAVOUR OF A TECHNICAL CO-OPERATION PROGRAMME ARE WELL KNOWN TO YOU AND DO NOT NEED MUCH REHEARSAL NOW. HOWEVER, TO TAKE UP THE CENTRAL POINT OF YOUR TUR, I AM CONVINCED THAT A DECISION TO IMPLEMENT A SMALL BUT WELL DIRECTED AID PROGRAMME WOULD HAVE A CONSIDERABLE IMMEDIATE IMPACT IN TERMS OF GOODWILL, AND A GREAT IMPACT OVER TIME IN TERMS OF CLOSER LINKS BETWEEN BRITAIN AND CHINA, PARTICULARLY AMONG THE RISING GENERATION OF YOUNG CHINESE LEADERS AND TECHNOCRATS.

3. THERE IS AN INDISPUTABLE COMMERCIAL SPIN-OFF. OUR COMPETITORS ARE CONVINCED THAT SOME OF THEIR COMMERCIAL SUCCESS IN SCIENCE AND TECHNOLOGY RELATED FIELDS IS ATTRIBUTABLE TO GOVERNMENT SUPPORT FOR TECHNICAL AND LANGUAGE TRAINING AND ACADEMIC EXCHANGES. CHINESE ACADEMICS AND TECHNOCRATS WHO HAVE BEEN TRAINED ABROAD SUBSEQUENTLY PURCHASE INSTRUMENTS AND EQUIPMENT ABOUT WHICH THEY HAVE LEARNED ABROAD, OR WHICH ARE RECOMMENDED TO THEM BY EXPERTS THEY HAVE MET ABROAD.

4. I ALSO BELIEVE WE NEED TO MAINTAIN AND BUILD ON OUR PRESENT LEADING POSITION IN ASSISTING CHINA'S EXTENSIVE ENGLISH LANGUAGE TEACHING PROGRAMME, IN WHICH, IF WE DO NOT EXPAND OUR EFFORTS, WE RISK BEING OVER-SHADOWED BY THE UNITED STATES AND EVEN BY AUSTRALIA AND CANADA. THE TC PROGRAMME WHICH HAS BEEN UNDER DISCUSSION IS EXTREMELY MODEST IN COMPARISON WITH SIMILAR BRITISH SUPPORT FOR OTHER COUNTRIES OF LOW PER CAPITA INCOME, AND COUNTRIES OF FAR LESS COMMERCIAL POTENTIAL AND DIRECT POLITICAL IMPORTANCE TO BRITAIN. WITH RESPECT, IT IS DIFFICULT TO SEE FROM HERE HOW THE MODEST FUNDS REQUIRED COULD BE SPENT BETTER ELSEWHERE.

5. AS REGARDS MR ROBERT ADLEY'S SUGGESTION OF ASSISTANCE TO CHINESE TOURISM AND AGRICULTURE, I SHOULD OF COURSE WELCOME SOME SUPPORT FOR THE LATTER (IN WHICH BRITISH COMPANIES SUCH AS ICI, AND THE BRITISH AGRICULTURAL EXPORT COUNCIL, HAVE ALREADY MADE IMPORTANT EFFORTS). BUT WE HAVE ALREADY SUGGESTED OTHER AREAS SUCH AS MEDICINE IN WHICH I THINK CO-OPERATION WOULD BE EQUALLY, AND PROBABLY MORE APPROPRIATE. ON TOURISM: THERE HAS ALREADY BEEN SOME CONTACT BETWEEN THE BRITISH TRAVEL ASSOCIATION AND THE CHINESE TOURIST AUTHORITIES. TOURISM HAS A COMPARATIVELY LOW RANKING IN CHINA'S SCALE OF PRIORITIES AND IT IS EXPANDING AS FAST AS NEW FACILITIES FOR IT CAN BE PROVIDED. IT DOES NOT MERIT THE APPROPRIATION OF ANY OF OUR AID FUNDS AT THE PRESENT TIME.

CRADOCK

NNNN



182/16

00 TOKYO (DESKBY 162330Z)

PP PEKING  
GRS1600  
CONFIDENTIAL  
DESKBY 162330Z  
FM FCO 161730Z SEP 82  
TO IMMEDIATE TOKYO  
TELEGRAM NUMBER 411 OF 16 SEPTEMBER 82.  
AND TO PRIORITY PEKING AND LIC HONGKONG.

FOLLOWING RECEIVED FROM SECRETARY JIC AS JICTELNO 314 OF 16 SEPT 82.

