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808

PREM 19/963

Sino-British Relations, including Defence

Sales.

CHINA

May 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
10.80.		12.8.81		10.3.83			
3.10.80		12.10.81		30.3.83			
14.10.80		27.10.81		20.5.83			
		20.11.81		6.7.83			
21.11.80		1.12.81		12.7.83			
22.11.80		2.12.81		11.8.83			
5.1.81		7.12.81		11.11.83			
15.1.81		9.1.82		21.11.83			
25.2.81		30.1.82		27.3.84			
24.81		30.1.82					
28.7.81		2.8.82					
		11.11.82					
		7.11.82					
		8.2.83					
		11.2.83					
		11.3.83					

PREM 19/963

● PART 1 ends:-

SS/DT1 to Mr. E. Sharp 21.11.83.

PART 2. begins:-

D. Hamilton to P.M. 19.3.84.



JU982
Secretary of State for Trade and Industry

NBPM AT 22/11
DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

21 November 1983

E Sharp Esq CBE
Chairman & Chief Executive
Cable & Wireless plc
Mercury House
Theobalds Road
LONDON WC1X 8RX

D. Eric.

will request if required

Thank you for your letter of 10 November enclosing a copy of a Press Release announcing the establishment of a joint venture company in China.

This is splendid news and I congratulate you and your team in achieving this agreement, which I note is for an initial period of 20 years. I know that you must have worked very hard to bring the negotiations to a successful conclusion.

I am copying this letter to the Prime Minister, Sir Geoffrey Howe and Nigel Lawson.

*Y. S. H.
Norman*

NORMAN TEBBIT

1955

12123
45



2

CABLE AND WIRELESS PUBLIC LIMITED COMPANY

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

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

10th November 1983

The Rt. Hon. Norman Tebbit, MP.,
Secretary of State for Trade and Industry,
Department of Trade and Industry,
1-19 Victoria Street,
LONDON. SW1H 0ET

Prime Minister.

A.S.C. 10/11

ms

Dear Norman

I am glad to inform you that the formal 'chop' has now been received from Beijing for the establishment of a Joint Venture company to provide and operate the telecommunications for the Special Economic Zone (S.E.Z.) of Shenzhen. Cable and Wireless will own 49 per cent of the company (called Shenda Telephone Company) with 51 per cent being shared between the Shenzhen Municipality and the Guangdong telecommunications authority.

This will represent the second Joint Venture company in the People's Republic of China in which Cable and Wireless has a 49 per cent equity participation - the first being the Huaying Nanhai Oil Telecommunication Service Company. (We are also currently building for the Guangdong province one of the world's largest microwave systems which will link all the 25 provincial cities of Guangdong with the microwave system also built by Cable and Wireless, and recently opened, between Guangzhou (Canton) and Hong Kong.)

I hope you will note that the new Joint Venture in the S.E.Z. is for an initial period of twenty years which takes us up to 2003.

I attach the press statement which will be released in London tomorrow (Friday) and I hope you will keep this confidential until we have submitted our statement to the Stock Exchange at 9.30 a.m. that day. There will be press and TV coverage of the signing ceremony in Shenzhen on Friday at 11.00 a.m. (Hong Kong time).

In view of the Prime Minister's close interest and involvement with previous Cable and Wireless ventures in China, I am copying this to Mrs. Thatcher as well as Sir Geoffrey Howe and Mr. Lawson. The Hong Kong Government has been informed.

With all good wishes
Yours ever
Eric





CABLE AND WIRELESS

EMBARGO: FOR PUBLICATION IN NEWS
MEDIA AT 10.00A.M. ON
FRIDAY, NOVEMBER 11, 1983

C&W MOVES INTO CHINA'S SUNRISE CITY

A further move by Cable and Wireless plc to increase its business interests in the People's Republic of China was announced today (Friday).

The British company signed an agreement which makes it a partner in a new telephone company in Shenzhen, a special economic zone bordering Hong Kong which has been chosen by the Chinese authorities as an area for accelerated economic development.

Special emphasis will be laid on high technology sunrise industries in a city of skyscrapers which has been planned and upon which work is already progressing.

Mr. Eric Sharp, chairman and chief executive of Cable and Wireless, described the agreement as "an exciting challenge".

It has involved the establishment of the Shenda Telephone Co. Ltd. which will provide the public telephone service in the city and cater for a planned population increase from the existing 200-250,000 to 800,00 by the turn of the century.

Mr. Sharp said in London: "The main thrust of the business of the new company is to service the very considerable number of joint ventures and foreign commercial enterprises upon which the success of Shenzhen depends.

"The entrepreneurs who are being attracted to the special economic zone will need the most advanced telephone services available and it will be up to Shenda to provide them.

"We at Cable and Wireless have already taken a major step by collaborating with the Chinese authorities in the provision of a microwave highway of 2,700 voice channels between the provincial capital of Guangzhou (Canton) and Hong Kong. The microwave system, which was opened last month, was designed from the outset to incorporate Shenzhen.

"This means that first class links already exist between the special economic zone, the provincial capital and Hong Kong."

Under the terms of the joint venture agreement, which has an initial duration of 20 years, the Shenzhen municipality and the Guangdong provincial telecommunications authority will have 51 per cent of the equity of the new company and Cable and Wireless has the remaining 49 per cent.

Mr. Sharp said that Shenda aims to have one telephone installed for every four people in Shenzhen by the end of the century. This will involve an investment programme requiring some US\$180m.

Work has already started on expanding the existing telephone network which will be doubled in size by the end of this year. The capacity will be further increased in stages during 1984 and 1985 to more than 15,000 lines.

Mr. Sharp said: "This represents a further strengthening of the ties of friendship and mutual co-operation between the People's Republic of China and the Cable and Wireless Group.

"It is the second joint venture company we have established with the authorities in China within four months and it reflects the excellent relationships we have, particularly with our telecommunications counterparts in the province of Guangdong.

continued../3

"The development of Shenda represents an exciting challenge and one which I believe we and our Chinese partners are well qualified to meet. One of the advantages of Cable and Wireless is that we possess an enormous pool of expertise in Hong Kong, which is adjacent to what will be the new city of Shenzhen. We shall be able to draw upon our resources in Hong Kong and also upon those of the Hong Kong Telephone Company in which we are major shareholders.

"The initial period of our agreement in Shenzhen takes us to the year 2003, by which time we will have increased the number of telephones in Shenzhen by nearly 100 fold.

"Plans for the development of the Shenzhen Special Economic Zone are among the most ambitious I have seen. The Chinese authorities are clearly determined that it will become a model for accelerated economic development and I am proud that Cable and Wireless has been selected to play a vital role in the creation and expansion of the telecommunications infrastructure."

Issued by:

Corporate Affairs Department,
Cable and Wireless plc,
Mercury House,
Theobalds Road,
London WC1X 8RX

Telephone Number:

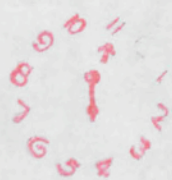
01-242 4433
Ext 4486

Chief Press Officer
Neville Hunter

Home Telephone Number:

01-692 0614

11th November 1983



CONFIDENTIAL



10 DOWNING STREET

c. ITO
LCO
FCO
HMCT
WFO
LPS

Sur
CCL
DTI
CO

From the Private Secretary

11 August 1983

Dear Nick,

The Prime Minister has now seen your Secretary of State's minute of 28 July about the sale of submarine equipment to China. She has also seen that of the Foreign and Commonwealth Secretary of 4 August on the same subject. Mrs. Thatcher has endorsed the broad lines of the approach set out in the minutes of Mr. Heseltine and Sir Geoffrey Howe. She has commented, however, that we must be careful about the timing of the initial approach envisaged in Mr. Heseltine's minute. The news that we might be prepared to consider proposals to modernise Chinese submarines or sell submarine equipment to China might be taken badly in Hong Kong if the talks with China were not going well. On the recommendations made by officials who have reviewed our policy on this issue, the Prime Minister has commented that you must avoid giving the Chinese the latest capacity round about 1997. Even if we do not now envisage incidents with China, we should take every possible step to avoid them.

I am sending a copy of this to the Private Secretaries to Members of OD and to Richard Hatfield (Cabinet Office).

Yours ever,
Tim Flesher

TIMOTHY FLESHER

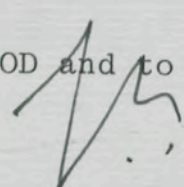
N.H.R. Evans, Esq.,
Ministry of Defence.

CONFIDENTIAL

CONFIDENTIAL

PM/83/61PRIME MINISTERSale of Submarine Equipment to China

1. I have seen a copy of Michael Heseltine's minute to you of 28 July. — with TF/folder 1
2. I very much agree with him that we should consider any proposals to modernise Chinese submarines or sell submarine equipment to China on their merits, provided such sales would not alter the balance of naval power in the region or assist the Chinese with their nuclear submarine programme. I see no reason to be swayed one way or the other by Hong Kong considerations at this stage. I recognise that if the prospects for selling to China periscopes, batteries and diesel generators are confirmed, we shall wish to inform our COCOM allies.
3. I am less certain whether at this early juncture it would be advisable for us to ask the Americans whether they would agree to us supplying submarine equipment to China, and I am not sure I share the implied judgement that our primary concern should be influencing the current US policy review.
4. It would perhaps be more consistent with past practice if we were first to establish whether there really is a defence sales prospect here before informing our major allies. It seems to me that if the proposals by FCO/MOD officials are accepted, British industry is now in a position to explore this prospect further. I therefore welcome Michael Heseltine's suggestion that we should wait a little while before speaking to the Americans.
5. I am copying this minute to members of OD and to Sir Robert Armstrong.


(GEOFFREY HOWE)Foreign and Commonwealth Office
4 August, 1983

CONFIDENTIAL

CHINA: Relations
May 1979

APR 1979

12 1 2 3 4
5 6 7 8 9





MO 11/14

PRIME MINISTER

We must watch the timing of the initial approach very carefully indeed. The news could

The Minutes:

Agree to this approach? The Foreign Secretary agrees (see his minute attached) 1/8.

SALE OF SUBMARINE EQUIPMENT TO CHINA

be taken badly in Hong Kong if talks are not going reasonably well

Our current policy on the sale of military equipment to China is governed by decisions taken in OD in June 1979 (OD(79)31). Items which were specifically excluded from sale to China included major warships and submarines (on strategic grounds) and Chobham Armour and Blindfire Rapier (primarily on security grounds). The ban on the sale of submarines has since been interpreted as covering the supply of all submarine equipment.

2. Since June 1979, an understanding has been reached in COCOM on a so-called "China differential" which allows for favourable consideration of applications to sell military equipment to China. However, the United States authorities have listed various categories of equipment which they are still not prepared to see supplied to China. Anti-submarine warfare equipment is one such category, but we do not know for certain whether their reservations extend to individual equipments for submarines although this is likely under their previous rules. However, they have recently announced a relaxation in the levels of civil and dual use technology they are prepared to export to China and there are reports that Caspar Weinberger is planning to visit China in the Autumn to take this a step further. We understand that the State Department are continuing to review their policy towards China and we could be helping them at the right time if we get in soon. Canada and Japan will also need to be consulted since they have expressed concern over arms sales to China in the past.



3. The Chinese are now showing considerable interest in British submarine equipment. Before the set-back over Project 051 they had been making informal inquiries about assistance with modernising their Romeo class submarines which date from the early 1950s. In the aftermath of the 051 cancellation, it may be doubtful how far British industry would wish to assist with this programme. However, the Chinese have recently confirmed their interest in involving British companies and, there are a number of sales opportunities for individual equipments such as periscopes, batteries, and diesel generators, which British companies are not allowed to bid for under our present policy. For example, earlier this year, I received a letter from Sir Michael Edwardes complaining that the Chloride group is not permitted to sell submarine batteries either to China or Taiwan.

4. MOD and FCO officials have now reviewed the situation paying particular attention to the significance of our bilateral relations with China for the future of Hong Kong. This review has concluded that, despite the disappointment over Project 051, there remain sound defence and foreign policy reasons for continuing to promote our defence sales relationship with China and relaxing the total embargo on the sale of all submarine equipment. They recommend that, on a national basis, we should in future consider any proposals to modernise Chinese submarines or sell submarine equipment to China on their merits, taking care not to approve any proposals which might alter the balance of Naval power in the region or assist the Chinese with their nuclear submarine programme.

5. I agree these proposals, but we need to consult our COCOM allies before taking matters further. I propose that we should take informal soundings with our major allies bilaterally but principally the United States, to establish whether or not they would agree to us supplying some submarine equipment to China, and, if required, discussing the modernisation of China's Romeo class submarines.

Dr. give them the latest capability round about - 1997 - we do

Not want incidents - even though we cannot envisage any such thing at present.



I understand that some concern has been expressed over the implications of approaching the Americans on this shortly after our decision to purchase ALARM rather than HARM. But the two issues are quite separate. The discussions will be exploratory and in keeping with the evolution of American policy on China. Moreover, it will be a little while before we make the initial approach.

6. I should be grateful for your agreement to proceeding in this way.

7. I am copying this minute to members of OD and to Sir Robert Armstrong.

Walt

Ministry of Defence
28th July 1983

CHINA; Pets

May 79



COOPERATIVE

CABLE AND WIRELESS SIGNING CEREMONY

MONDAY 25 JULY 1983

h.a.
502 25/12.

MR. SHARP, YOUR EXCELLENCY, DISTINGUISHED VISITORS
FROM CHINA, LADIES AND GENTLEMEN.

I AM ABSOLUTELY DELIGHTED TO BE PRESENT FOR THE SECOND
TIME AT A SIGNING CEREMONY BETWEEN CABLE
AND WIRELESS AND YOUR TWO CHINESE PARTNERS

- THE CHINA NANHAI OIL JOINT SERVICES
CORPORATION
- AND THE GUANGDONG PROVINCIAL POSTS AND
TELECOMMUNICATIONS BUREAU.

I RECALL WITH GREAT PLEASURE MY VISIT TO GUANGZHOU IN
SEPTEMBER LAST YEAR WHEN THE LETTER OF INTENT
FOR THIS EXCITING VENTURE WAS SIGNED.
TODAY THE EFFORTS OF ALL THOSE CONCERNED HAPPILY
HAVE COME TO FRUITION.

/ TELECOMMUNICATIONS

TELECOMMUNICATIONS ARE VITAL FOR ECONOMIC DEVELOPMENT.

HERE WE ARE INTRODUCING FUNDAMENTAL CHANGES
SO THAT WE CAN TAKE ADVANTAGE OF THE LATEST
DEVELOPMENTS IN TECHNOLOGY.

THE VERY LATEST INVENTIONS MUST BE USED TO
BENEFIT OUR PEOPLE AND TO INCREASE
EFFICIENCY AND PROSPERITY.

CABLE AND WIRELESS ARE IN PARTNERSHIP WITH
BRITISH PETROLEUM HERE TO LAUNCH THE LATEST
COMMUNICATIONS NETWORK CALLED MERCURY.

I AM GLAD TO SEE THAT IN GUANGDONG THE FIRST USER OF
YOUR EXCITING NEW TELECOMMUNICATION VENTURE
WILL BE A CONSORTIUM LED BY BRITISH
PETROLEUM.

I BELIEVE THAT THIS JOINT VENTURE WILL BE A GREAT
SUCCESS AND THAT IT WILL BE THE FIRST OF
MANY MORE.

THEN TOGETHER WE SHALL BE ABLE TO BRING THE
BENEFITS OF MODERN TELECOMMUNICATIONS TO OTHER
PARTS OF CHINA.

/ THE CLOSE LINKS

THE CLOSE LINKS WHICH OUR TWO COUNTRIES ARE NOW ESTABLISHING IN THESE FIELDS OF HUMAN ENDEAVOUR CAN BECOME A MODEL FOR COOPERATION IN OTHER INDUSTRIES.

THE UNITED KINGDOM - ITS GOVERNMENT AND ITS COMPANIES - ARE DEEPLY INTERESTED IN ESTABLISHING AND DEVELOPING SUCH COOPERATION. AND I REGARD IT AS A PRACTICAL EXAMPLE OF THE DESIRE TO FURTHER THE FRIENDSHIP BETWEEN OUR TWO COUNTRIES.

TO ALL THOSE INVOLVED IN THIS SIGNING CEREMONY TODAY, WARM CONGRATULATIONS AND MAY SUCCESS ATTEND YOUR EFFORTS IN THE FUTURE.

PRIME MINISTER

CABLE AND WIRELESS SIGNING CEREMONY ON
25 JULY

I attach:

- (a) The programme for the ceremony;
- (b) A draft for your two-minute speech
which is expected - Cable and
Wireless are most anxious to have
this text first thing on Monday
morning so that the translators
can get to work on it;
- (c) A background brief;
- (d) A guest list.

After the speeches there will be a
brief toast using the Chinese drink
Mau tai. (We turned down champagne because
of the presence of the press).

A.J.C.