CONFIDENTIAL  
FM JIC 161530Z SEP 82

B.E. TOKYO: PLEASE MAKE COPY AVAILABLE EXCLUSIVE FOR A LOGAN OR A COOMBES, PRIME MINISTER'S DELEGATION:  
PLEASE PASS TO A J COLES FOR PRIME MINISTER.

FROM SECRETARY JIC

THE FOLLOWING IS AN EXTRACT FROM PART 2 OF THE WEEKLY SURVEY OF INTELLIGENCE, WSI(82)37 DATED 16 SEPTEMBER.

CHINA: PARTY CONGRESS (CONFIDENTIAL)(UNITED KINGDOM CLASSIFIED)

1. THE TWELFTH CONGRESS OF THE CHINESE COMMUNIST PARTY, HELD IN PEKING FROM 1-10 SEPTEMBER, SAW THE PRESENTATION OF THE WORK REPORT OF THE PARTY CHAIRMAN AND GENERAL SECRETARY, HU YAOBANG: THE INTRODUCTION OF A NEW PARTY CONSTITUTION WHICH, INTER ALIA, REORGANISED THE CENTRAL INSTITUTIONS OF THE PARTY: AND +ELECTIONS+ TO THE CENTRAL COMMITTEE AND TO A NEW CENTRAL ADVISORY COMMISSION. THE CONGRESS WAS KEENLY AWAITED FOR THE INDICATIONS IT WAS EXPECTED TO GIVE OF THE EXTENT OF THE POWER OF DENG XIAOPING, THE EFFECTIVE LEADER OF CHINA, OVER HIS CONSERVATIVE OPPONENTS.
2. THE PREVIOUS PARTY CONGRESS WAS HELD IN AGUSUT 1977, ONE YEAR AFTER MAO ZEDONG'S DEATH. IT CONFIRMED HUA GUOFENG AS MAO'S SUCCESSOR, BUT IT OCCURRED BEFORE HUA'S RIVAL, DENG XIAOPING, HAD FULLY RE-ESTABLISHED HIS POWER TO INFLUENCE EVENTS FOLLOWING HIS REHABILITATION. DENG'S REFORMING PRAGMATIC POLICIES WERE INTRODUCED LATE IN THE FOLLOWING YEAR, AND IN 1980 HIS PROTEGE, ZHAO ZIYANG, BECAME PRIME MINISTER. IN 1981 ANOTHER PROTEGE, HU YAOBANG, WAS MADE PARTY CHAIRMAN. THE REFORMISTS HAVE FACED RESISTANCE FROM CONSERVATIVE AND ELDERLY CADRES IN THE SENIOR RANKS OF THE STATE AND PARTY BUREAUCRACIES, AND PARTICULARLY IN THE ARMY. THE OCTOGENARIAN MARSHAL YE JIANYING, THE EQUIVALENT OF HEAD OF STATE, HAS BEEN A SYMBOL OF THIS RESISTANCE. REORGANISATION AND REFORM OF THE STATE BUREAUCRACY WAS INTRODUCED IN THE SUMMER OF 1982: AND THE PARTY CONGRESS WAS DESIGNED TO CARRY FORWARD REFORM OF THE PARTY.
3. IN THE NEW PARTY CONSTITUTION APPROVED BY THE CONGRESS, THE POSTS OF PARTY CHAIRMAN AND VICE-CHAIRMAN HAVE BEEN ABOLISHED. THE MOST SENIOR LEVEL OF DAY-TO-DAY DECISION-MAKING WILL BE THE SECRETARIAT, A 12-MAN BODY ESTABLISHED IN 1980 AND INCORPORATED IN THE NEW CONSTITUTION ACTING UNDER THE GUIDANCE OF THE CENTRAL COMMITTEE, ITS POLITBURO, AND THE POLITBURO'S STANDING COMMITTEE (WHICH HAS BEEN HITHERTO REGARDED AS CHINA'S +CABINET+). HU SAID, IN A RECENT INTERVIEW, THAT THE SECRETARIAT WILL BE THE +FRONT-LINE OF LEADERSHIP+ AND THE POLITBURO THE +SECOND-LINE+. AS EXPECTED A CENTRAL ADVISORY COMMISSION (170 STRONG) HAS BEEN SET UP WITH DENG AS CHAIRMAN, AND THERE WILL BE ADVISORY COMMITTEES AT PROVINCIAL LEVEL. THE COMMISSION WILL ACT AS +POLITICAL ASSISTANT AND CONSULTANT+ TO THE CENTRAL COMMITTEE AND ITS MEMBERS WILL BE SENIOR RESPECTED CADRES WITH OVER 40 YEARS OF PARTY SERVICE. THE EMPHASIS PUT ON THE DISCIPLINE INSPECTION COMMISSION IN THE NEW CONSTITUTION SUGGESTS THAT THIS IS INTENDED TO BE A STRONGER BODY THAN IN RECENT TIMES: ON PAPER, AT LEAST, IT WILL HAVE CONSIDERABLE INFLUENCE OVER THE PARTY MACHINE. THE PARTY'S MILITARY COMMISSION, WHICH IS ALSO CHAIRED BY DENG, HAS BEEN RETAINED IN THE NEW CONSTITUTION ALTHOUGH THE FUTURE RELATIONSHIP BETWEEN THIS BODY AND THE NEW STATE MILITARY COUNCIL IS NOT CLEAR. BUT IN ANY EVENT, AS HU STRESSED IN HIS REPORT, THE PARTY WILL CONTINUE TO EXERCISE CLOSE CONTROL OVER THE ARMY.