22 July 1983

A

PROVISIONAL PROGRAMME
OILFIELD SIGNING CEREMONY

25TH JULY, 1983

- All car parking facilities to be kept free until 3pm.
- Hours
- 10.20 Chinese Delegation Arrive.
 - 10.30 Chinese Ambassador and Commercial Councillor arrive. Chairman to meet. To Chairman's office for tea. K. Baker approx same time. Escort to Chairman's office.
 - 10.35 Assemble photographers/T.V. in Director's Dining Room
 - 10.40 Assemble Press in Old Court Room
Distribute Press Release.
 - 10.45 Executive, Non-Executive Directors and Guests assemble in Directors' dining room.
 - 10.55 Chairman to front Entrance to meet PM. Tea guests assemble in corridor to meet PM.
 - 11.00 P.M. arrives. Met by Chairman, escorted to 7th Floor.
 - 11.02 Chairman, with K. Baker, introduces PM to PRC Ambassador, Commercial Counsellor, Delegation, and J.K. Slaughter.
 - 11.04 Party enters Directors' Dining Room.
 - 11.05 Chairman's welcome (and Translation)
 - 11.09 Signing takes place
 - 11.12 Serve ~~Champagne and~~ Mau Tai (subject to confirmation from P.M.'s Press Office)
 - 11.17 Speech by P.M. (and Translation)
 - 11.23 Speech by P.R.C. Ambassador (and Translation)
 - 11.30 PM departs, escorted by Chairman.
 - 11.35 Chairman to Press conference in Old Court Room.

19/7/83.

China
May 29,
Sino-British Relations

20 JUL 1988

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B

SPEECH AT CABLE AND WIRELESS SIGNING CEREMONY ON MONDAY 25 JULY

Mr. Sharp, Your Excellency, distinguished visitors from China, ladies and gentlemen.

I am absolutely delighted to be present for the second time ~~in less than a year~~ at a signing ceremony between Cable and Wireless and your ^{two} Chinese partners

- the China Nanhai Oil Joint Services Corporation
- and the Guangdong Provincial Posts and Telecommunications Bureau.

I recall with great pleasure my visit to Guangzhou in September last year when the Letter of Intent for this exciting venture was signed. Today the efforts of all those concerned ^{have} come to ~~happy~~ ^{happy} fruition. *Lopny*

Telecommunications are vital for economic development. ~~In the United Kingdom~~ ^{Here} we are introducing ~~radical reforms in~~ ^{fundamental changes} our telecommunications environment. ~~to boost our exploitation of new technological opportunities.~~ ^{so that we can take advantage of the latest developments in technology. The very latest} Cable and Wireless are in partnership with British Petroleum here to launch ~~a new~~ ^{the} ~~advanced~~ ^{latest} communications network called Mercury. *result in what we need it our people and to increase efficiency of the system*

I am glad to see that the first user of your exciting new telecommunication venture (in Guangdong) will be a consortium led by British Petroleum.

/ I very much

^{believe}
 I ~~very much hope~~ that this joint venture will be ^{a great success} the
~~first of many more, which will~~ ^{Then together it shall be able to} bring the benefits of modern
 telecommunications ~~systems~~ ^{parts} to other ~~areas~~ of China.

The close links which our two countries are now establishing
 in ^{their fields of human endeavour can} ~~telecommunications and energy~~ can become a model for
 beneficial cooperation over a ^{wider range of activities} ~~much broader range~~. The United
 Kingdom - its Government and its companies - are deeply
 interested in establishing and developing such cooperation.

^{And I regard it as a ~~practical~~ example of the desire}
^{to further the friendship between our two countries}
 I ~~congratulate all concerned on the achievement represented~~
^{to all those involved in} ~~this signing ceremony today.~~ ^{and look forward to}

~~the successful accomplishment of your mission.~~

Warm congratulations and ~~best~~ may
~~good wish in~~ ^{success attend your}
 efforts in the future.

Oilfield Telecommunications Joint Venture

The signing ceremony on 25th July will establish the "Huaying" Joint Venture Company and results from the Letter of Intent signed in the Prime Minister's presence during September 1982 in Guangzhou, China.

Cable & Wireless have 49% of the equity in the company which will operate for an initial period of 15 years, a period which will probably be extended. The 15 year period extends beyond 1997.

The Chinese partners are the China Nanhai Oil Joint Services Corporation (CNOJSC) represented by Mr. Zhou Xuan, Director and Deputy General Manager, who will sign the agreement, and the Guangdong Provincial Posts and Telecommunications Administration (GPTB) represented by Deputy Director Zhang. Both have visited UK before on study visits. Together these two organizations have formed a separate company which holds the 51% Chinese share in the Joint Venture.

The capital expenditure by the Joint Venture for the first 10 years is expected to be £15 million for which British Industry has the opportunity to compete strongly because of its involvement in the North Sea Oilfields.

The partners have already completed preliminary construction of facilities which will be used during the early exploration phase of the oilfield development. The first user will be the international consortium for which BP is the operator. Further development of these facilities will involve satellite communications and conventional radio systems.

Cable and Wireless are also negotiating with GPTB and other Provincial authorities regarding the provision of telecommunications services in the Special Economic Zones in Southern China. Negotiations are currently proceeding on a fruitful basis with the authorities in the Shenzhen SEZ. The long established relationship between C&W and China has made it possible for the Group to achieve long term agreements on such important parts of the infrastructure development.

Understanding and trust must be built up over a long period to achieve any business relationship in China particularly on an Equity Joint Venture basis.

FOR INFORMATION ONLY

China Oilfield Joint Venture Finalized

Following the signing of a letter of intent in September 1982 in the presence of the British Prime Minister Margaret Thatcher the two Joint Venture Partners, China Nanhai Oil Joint Services Telecommunications Company and Cable & Wireless have been working together on the us\$2 Million first phase of a dedicated oilfield telecommunications network. The first phase is nearing completion and will be ready for service in July 1983.

Margaret Thatcher was also present at the Cable and Wireless Group Headquarters in London today when the two partners signed the Joint Venture Agreement itself. This establishes the "Huaying Nanhai Oilfield Telecommunications Services Company" as an Equity Joint Venture. Rapid expansion of the first phase of the network is planned to provide Telecommunications Services to the Oil and Support companies offshore and their control and supply bases in Guangdong province, the recent increase in activity in the offshore oil industry brought about by the awarding of concessions to the consortium headed by the British Company, British Petroleum as made the demand for telecommunications facilities one of priority. The oil companies have repeatedly stressed the importance they place on good telecommunications and several are now working closely with the Huaying management to coordinate the network planning to meet their requirements.

The first phase involves use of dedicated telephone and telex exchanges for the land-based network which incorporates high quality circuits in the microwave systems of Guangdong Provincial Telecommunications Authority as well as microwave links installed by the new company for exclusive oilfield use. Communication with the exploration vessels will use the latest H.F. Radio techniques developed in the North Sea Oilfield. To achieve the very short project timescale necessary, the equipment for the new coast radio station has been assembled in containers and tested by staff of both partners working in the Cable & Wireless Cape D'aguilar radio station. These will be shipped to the sites being prepared in the Shenzhen Special Economic Zone just north of Hong Kong.

Before the exploration work starts the network will be ready to allow the platforms to communicate directly with offices and supply base at Chiwan and Shekou and the central base in Guangzhou. Plans are already in hand to tie the control and supply bases of Zhanjiang and Sanya into the network.

Future developments will include the use of satellite communications for communications between the bases and with production platforms offshore. Use of tropospheric scatter and microwave links offshore also considered depending on the production areas developed.

At the signing ceremony the new company announced the eight members of the Board of Directors. The Chairman will be

of _____ and the Deputy Chairman Mr. B.A. Pemberton, the Director (Far East) of CWPLC.

The other directors will be

Mr. _____, Mr.

and Mr.

of

Mr J.K. Slaughter, GM of CWPLC new Far East Business Unit, Mr. J. Wong and Mr. T.M. Seddon of Cable and Wireless.



BACKGROUND NOTE ON UK/CHINA TRADE

Trade figures £ million

	1978	1979	1980	1981	1982	1983 (Jan-May)
UK Exports	91	213	169	120	103	70
UK Imports	110	138	153	184	193	90

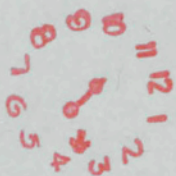
Commentary

UK exports to China declined between 1979 and 1982 as a result of China's adoption of an economic "readjustment" policy involving strict control of imports. However, the latest figures are better; and the economic plans announced by China last year envisage steady import growth and give priority to sectors including energy (eg coal, nuclear, offshore oil), transport and communications where British companies are well placed to compete. We are particularly anxious to obtain maximum commercial advantage for UK companies from the development of China's offshore oil reserves.

China: offshore oil

It was announced in May 1983 that an international consortium led by British Petroleum had been awarded the right to explore for oil in four blocks in the South China Sea and a fifth block in the Yellow Sea. This was the first award in China's current licensing round, though exploration rights in other parts of China's offshore waters had previously been awarded to Japanese, French and US oil companies. Other international consortia are expected to be awarded drilling rights shortly, and the pace of exploration particularly in the South China Sea, is expected to build up quickly over the next two years. The Chinese are entering into a number of joint ventures with foreign companies to provide support services. The Cable and Wireless joint venture is an example.

Chusa: Relat - May 79



JUN 2 1983

D

D R A F T

OILFIELD SIGNING CEREMONY

MONDAY 25TH JULY, 1983

DIRECTORS' DINING ROOM, MERCURY HOUSE

Draft Guest List as at 14/7/83

		<u>Comments</u>
<u>Government (2)</u>		
The Rt Hon. Margaret Thatcher	Prime Minister	Only signing
Kenneth Baker	Minister of Information Technology, D.O.T.I.	Only signing
<u>D.O.T.I. (4)</u>		
Sir Brian Hayes KCB	Permanent Secretary, D.O.T.I.	Only signing
Mr. Roy Croft	Deputy Secretary, D.O.T.I.	
Mr. David Hall	Head, Far East Section, D.O.T.I.	Signing & Lunch
<u>F&CO (3)</u>		
Sir Anthony Acland - KCMG KCVO	Permanent Under - Secretary of State	Only signing
Mr. Mark Elliot	Head, Far East Section	Signing & Lunch
Mr. Peter Thompson	Assistant Head, Far East Section	Will not attend if Elliot comes
<u>HONG KONG (1)</u>		
Sir Jack Cater KBE	Head, Hong Kong Government Office,	Only signing
<u>Chinese Delegation (9)</u>		
Mr. Zhou Quan	Director and Deputy General Manager, CNOJSC	
Mr. Wang Haiying	Engineer, CNOJSC	
Mr. Zhao Qichang	Manager, CNOJSC	
Mr. Zhang Peizhen	Deputy Director, GPTAB	
Mr. Li Shengbao	External Secretary, GPTAB	
<u>P.R.C. Embassy (3)</u>		
Mr. Chan Zhaoyuan	PRC Ambassador	
Mr. Sang Zhixing	Commercial Counsellor	

+ PS

Cable and Wireless (17)

Directors

Mr. Eric Sharp, CBE

Mr. Richard Cannon

Mr. Joseph Crouch

Mr. Ernest Potter

Mr. R.E. McAlister

Mr. B.A. Pemberton

Chairman and

Chief Executive

Joint Managing Director

Director, Technology

Finance Director

Company Secretary

Director, Far East

Non-Executive Directors

Mr. Alan Wheatley

Mr. David Berriman

Sir Patrick Meaney

Sir G.C. Brunton

Mr. John Slaughter

Mr. Gaylord Chan

Mr. Rod Sutton

Mr. Anthony Fabian

Mr. Nevil Hunter

GM/FEBU

FEBU/HK

RBM/FE

Manager/FEBU

CPO/CAD

Others (5)

Mr Peter Cazalet

Mr David Harding

Mr S.W. Edwards

Mr Michael Marshall

Sir Donald Maitland GCVO

Lord Morris

Mr. Roddy Dewe

Director Far East, B.P.

Regional Manager, Australia,

China and the Far East, B.P.

Deputy Chairman, Humphries and Glasgow

Sino British Trade Council

Representative

M.P.

U.K. Representative, International

Commission for Worldwide

Telecommunications Development

PRIME MINISTER

CABLE AND WIRELESS JOINT VENTURE - MEDIA

The signing ceremony which sets up the "Huaying" joint venture company involving Cable and Wireless and the China Nanhai Oil Joint Services Corporation will be photographed, filmed and recorded.

Arrival

You will be met in the front entrance by the Company Chairman, Mr Eric Sharp CBE. Any photographers present will be kept outside the building and the front door is about 10 paces from your car.

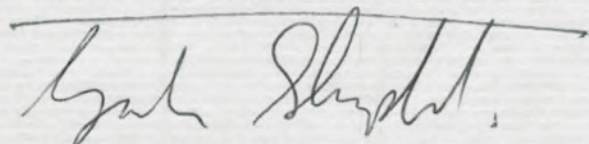
Inside you may notice the receptionist, Mrs June Drew, who has worked for Cable and Wireless for 15 years and whom you met on your visit to the Company about 5 years ago [brief details at Annex A].

A lift will take you to the seventh floor where you will be introduced to some of the guests outside the Director's dining room where the ceremony will take place [brief biographies of lift operator at Annex B]. These guests are, from the China Company, Mr Li, Mr Zhang, Mr Zhou, Mr Chen, Mr Sang and the Chinese Ambassador, Mr Chan Zhaoyuan.

When you enter the dining room the signing table will be directly in front of you and photographs and tv cameras will be at the end of the room on your left (diagram attached at Annex C).

The entire ceremony, from the moment you enter the room until you leave, including speeches, will be filmed, recorded and photographed.

You are not expected to talk to the press after the ceremony, although the Chairman intends to brief specialist journalists in a separate room after your departure. Some attempts may be made to interview you as you leave the building, but the walk to your car is very short and the press should be kept at a distance.



GORDON SHEPHERD

22 July 1983

Receptionist Mrs June Drew has worked for Cable and Wireless for 15 years, the first five as a clerk/typist in the engineering division.

She met Mrs Thatcher when she visited Mercury House in December about five years ago and they were introduced by the then Chairman Lord Glenamara.

Her husband, Harry, has his own building business in Hampton Wick, and they enjoy foreign holidays, having visited Hong Kong in October 1981 and December 1982, and also been to Tobago, Greece, the USA, and Spain. They plan to visit Antigua in October.

They have no children and are Conservative supporters.

'B'

Operating the lift will be Mr John Stonebridge who joined Cable and Wireless as building maintenance manager 9½ years ago. He is responsible for the maintenance of all the company's Head Office buildings.

During the Second World War he was an RAF flight mechanic from 1941-46 working mostly on Halifax aircraft in Yorkshire, but with a year in India and Burma.

He is married with two sons; the older son is married and has an electrical contracting business in Beckenham, and the younger one is a carpenter and joiner and lives at the family home in Bromley.

'B'

● FLAG

FLAG

MR K BAKER

PM

PRC AMBASSADOR

MR CHEN

PM's P SEC

PEMBERTON

CHAIRMAN

ZHOU QUAN

ZHANG PEIZHEN

PM's P DET

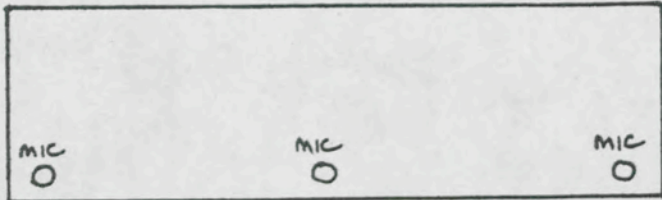
MR G CHAN

MR LI

*MR ZHAO

*MR WANG

PM's PRESS OFFICERS



SLAUGHTER

*MR BAKER

*MR SLAUGHTER

*MR PEMBERTON

FABIAN

LORD MORRIS

LORD JELlicoe

SIR J CATER

SIR B HAYES

MR M MARSHALL

SIR D MATLAND

MR P CAZALET

MR S EDWARDS

MR A WHEATLEY

MR D BERRIMAN

MR D HALL

DIRECTORS DINING ROOM

MR SANG

MR LIU

MR WANG

MR ZHAO

MR YANG

*MR LI

*MR ZHANG

*MR ZHOU

*MR CHEN

*MR SANG

*PRC AMBASSADOR

MR M ELLIOTT

MR A DONALD

MR G BRUNTON

SIR P MEANEY

STILL PHOTO X2

STILL PHOTO X2

TV

TV

TV

RADIO TEC?

ITV

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CC

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BBC

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CHAIRMAN

PM

PM's P SEC

PM's P DET

TV MONITOR

ANTE ROOM

MESSRS DEWE
KIRBY
SAVAGE
LENNOX

SOUND MONITOR X3

MESSRS CANNON
CROUCH
POTTER
MOULSON
MCALISTER

SMALL DINING ROOM

* TO BE INTRODUCED TO PM
* TEA PARTY



DEPARTMENT OF TRADE AND INDUSTRY

Room 11.01 Ashdown House 123 Victoria Street SW1E 6RB

Telex 8813148

Telegrams Advantage London SW1

Telephone Direct Line 01-212 3301

Switchboard 01-212 7676

PS/Secretary of State for Trade and Industry

22 July 1983

John Coles Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear John

PRIME MINISTER'S ATTENDANCE AT CABLE AND WIRELESS
SIGNING CEREMONY ON 25 JULY

Thank you for your letter of 13 July.

2 Attached is a short speaking note and some
background material for the Prime Minister which has
been approved by my Secretary of State.