4. THE REORGANISATION OF THE PARTY'S CENTRAL ORGANS IS OBVIOUSLY DESIGNED TO ENSURE THAT THE DENGISTS HAVE A TIGHT GRIP ON THE PARTY THROUGH THE SECRETARIAT. IT IS EVIDENT THAT HU YAOBANG AS GENERAL SECRETARY WHO NOW HAS THE POWER TO CALL, AND IS EXPECTED TO PRESIDE OVER, MEETINGS OF THE POLITBURO AND ITS STANDING COMMITTEE WILL BE VERY POWERFUL. BUT DENG HAS PROBABLY ALSO BEEN CONCERNED THAT THE INTERLOCKING ARRANGEMENTS (THE GENERAL SECRETARY, THE CHAIRMEN OF THE MILITARY COMMISSION AND OF THE ADVISORY COMMISSION AND THE FIRST SECRETARY OF THE DISCIPLINE INSPECTION COMMISSION MUST BE ON THE POLITBURO STANDING COMMITTEE) SHOULD ENSURE A SINGLE COLLECTIVE LEADERSHIP WHEN HE IS NO LONGER ON THE SCENE. THE DEVELOPMENT OF A PERSONALITY CULT IS EXPRESSLY FORBIDDEN IN THE CONSTITUTION.
5. THE ESTABLISHMENT OF THE CENTRAL ADVISORY COMMISSION WAS APPARENTLY INTENDED TO ALLOW AGEING CADRES WHO ARE EITHER INEFFICIENT OR OPPOSED TO REFORM TO BE MOVED ASIDE FROM POSITIONS OF INFLUENCE AND POWER BUT THE RESULTS OF THE +ELECTIONS+ INDICATE THAT THIS DID NOT HAPPEN TO THE EXTENT SOME OBSERVERS HAD EXPECTED. YE JIANYING IS STILL ON THE POLITBURO STANDING COMMITTEE AND NOT ON THE ADVISORY COMMISSION: LIKEWISE LI XIANNIAN, WHO MIGHT ALSO HAVE BEEN EXPECTED TO MOVE. OTHER SENIOR ELDERLY CADRES (SOME OF THEM REGARDED AS DENG SUPPORTERS) HAVE ALSO RETAINED THEIR POLITBURO POSITIONS. HUA GUOFENG'S IS THE ONLY PROMINENT DEMOTION IN THE VERY SENIOR RANKS: HE LOST HIS SEAT ON BOTH THE POLITBURO AND THE STANDING COMMITTEE BUT REMAINS A MEMBER OF THE CENTRAL COMMITTEE. FAILURE TO REMOVE YE, WHO HAS A MUCH STRONGER POWER BASE THAN HUA, SHOWS THAT THE DENGISTS DO NOT YET HAVE TOTAL CONTROL OVER THE PARTY MACHINE. NEVERTHELESS, DENG COMMANDS A MAJORITY ON THE NEW POLITBURO AND ITS STANDING COMMITTEE: AND IN PRACTICE THE SECRETARIAT SHOULD BECOME THE CENTRE OF POLITICAL POWER.
6. THE DENGISTS ARE DETERMINED TO PRESS ON FOR COMPLETE SUPREMACY WITHIN THE PARTY. IN HIS WORK REPORT, HU YAOBANG ANNOUNCED A +RECTIFICATION+ OF THE PARTY WHICH WILL INVOLVE CHECKING THE SUITABILITY FOR MEMBERSHIP OF THE PARTY'S 39 MILLION MEMBERS AND +RE-EDUCATING+ THEM WHERE NECESSARY. EACH PARTY MEMBER WILL EVENTUALLY HAVE TO RE-REGISTER. HOWEVER, A CHINESE MINISTER HAS SAID THAT +ONLY A VERY FEW PEOPLE+ WILL BE EXPELLED. THIS CAMPAIGN IS CLEARLY DESIGNED TO ROOT OUT THE LAST POCKETS OF RESISTANCE OR POTENTIAL RESISTANCE TO THE DENGISTS. IT WILL NOT COMMENCE UNTIL THE SECOND HALF OF 1983. THE DELAY IS POSSIBLY INTENDED TO ALLOW HU TO CONSOLIDATE HIS POSITION AND, SINCE IT WILL BE AN ENORMOUS BUREAUCRATIC EXERCISE, TO MAKE SURE THAT THE PREPARATORY WORK IS CAREFULLY DONE.
7. HU YAOBANG'S WORK REPORT COVERED ECONOMIC AFFAIRS. HE REITERATED THE LONG-TERM GOAL, MENTIONED BY ZHAO ZIYANG LAST YEAR, OF QUADRUPILING BY THE YEAR 2000 THE VALUE OF TOTAL INDUSTRIAL AND AGRICULTURAL OUTPUT COMPARED TO 1980. (THIS WOULD REQUIRE AN AVERAGE ANNUAL GROWTH RATE OF OVER SEVEN PERCENT.) HU SAW ACHIEVEMENT OF THIS GOAL PUTTING CHINA INTO THE FRONT RANK OF

Prime Minister

But to me on Sunday evening pl.

ADL 7/2

Seen by Do [Signature]

YEAR AFTER MAO ZEDONG'S DEATH. IT CONFIRMED HUA GUOFENG AS MAO'S SUCCESSOR, BUT IT OCCURRED BEFORE HUA'S RIVAL, DENG XIAOPING, HAD FULLY RE-ESTABLISHED HIS POWER TO INFLUENCE EVENTS FOLLOWING HIS REHABILITATION. DENG'S REFORMING PRAGMATIC POLICIES WERE INTRODUCED LATE IN THE FOLLOWING YEAR, AND IN 1980 HIS PROTEGE, ZHAO ZIYANG, BECAME PRIME MINISTER. IN 1981 ANOTHER PROTEGE, HU YAOBANG, WAS MADE PARTY CHAIRMAN. THE REFORMISTS HAVE FACED RESISTANCE FROM CONSERVATIVE AND ELDERLY CADRES IN THE SENIOR RANKS OF THE STATE AND PARTY BUREAUCRACIES, AND PARTICULARLY IN THE ARMY. THE OCTOGENARIAN MARSHAL YE JIANYING, THE EQUIVALENT OF HEAD OF STATE, HAS BEEN A SYMBOL OF THIS RESISTANCE. REORGANISATION AND REFORM OF THE STATE BUREAUCRACY WAS INTRODUCED IN THE SUMMER OF 1982: AND THE PARTY CONGRESS WAS DESIGNED TO CARRY FORWARD REFORM OF THE PARTY.

3. IN THE NEW PARTY CONSTITUTION APPROVED BY THE CONGRESS, THE POSTS OF PARTY CHAIRMAN AND VICE-CHAIRMAN HAVE BEEN ABOLISHED. THE MOST SENIOR LEVEL OF DAY-TO-DAY DECISION-MAKING WILL BE THE SECRETARIAT, A 12-MAN BODY ESTABLISHED IN 1980 AND INCORPORATED IN THE NEW CONSTITUTION ACTING UNDER THE GUIDANCE OF THE CENTRAL COMMITTEE, ITS POLITBURO, AND THE POLITBURO'S STANDING COMMITTEE (WHICH HAS BEEN HITHERTO REGARDED AS CHINA'S 'CABINET'). HU SAID, IN A RECENT INTERVIEW, THAT THE SECRETARIAT WILL BE THE 'FRONT-LINE OF LEADERSHIP' AND THE POLITBURO THE 'SECOND-LINE'. AS EXPECTED A CENTRAL ADVISORY COMMISSION (170 STRONG) HAS BEEN SET UP WITH DENG AS CHAIRMAN, AND THERE WILL BE ADVISORY COMMITTEES AT PROVINCIAL LEVEL. THE COMMISSION WILL ACT AS 'POLITICAL ASSISTANT AND CONSULTANT' TO THE CENTRAL COMMITTEE AND ITS MEMBERS WILL BE SENIOR RESPECTED CADRES WITH OVER 40 YEARS OF PARTY SERVICE. THE EMPHASIS PUT ON THE DISCIPLINE INSPECTION COMMISSION IN THE NEW CONSTITUTION SUGGESTS THAT THIS IS INTENDED TO BE A STRONGER BODY THAN IN RECENT TIMES: ON PAPER, AT LEAST, IT WILL HAVE CONSIDERABLE INFLUENCE OVER THE PARTY MACHINE. THE PARTY'S MILITARY COMMISSION, WHICH IS ALSO CHAIRED BY DENG, HAS BEEN RETAINED IN THE NEW CONSTITUTION ALTHOUGH THE FUTURE RELATIONSHIP BETWEEN THIS BODY AND THE NEW STATE MILITARY COUNCIL IS NOT CLEAR. BUT IN ANY EVENT, AS HU STRESSED IN HIS REPORT, THE PARTY WILL CONTINUE TO EXERCISE CLOSE CONTROL OVER THE ARMY.