3 I am sending a copy to Roger Bone (FCO).

Yours etc
Steve Nicklen

STEPHEN NICKLEN
Private Secretary



JF3989

CHINA OILFIELD JOINT VENTURE

SPEAKING NOTES FOR THE PRIME MINISTER

Mr Sharp, Your Excellency, distinguished visitors from China, ladies and gentlemen.

I am absolutely delighted to be present a second time at a signing ceremony between Cable and Wireless and China Nanhai Oil Joint Services Corporation and the Guangdong Provincial Posts and Telecommunications Bureau. In September last year I was with you in Guangzhou. Today we meet again in London.

This two way flow between China and Britain is important for both our futures. Telecommunications are vital for economic development. We are introducing radical reforms in our telecommunications environment in the UK to boost our exploitation of new technological opportunities. Cable and Wireless are in partnership with British Petroleum here to launch a new advanced communications network called Mercury. I am glad to see that the first user of your exciting new telecommunication venture in Guangdong will be a BP led consortium.

China is a vast country and I hope very much that this joint venture between Cable and Wireless and a Provincial Posts and Telecommunications Administration will be the first of many more joint ventures spreading the benefits of modern telecommunications systems elsewhere in China.

The close links we are now establishing in telecommunications and energy can become a model for beneficial co-operation on a broader front.

Department of Trade and Industry

July 1983



G.R'S

Cable and Wireless
Public Limited Company

Mercury House Theobalds Road London WC1X 8RX
Telephone: International +441-242 4433 Switchboard 01-242 4433 Direct line 01-242
Telegrams: Cablewire London WC1X 8RX London Telex: 23181 CANDW G

Mr A.J. Coles,
Private Secretary,
10 Downing Street.
London,
SW1

19th July, 1983

Dear Mr Coles,

I refer to your letter dated 12 July 1983 and our subsequent telephone conversations and I enclose the following documents:

- (a) Programme (subject to discussions with your security officers and confirmation of discussions with your press office).
- (b) Guest list (As at time of writing)
- (c) A brief for the The Prime Minister.

Our press office has been approached by officials of the Department of Trade and Industry, who I understand have been requested to supply additional briefing material for the Prime Minister's speech and to whom we have supplied additional information. I would be grateful if you would contact me if you require any further information or details.

Yours sincerely,

P.M.J. Kirby
Manager, Marketing Division

cc: Mr. Gordon Shepherd



China.

CF

Note: CHINA

Depart No 10
1040

MR. FLESHER

c. Detectives

Cable & Wireless Ceremony: 25 July

A

The company will be letting us have a note of the arrangements. But the Prime Minister should arrive at 1100. The Chairman will make a welcoming speech. The Signing Ceremony will take place. Then (to be confirmed) the Prime Minister, the Chinese Ambassador and the visiting Chinese delegation will speak briefly. The Prime Minister will leave at 1130.

I told Mr. Kirby that our detectives would be in touch with him.

A.S.C.

13 July 1983



File 10

10 DOWNING STREET

From the Private Secretary

13 July 1983

Prime Minister's Attendance at
Cable & Wireless Signing Ceremony
on 25 July

Will you please refer to my letter of
12 July to Roger Bone.

Cable & Wireless have now told me that
they hope that the Prime Minister would say a
few words at this ceremony (not more than two
or three minutes). I should be grateful if
you could arrange for a suitable draft to
reach me by 20 July.

B/F /
m

A. I. COLES

Jonathan Spencer, Esq.,
Department of Trade and Industry.



CABLE AND WIRELESS PUBLIC LIMITED COMPANY

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

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

COMMERCIAL IN CONFIDENCE

12th July 1983

The Rt. Hon. Cecil Parkinson, MP,
Secretary of State for Trade and Industry,
Department of Trade and Industry,
Ashdown House,
123 Victoria Street,
LONDON. SW1E 6RB

TO MR ELLISON	COPIES TO
FOR ADVICE (AND	P/S KB
DRAFT REPLY IF	B/S JB
APPROPRIATE)	AS Sir Brian Hayes
PLEASE BY:	MR CROFT
	MR Solomon
ASAP	

Dear Secretary of State

I am attaching a copy of the preliminary announcement of our results for 1982/83 which is being released to the Stock Exchange at 9.30 a.m. tomorrow. I have already reviewed the results with Mr. Peter Middleton and Sir Brian Hayes.

When I took over as Chief Executive in July 1981, I agreed with Kenneth Baker certain financial and operating objectives. Cable and Wireless' pre-tax profits at that time were £62m. We were then privatised in November 1981 and our profits for 1981/82 rose to £89m, reflecting five months of privatisation. I am now glad to report continued progress with profits of £157m for 1982/83 - the first full year of privatisation. This is an increase of 76 per cent over the preceding year or 117 per cent increase in profits attributable to shareholders.

You will also see that the earnings per share have increased from 17.08p in 1981/82 to 36.21p in 1982/83; dividends per share have been increased by 24 per cent and the Treasury will receive some £11m as dividend, which is as much as their previous dividend for 100 per cent of the shares.

It is particularly pleasing to me that one of my personal objectives has been achieved in that, with the market now valuing Cable and Wireless at over £1½ billion, the current valuation of HMG's 46 per cent shareholding is considerably in excess of the market valuation of the whole of Cable and Wireless at the time of privatisation less than two years ago.



The Rt. Hon. Cecil Parkinson, MP,

12th July 1983

In a world environment of difficult trading conditions, I am sure you will agree (as I hope will Nigel Lawson and Kenneth Baker who assisted in the privatisation) that these results are more than satisfactory and, as far as Cable and Wireless is concerned, more than justify Government policy on privatisation.

I am copying this to the Prime Minister and the Chancellor of the Exchequer.

With all good wishes

Yours sincerely -

Mr. Thorne

CABLE AND WIRELESS GROUP

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31st March 1983

	1983	1982	1981
	<u>£m</u>	<u>£m</u>	<u>£m</u>
TURNOVER	403	352	293
Operating costs	295	290	241
TRADING PROFIT	108	62	52
Associated companies	22	8	4
Interest and other income	27	19	6
PROFIT BEFORE TAXATION	157	89	62
Taxation	48	37	23
Minority interests	11	7	-
PROFITS ATTRIBUTABLE TO SHAREHOLDERS	98	45	39
Dividends per share	8.2p	6.6p	6.25p
Shareholders' funds	527	375	222
Earnings per share	36.2p	17.1p	15.0p
Return on capital employed	28.8%	23.0%	22.0%
Cash in flow - excluding rights issue (1982) and balancing charges payment (1983)	10	80	-

Note: 1981 results as published.

1982 and 1983 based on revised currency translation policy.

Press Release



CABLE AND WIRELESS

CABLE AND WIRELESS GROUP

PRELIMINARY ANNOUNCEMENT OF RESULTS FOR 1983

The Directors of Cable and Wireless PLC report the following audited results for the year ended 31 March, 1983.

The profit before tax of £157m is an improvement of 76% over the £89m for 1982. The profit attributable to Ordinary Shareholders more than doubled to £98m - excluding the extraordinary items relating to the sale of business in Hong Kong and Bahrain in 1982. Costs continued to be kept under tight control.

If this year's profits had been translated into sterling at the average exchange rates experienced last year the profit before tax would have been some £11m lower.

1. <u>HISTORIC COST RESULTS</u>	1983 £m	1982 £m
Turnover	<u>403</u>	<u>352</u>
Trading Profit	108	62
Associated Companies	22	8
Interest and Leasing	<u>27</u>	<u>19</u>
Profit before tax	157	89
Tax	48	37
UK	28	17
Overseas	15	19
Associated Companies	5	1
Minority Interests	<u>11</u>	<u>7</u>
Extraordinary Items	98 -	45 <u>56</u>
Dividends	98 24	101 18
Retained Profits	<u>74</u>	<u>83</u>
Earnings Per Share	36.2p	17.1p

2. DIVIDENDS PER SHARE PAID AND PROPOSED

	Pence	Pence
Interim	3.2	2.6
Final	5.0	4.0
	<hr/>	<hr/>
	8.2	6.6
	<hr/>	<hr/>

3. REGIONAL ANALYSIS OF TURNOVER AND TRADING PROFIT

<u>Turnover</u>			<u>Trading Profits</u>	
1983	1982		1983	1982
£m	£m		£m	£m
158	128	Far East and South Pacific	60	48
116	126	Middle East and Africa	21	15
129	98	Rest of the World	27	7
			<hr/>	<hr/>
		Provision for re- organisation costs	108	70
			-	8
			<hr/>	<hr/>
403	352		108	62
			<hr/>	<hr/>

4. SUMMARISED BALANCE SHEETS

	1983	1982
	£m	£m
Assets Employed		
Tangible Fixed Assets	284	251
Investments - Fixed Assets	164	65
Stock and Debtors	285	221
Cash and Deposits	291	157
Loans and Overdrafts	(183)	(25)
Other Creditors - short term	(192)	(180)
- over 12 months	(95)	(89)
	<hr/>	<hr/>
NET ASSETS	554	400
	<hr/>	<hr/>
Capital and Reserves		
Called Up Share Capital	150	135
Share Premium	102	-
Revaluation Reserve	96	67
Other Reserves	25	12
Retained Profits	154	161
	<hr/>	<hr/>
SHAREHOLDERS' FUNDS	527	375
Minority Interests	27	25
	<hr/>	<hr/>
	554	400

5. RESULTS ON A CURRENT COST BASIS

		1983 £m		1982 £m
Trading profit (historic basis)		108		62
Current cost adjustments:				
Additional depreciation	10		10	
Cost of sales	-		1	
Monetary working capital	1		1	
		(11)		(12)
		<hr/> 97		<hr/> 50
Interest received	15		16	
Gearing adjustment	1		1	
		16		17
		<hr/> 113		<hr/> 67
Associated companies		22		8
Other income		11		3
		<hr/> 146		<hr/> 78
Current cost profit before taxation		146		78
Taxation		48		37
		<hr/> 98		<hr/> 41
Minority interests		11		6
		<hr/> 87		<hr/> 35
Extraordinary items		-		56
		<hr/> 87		<hr/> 91
Dividends		24		18
		<hr/> 64		<hr/> 73
		<hr/> <hr/>		<hr/> <hr/>
Earnings per share		32.4 p		13.1 p

Notes

1. Changes which affect comparative figures are:-

(a) Bahrain was included as an associated company for six months only in 1982;

(b) Fiji was a 55% owned subsidiary in 1982 and a 49% owned associated company in 1983.

2. Exchange differences arising from translation at the closing rate of net investments in foreign enterprises have been transferred to reserves in accordance with the principles set out in SSAP20. Results for 1982 have been restated to provide comparative figures.

3. 30 million Ordinary Shares of 50 pence were allotted in part payment for shares in the Hong Kong Telephone Company Limited on 30 March. The vendor renounced the shares which were placed in the UK market by Cazenove & Company.

4. The excess of the price paid for shares in the Hong Kong Telephone Company Limited over the share of the net assets acquired of £74m has been transferred to reserves.

Final Dividend

The Court recommends a final dividend of 5.0 pence per Ordinary Share (1982 - 4.0 pence) payable on 1 October, 1983 to shareholders on the register on 1 September, 1983. This makes a total dividend for the year of 8.2 pence (1982 - 6.6 pence). The cost of the 1983 dividend is £23,640,000 (1982 - £17,810,000).

Bonus Issue

The Court propose a capitalisation issue to shareholders on the basis of one new Ordinary Share for every two held.

.....

.../cont.

These financial statements are not the full financial statements for the Company. The full financial statements on which the Auditors have reported without qualification have not yet been delivered to the Registrar of Companies.

A full copy of the financial statements will be mailed to shareholders on 9 August, 1983, and can be obtained thereafter from R E McAlister, Company Secretary, at Mercury House, Theobalds Road, Holborn, London WC1X 8RX.

The Annual General Meeting will be held at the Savoy Hotel, The Strand, London WC2, on Friday 2 September, 1983 at 12.00 noon.

Issued by:

Corporate Affairs Department
Cable and Wireless PLC
Mercury House
Theobalds Road
London WC1X 8RX

Note to City Editors:

Mr Eric Sharp, Chairman and Chief Executive, and Mr Ernest Potter, Finance Director, will be available to answer telephone enquiries from 3pm to 5pm today.

Telephone: 01-242-4433 (extn. 4401 or 4404)

General enquiries: Neville Hunter
Chief Press Officer
01-242-4433 (extn. 4486)
Home telephone number:
01-692-0614

13 July, 1983

25 JUN 1953

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10 DOWNING STREET

From the Private Secretary

12 July 1983

China: Cable and Wireless Ceremony on 25 July

Thank you for your letter of 11 July.

The Prime Minister has decided to attend this ceremony. We shall make arrangements direct with Cable and Wireless.

I should be grateful if Jonathan Spencer, to whom I am copying this letter, could let me have a short brief in due course.

B/K

A. J. COLES

R.B. Bone, Esq.,
Foreign and Commonwealth Office.



10 DOWNING STREET

From the Private Secretary

12 July 1983

The Prime Minister has asked me to thank you for your letter of 6 July.

She will be glad to attend the ceremony on 25 July in Mercury House when the agreement to form the Huaying Nanhai Oil Telecommunications Service Company will be signed. Mrs. Thatcher will need to fit this in between 11.00 am and noon on that day. I should be grateful if someone could telephone me this week about the details of the ceremony.

A. J. COLES

Eric Sharp, Esq., C.B.E.

✓

PRIME MINISTER

*I think I should
go because I was
present at the
signing of the
L. 2. 1.
mt*

China: Cable and Wireless Ceremony on 25 July 1983

In the attached letter the Chairman of Cable and Wireless asks whether you will attend a ceremony on 25 July at which the agreement to form the Huaying Nanhai Oil Telecommunications Service Company will be signed.

This follows the Letter of Intent whose signing you attended in China last September.

The Chinese Ambassador will be present.

The attached letter sets out FCO and Department of Trade advice. The DOT see advantage in your attendance because Cable and Wireless have pulled off a major export achievement. The FCO point out that your attendance will be well received in Hong Kong and that the Chinese would also be struck by the gesture (but it is unlikely to influence the talks about Hong Kong).

We can make space in the diary for you to attend between 1100 and noon on Monday 25 July. *but it is likely to be a very busy week.*

My personal view, on balance, is that you should not attend but that another Minister should. We cannot tell what stage we shall have reached in the talks by 25 July. If they did not go well (and particularly given the Chinese refusal to grant visas for China to Hong Kong journalists to attend the talks) there is a risk that you will appear to the world at large to be running after the Chinese.

Do you wish to attend this ceremony - or shall we ask another Minister to do so?

A.S.C.

11 July 1983

✓ Press

Foreign and Commonwealth Office

London SW1A 2AH

11 July 1983

*John Selous*China: Cable and Wireless Ceremony on 25 July

In your letter of 6 July you asked for advice on the commercial benefits of the Prime Minister's attendance at a Cable and Wireless joint venture signing ceremony to be held on 25 July, and on the extent to which her participation might influence the Chinese attitude towards our talks with them about the future of Hong Kong.

We have consulted the Department of Trade and Industry, who see considerable advantage in the Prime Minister's presence. They see Cable and Wireless's deal as a major export achievement in a sensitive industry by a company in which the Government hold a significant shareholding. They point out that Cable and Wireless have successfully built on the Prime Minister's association with the signing of the Letter of Intent for the joint venture last September, not merely to bring the subsequent negotiations to a successful conclusion but also to reach a separate agreement with the authorities in the Shenzhen Special Economic Zone. They see both developments as doing much to offset the temporary setback to our System X telecommunications effort in China. They consider that Mrs Thatcher's association with the signing ceremony in London would show the Chinese that further collaboration with Cable and Wireless had the whole-hearted support of the British Government.

/As to the



As to the wider effect of Mrs Thatcher's personal support for the launching of the Cable and Wireless joint venture, we have no doubt that this would be well received in Hong Kong. The Chinese would, moreover, be struck, if a little surprised, by our determination to make every effort to enhance the atmosphere in which the talks on the territory's future take place. But we cannot say that we think that such a gesture would itself make these long and difficult talks easier, or that it would improve the prospects for their final outcome. Indeed there is a possible risk of embarrassment if the talks due to open on 12 July do not go well. If Mrs Thatcher is not inclined to attend, it would be appropriate for another Minister to do so.

I am copying this letter to Jonathan Spencer
(Department of Trade and Industry).

Yours

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

China
Sino/British
Relations, May 79,



11 JUL 1983



CONFIDENTIAL



file

BSP
BF

10 DOWNING STREET

From the Private Secretary

6 July 1983

China: Cable and Wireless Ceremony on 25 July

I enclose a copy of a letter which the Prime Minister has received from the Chairman of Cable and Wireless asking whether Mrs. Thatcher would agree to attend the ceremony on 25 July at which the agreement to form the Huaying Nanhai Oil Telecommunications Service Company will be signed.

I should be grateful if you could let me have advice, co-ordinated with the Department of Trade and Industry. Mr. Eric Sharp's letter speaks only of the commercial benefits for UK industry which would be gained from the Prime Minister's attendance. If the Department of Trade and Industry judge that there really are substantial commercial benefits to be gained in this way I am sure these will weigh with the Prime Minister. But I believe that she would also welcome advice on the extent to which her participation in this ceremony may influence the Chinese attitude towards our current talks with them about the future of Hong Kong. I note that the Chinese will be represented only at the level of their Ambassador. Attendance by the Prime Minister would therefore be a particularly striking gesture and we should need good reasons to justify it.