4. THE REORGANISATION OF THE PARTY'S CENTRAL ORGANS IS OBVIOUSLY DESIGNED TO ENSURE THAT THE DENGISTS HAVE A TIGHT GRIP ON THE PARTY THROUGH THE SECRETARIAT. IT IS EVIDENT THAT HU YAOBANG AS GENERAL SECRETARY WHO NOW HAS THE POWER TO CALL, AND IS EXPECTED TO PRESIDE OVER, MEETINGS OF THE POLITBURO AND ITS STANDING COMMITTEE WILL BE VERY POWERFUL. BUT DENG HAS PROBABLY ALSO BEEN CONCERNED THAT THE INTERLOCKING ARRANGEMENTS (THE GENERAL SECRETARY, THE CHAIRMEN OF THE MILITARY COMMISSION AND OF THE ADVISORY COMMISSION AND THE FIRST SECRETARY OF THE DISCIPLINE INSPECTION COMMISSION MUST BE ON THE POLITBURO STANDING COMMITTEE) SHOULD ENSURE A SINGLE COLLECTIVE LEADERSHIP WHEN HE IS NO LONGER ON THE SCENE. THE DEVELOPMENT OF A PERSONALITY CULT IS EXPRESSLY FORBIDDEN IN THE CONSTITUTION.

5. THE ESTABLISHMENT OF THE CENTRAL ADVISORY COMMISSION WAS APPARENTLY INTENDED TO ALLOW AGEING CADRES WHO ARE EITHER INEFFICIENT OR OPPOSED TO REFORM TO BE MOVED ASIDE FROM POSITIONS OF INFLUENCE AND POWER BUT THE RESULTS OF THE 'ELECTIONS' INDICATE THAT THIS DID NOT HAPPEN TO THE EXTENT SOME OBSERVERS HAD EXPECTED. YE JIANYING IS STILL ON THE POLITBURO STANDING COMMITTEE AND NOT ON THE ADVISORY COMMISSION. LIKewise LI XIANNIAN, WHO MIGHT ALSO HAVE BEEN EXPECTED TO MOVE. OTHER SENIOR ELDERLY CADRES (SOME OF THEM REGARDED AS DENG SUPPORTERS) HAVE ALSO RETAINED THEIR POLITBURO POSITIONS. HUA GUOFENG'S IS THE ONLY PROMINENT DEMOTION IN THE VERY SENIOR RANKS: HE LOST HIS SEAT ON BOTH THE POLITBURO AND THE STANDING COMMITTEE BUT REMAINS A MEMBER OF THE CENTRAL COMMITTEE. FAILURE TO REMOVE YE, WHO HAS A MUCH STRONGER POWER BASE THAN HUA, SHOWS THAT THE DENGISTS DO NOT YET HAVE TOTAL CONTROL OVER THE PARTY MACHINE. NEVERTHELESS, DENG COMMANDS A MAJORITY ON THE NEW POLITBURO AND ITS STANDING COMMITTEE: AND IN PRACTICE THE SECRETARIAT SHOULD BECOME THE CENTRE OF POLITICAL POWER.

6. THE DENGISTS ARE DETERMINED TO PRESS ON FOR COMPLETE SUPREMACY WITHIN THE PARTY. IN HIS WORK REPORT, HU YAOBANG ANNOUNCED A 'RECTIFICATION' OF THE PARTY WHICH WILL INVOLVE CHECKING THE SUITABILITY FOR MEMBERSHIP OF THE PARTY'S 39 MILLION MEMBERS AND 'RE-EDUCATING' THEM WHERE NECESSARY. EACH PARTY MEMBER WILL EVENTUALLY HAVE TO RE-REGISTER. HOWEVER, A CHINESE MINISTER HAS SAID THAT 'ONLY A VERY FEW PEOPLE' WILL BE EXPELLED. THIS CAMPAIGN IS CLEARLY DESIGNED TO ROOT OUT THE LAST POCKETS OF RESISTANCE OR POTENTIAL RESISTANCE TO THE DENGISTS. IT WILL NOT COMMENCE UNTIL THE SECOND HALF OF 1983. THE DELAY IS POSSIBLY INTENDED TO ALLOW HU TO CONSOLIDATE HIS POSITION AND, SINCE IT WILL BE AN ENORMOUS BUREAUCRATIC EXERCISE, TO MAKE SURE THAT THE PREPARATORY WORK IS CAREFULLY DONE.