I should be grateful if your advice could reach me by the end of the week.

I am copying this letter to Jonathan Spencer (Department of Trade and Industry).

John Holmes, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL



CABLE AND WIRELESS PUBLIC LIMITED COMPANY

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

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

6th July 1983

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

Dear Prime Minister,

The attached letter was sent by facsimile
from Mr. Sharp in Hong Kong.

Yours sincerely,

V. Edwards

V. Edwards (Miss)
Secretary to Mr. Sharp

Enc.





Cable and Wireless

Public Limited Company

大東電報局

公共有限公司

G.P.O. Box 597, New Mercury House, 22 Ferwick Street, Hong Kong.

Telephone 5-283111 Telex 73240 CWADM HX Telegrams CABLEWIRE

香港分城街二十二號新水星大廈 / 郵政總局信箱597號

6th July 1983

The Prime Minister
10 Downing Street
London, S.W.1

Dear Prime Minister,

In September last year you were kind enough to attend the signing ceremony of the Letter of Intent for our Joint Venture with the Chinese for the provision of telecommunication services for the offshore oil industry in the South China Sea. Since then we have been negotiating with our partners and I am happy to say that the agreement to form the Huaying Nanhai Oil Telecommunications Service Company, in which Cable & Wireless will have 49%, will be signed in London on Monday 25th July in Mercury House. Directors from our Chinese partners will sign the agreement with me. The Chinese Ambassador accompanied by his Commercial Counsellor will also be present.

Your speech at Guangzhou at the previous signing ceremony was very much appreciated by our Chinese friends and was of considerable help in speeding our negotiations. I know that our Chinese partners and of course the Directors of Cable & Wireless would be most grateful if you could find the time in your very busy schedule to attend the successful outcome of these negotiations. I have consulted with Sir Antony Acland and Sir Brian Hayes and they also feel that there are strong commercial benefits for U.K. industry to be gained from your attendance. The signing ceremony is currently scheduled for 11.00 a.m. to permit TV screening in London and Hong Kong but this time could be varied somewhat to meet your convenience. I am sure that all of us would be both encouraged and delighted if you could attend.

Yours sincerely,

Eric Sharp
Chairman & Chief Executive



Cable and Wireless

Public Limited Company

香港電訊有限公司

25, Abchurch Lane, London E.C. 4A, England
25, 亞伯士街, 倫敦 EC4A 3DF, 英國

25 July 1987

香港電訊有限公司

The Prime Minister
10 Downing Street
London SW1A 2AA

Your Prime Minister

In September last year you were kind enough to attend the signing ceremony of the letter of intent for our joint venture with the Chinese Government for the offshore oil industry in the South China Sea. Since then we have been negotiating with our partners and I am happy to say that the agreement is now being signed. The Chinese Ambassador accompanied by his Commercial Counselor will also be present.

Your speech at Guangzhou at the previous signing ceremony was very much appreciated by our Chinese partners and of considerable help in speeding our negotiations. I know that our Chinese partners and of course the Director of the Ministry of Petroleum would be most grateful if you could find the time in your very busy schedule to attend the successful outcome of these negotiations. I have suggested that you attend from your attendance. The signing ceremony is currently scheduled for 11.00 a.m. on 25 July 1987. I am sure that all of us would be self encouraged and delighted if you could attend.

Yours sincerely,

Eric Sharp
Chairman & Chief Executive



From the Secretary of State

John Coles Esq
Private Secretary
10 Downing Street
London
SW1

20 May 1983

Dear John

A.S.C. $\frac{24}{5}$

VISIT OF MADAME CHEN: APRIL

You, and copy addressees, may be interested
.... in the attached letter which the Secretary of
State has received from Madame Chen,
following her recent visit to the United
Kingdom. Should your Chinese be a little
.... rusty, a translation is attached.

I am copying this to Jonathan Spencer (DoI)
and to Julian West (DoEn).

Yours sincerely,

JOHN RHODES
Private Secretary

中华人民共和国对外经济贸易部

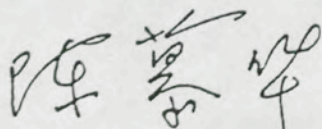
科克菲尔德勋爵和夫人：

我和我的同事已经顺利回到北京，我们在英国所进行的访问和所受到的热情接待给我们留下了难以忘怀的记忆。感谢大臣阁下及夫人为我们的访问做出了周到的安排，使我们在短短的六天时间里与英国政府官员以及工商界代表进行了广泛的接触，使我们对英国有了更好的了解。

请向撒切尔夫人，工业大臣詹金先生和能源大臣洛森先生转达问候，同他们的会见给我留下了深刻的印象。

我热切地期待着大臣阁下及夫人六月初的来访，那将使我们能够有机会叙旧并讨论我们双方共同关心的问题。

国务委员兼对外经济贸易部部长

Handwritten signature in black ink, appearing to read '陈慕华' (Chen Mu).

一九八三年五月十日于北京

中华人民共和国对外经济贸易部

MINISTRY OF FOREIGN ECONOMIC RELATIONS AND TRADE OF THE
PEOPLE'S REPUBLIC OF CHINA

TRANSLATION

Lord and Lady Cockfield:

My colleagues and I have returned safely to Beijing. Our visit to Britain and the warm reception we were accorded there have been an unforgettable experience for us. We are very grateful to you, Lord and Lady Cockfield, for the kind and thoughtful arrangement for our visit, which enabled us, in a short period of 6 days, to have very broad contacts with officials of your Government and representatives of the British industrial and trade organizations. Now we can say that we have come to know Britain better.

Please give my best regards to the Prime Minister Mrs. Thatcher, Mr. Jenkin and Mr. Lawson, Secretaries of State for Industry and Energy. The meetings I had with them have left a very deep impression on me.

I am looking forward to your visit early June, which will provide us with a good opportunity for renewing our friendship and discussing issues of our common concern.

Yours Sincerely

CHEN MUHUA

State Councillor and
Minister of MFERT

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SUBJECT ✓ cc MASTER

File



10 DOWNING STREET

From the Private Secretary

30 March 1983

Dear John,

CALL ON THE PRIME MINISTER BY THE CHINESE
MINISTER OF FOREIGN ECONOMIC RELATIONS & TRADE

Madame Chen Muhua called on the Prime Minister this morning. I enclose a record of the discussion (though the exchange about the future of Hong Kong is separately recorded).

I am sending copies of this letter and its enclosure to John Holmes (FCO), Jonathan Spencer (Department of Industry) and Richard Mottram (Ministry of Defence).

Yours ever
John Gales

John Rhodes, Esq.,
Department of Trade.

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RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND
HER EXCELLENCY MADAME CHEN MUHUA, MINISTER OF FOREIGN ECONOMIC
RELATIONS AND TRADE, PEOPLE'S REPUBLIC OF CHINA, ON WEDNESDAY,
30 MARCH AT 0900 AT NO.10

Present:

Prime Minister

Madame Chen Muhua

Mr. Donald

Mr. Gan Ziyu
(Vice Minister, State
Planning Commission)

Mr. Coles

Mr. Liang Geng
(Chinese Charge d'Affaires)

Mr. Sun Zhenyu
(Interpreter)

* * * * *

The Prime Minister said that she had greatly enjoyed her visit to China. She hoped that the programme for Madame Chen's visit met her expectations. Madame Chen said that she first wished to convey Zhao Ziyang's best regards to the Prime Minister. She was very pleased with her programme. Our hospitality had been generous. She had visited a number of factories and had had wide contacts with officials. She was deeply impressed by what she had seen and she saw considerable prospects for cooperation in various fields.

The Prime Minister said that she was glad to hear this. We attached importance to relations with China, and wished these to become closer. Our views on a number of international issues were similar. We had been rather disappointed that the agreement relating to the 051 Project had not been ratified. This meant that we should have to work doubly hard to find a suitable project to replace it. She understood that a Memorandum of Understanding had now been signed on the Guangdong nuclear power project. This was a very imaginative scheme which would make a big difference to Guangdong province and to Hong Kong. Madame Chen said that she had discussed with the Secretary of State for Industry the possibilities for progress in cooperation in the nuclear power field. She thought that the prospects were considerable.

(At this point there was a brief exchange on Hong Kong which is separately recorded).

Madame Chen said that she would like to explain the Chinese decision on the 051 Project. They had been unable to ratify the contract because of difficulties relating to price, technology, and the production cycle. But this was only one of the possible projects for cooperation. Failure to implement it would not affect Sino-British cooperation in many other fields. During her visit to the United Kingdom, she had been asked whether it would be possible to have separate discussions about individual technologies. This matter had been studied and she now thought that such discussions were "highly possible". Electronics was a possible field for further examination.

The Prime Minister asked Madame Chen to describe Chinese strategic priorities as regards technology. Madame Chen said that energy and transport were the priority fields at present. As far as energy was concerned, the emphasis was on, first, offshore oil and then coal. She recalled that an agreement had been signed providing for a feasibility study on two coal mines. If this was successful there was a prospect of similar work on three further mines. China also intended to construct some ports under a scheme financed by the World Bank. British firms would be welcome to bid for the work. There was also much to do in the way of modernising existing plant in China. Some 300,000 small and medium sized enterprises required modernisation. She hoped that British firms would be more open in the future with regard to the transfer of technology.

The Prime Minister said that she would be interested in Madame Chen's comments on general economic development in China. Madame Chen said that economic readjustment had been carried out very smoothly. Last year industrial and agricultural output had increased by 7.4%. There had been a bumper harvest in grain, cotton, tobacco and sugar. There was continued progress in light industry and textiles. Heavy industry had begun to pick up after a period of stagnation. A basic balance in income and

/ expenditure

expenditure had been achieved. Foreign trade was progressing well. Last year's plan for exports had been fulfilled though imports had fallen short of the planned target. Sino-British trade had declined slightly last year but this was a temporary phenomenon. She was sure that the total trade turnover would increase rapidly provided we continued to cooperate.

In response to a comment by the Prime Minister on our programmes for technical training, Madame Chen referred to student exchanges between Britain and China. She hoped for an all-round development of relations. She had been informed by Lord Cockfield that HMG had decided to give assistance to China from the aid programme. China was very grateful - this was important for the expansion of cooperation.

The discussion ended at 0930.

A. J. C.

30 March 1983

PRIME MINISTER

MEETING WITH THE CHINESE MINISTER OF FOREIGN ECONOMIC RELATIONS AND
TRADE

You have only thirty minutes. With interpretation it will not be possible to cover much ground.

I am afraid that Madame Chen will arrive with some fifteen Chinese. They originally all wanted to come to the talks, but I have agreed that only three will come into the meeting room. They are:

Mr. Gan (Vice Minister, State Planning Commission)
Mr. Liang (Chinese Charge d'Affaires)
Mr. Sun (Interpreter)

On our side, Alan Donald and Peter Corley (Department of Trade) will be present.

I suggest that we meet in the White Drawing Room, preceded by a photograph in the Blue Room.

The FCO recommend that you raise Hong Kong. A line to take is attached. Percy Cradock suggests that it would not be appropriate to give Madame Chen a lecture on the subject but merely put across the essential points in the line to take. (I know it would be easier to do this in a tete-a-tete but, as you will recall from our meetings in Peking, the Chinese do not work that way).

The other subjects are all trade matters and these are dealt with in the Department of Trade briefs.

A.S.C.

29 March 1983

COVERING CONFIDENTIAL

JH 409



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

29 March 1983

John Coles Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear John,

VISIT BY MADAME CHEN

The Prime Minister will be meeting Madame Chen, the Chinese Minister for Economic Relations and Trade, tomorrow and I therefore attach a note of my Secretary of State's meeting with Madame Chen last Friday, 25 March.

2 There is a further point which the Secretary of State would like to draw to the Prime Minister's attention for tomorrow's meeting. It concerns telegram No 279 of 28 March dispatched from Peking, recording that the Chinese have now decided against approval of the O51 defence project. The contents of the telegram do not square with the terms in which Acting Premier Wang Li spoke about the project to the Secretary of State when he was in China in January this year. I attach the record of that meeting, of which paragraphs 16 to 24 are relevant. In essence Wan Li told the Secretary of State that the Chinese Government would take a decision only after further discussion of the matter. The Secretary of State will be telling the Chinese at his dinner with Madame Chen tonight that he was not informed by Wang Li of why we had lost the contract.

3 Copies go to Roger Bone (FCO), Richard Mottram (Defence), Julian West (Energy) and to John Rhodes (Trade).

Yours ever,
Caroline Varley

CAROLINE VARLEY
Private Secretary

Prime Minister
for your mtg.
tomorrow.
Entry Clerk
29/3

NOTE OF A MEETING IN ROOM 901, ASHDOWN HOUSE ON 25
MARCH 1983

Those present:

Secretary of State for Industry	Madam Chen Muhua (State
Mr Benjamin	Councillor and Minister of
Mr Cruikshank OT4	Foreign Economic Relations and
Miss O'Brien	Trade)
Mr Grafen MEE	
Col Jenkins MOD	Mr Tian Jiyun Deputy
Wing Commander Cody,	Secretary, General State Council
Govt Hospitality	Mr Gan Ziyu, Vice Minister
Mr Grant OVB/OT3/DOT	State Planning Commission
	Mr Zhu Rongji, Councillor,
	State Economic Commission and
	Director, Department of Technic
	Transformation, State Economic
	Commission
	Mr Li Shude, Director, Third
	Department, MoFERT
	Mr Yin Jieyan, Deputy Director
	General Office MoFERT
	Madame Yang Danhua, Division
	Chief, Third Department MoFERT
	Mr Zhang Zhenkun, Deputy
	Division Chief, Third Departmen
	MoFERT
	Madame Zhao Zhilian, Private
	Secretary/State Councillor
	Mr Zhao Yuxin, Deputy Division
	Chief, Ministry of Public
	Security
	Mr Sun Zhenyu, Offical Third
	Department, MoFERT

The Secretary of State said that he understood that Chen Muhua had had a good discussion with Lord Cockfield that morning, covering a number of items of mutual interest. He suggested that the afternoon discussion should begin with the problems concerning Project 051. He had gained the impression in Peking that Project 051 would not be carried out despite signature of the contract only a few

weeks earlier. He had raised the issue with Wan Li, who had made it clear that the Chinese Government would be unable to give him a definitive answer while he was in Peking. He had been disappointed and surprised to learn after his return to the UK that the deadline for ratification of the contract had passed, and that it was clear that the contract would not now proceed. Two important questions now remain. First, did the Chinese Government appreciate the potentially negative impact on Anglo-Chinese trade of the non-ratification of a contract which had been signed after 3 years of hard negotiation on the part of the UK companies concerned, who had thought that they had met the wishes of their customer. It might be difficult to persuade other companies to start the negotiating process if it was clear that agreements signed after so protracted a period of negotiation could then be reviewed and cancelled. Second, while it would be wrong simply to forget this episode, the best way of reducing its impact would be for the contract to go ahead after all. He asked whether there was any possibility of this happening. Chen Muhua thanked the Secretary of State for his clear exposition of the British Government's views. She recalled the Secretary of State's discussion of the problem with Wan Li, who had explained to him the difficulties concerning prices and technology. The situation had remained unchanged since then, in that the British proposals on price, technology and delivery date were not acceptable to the Chinese side; since the 60 day period for ratification of the contract had expired, the contract had been voided. Chen Muhua added that Project 051 was but one aspect of the entire pattern of trade and economic co-operation between the UK and China. This isolated dispute should not affect relations elsewhere. Many other agreements had been signed and carried out in other sectors. She hoped that the British side would understand the difficulties of the Chinese Government, and would react accordingly. She added that she had found exchange of views beneficial, and hoped that it would not damage co-operation and growth of trade between the two countries. The Secretary of State said that while it would be wrong to forget this episode, he nonetheless hoped that trade and co-operation between the two countries would grow nonetheless.

2 The Secretary of State said that as Chen Muhua would know, the British team was still in Peking for discussions on the Guangdong Project. He had just heard that the two sides had now agreed on a Memorandum of Understanding on this project, to be signed the following day. He had not yet seen details of the documents which had been agreed, though he knew that they did not cover all the details of the project. Nonetheless, this was good news, and evidence of further

progress on a project which would strengthen the three-way relationship between the UK, China and Hong Kong. He was also aware that part of the Chen Muhua's purpose in visiting the UK on this occasion was to see some of the GEC factories which would be involved in manufacturing the conventional island for this project, assuming it went ahead. He had also been pleased to hear of the positive approach of the Hong Kong interests in the project.

3 Chen Muhua said that the delegation was aware of the state of play before they left Peking, and hoped that these latest discussions would be successful. It was an enormous project, and would be the first nuclear power project in China. It was also very complicated because of the number of participants. An important factor was the need to solve various technical problems (especially the matching of nuclear and conventional islands) if construction and commissioning was to be completed smoothly and satisfactorily. The Secretary of State replied that he entirely understood the wish of the Chinese Government to be sure of the technical aspects of the project. He admired the determination of the Chinese Government, and of the Guangdong Power Company, to move in a step by step fashion to ensure that no mistakes occurred. The Secretary of State suggested that his officials and Chen Muhua's should remain in touch, so that a further meeting could be set up before Chen Muhua left if this seemed appropriate in the light of the fuller reports from Peking (the Secretary of State discussed the state of play with Mr Manzie on his return from Peking this morning, and agreed that no purpose would be served in a further meeting with Chen Muhua in London).

4 Turning to other matters, the Secretary of State emphasized the continuing interests of the British Government in helping the Chinese Government and the Chinese National Oil Corporation (CNOC) to exploit China's off-shore oil. Over the previous 15-20 years, the UK had built up a large number of companies with skills and expertise in the off-shore oil business in addition to the major oil companies themselves. Because of the decentralized nature of the British economy, there was no substitute for representatives of the Chinese Ministry of Oil Production and the CNOC visiting these companies in the UK. He asked Chen Muhua to tell Minister Tang Kee that the British Government would be very happy to arrange technical visits by Chinese representatives to appropriate British companies in this field. Chen Muhua replied that two of the British oil companies had taken part in the bidding for offshore drilling rights in the South China Sea. She hoped that they would be able to win by offering a favourable terms. She undertook to convey the Secretary of State's invitation to Tang Ke. She added that there might be other useful areas for co-

operation including energy conservation, China's plans for developing the coal industry, in particular the South West Energy Development, on insecticides, on transport and port equipment, and via UK bids for projects financed by the World Bank. She added that the Chinese Government had recently signed a contract for a feasibility study for the development of the Jining No 2 Mine in Shandong. If this was successful, there would be possibilities for expanding co-operation to the other three coal mines envisaged in Shandong.

5 Chen Muhua added that other forms of co-operation might take place, including joint ventures, co-production agreements, and technology transfer; China might also gain management experience from British companies. In these ways, the needs of the Chinese market might be met, and joint exports might be promoted. She suggested that the relevant experts should be asked to have further discussions on the various projects she had described. The Chinese Government attached great importance to economic relations with the UK, and indeed with the EC countries as a whole. She believed that relations would be expanded on the basis of equality and a mutual benefit.

6 The Secretary of State replied that he had been able to explore all these possibilities when he had been in Peking in January. He was aware that Chinese exports to the UK had been growing faster than British exports to China. So it was very important that experts should make rapid progress on the basis of equality and mutual benefits.

7 The Secretary of State said that the British economy was decentralized at the company level, and that Chen Muhua's visit would enable her to visit a number of world leading British factories. These included the factories of firms making mining equipment, port equipment, and energy saving equipment. And the following week a delegation would be visiting the UK from China to learn about the vehicle painting equipment made by Haden Drysys; he hoped the delegation would be able to do good business in the UK. The Secretary of State also referred to the BAe 146, which could be of value to the Chinese for their internal transport needs; and the valuable progress which was being made in co-operation in telecommunications in Guangdong, and where British companies were providing help to modernize the communications network. Chen Muhua reiterated her belief that broad opportunities for co-operation existed between China and the UK.

Michael Kenny
PP J P SPENCER
PS/Secretary of State for Industry
Room 11.01, Ashdown House
212 3301
29 March 1983

Circulation:

Those present
PS/Ministers
Mr Manzie
Mr Gill
Mr Wright
Mr Dell
Mr Russell
Mr Hudson
Mr Havelock
Mr Hall OT4
Mr Cruikshank OT4
Mr Clark, British Embassy, Peking
Mr Elliott FED/FCO
Mr Adams, British Trade
Commission, Hong Kong
PS/Secretary of State (T)

RECORD OF CONVERSATION BETWEEN RT HON PATRICK JENKIN MA MP,
SECRETARY OF STATE FOR INDUSTRY, AND HIS EXCELLENCY ACTING
PREMIER WAN LI: SUNDAY 16 JANUARY 1983, 9.00 am - 9.45 am

Present:

His Excellency Acting Premier Wan Li

Jia Shi, Vice Minister of Foreign Economic Relations and Trade

Li Shude, Director, Third Department, MOFERT

Wang Benzuo, Director, Western European Department, Ministry of
Foreign Affairs

Xu Dayou, Chief of Protocol Department, MOFERT

Yang Danhua (Mme); Divisional Chief, MOFERT

Sun Zhenyu, Desk Officer for UK, MOFERT

Rt Hon Patrick Jenkin MA MP, Secretary of State for Industry

HE Sir Percy Cradock KCMG, HM Ambassador, Peking

Mr A G Manzie, Department of Industry

Mr E Wright, Department of Industry

Mr G E Clark, Commercial Counsellor, British Embassy, Peking

Dr J Spencer, PS to Mr Jenkin

Mr O M O'Brien, First Secretary Commercial, British Embassy, Peking

1. After initial courtesies Wan Li said that he knew that Mr Jenkin had already discussed opportunities for trade and cooperation between UK and China with Mme Chen Muhua. He believed that the future would reveal even more possibilities in the commercial, scientific and technological fields. He knew that Mr Jenkin had been talking to the various ministries concerned about these.

2. Mr Jenkin said he had been interested in China's plans in the energy sector, particularly with regard to the Guangdong nuclear project, and hoped that it would be possible for British firms to

/secure

For information
Mr Russell
Mr Pustou

secure a substantial part of the business connected with it. This was an important project for China and for China's relations with Hong Kong. He had also discussed China's offshore oil plans including the role which BP might play in developing those resources. The UK had acquired valuable experience in the North Sea and this could be put to good use in areas such as the Bohai. The Chinese were already familiar with British coal mining machinery and Mr Jenkin hoped that even greater use would be made of it in exploiting China's coal resources.

3. Wan Li stated that energy and transport were priority sectors as these at present fell short of domestic requirements. Good use could be made of British technology in these fields. The UK had put its technology to good use in the North Sea and he was pleased to hear that British companies had participated in the Chinese offshore oil bidding. As for the Guangdong nuclear project, Vice-Minister Li Peng had recently visited UK in this connection. It would be the first large scale project of its kind in China, but at the same time the Chinese were designing and building one of their own. However some of the technology would have to be imported to strengthen China's own technological capability. Relations between UK and China on the industrial and technological front were longstanding. The British were clever and had developed their industry early. Both the first railway line and the first coal mine in China had been opened by the British.

4. Mr Jenkin observed that it would be a happy historical parallel if the British were also to be closely involved in the first major nuclear power project in China.

5. Wan Li laughingly agreed, adding that there were still many old power plants in China which had originally been built by the British.
6. Mr Jenkin said that he had heard of this and of China's modernisation plans which he hoped would offer opportunities for cooperation.
7. Wan Li explained that the present policy placed emphasis on the modernisation of existing plant rather than building new. There were over 300,000 enterprises in China which needed modernising and the Chinese would like to do this in cooperation with Europe and Japan. Energy saving projects were particularly important as China's consumption was far greater than Japan's, but production far less. There were old Lancashire boilers from the 20s still in use in China.
8. Mr Jenkin said that the UK could definitely help in this respect as great strides had been made in developing valuable energy saving technology in Britain. As energy was so expensive it was important to economise on its use.
9. Wan Li pointed out that China was rich in energy resources such as coal. The problem was that the communications and transport facilities were not good enough. It was essential for China to improve standards of extracting and transporting coal to make the most of energy saving. China had therefore signed agreements with Japan for the Qinhuangdao railway and with the American company of Occidental for the Pingshuo open cast mine.

10. Mr Jenkin commented that the Chinese had also entered an agreement with Shell to develop the Jining No 2 mine in Shandong which was to be signed the following week.
11. Wan Li agreed that this was a good project. China's major coal users were located in the East and the South while the main coal producing area was in the North East. It would be of great help if extraction and production nearer to Shanghai could be improved.
12. Mr Jenkin was glad to hear that the UK could help in this respect and assured Wan Li the UK would be happy to continue to do so in the future.
13. Wan Li expressed the hope that this would strengthen Sino-British cooperation. All the countries of the European Community were well known to be very advanced in the scientific and technological fields and China wished to cooperate with all of them.
14. Mr Jenkin said that the UK would like to encourage such cooperation.
15. Wan Li stated that it was China's policy to develop these relations on a basis of equality and mutual benefit.
16. Mr Jenkin suggested that defence was another area offering potentially fruitful rewards from cooperation in building up China's armed forces. However on his arrival in China he had heard of difficulties with the 051 Project signed in November 1982. He was

surprised as he thought this had been settled. This latest news was a cause for anxiety to both the British Government and to the UK firms involved. It could also create problems in the future where the whole field of Sino-British trade was concerned because companies would expect that any contract which was signed would be faithfully implemented. He had mentioned this to Mme Chen Muhua and would like to have a reply from the Chinese before he left China on 18 January.

17. Wan Li replied that Mme Chen Muhua had discussed the matter with him. The Chinese Government could not give its approval to the contract as there were some outstanding difficulties over prices and technology. These were still under discussion. He could not say anything more. He had given instructions for the various ministries concerned to carry out further studies.

18. Mr Jenkin pointed out that this was not a rushed contract but one which had been signed only after two years of exhaustive discussions. This was a source of grave concern to the UK. If this contract ran into difficulties after signature then it would cause serious anxiety to British firms about other contracts in future.

19. Wan Li repeated that the Chinese Government had to give further consideration to the matter and could not give its approval. However this should not affect Sino-British relations in the defence field which were based on equality and mutual benefit.

20. Mr Jenkin said that this was a principle which should be applied when one party started looking for changes after the signature of a

/contract

contract. Indeed this went to the very root of the relationship.

21. Wan Li once again repeated that a decision would be taken only after further discussion of the matter. He himself had only been informed of the problem on the previous day.

22. Mr Jenkin said that he was pleased that Wan Li had been told as it enabled Wan Li to know how seriously the British Government considered this matter. He hoped that it could be resolved quickly.

23. Wan Li stated that the Chinese also considered it to be an important issue. He had only been informed recently and it would be impossible to give Mr Jenkin any further answer before his departure.

24. Mr Jenkin replied that he understood this but wished to make the British Government's views clear on this subject. He hoped that the matter could be resolved swiftly.

25. After a short exchange of views on the current state of negotiations on Hong Kong (reported separately) the meeting ended.



From the Secretary of State

CONFIDENTIAL

John Coles Esq
Private Secretary to the Prime Minister
10 Downing Street
London, SW1

29th March 1983

Dear John,

MEETING WITH MADAME CHEN: WEDNESDAY 30 MARCH

- 1 I attach briefing prepared by this Department for the Prime Minister's meeting with Madame Chen tomorrow morning. You will already have received my letter of 28 March, enclosing a record of the Secretary of State's own discussion with Madame Chen on Friday 25 March.
- 2 It has been arranged that although the entire Chinese group (some 15) are expected to arrive at Number 10, only 3 will be present with Madame Chen at the meeting with the Prime Minister. They are, from Peking, Mr Gan (Vice Minister, State Planning Commission) and Mr Sun (interpreter): in the event, Mr Tian did not come on the European visit. The fourth member of the meeting will be the Chinese Charge d'Affaires in London, Mr Liang.
..... Personality notes on the Peking party are attached.
- 3 I will confirm separately that we expect Mr Peter Corley from the Department to attend the meeting.
- 4 I am copying this letter to Roger Bone (FCO).

Yours sincerely,

JOHN RHODES
Private Secretary

CONFIDENTIAL



MEETING WITH MME CHEN MUHUA, CHINESE MINISTER OF FOREIGN ECONOMIC RELATIONS AND TRADE: 0900 WEDNESDAY 30 MARCH

BRIEF FOR THE PRIME MINISTER

POINTS TO MAKE

1. Pleased you have accepted my invitation to visit Britain.
2. 051 Project. Most disappointed by China's decision not to ratify this contract, signed after 2 years of negotiations. We remain anxious to co-operate with China in the field of defence equipment, but the confidence of British defence manufacturers has been damaged. Could China tell British firms what they do require.
3. Guangdong nuclear project. Pleased that recent talks in Hong Kong and Peking ended in signing of Memorandum of Understanding on 26 March in Peking: we must now make progress towards final agreement as quickly as possible. Project important both for UK/China trade and for continued prosperity and stability of Hong Kong.
4. Overall trade. Pleased with recent agreements on float glass (Pilkingtons), tyres (Dunlop) and telecommunications (Cable & Wireless). But still concerned about trade imbalance (£193 million to £103 million in 1982) and decline in UK exports. UK companies can offer China a great deal in her priority sectors (energy, transport, communications, industrial modernisation).
5. Offshore oil. Hope negotiations with BP and Shell on offshore oil exploration rights will soon lead to agreement.
6. Warm personal regards to Premier Zhao Ziyang and Chairman Deng Xiaoping.

DEFENSIVE POINT: QUOTAS

1. Sorry we could not go further to meet Chinese requests for quota increases in 1983; UK industry severely affected by the recession and by imports. Trade balance strongly favours China.
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BACKGROUND NOTE

1. The programme for Mme Chen's visit (which results from an invitation extended by the Prime Minister during her visit to China) is attached, together with a personality note on Mme Chen.
2. 051 Project. Contracts for Project 051 (refit of 2 "Luda" class destroyers) were signed on 10 November 1982 to the value of £120m. HMG ratified the contracts within the 60 day period specified but the Chinese failed to do so. The reply recently received from the Chinese Defence Minister (Zhang Aiping) to a personal message from Mr Heseltine indicates that the Chinese do not intend to reconsider their decision, but remain willing to co-operate with us in the



defence field. Mme Chen has claimed, in meetings with Lord Cockfield and Mr Jenkin, that the Chinese decision not to ratify the contracts was due to concern about such matters as price, technology and delivery.

3. Guangdong nuclear project. A team of officials led by Mr Manzie of the Department of Industry has just returned from two weeks of talks on this project in Hong Kong and Peking with a Chinese team led by Vice Minister of Water Resources and Electric Power, Li Peng. The talks culminated in the signing of a Memorandum of Understanding on 26 March. It amounts to an agreed statement of positions rather than agreement on the issues; but it is encouraging that progress was made on equity contributions and electricity offtake and that it was agreed to set up a joint preparatory committee.

4. UK/China Trade. UK exports to China have declined since 1979 and our imports from China now exceed our exports by almost two to one. Major export opportunities lie in coal, offshore oil, transport, communications and modernisation of industry (which are all priority sectors in China's economic plans). Pilkingtons recently announced agreement on collaboration with China in float glass; Dunlop have signed an agreement with the Guangzhou Rubber Bureau for modernisation of a tyre factory. During her visit to China the Prime Minister was present when Cable & Wireless signed an agreement with the Chinese to co-operate in offshore oil telecommunications. Before that, Cable & Wireless had signed an agreement concerning a microwave link to run the length of Guangdong Province.

5. Import quotas. Certain Chinese products are subject to UK import quotas which are reviewed annually. Our response to the Chinese request for quota increases for 1983 was perceived by the Chinese as ungenerous. However, Mme Chen did not specifically mention the question of quotas when she saw Lord Cockfield and Mr Jenkin on 25 March.

TRADE FIGURES	UK Exports	UK Imports	(£m)
1979	213	138	
1980	169	153	
1981	126	172	
1982	103	193	

CONFIDENTIAL

1. HE MADAME CHEN MUHUA

State Councillor.

Minister of Foreign Economic Relations and Trade.

Alternate Member of the Politburo.

Madame Chen was born in 1921 in Zhejiang (Chekiang) province in East China. She was an administrator in the Bureau of Foreign Economic Relations (China's overseas aid agency) before the Cultural Revolution. She became one of its Vice-Ministers in 1971, and a member of the Party Central Committee soon afterwards. In 1977 she was promoted Minister and an alternate member of the Politburo. In 1978 she became a Vice-Premier and had responsibility for China's birth control programme and all aspects of public health. In 1981/2 she was also put in charge of China's tourist industry.

In May 1982 she was one of the nine Vice-Premiers who resigned as part of the streamlining of the Government machinery. Like most of the others she was appointed to the new post of State Councillor, which is supposed to have the same protocol status. She became one of the 14 members of the Standing Committee of the State Council, the Government's Cabinet, over which Premier Zhao presides. As part of the same restructuring process, her own Ministry was amalgamated with the Foreign Trade Ministry, the Foreign Investment and Import/Export Commission, and she emerged as the Minister of the resulting super-Ministry.

Madame Chen is the most senior woman in the Chinese Government and one of only two women in the Politburo. To some extent her rapid promotion in the 1970s was due to her role as a token woman, but she must have considerable administrative ability to have continued her rise under the present pragmatic regime.

She has travelled extensively, mainly to African countries but also to Romania, Yugoslavia and Australasia. According to reports from Hong Kong left-wing magazines she was censured in 1979 for using these trips to stock up on personal effects for herself. In 1982 she went to Germany for the China/FRG Joint Commission meeting. She made two visits to North Korea in 1981/82.

Madame Chen is believed to be married and have children.

Approximate pronunciation: CHUN (rhymes with 'gun')
MOO (rhymes with 'boo')
HWAR (rhymes with 'car')

Forms of address: 'Your Excellency', 'Minister', or 'Madame Chen'.

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3. HE MR GAN ZIYU

Vice-Minister of the State Planning Commission.

Mr Gan was born in 1929 in Guangdong (Kwangtung), the southern province which borders Hong Kong.

He has been a Vice Minister of the State Planning Commission since 1978.

In 1981 he was given additional responsibilities as Vice Minister of the State Import and Export Commission and Foreign Investment Commission, but he lost these posts in 1982 when the Commissions were amalgamated into the Ministry of Foreign Economic Relations and Trade. He continues as one of several Vice Ministers of the Planning Commission, whose Minister is Vice Premier Yao Yilin.