7. HU YAOBANG'S WORK REPORT COVERED ECONOMIC AFFAIRS. HE REITERATED THE LONG-TERM GOAL, MENTIONED BY ZHAO ZIYANG LAST YEAR, OF QUADRUPLING BY THE YEAR 2000 THE VALUE OF TOTAL INDUSTRIAL AND AGRICULTURAL OUTPUT COMPARED TO 1980. (THIS WOULD REQUIRE AN AVERAGE ANNUAL GROWTH RATE OF OVER SEVEN PERCENT.) HU SAW ACHIEVEMENT OF THIS GOAL PUTTING CHINA INTO THE FRONT RANK OF COUNTRIES IN TERMS OF GROSS NATIONAL INCOME AND OUTPUT OF MAJOR INDUSTRIAL AND AGRICULTURAL PRODUCTS BUT HE ACKNOWLEDGED THAT PER CAPITA INCOME WOULD STILL BE LOW. IT WAS IMPLICIT IN HU'S SPEECH THAT THE POLICIES OF ECONOMIC ADJUSTMENT AND THE ASSOCIATED RESTRICTED GROWTH ORIGINALLY INTRODUCED IN 1979 TO RUN FOR TWO TO THREE YEARS, AND THEN EXTENDED TO THE MID-1980S, ARE NOW EXPECTED TO LAST THROUGH THE DECADE AND TO BE FOLLOWED BY ACCELERATED GROWTH IN THE 1990S. BUT WE BELIEVE THAT THE CHINESE LEADERSHIP COULD FIND ITSELF WELL SHORT OF ITS GROWTH OBJECTIVES BY THE EARLY TO MID-1990S. HU'S SPEECH EMPHASISED FOREIGN TRADE AND THE USE OF FOREIGN LOANS BUT ALSO STRESSED SELF-RELIANCE: THE CHINESE WILL CONTINUE TO TAKE FOREIGN INVESTMENT AND TECHNOLOGY WHEN IT SEEMS MOST APPROPRIATE BUT THERE WILL BE RESTRAINTS ON IMPORTS, ESPECIALLY IN RESPECT OF CONSUMER GOODS.

8. ON FOREIGN AFFAIRS, HU REITERATED THE INDEPENDENCE OF CHINESE FOREIGN POLICY AND THE GOAL OF REUNIFICATION BUT HE MADE NO SURPRISING REMARKS. AFTER REFERRING TO RECENT OVERTURES BY THE SOVIET UNION, HE CALLED FOR DEEDS NOT WORDS TO IMPROVE RELATIONS. SPECIFIC REFERENCE WAS MADE TO SOVIET ACTIONS IN AFGHANISTAN, SOVIET

BACKED VIETNAMESE ACTIVITY IN CAMBODIA AND THE 'MASSIVE' SOVIET FORCES ON THE SINO SOVIET BORDER. (CURRENT SOVIET POLICY TOWARDS CHINA HAS BEEN REFLECTED IN THE MODERATE AND NEUTRAL TASS REPORTING ON THE CONGRESS). HU ALSO REFERRED TO THE RECENT SINO-UNITED STATES COMMUNIQUE ON THE SUPPLY OF ARMS TO TAIWAN AND EXPRESSED THE HOPE THAT BILATERAL RELATIONS WOULD CONTINUE TO DEVELOP. HE ALSO REPEATED CHINESE CRITICISM OF THE TAIWAN RELATIONS ACT, BUT THIS WAS PROBABLY INEVITABLE IN VIEW OF THE CONTROVERSY OVER THE SUPPLY OF UNITED STATES ARMS TO TAIWAN.

9. THE TWELFTH PARTY CONGRESS AND THE INTRODUCTION OF THE NEW PARTY CONSTITUTION HAVE MARKED THE END OF THE MAO ERA. THE POSITION OF DENG XIAOPING AND HIS REFORMISTS APPEARS WELL-NIGH IMPREGNABLE. MANY PROBLEMS REMAIN. DENG STILL HAS TO EFFECT A REFORM OF THE ARMY AND YE JIANYING REMAINS AN OBSTACLE. BUT YE'S HEALTH IS POOR, AND WE JUDGE THAT DENG IS CAREFULLY PREPARING THE GROUND FOR REFORM OF THE ARMY AND WILL SUBSTANTIALLY ACHIEVE HIS GOALS, AS HE HAS IN RESPECT OF THE STATE AND THE PARTY. THE FOCUS OF POLITICAL MANOEUVRING MAY WELL NOW SHIFT TO THE JOCKEYING FOR POSITION OF SENIOR CADRES IN PREPARATION FOR THE POST-DENG ERA.