In 1979 Mr Gan was a member of then Premier Hua Guofeng's delegation which visited Britain and other countries in Western Europe. In 1980 he visited Canada and the United States. He visited Japan twice in 1981 and 1982 and was most recently in Washington in December 1982 when he accompanied the Chinese Finance Minister at a call on Vice President Bush. He seems to have particular responsibilities for negotiations on World Bank/IDA and Japanese aid projects in China.

Mr Gan is one of the more forthcoming and articulate of Vice Ministers. Although his own dialect is Cantonese he speaks very clear Mandarin and some English. He is well-disposed towards Britain.

Approximate pronunciation: GAN (rhymes with 'man')
ZI (as in 'zip')
YU (as 'you')

Forms of address: 'Your Excellency', 'Minister', or 'Mr Gan'.

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11. MR SUN ZHENYU

Official, Third Department.

Ministry of Foreign Economic Relations and Trade.

(English interpreter).

Mr Sun was born in Hebei (Hopeh) Province in north China in 1946.

Mr Sun is the Department's Desk Officer in the UK. He is a pleasant official with a good working relationship with the British Embassy in Peking. In conversation he is careful not to depart from the official line. He visited Britain in 1977. His wife works for the Exhibitions Department of the China Committee for the Promotion of International Trade.

Mr Sun speaks fluent and colloquial English and will interpret for Madame Chen.

Approximate pronunciation: SUN (as in north-country English)
JUN (as in 'jungle')
JU (as English 'you')

Form of address: Mr Sun.

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From the Secretary of State

COVERING CONFIDENTIAL

John Coles Esq
Private Secretary to the
Prime Minister
10 Downing Street
London, SW1

28 March 1983

Dear John

VISIT BY MADAME CHEN

The Prime Minister will be meeting Madame Chen, the Chinese Minister for Economic Relations and Trade, later this week. I am, therefore, sending you a note of the Secretary of State's meeting with Madame Chen last Friday, 25 March.

Copies go to Roger Bone (FCO), Richard Mottram (Defence), Julian West (Energy) and to Jonathen Spencer (Industry).

Yours sincerely,

JOHN RHODES
Private Secretary

COVERING CONFIDENTIAL

CONFIDENTIAL

SECRETARY OF STATE FOR TRADE OFFICE MINUTE NUMBER: 497/83.

MEETING BETWEEN THE SECRETARY OF STATE FOR TRADE AND CHINESE
MINISTER OF ECONOMIC RELATIONS AND TRADE: 25 MARCH 1983

Those present:-

Secretary of State for Trade, Lord Cockfield
Mr C Roberts, Deputy Secretary
Mr P Corley, OT 4/Department of Trade
Mr D Hall, OT 4/Department of Trade
Mr C Cruickshank, OT 4/Department of Trade
Miss Mary Penn, Sino-British Trade Council

Chinese Minister, Madame Chen Muhua
Entire party from Peking (see programme details)
Charge d'Affaires, Chinese Embassy, London
Counsellor (Commercial), Chinese Embassy, London

After the opening courtesies (the Secretary of State had already met Madame Chen at Heathrow the previous day), discussion concentrated on bilateral trade relations, specific trade and investment opportunities in China, the 051 project, and - in conclusion - a reference to the Shanghai Consulate General and bilateral technical co-operation. The discussion, which was undertaken entirely by Madame Chen and Lord Cockfield, was generally amiable. Madame Chen was clearly well briefed, if erroneously in the case of the 051 project.

BILATERAL TRADE

Madame Chen welcomed the development of bilateral economic relations between the two countries since 1972. She viewed the 1982 downturn in bilateral trade as only a temporary phenomenon, and she looked to sustained growth for the future. Her government's present policy of opening China to the outside world was a long-term one, and business would be undertaken on the basis of equality and mutual benefit.

The Secretary of State welcomed the Chinese approach, and assured her of HMG's interest in expanding United Kingdom trade with China. He was concerned, however, that whilst our exports to China in 1982 had been only half those (even in money terms) of 1979, Chinese exports to the United Kingdom had increased 50% over the same period. China enjoyed a substantial bilateral trade surplus. This was one reason why HMG was particularly anxious to explore the opportunity of project business in China.

INVESTMENT IN CHINA

Madame Chen said that foreign industrialists were most welcome to participate in China's modernisation programme. She referred specifically to the importance of electricity generation, but also energy saving projects and co-operation in the production of chemicals. She specifically mentioned insecticides, and the Secretary of State invited officials to follow the point up in more detail. Madame Chen emphasised that foreign investment in China was protected by regulations governing Joint Ventures, and her government was now discussing specific investment protection

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and double taxation agreements at bilateral level. The conclusion of these bilateral discussions need not, however, prevent specific understandings being attached to particular project agreements. Concluding her general comments, she noted that her government's plan was to introduce 3,000 new technologies in the next three years to further the modernisation of Chinese industry.

The Secretary of State turned to specifics.

He noted that HMG had been very encouraged at the signature of the Pilkington Float Glass Joint Venture. He understood, however, that certain difficulties had arisen on the licensing agreement which he hoped Madame Chen would help resolve. Madame Chen said that she had had discussions with Pilkington in Peking earlier in the week. She had understood that most problems had been settled and that only minor issues, ie export percentages, were outstanding. She did not expect these to cause any great difficulty. The Secretary of State said his understanding was that there were differences over the law to be applied to any arbitration over the agreement. Madame Chen confirmed that she had discussed this with Pilkingtons, and felt that it would be possible to find a mutually acceptable third country for such arbitration.

The Secretary of State referred to Shell's Letter of Intent to carry out a feasibility study for the Jining Coal Mine in Shandong Province. He hoped that this would lead to a substantially more business: the United Kingdom had great expertise in coal mining. Madame Chen said that if the Jining project were successful, there should be room for other Joint Ventures in the Province.

The Secretary of State emphasised the United Kingdom's very great interest in the Guangdong Nuclear Power Project. HMG hoped that there would soon be a firm decision in favour of GEC supplying turbine generators. Not for the first time, Madame Chen referred non-committally to "smooth progress", and noted that discussions were continuing between Hong Kong and Peking.

The Secretary of State underlined BP and Shell's keen interest to obtain offshore drilling rights. They and other United Kingdom companies involved in the North Sea had real expertise and he hoped that the present negotiations would be successful. Madame Chen also hoped that they would be successful "as a result of their favourable terms offered to China" (ambiguous as to whether past or future tense).

The Secretary of State noted that Madame Chen would be visiting Simon Carves during her visit, and that they were presently negotiating for the supply of grain handling and storage equipment for the ports at Dalian, Shanghai and Tianjin. Madame Chen confirmed the importance of grain handling and transportation equipment for China. A great deal would be needed given the extent of their imports. Co-production of such equipment was intended, and United Kingdom companies would be very welcome to bid as part of the World Bank supported programme for Chinese port modernisation.

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The same theme of co-production and local manufacture arose in response to the Secretary of State's mention of Talon rodenticide. Madame Chen confirmed that the product was still being tested by the Chinese government. Finally, both sides hoped that the Dunlop and Cable and Wireless Joint Ventures would progress well.

051 PROJECT

The Secretary of State emphasised that the Chinese decision not to ratify the 051 contract was a matter of very great concern to HMG. It had been a particularly severe blow to BAe and BS after more than two years of extensive negotiations. Its apparent failure was a severe setback to the two countries' bilateral trade relations. He had recently made the point to the Chinese Ambassador, but a full explanation for the project's failure had never been provided.

Madame Chen said that she had been informed of the project by the Secretary of State for Industry during his January 1983 visit. The Chinese Vice Premier had explained to Mr Jenkin that the project fell short of China's demands of technology, price and delivery. The contract was now dead as a result of the expiry of the 60 day ratification period. She emphasised her view that this setback was an isolated incident, and should not cast a shadow over other business.

The Secretary of State countered that no explanation had been given by the Chinese Vice Premier, nor had one since been received despite the Secretary of State for Defence's letter to his opposite number. He was surprised if price was a point of difficulty since this had been agreed as recently as November 1982. Unfortunately, after lengthy negotiations for China to withdraw at the last moment did tend to undermine overall confidence. Madame Chen merely responded by repeating the reasons for not ratifying the contract, and her hope that confidence would not be undermined. She gave no suggestion that the contract might be resurrected.

SHANGHAI CONSULATE GENERAL

The Secretary of State expressed the hope that Madame Chen could inject greater urgency into the Shanghai authorities to assist HMG getting a suitable site for its new Consulate General. Its early establishment was a point of some importance, following as it did from the Prime Minister's 1982 visit. Madame Chen noted the point.

TECHNICAL CO-OPERATION

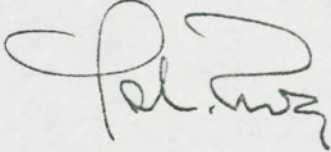
Concluding the meeting, the Secretary of State noted that HMG had been considering a technical co-operation programme. He could not give details at this stage, but one lasting for three years was planned and HM Embassy Peking would discuss the allocation of funds with the Chinese government. The amounts involved would be relatively modest for the first year, but be increased in the next two.

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CONCLUSION

The meeting lasted 75 minutes (with interpretation). It ended with expressions of goodwill, and Madame Chen's hope that the Secretary of State would find an opportunity to visit China.


JOHN RHODES
PS/SoS(Trade)
Room 807 VS
Extn 5422

28 March 1983

cc Those present (DoT)
PS/Number 10
PS/SoS(Industry)
PS/SoS(Energy)
PS/SoS(Defence)
PS/Foreign Secretary

PS/MfT
PS/Secretary
Mr Garrod, Inf
Mr Grant, OVB/DoT
HM Embassy, Peking

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GRS 260

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FROM PEKING 280450Z MAR 83

TO PRIORITY FCO

TELEGRAM NUMBER 279 OF 28/3/83

See U/N TEL
280630Z

FOLLOWING IS THE TEXT OF SIGNAL 250900Z MAR
TO MOD, INADVERTANTLY NOT COPIED TO YOU.

1. FOLLOWING IS TRANSLATION OF A LETTER ADDRESSED TO S OF S
FOR DEFENCE FROM CHINESE MINISTER OF DEFENCE HE MR ZHANG
AIPING. QUOTE:

BRITISH SECRETARY OF STATE FOR DEFENCE, MICHAEL HESELTINE: YOUR
EXCELLENCY I AM SORRY I HAVE BEEN UNABLE TO REPLY SOONER TO YOUR
LETTER RECEIVED THROUGH THE AMBASSADOR. PARA. IN YOUR LETTER YOU
RAISED SOME QUESTIONS ABOUT THE O51 PROJECT. AS YOU KNOW, WHEN
VICE PREMIER WAN LI MET YOUR MINISTER FOR INDUSTRY MR JENKIN
IN PEKING IN JANUARY OF THIS YEAR HE CLEARLY STATED THE REASON OUR
GOVERNMENT COULD NOT RATIFY THE AGREEMENT: TO REPEAT IT WOULD BE
SUPERFLUOUS. PARA. CONCERNING MR BLAKER'S VISIT TO CHINA, HE IS
WELCOME TO COME AT A TIME CONVENIENT TO HIM. PARA. IN YOUR LETTER
YOU HOPED THAT DURING YOUR TENURE OF OFFICE THE EXCELLENT RELATIONS
BETWEEN THE ARMED FORCES OF BRITAIN AND CHINA COULD BROADEN AND
DEEPEN. REGARDING THIS, I BELIEVE THE RELATIONS BETWEEN OUR TWO
ARMED FORCES WILL FURTHER STRENGTHEN AND DEVELOP ON THE BASIS OF
FRIENDSHIP AND EQUALITY AND MUTUAL BENEFIT. BEST WISHES ZHANG
AIPING, MINISTER OF NATIONAL DEFENCE PEOPLE'S REP OF CHINA. UN-
QUOTE.

2. OUR COMMENTS WILL FOLLOW BOTH TO YOU AND MOD

3. ORIGINAL LETTER WILL BE SENT TO MOD BY NEXT BAG.

CRADOCK
LIMITED
FED
HK&GD
DEF. D.
PS
PS/LORD BELSTEAD
PS/PUS
MR. GIFFARD
MR. DONALD

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PS/S.O.F.S. MOD
ADDL. DISTR:
DEFENCE SALES TO CHINA (19)
THIS TELEGRAM
WAS NOT
ADVANCED

CONFIDENTIAL

B.R.

Not for me but why not
kete-a-kete?

1. MR. FLESHER

JA

2. MR. COLES

24/3

Visit of Madame Chen, Chinese Minister of
Foreign Economic Relations: 9-9.30,
Wednesday, 30 March

Madame Chen wishes to bring 16 people with her. There are 9 individuals who form part of her delegation, and then there is a request from 3 at the Embassy.

The meeting is only for half an hour, so surely this is out of the question. I promised to ring Lord Cockfield's office back with a limit on numbers. What do you suggest?

C.S.

Caroline

I have dealt
with this.

24 March, 1983.

A.S.C. $\frac{25}{3}$



FIVE SW

China

10 DOWNING STREET

From the Private Secretary

16 March, 1983

Visit of the Chinese Minister of Foreign
Economic Relations and Trade

Thank you for your letter of 15 March.

I confirm that the Prime Minister will receive Madame Chen at 0900 on Wednesday, 30 March. As you know, only 30 minutes have been set aside for this call. I hope, accordingly, that the brief for the Prime Minister will be succinct and, if possible, confined to two or three pages. I shall not need it until mid-day on Tuesday, 29 March. But I should be grateful if you could ensure that it reaches me by that time.

A. J. COLES

J. Rhodes, Esq.,
Department of Trade

NR



From the Secretary of State

Caroline

Is the time correct?

A.J.C. $\frac{15}{3}$

AJC

Yes - C.S. 15/3.

John Coles Esq
Private Secretary to the Prime Minister
10 Downing Street
London, SW1

15 March 1983

Dear John,

VISIT OF THE CHINESE MINISTER OF FOREIGN ECONOMIC RELATIONS AND
TRADE: 27 MARCH-1 APRIL 1983

Thank you for your letter of 8 February.

You will be aware that there has been a slight re-shuffling of
Madame Chen's programme since your letter to me. I should be
grateful if you could confirm that arrangements have now been
made for Madame Chen to be received by the Prime Minister at
09.00 on Wednesday 30 March.

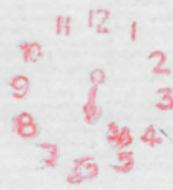
Unless we hear otherwise, we would propose that briefing should
reach you by Friday 25 March, with any "up-date" following by
Tuesday 29 March.

Yours sincerely,

JOHN RHODES
Private Secretary

China is
Man-British
Sino-British
Relations

15 MAR 1983



SECRET

2



Foreign and Commonwealth Office

London SW1A 2AH

11 March, 1983

Mc $\frac{11}{3}$
p.a.

Dear John,

Visit of Madame Chen Muhua, Chinese Minister of Foreign Economic Relations and Trade: 24-31 March

The Department has been asked (by OT4) to provide briefing on the future of Hong Kong for Madame Chen's calls on the Secretaries of State for Trade and Industry.

As you will be aware, the future of Hong Kong is the subject of sensitive discussions between the United Kingdom and China. It may be that when Madame Chen is here it will be right to discuss Hong Kong's future with her, but whether we say anything and what we might say will depend partly on developments between now and the time of her visit. In any case the Prime Minister herself may wish to raise the subject when she sees Madame Chen.

We therefore propose not to send any briefing now but to review the situation nearer the time.

I am copying this to Jonathan Spencer (Department of Industry) and John Coles (No 10).

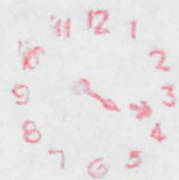
Yours ever

(J E Holmes)
Private Secretary

John Rhodes Esq
Private Secretary
Department of Trade

SECRET

1 MAR 1985



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File

288

2 March 1983

CHINA-- PROJECT 051

The Prime Minister has noted the contents of Mr. Heseline's minute of 25 February conveying the information that both British Aerospace and Vosper-Thornycroft have been informed by the Chinese authorities that they have decided not to ratify the two contracts involved in the above project.

A. J. COLES

Richard Mottram, Esq.,
Ministry of Defence.

CONFIDENTIAL



SC 25

(2)

Prime Minute

if confirmed, disappointing.

MO 11/14

mt

A-7 C. 1/3.

PRIME MINISTERCHINA - PROJECT 051

With my minute of 16th February I enclosed a copy of a personal message that I had sent to the Chinese Defence Minister on the 051 Project. I have not received any formal reply from Peking, but during the last two days both British Aerospace and Vosper Thorneycroft have been informed by the Chinese authorities that they have decided not to ratify the two contracts concerned. To date our Ambassador in Peking has not been informed of the decision either.

2. My officials are discussing the situation with the two contractors concerned, after which I will be considering whether there is any useful approach we can make at this stage to the Chinese Government. I will, of course, keep you informed.

3. I am copying this to Francis Pym, Patrick Jenkin and Arthur Cockfield.

Wright

Ministry of Defence

25th February 1983

CONFIDENTIAL

11 MAR 1983

U.S. AIR FORCE
HEADQUARTERS
WASHINGTON, D.C.





FIVE RM
cc: FCW
China

10 DOWNING STREET

THE PRIME MINISTER

11 February, 1983

Dear Tom,

Thank you so much for your letter of 31 January about your recent visit to Hong Kong and China. You make a number of interesting and valuable points which I shall bear in mind.

I have had some enquiries made about the guidance provided by the Foreign and Commonwealth Office. It looks as though there has been a misunderstanding.

I gather that when the Foreign and Commonwealth Office heard, in the middle of December, that you would be making this journey, they telephoned you and that they were told where you would be staying in Hong Kong, that you would be grateful for any briefing that they could offer and that you would otherwise require no assistance.

The Governor of Hong Kong was informed of this. I understand that a general political brief on Hong Kong was sent and an oral briefing was offered. Since the Foreign and Commonwealth Office received no reply to this letter they thought you were satisfied with what had been provided.

Our Embassy in Peking, who had similarly been informed of your visit, asked the Foreign and Commonwealth Office for more details and were particularly keen to know the name of your host in China. From past experience of making arrangements for visitors to China, there were good reasons for this. I understand that the Foreign and Commonwealth Office then contacted your Secretary at the

/ House

SW

House of Commons who was not able to provide the details requested and, in response to an offer of assistance from the Embassy in Peking, indicated that you did not require any.

It was good of you to write and I hope you will keep me in touch with your views about Far Eastern matters.

Yours ever

Raymond

COVERING RESTRICTED



Foreign and Commonwealth Office

London SW1A 2AH

8 February 1983

Dear John,

Visit of Sir John Langford-Holt to Hong Kong
and China

You asked about the background to this.
/ I enclose a copy of a self-explanatory minute
from the Department.

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

COVERING RESTRICTED

RESTRICTED

Private Secretary

cc: Mr Coghlan, FED

SIR JOHN LANGFORD-HOLT MP'S VISIT TO HONG KONG AND CHINA :
JANUARY 1983

1. You asked Mr Clift for the background to Sir John Langford-Holt's visit to the Far East in January. I understand he has made a complaint about the handling of his visit by the FCO.

2. In the middle of December we heard that Sir John Langford-Holt would be passing through Hong Kong on his way to China and telephoned his office to check details of timing and accommodation. Our normal practice in the case of MPs visiting Hong Kong is to offer briefing and to inform the post of their flight and accommodation details. Thereafter the post makes the necessary arrangements. In this case, Sir John (to whom we spoke personally) told us that he would be staying with Dr Haking Wong in Hong Kong, that he would be grateful for any briefing we could offer and that otherwise he would require no assistance.

A
B 3. We then sent a telegram to Hong Kong reporting this and Mr Clift wrote to Sir John, enclosing a copy of our General Background Brief on Hong Kong and offering further assistance or briefing if required. We had no reply to this letter and so took it that Sir John was satisfied with what we had provided.

4. Peking picked up the reference to Sir John's visit to China from the repetition of the telegram to Hong Kong. They asked for more details and were particularly keen to have the name of his host. From past experience there are good reasons for this. Far Eastern Department then contacted Sir John's Secretary at the House of Commons who professed not to know any details of the host and parried all further questions about the visit. All she would reveal were details of his flights to and from Peking. In response to FED's offer of assistance from the Embassy in Peking, Sir John's Secretary said that he did not require any..

R J F Hoare

8 February 1983

R J F Hoare
Hong Kong and General Department

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RR HONG KONG
GRS 78
RESTRICTED
FM FCO 231100Z DEC 82
TO ROUTINE HONG KONG
TELEGRAM NUMBER 1101 OF 23 DECEMBER
INFO PEKING

HKK026/2
P KJM AP31/12

VISIT TO HONG KONG OF SIR JOHN LANGFORD-HOLT MP
1. SIR JOHN LANGFORD-HOLT MP IS PASSING THROUGH HONG KONG ON HIS WAY TO CHINA IN JANUARY. HE ARRIVES AT 1830 ON 10 JANUARY ON TG606 AND LEAVES ON 11 JANUARY AT 1245 ON CA102.
2. SIR JOHN'S ARRANGEMENTS ARE BEING DEALT WITH BY DR HACKING WONG CBE. HE HAS NOT ASKED FOR ANY ASSISTANCE BUT WE HAVE OFFERED HIM BRIEFING.

See 189

PYM

NNNN
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HKGD
FED
PCCU

COPIES TO:-
MR WEBB-JOHNSON,
HONG KONG GOV. OFF. LDN.



Foreign and Commonwealth Office
London SW1A 2AH

23 December 1982

Sir John Langford-Holt MP
House of Commons
LONDON SW1A 0AA

HICK 026/2

kgm AF 21/12

Dear Sir John,

/

I understand that you will be passing through Hong Kong on your way to China in January. I enclose a copy of our general political brief on Hong Kong and, if it would help, would be glad to fill this in with an oral briefing. Please ring me on 01 233 3184 if you need more assistance.

*Yours sincerely
R D Clift*

R D Clift
Head of Hong Kong and General Department

10 11 12 1
8 9 10 11 12
7 8 9 10 11 12



CONFIDENTIAL

CHINA



Foreign and Commonwealth Office

London SW1A 2AH

N.B.P.R.

HL 8/2

Dear John,

Visit of Chinese Minister of Foreign Economic Relations and
Trade: 27 March - 1 April 1983

Mr Pym has seen John Rhodes's letter of 4 February to you. He supports the proposal that Mme Chen should call on the Prime Minister. The visit will be a significant event for Anglo-Chinese bilateral relations (ministerial visits in this direction are rare) and John Rhodes's letter sets out the positive advantages to us of making the visit a success. For Mme Chen to be received at the highest level would in our view contribute substantially to this. We see no particular implications for Hong Kong in whether or not she is received by the Prime Minister. It is too soon to take a view on whether or not the Prime Minister should raise Hong Kong with Mme Chen, if Mrs Thatcher agrees to the call.

I am sending copies of this letter to John Rhodes and to Jonathan Spencer in the Department of Industry.

Yours ever
John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

CONFIDENTIAL



huc (W)
China

10 DOWNING STREET

From the Private Secretary

8 February, 1983

BAP

(P)

VISIT OF THE CHINESE MINISTER OF FOREIGN ECONOMIC
RELATIONS AND TRADE

Thank you for your letter of 4 February. The Prime Minister would be glad to receive Madame Chen Muhua for 30 minutes at 0930 hrs on Tuesday, 29 March.

I am copying this letter to John Holmes (FCO) and Jonathan Spencer (Department of Industry).

A. J. COLES

J. Rhodes, Esq.,
Department of Trade



cc Ch
Na
Supt Mr. Liddle

10 DOWNING STREET

From the Private Secretary

4 February 1983

Dear Jonathan,

YOUR SECRETARY OF STATE'S VISIT TO THE FAR EAST

The Prime Minister read with interest Mr. Jenkin's minute of 31 January on his recent visit to the Far East.

On one specific point, the Prime Minister would be grateful for further information about paragraph 12 in which Mr. Jenkin states that Project 051 for two Luda class destroyers is now in jeopardy. Could you kindly let me have a further note about the details.

VSK

I am sending copies of this letter to Brian Fall (FCO), John Kerr (HM Treasury), Richard Mottram (MOD), John Rhodes (Department of Trade) and Richard Hatfield (Cabinet Office).

Yours ever
John Liddle

Jonathan Spencer, Esq.,
Department of Industry.



From the Secretary of State

Prime Minister

Agree to receive Madame
Chen Muhua for 30 minutes
at 9.30 on Tuesday, 29 March?

Yes, not A.C. 3/2.

4 February 1983

A J Coles Esq
Private Secretary
10 Downing Street
London
SW1

Dear John

VISIT OF THE CHINESE MINISTER OF FOREIGN ECONOMIC RELATIONS AND
TRADE: 27 MARCH - 1 APRIL 1983

The purpose of this letter is to ask if the Prime Minister would be willing to receive a courtesy call from the Chinese Minister of Foreign Economic Relations and Trade, Mme Chen Muhua, during Mme Chen's visit to Britain. This is expected to be between 27 March and 1 April 1983 : certainly she will be in London on the 28th and 29th March.

Mme Chen's visit is in response to the invitation issued by the Prime Minister during her visit to China last September. Lord Cockfield will be her host. After leaving Britain, Mme Chen will go on to Malta, France and Belgium.

It would be appropriate for the Prime Minister to receive a courtesy call from Mme Chen, not only because the visit stems from the Prime Minister's invitation, but also on broad political and trade grounds. This will be Mme Chen's first visit to Britain, and the first visit by a senior Chinese Minister since the Chinese government reforms in early 1982. It is therefore a significant event in UK/Chinese political, as well as trade, relations.

The Chinese may be nearing important decisions on the Guangdong nuclear project. The French are very likely to use Mme Chen's visit to further their interest in that project, and we must ensure that Mme Chen's reception in this country is at least as good as she will receive in France. A call on the Prime Minister would be the clearest possible indication of the importance we attach to our political and trade links with China, and to the Guangdong project in particular. It is also significant that the Chinese Prime Minister generally receives Senior British Ministers visiting China. We find such meetings valuable and wish to encourage the practice to continue.



From the Secretary of State

Details of Mme Chen's programme, including arrangements for her to meet other Departmental Ministers, are currently being worked out.

I am sending copies of this letter to the Private Secretaries to the Foreign and Commonwealth Secretary and to the Secretary of State for Industry.

*Yours sincerely,
John Rhodes*

JOHN RHODES
Private Secretary

24 JUN

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10



POST OFFICE



Prime Minister

AN³/₂.

PRIME MINISTER

VISIT TO THE FAR EAST : 12-23 JANUARY

I was in Hong Kong from January 12 to 14, in Peking from January 14 - 18, and in Japan from January 18 to January 23.

Hong Kong

2 It was immediately clear that the discussions with Peking on the future of Hong Kong continue to dominate the scene. I was left with the uneasy impression that there could be serious risk of a collapse of confidence if the position is not resolved fairly soon. The Chinese continue to make irresponsible comments, blaming the delay on the British. While I was there a high ranking Party Official made a statement to a group of Community Leaders from the New Territories to the effect that the Chinese had made firm proposals to the British last autumn but had not so far had any reply - the complete opposite of the truth. I am sure that it is essential to make progress with the negotiations and to work for a satisfactory solution within the next 2 to 3 years. As I am sure you are well aware, business opinion is fragile and increasingly unable to plan ahead with confidence in a stable and prosperous future for Hong Kong.

3 At Lord Kadoorie's invitation, I visited Castle Peak. It is clear that the reputation of British firms involved stands very high. Lord Kadoorie remains as keen as ever on the Guangdong nuclear project but is clearly looking for Hong Kong Government participation.



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4 I discussed Guangdong with the Governor and Members of his Administration and this proved a difficult meeting. Their attitude is heavily coloured by the UK - Peking discussions and the Chinese statements, they feel, are putting them under pressure. I was warned that the Hong Kong Government would be slow to make what might appear to be concessions to the Chinese over Guangdong. I found this attitude puzzling because I am sure that one way of improving Chinese understanding of the value of Hong Kong would be through collaborative UK/Hong Kong/China projects. The downside consequences of what would undoubtedly be represented as the Hong Kong Government turning down such a project with China could be serious. I know that Sir Percy Cradock in Peking has underlined this consideration to the Governor, and has pointed to the advantages of securing Bank of China guarantees for the loan financing for this project, which depends so critically on the future prosperity of Hong Kong. I believe that in the end, these arguments must weigh heavily with the Hong Kong Government.

5 Apart from Guangdong there are opportunities in the development of offshore oil in the South China Sea. The Chinese Ministry of Petroleum are interested and are already considering the role that Hong Kong-based firms could play, especially in the industries which service offshore oil operations.

China

6 I held a series of meetings with my host, Madame Chen Muhua, Minister for Foreign Economic Relations and Trade, and Ministers or Vice-Ministers in the Ministry of Foreign Affairs, the Ministry of Water Conservancy and Electric Power, the State Planning Commission, the State Economic Commission, the Ministry of Petroleum and the Ministry of Coal. All these meetings were cordial and friendly in tone. I also had a rather stiff meeting



CONFIDENTIAL

with Acting Premier Wan Li who gave me an hour on Sunday morning in the absence of Premier Zhao who was in Africa.

7 I was struck by the contrasting attitudes of the Ministers I met. The policies of "adjustment" are obviously being pressed ahead and some Ministries, notably the State Economic Commission (SEC) are adopting a very pragmatic and un-doctrinaire attitude. Vice-Minister Ma Yi of the SEC was particularly forthcoming and warmly agreed with me when I said that in economic affairs what was important was not dogma but results. By contrast, Vice Minister Huang Yicheng of the State Planning Commission seemed to me to be remarkably remote from the realities of life.

1
8 I had a long and useful discussion with Vice Minister Li Peng about Guangdong. It was clear to me that following the decision of the Chinese Government on December 23 to go ahead with the project in principle, work was proceeding at an accelerated pace. A high level nuclear engineer, Mr Peng-Shilu, has been appointed an additional Vice Minister and he is to be located in the Province of Guangdong. Li Peng did not appear to have a very clear grasp of the financing aspects. He and I agreed that these should be discussed by financial experts which would include officials of the Bank of China. The Chinese are also concerned that GEC has not as yet built any high speed 900 megawatts sets but I was able once again to remind them of the fact that GEC are one of the world's biggest suppliers of turbine generators and were fully competent to supply the equipment needed.

9 It is obvious that the next series of talks on this project in Hong Kong and Peking which the Chinese are planning for the second half of March will be critical. I gained the impression that they would aim to take the major decisions on financing and on suppliers fairly soon thereafter.



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10 The Chinese are planning to increase coal production from 600 million tonnes now to 1,200 million tonnes by the end of the century. There are obviously major opportunities here for British companies in modernising existing deep mines, in new mine projects and in ancillary investment such as coal washing plant and port handling facilities. UK companies are already considerably involved and apparently highly regarded by the Chinese Coal Ministry. I emphasised the unrivalled deep mining technology of the NCB and the UK mining machinery companies. I intend to follow this up with the British companies concerned.

11 Oil is another high priority identified in China's 5 year plan. Tenders for development of offshore oil are now being evaluated and hints were dropped that BP especially, and Shell, were well placed. Minister Tang Ke, asked that BP and Shell should send experts for further discussions with his Ministry before 13 February. I stressed the expertise of the some of our smaller companies, e.g Tricentrol, and I gained the impression that they were also being considered. I emphasised the experience gained in the North Sea by UK oil companies and firms providing ancillary services, a point obviously well taken by the Minister.

12 On defence sales, there is scope for small to medium sales to China. Project 051 (equipment for 2 Luda class destroyers) promised to make Britain the leading supplier of defence equipment to China, with a £50 million share for Vosper-Thornycroft and £70 million for British Aerospace. However, when I arrived in Peking the Embassy warned me that the project was in jeopardy as the Chinese appeared to be seeking substantial concessions on the contract even though it had only been signed after two years hard negotiations. The Ambassador and I were

*The first
& have
least of
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shell
make
enquiries.*

A.F.C. 3/2. able to take this up forcefully with Acting Premier Wan Li and



CONFIDENTIAL

other Ministers. I particularly stressed the damage to confidence if contracts, freely negotiated and signed, were not seen to be sacrosanct.

13 I drew attention to the progressive worsening since 1979 of the balance of trade with the UK and argued that there was substantial scope to put this right by the further purchase of UK products, especially capital goods. I took the opportunity to promote British interest in several current projects such as System X, BAe146, the "Three Ports" project and other projects. There is also a prospect of very substantial sales of an ICI rodenticide, Talon. There are ten times as many rats in China as there are people!

14 On a visit out into the country, I was struck by the amount of new investment taking place in buildings, drainage etc and I was told that this was the direct result of the new freedom now allowed to the rural population to work on their own account. The Government is now considering extending this new freedom to urban areas and to industry.

15 Before I left I reiterated your invitation to Madame Chen Muhua to visit Britain and I was told that she is planning a European trip around the end of March. I very much welcomed this and hoped that we would see her in Britain for several days (now fixed for 27 March to 1 April).

Japan

16 My main purpose was to hold discussions with Japanese Ministers including the new MITI Minister (Mr Yamanaka) and business leaders, focussing on the problem of the substantial and growing trade imbalance in manufactures between Japan and the UK. I found a much more receptive attitude to my arguments than I



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had experienced before, not least among Japanese business leaders. My discussions were held in the wake of the important announcement by Prime Minister Nakasone who, before leaving for Washington, had called on Japanese public authorities and private concerns to treat "trade friction" as a serious issue and do more to help solve the problem. While welcoming this announcement, I stressed at all my meetings that it would be concrete results that counted in the end.

17 I pressed the case especially with Mr Yamanaka, for more purchases of British capital goods. I pointed out that we had many competitive and advanced products on offer, particularly in the fields of defence, off-shore oil, environmental engineering, medical and testing equipment, and aerospace. But my efforts on behalf of BAe 146 were always countered with references to the financial difficulties of the potential buyer (TDA, the main internal airline).

18 I also reviewed with Mr Yamanaka progress over industrial collaboration. The DOI/MITI exercise which was begun some 18 months ago is clearly gaining momentum. Over 50 possible projects have now been identified. I emphasised that we were looking for results and asked MITI to put pressure on several specific cases where there seemed to me to be prospects of an early agreement. I also asked MITI to step up their efforts to promote co-operative ventures in third markets.