ENDS

PYM

NNNN

China Policy

Destroy after circulation Destroy/Review...Months Keep
Priority: 1 2 3

**CYPHER**

LDW 480/16  
 LIM 364/16  
 PP FCO  
 PP TOKYO

AD 4/9  
 h.c.

Mr Darroch

GRS 110  
 CONFIDENTIAL  
 FM PEKING 160302Z SEPT 82  
 TO PRIORITY FCO  
 TELEGRAM NUMBER 563 OF 16 SEPT  
 INFO PRIORITY TOKYO

CALL ON ZHANG WENJIN: 051 PROJECT.

1. WHEN I SAW ZHANG ON 15 SEPTEMBER I REFERRED TO THE CURRENT NEGOTIATIONS IN LONDON ON THE 051 PROJECT AND EXPRESSED THE HOPE THAT A POSITIVE CONCLUSION WOULD BE REACHED BEFORE THE PRIME MINISTER'S VISIT. IT WOULD BE AN UNFORTUNATE BACKGROUND TO HER VISIT IF WE SHOULD FAIL TO ACHIEVE THIS.
2. ZHANG SAID THAT THE CHINESE SIDE ALSO HOPED TO REACH AGREEMENT BEFORE THE PRIME MINISTER'S VISIT. THE DEPARTMENTS CONCERNED WERE WORKING HARD TO THIS END AND HE HOPED THAT WE WOULD DO THE SAME. I ASSURED HIM WE WERE.

CRADOCK

NNNN

GR 400  
CONFIDENTIAL  
DESKBY 151100Z  
FM PEKING 150922Z SEP 82  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 559 OF 15 SEPTEMBER  
INFO PRIORITY HONG KONG (PERSONAL FOR GOVERNOR)

PRIME MINISTER'S VISIT.

1. I CALLED ON VICE FOREIGN MINISTER ZHANG WENJIN ON 15 SEPTEMBER AND TOLD HIM THAT ALTHOUGH WE WERE IN GENERAL PLEASED WITH THE PROGRAMME WE WERE DISAPPOINTED THAT A CALL ON SECRETARY-GENERAL HU YAOBANG HAD NOT BEEN ARRANGED. WE WERE ALSO DISAPPOINTED THAT SO FAR ONLY ONE CALL HAD BEEN ARRANGED ON DENG. THE PRIME MINISTER, WHOM I WOULD BE SEEING THIS WEEKEND IN TOKYO, ATTACHED THE HIGHEST IMPORTANCE TO A SECOND CALL ON DENG. AS I HAD EXPLAINED TO VICE MINISTER QIAN ON 2 SEPTEMBER, SHE WOULD BE DISCUSSING A MOST IMPORTANT ISSUE, THAT OF HONG KONG, AND MEETINGS BETWEEN A BRITISH PRIME MINISTER IN OFFICE AND DENG WERE EXTREMELY RARE. IT WOULD BE MOST IMPORTANT FOR THE SUCCESS OF THE DISCUSSIONS THAT BOTH SIDES SHOULD HAVE A CHANCE TO REFLECT ON WHAT HAD BEEN SAID AT THE FIRST MEETING AND THEN TO MEET AGAIN HOWEVER BRIEFLY. THIS DID NOT IN ANY WAY UNDER-ESTIMATE THE IMPORTANCE OF THE TALKS WITH PREMIER ZHAO, WHICH THE PRIME MINISTER WAS LOOKING FORWARD TO AND IN WHICH I THOUGHT IT LIKELY SHE WOULD WISH TO BROACH THE HONG KONG QUESTION IN THE SECOND ROUND.

2. ZHANG SAID THEY WERE AWARE OF OUR WISHES AND HAD MADE EFFORTS TO SATISFY THEM. UNFORTUNATELY HU WOULD NOT BE IN PEKING AT THE TIME AND HAD A VERY TIGHT PROGRAMME. IN THE CASE OF DENG, AS WE WOULD KNOW, THE CHINESE USUAL PRACTICE WAS THAT DENG HAD ONLY ONE MEETING WITH IMPORTANT GUESTS. HE WOULD BE, OF COURSE, FULLY INFORMED BEFOREHAND OF WHAT HAD GONE ON IN THE TALKS WITH ZHAO.

3. I SAID THAT WE WERE AWARE THAT WHAT WE WERE ASKING WAS SPECIAL, BUT THE OCCASION WAS SPECIAL. ZHANG SAID THAT "SO FAR IT HAD NOT BEEN VERY EASY TO ARRANGE IN ADVANCE" A SECOND MEETING WITH DENG. WHETHER THERE WOULD BE A SECOND MEETING WOULD DEPEND ON THE COURSE OF THE TALKS. MAYBE SOME NEW ARRANGEMENT WOULD BE POSSIBLE DURING THE VISIT. HE UNDERTOOK TO CONVEY OUR LATEST REQUEST.

4. THIS IS ALMOST CERTAINLY AS MUCH AS WE WILL GET AT THIS STAGE. I THINK WE HAVE MADE SOME PROGRESS AND THE CHINESE HAVE CERTAINLY

/HAD

CONFIDENTIAL

HAD BORNE IN UPON THEM THE IMPORTANCE WE ATTACH TO TWO MEETINGS.  
IT SEEMS TO ME AN EVEN CHANCE THAT WE MIGHT GET SOME SHORT  
SECOND MEETING, BUT A GREAT DEAL WILL DEPEND ON THE ATMOSPHERE AND  
THE PROGRESS OF THE TALKS, AS VIEWED FROM THE CHINESE SIDE.

CRADOCK

LIMITED  
FRD  
HKGD  
MR GIFFARD  
MR DONALD

2

CONFIDENTIAL

Ref: A09481

MR. BUTLER

When the President of the Zoological Society in London, Lord Zuckerman, was in here on other business recently, he reminded me of the London Zoo's need for a fertile female Giant Panda.

2. The Chinese presented a pair of Pandas to the British people about 8 years ago ( at the time of Mr. Heath's visit to China). As it turns out the female of that pair is highly unlikely ever to breed. The male has, on the other hand, proved his fertility. The London Zoo would clearly like to have a fertile female and, in due course, a baby Panda.

3. I think that Lord Zuckerman hopes that, if the Prime Minister were to be offered a female Giant Panda for the British people she might feel able to accept it.

ROBERT ARMSTRONG

Robert Armstrong

14th September 1982

2

National Bus Company  
25 New Street Square  
London EC4A 3AP  
Telephone 01-583 9177  
Telex 27442

The Rt Hon Margaret Thatcher MP  
The Prime Minister  
10 Downing Street  
London S W 1



from The Rt Hon Lord Shepherd PC  
Chairman

13 September 1982

Prime Minister

*Margaret Thatcher*

*mt*

*A.S.C. 12/9*

I appreciate very much your letter of August 25th.

I am returning to Hong Kong on the 15th September for a series of Board Meetings and could well be there during your visit. Most certainly if any more information comes my way I will see it reaches you through my private office. I doubt if there will be anything new because the Chinese Leaders are, as you know, very much involved with their Congress.

Naturally I have no indication how you intend to approach this subject nor how far, prior to your meeting, there have been discussions at official levels. Forgive me for expressing caution, but based on experience since 1950 both in business and as Minister of State in the FCO, dealings with the PRC are very different to those with Western Countries. One must understand that mainland Chinese are steeped in their history and from that history it could be justified if there is suspicion of Western negotiating processes.

There is a major risk of rebuff if one presents, even on a tentative basis, complicated formulas without prior warning and explanation at a lower level. I understand some years ago we received a major rebuff for this very reason. A rebuff would leak - so undermining financial confidence - even if later one can correct a misunderstanding. As you say in your letter, you doubt in practice whether their objectives and formulas are compatible. I question what steps have been taken to explain these problems to the Chinese.

cont'd....

The Rt Hon Margaret Thatcher MP

13 September 1982

Deng has seen a number of Hong Kong Chinese individuals and has given them his thoughts. I believe it is too much to expect that the Hong Kong Chinese who went as visitors to the "highest in the land" would challenge or question his conception on the solution to the Hong Kong problem. Deng, from their reaction, may believe that his visitors concur with his formula. You should expect a major task in persuading Deng differently and this could not be achieved at such a short meeting as you will have with him.

My view would be to achieve the joint statement on objectives drafted as much to international financial interests as to Hong Kong opinion and an agreement to work out together the means to that end.

You have my warmest good wishes in the formidable task that lies ahead.

*Tom Lucas*  
*MPT*



Chiner, May 80,  
Visit - Pchay



13 SEP 1982

*[Faint, illegible handwriting, possibly bleed-through from the reverse side of the page]*

PART 1 ends:-

~~Lord Shepherd to PM 13/9~~

PART 2 begins:-

~~RTA to FERB~~  
Lord Shepherd to PM 13/9