19 On inward investment, we have managed to attract a few more small projects (notably in VTR's and VTR Tapes); Honda announced a proposal to carry out a feasibility study into the manufacture of motor bicycles in the UK; and Fujitec announced a study into the possibility of manufacturing lifts. But Nissan - while extremely friendly at their meeting with me - are not yet ready to reach a decision on their project to make cars here, which would of course be very much larger than the totality of all Japanese investment in Britain that has so far taken place or is planned.



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20 While in Japan, I also wanted to form a clearer view on the problems which British firms have in getting established in the Japanese market. I discussed this with a number of British businessmen including representatives of ICI, Unilever, Beechams and Shell, and at a lunch organised by the British Chamber of Commerce in Tokyo. They emphasised to me that it requires great effort to sell into the Japanese market because of the difficulty of coming to grips with the very different methods and attitudes of Japanese buyers. But I was assured that the prejudice against imported goods has declined rapidly, and that if competitive goods are made available and marketed in ways likely to appeal to Japanese buyers, very good business can now be done.

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21 On the trade issue generally, I stressed the desire of the British Government to try to reach solutions based on the positive approaches involving better access to the Japanese market, more Japanese investment in Britain and faster progress in collaborative projects. However, I made it clear on every occasion that unless we could see visible progress we would be driven by political pressure to take the more restrictive action of limiting Japanese exports to Britain. Several of the Japanese contrasted the British attitude on this favourably with the French attitude. I made it clear that if the Japanese were to make concessions to the French in response to their highly protectionist measures, while we were seeking to negotiate satisfactory arrangements without indulging in such antics, that would create a very bad impression in Britain. This point seemed to be very well taken in particular by officials in the Ministry of Foreign Affairs.

22 Overall, I am sure that this mixture of the steel hand in the velvet glove is much the best approach; both elements are essential.



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22 Overall, I am sure that this mixture of the steel hand in the velvet glove is much the best approach; both elements are essential.



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23 I am extremely grateful to Sir Edward Youde, Sir Percy Cradock and Sir Hugh Cortazzi and their wives and Embassy staffs for the immense amount of trouble that was taken over my visit and for the generous hospitality we received.

24 I am sending copies of this minute to Francis Pym, Geoffrey Howe, Michael Heseltine, Nigel Lawson, Arthur Cockfield, Tom King and Sir Robert Armstrong.

PJ

P J

31 January 1983

Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

Sir John Langford-Holt, M. P.



HOUSE OF COMMONS
LONDON SW1A 0AA

B3/2

31st January, 1983.

Sir Prime Minister

I have just arrived back from a week in Peking. I did not take any notes of any sort, nor have I made any until this moment. I did not wish to give any impression of reporting back to you or anyone else.

The Chinese are in a funny mood, they seem to combine an inferiority complex with pride and determination. In anything but a Chinese Communist Government this would be an impossibility.

I must place on record that although I informed the F.C.O. two weeks before departure that I was going to Peking for a week as the Guest of the Chinese Peoples Republic I received absolutely no guidance or advice whatever except some trade statistics and a summary on Hong Kong. As Hong Kong was only a stop over en route and as I have been there annually for the last thirty years this was of limited value.

I hope I did not make any bad mistakes in a tricky situation. If I did not it was no thanks to the Foreign Office who had not even told the Governor or Government in Hong Kong nor the British Ambassador in Peking, that an itinerant M. P. was in their area of responsibility.

I made a point of seeing both and I hope I was helpful.

Below I list the main points which the Chinese referred to on several occasions. I list them in no particular order.

Recognition of the P.L.O.

I do not know why this bothered them but it did. Advice that I was going to be confronted by this and the other topics would have been usefully received from the Foreign Office.

I hope I put British policy correctly in telling them that we are not against the Palestinians we support the creation of a home for them in the area. As far as your refusal to see P.L.O. representatives as such it arises from a traditional attitude we have over recognition. We recognise States who

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HOUSE OF COMMONS
LONDON SW1A 0AA

have executive power regardless of the character of the Government. We were one of the first Western nations to recognise the Peoples Republic of China. I asked them if they could tell me of what territory the P.L.O. was the effective executive Government.

Prime Minister's remarks in Hong Kong

The Chinese were upset by your comments on Sovereignty when you got back to Hong Kong. I hazarded a guess that you had made a spontaneous reply to a quick question at a public press conference but that your policy remains secret diplomacy on the subject of Hong Kong. I wish I had known that your answer was a comment on something which had been said in China.

Hong Kong

They are exercising their emotions quite a bit on Hong Kong. They talk only about Hong Kong being historically part of China and belonging to China. I suggested that some caution should be exercised on the point at which one starts history.

I made the flippant observation that Britain having been part of the Roman Empire for 400 years does not give Italy a claim for historic possession.

It is clear that the Chinese Government have scant respect for the feelings of the people of Hong Kong, whereas I felt it necessary to point out that we regard the wishes of the People as very important. It is this regard which lies at the root of problems like the Falklands (which they call Malvinas), Gibraltar, as well as Northern Ireland.

I pointed out, that were the confidence of the residents of Hong Kong to be lost the result would be the death of the goose laying the golden eggs. (The Chinese have a saying the same as us on this subject).

At some point (I think by our Ambassador in Beijing) I got what I thought would be a telling point, certainly Sir Edward Youde thought so. The Chinese hope to acquire both Hong Kong and Taiwan with as little fuss as possible. They should never forget that Taiwan will be watching most carefully the way in which Hong Kong is solved. This point seemed to be taken and its significance should be made use of by H. M. G.

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LONDON SW1A 0AA

U. S. S. R.

The Chinese distrust of Russia seems to be deep seated and what they appear to be interested in now is a regularisation of State relationship rather than anything further. The Chinese have put forward their three conditions to which the Russians could give a blurred assent. We should always bear in mind that there is nothing difficult whatever in a major about face by an authoritarian State.

U. S. A.

America is as you know classed as a "Hegemenous" State. I told them that hegenemy is a word I scarcely comprehend. I told them that the clearer words would be "Power Politics".

I accepted that America might be considered "Hegemenous" in the trade sense in that they will sell Boeing Aircraft and Coca Cola whenever and however they can. I gave it as my strongest view that there was no plan anywhere in the U. S. A. outside a diseased mind which considered an aggressive war. I told them that from my own observations there was absolutely nothing aggressive in the posture of NATO.

The Chinese often referred to their displeasure at the sale of arms by U. S. A. to Taiwan. I asked them to keep this in perspective. The Americans have come a long way in the ten years since they not only recognised Taiwan as the Government of all China but they also had an alliance complete with an American Fleet sailing round Taiwan. I said that I thought the solution of Taiwan along the lines of China's own plan might be more likely when Taiwan was no longer ruled by a son of Chiang Kai-Shek. I also stressed that Taiwan would be watching Chinese behaviour over Hong Kong.

Andropov's suggested non-aggression Pact

The Chinese hoped that we would take this more seriously than had been so far done.

I told them that I was sure that the West would react favourably to any well-intentioned and soundly based proposals.

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LONDON SW1A 0AA

On the question of non-aggression Pacts in general I pointed out the obvious. Not only America Russia and China but every other member of the U.N. has already signed a non-aggression Pact in accepting the U.N. Charter. I felt bound to recall two other non-aggression Pacts.

The first was the Kellogg Pact signed in about 1935 or 1936 by 52 Nations outlawing war. The second was the non-aggression Pact between Russia and Germany in 1939 whose signature was witnessed by Stalin himself. That Pact lasted precisely two years. Mr. Andropov is old enough to remember both these.

I apologise for the length of what I hoped would be a few short notes.

Yours sincerely
John Layton

The Rt. Hon. Margaret Thatcher, M. P.
10, Downing Street,
S.W.1.

China
Rio/Arge/Albin
May 79



China

39

10 DOWNING STREET

From the Private Secretary

17 November 1982

CHINA: PROJECT 051

The Prime Minister has noted the contents of your Secretary of State's letter of 12 November. Mrs. Thatcher is pleased that the negotiations for the supply of shipborne equipment and anti-aircraft missiles to the Chinese Navy have been successfully concluded.

A. J. COLES

Richard Mottram, Esq.,
Ministry of Defence.

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GRS 500

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FROM PEKING 160430Z NOV 82

TO PRIORITY FCO

TELEGRAM NUMBER 752 OF 16/11/82

REPEATED FOR INFO TO PRIORITY MOD (HEAD OF DEFENCE SALES
AND RM3C), DOT
AND HONG KONG

SAVING TO WASHINGTON MOSCOW UKDEL NATO.

051 PROJECT.

1. THE 051 CONTRACT FOR THE RE-FIT OF TWO LUDA CLASS DESTROYERS IS WORTH OVER POUNDS 120 MILLION AND THEREFORE THE LARGEST DEFENCE CONTRACT SO FAR SIGNED BY THE CHINESE SINCE THE MODERNISATION POLICY WAS ANNOUNCED SOME FIVE YEARS AGO.

2. IT COMMITS BOTH SIDES TO CLOSE COOPERATION FOR AT LEAST THE NEXT FIVE YEARS AND OPENS THE WAY TO FURTHER CONTRACTS FOR DEFENCE EQUIPMENT ON AT LEAST THE NAVAL SIDE.

THE CHINESE ARE ALREADY TALKING ABOUT THE 037 PROJECT FOR THE RE-FIT OF A LARGER NUMBER OF SMALLER SHIPS.

THE POTENTIAL COMMERCIAL VALUE IS, THEREFORE, AS LARGE AS THE ACTUAL AND THE DEAL HAS, OF COURSE, CONSIDERABLE POSITIVE POLITICAL IMPLICATIONS FOR SINO-BRITISH RELATIONS. IT WILL ALSO BE A SHOT IN THE ARM FOR OTHER BRITISH COMPANIES WHO WERE BEGINNING TO THINK AFTER THREE LEAN YEARS THAT THE CHINESE WERE UNLIKELY EVER AGAIN TO SIGN LARGE CONTRACTS WITH US.

3. THE PRIME MINISTER'S VISIT UNDOUBTEDLY CONTRIBUTED TO THE SUCCESS OF THE NEGOTIATIONS. THE CHINESE WERE NOT ONLY REMINDED THEN OF THE IMPORTANCE WE ATTACH TO THE DEAL, BUT ALSO MADE TO REALISE THAT, APART FROM THE LIFTING OF THE LEVY (WHICH THEY ARE LIKELY TO SEEK IN ANY SUBSEQUENT SIMILAR NEGOTIATIONS), THEY COULD NOT EXPECT ANY FURTHER CONCESSIONS FROM US. THEY THEREFORE HAD TO MAKE UP THEIR MINDS.

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4. IMPLEMENTATION WILL BE TRICKY, PARTICULARLY GIVEN THE ABSENCE SO FAR OF A CLEAR CHINESE COMMAND STRUCTURE FOR THIS PROJECT AND THE WEAKNESS OF PROPER COORDINATING MACHINERY BETWEEN THE VARIOUS CHINESE ORGANS INVOLVED. ON OUR SIDE, IT WILL EVENTUALLY REQUIRE THE PRESENCE IN CHINA OF UP TO 60 TECHNICIANS, MAINLY IN DALIEN AND WUHAN, WITH POSSIBLE ATTENDANT CONSULAR PROBLEMS. BRITISH SHIPBUILDERS INTEND TO OPEN AN OFFICE IN PEKING, PARTLY TO CONDUCT NORMAL SHIP-BUILDING BUSINESS BUT MAINLY TO PROVIDE A BACK-UP POINT FOR THE VOSPER THORNYCROFT TECHNICIANS INVOLVED.

5. AS REGARDS THE PLACE OF THE CONTRACT IN THE CONTEXT OF SINO-BRITISH RELATIONS AT THE PRESENT TIME, I AM SURE THE CHINESE MADE THEIR DECISION ON THE MERITS OF THE CASE, IE THEIR URGENT NEED FOR MORE MODERN SHIPS AND THEIR RECOGNITION THAT WE HAD THE BEST EQUIPMENT TO OFFER. D51 THEREFORE HAD ITS OWN RATIONALE. BUT, HAVING DECIDED IN FAVOUR OF THE CHINESE ARE NOW SEEKING TO FIT THE DEAL INTO A WIDER FRAMEWORK AND EXTRACT WHAT POLITICAL BENEFIT THEY CAN FROM IT. IN THE COURSE OF A CALL BY THE CHAIRMAN OF BRITISH SHIPBUILDERS ON 12 NOVEMBER, STATE COUNCILLOR BO YIPO, REFERRING TO THE D51 PROJECT, AND TO MRS THATCHER'S VISIT, SAID THAT ALTHOUGH THERE MAY BE OTHER PROBLEMS BETWEEN OUR TWO COUNTRIES, COOPERATION ON A LONG-TERM BASIS WOULD CONTINUE TO THE BENEFIT OF BOTH SIDES. ALTHOUGH IT WAS ONLY ONE PROJECT, D51 WOULD START TO PAVE THE ROAD FOR THIS COOPERATION AND WOULD BROADEN IT. IT WAS ONLY THE BEGINNING. CHINA HAD A LARGE UNSATISFIED NEED FOR NAVAL SHIPS.

6. FCO PLEASE PASS SAVING TO WASHINGTON, MOSCOW UKDEL NATO

CRAVDOCK

[THIS TELEGRAM WAS NOT ADVANCED]

LIMITED

FED

DEF D

ACDD

PS/MR HURD

PS/PUS

MR WRIGHT

MR GIFFARD

MR DONALD

MR GILLMORE

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TRED

Ps

Ps LORD BELSTEAD

No 10. (2)

CONFIDENTIAL



Prime Minister
You are aware of this but will
will to show that Mr. Nott
has written.
AOL 15/4

2

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 11/14

12th November 1982

Dear Prime Minister

Since your visit to China Vosper Thornycroft (UK) Ltd and British Aerospace have continued discussions on the supply of ship borne equipment and anti-aircraft missiles to the Chinese Navy. I am sure you will be as pleased as I to learn that these negotiations have been successfully concluded with the signature of contracts for Project 051 in Peking on 10th November.

The deal is very good news for a number of our defence equipment manufacturers. The contracts are together worth more than £120M, representing the largest package of defence equipment which China has bought from the West. This project will do much to establish Britain's position in the Chinese market and should help to provide a sound basis for future business.

Industry has already expressed their appreciation for the support which the Government have shown throughout these negotiations. Before the contracts become effective formal ratification will be required from both HMG and the Chinese Government, and a degree of continuing assistance will be supplied by MOD through the Defence Sales Organisation.

Copies go to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Industry and the Secretary of State for Trade.

John Nott

John Nott

The Rt Hon Margaret Thatcher MP



MINISTRY OF DEFENCE, WHITEHALL, LONDON SW1A 2JH



14 NOV 1982

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China



Foreign and Commonwealth Office

London SW1A 2AH

11 November 1982

Prime Minister

good news.

MS

A.J.C. II

Dear John,

China: Luda Class Destroyer Modernisation Contract

The Prime Minister will be pleased to hear that yesterday British Aerospace and Vosper Thornycroft signed a contract with the Chinese Shipbuilders Trading Corporation and Precision Machinery Corporation for the modernisation of 2 Chinese Luda class destroyers. The terms of the contract as signed were within those on offer at the time of Mrs Thatcher's visit. We had told the Chinese that there was no room for improvement. The value of the contract is about £120 million.

A press release has been issued as follows:

'UK Firms have been discussing with the Chinese the supply of defence equipment for several years. The signing of a contract between Chinese firms and a consortium of British firms for the supply of equipment and defensive weapons as part of the modernisation of the Chinese armed forces is one of the projects which have been under consideration. The successful conclusion of these negotiations is a welcome advance in the relations between our 2 countries.'

Yes
R B Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

1 NOV 1982

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China

vb

2 August 1982

Shanghai Consulate-General

Thank you for your letter of 29 July. The Prime Minister is content that the press should be told now of the decision to re-open the Consulate-General in Shanghai and to permit the opening of a Chinese Consulate-General in Liverpool.

AJC

Francis Richards, Esq.,
Foreign and Commonwealth Office.

BIC



Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

Agree that press should be
told now of desire to
reopen consulate-general in
Shanghai?

A.S.C. 30/7.

Yes
ml

29 July 1982

Dear John,

Shanghai Consulate-General

In April the Foreign and Commonwealth Secretary agreed that we should re-open the Consulate-General in Shanghai. Preliminary discussions have been held with the Chinese Ministry of Foreign Affairs, who have agreed to this proposal provided that we agree to the opening of a Chinese Consulate-General in Liverpool. This is acceptable to us and we are so informing the Chinese. Subject to the views of the Prime Minister, who may not wish to make her visit to Peking the occasion for the announcement, we propose to let the press know of our intention informally and at the earliest opportunity.

Yours ever,

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

CHINA

P S TO PRIME MINISTER

GR 100

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DESKBY 010900Z

FM WASHINGTON 301815Z JAN 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 296 OF 30 JANUARY

INFO IMMEDIATE MODUK (FOR DS 13)

INFO SAVING PEKING

*P.a.
von 3/2*

MY TWO IMMEDIATELY PRECEEDING TELEGRAMS: DEFENCE SALES TO CHINA

1. SUGGESTED ACKNOWLEDGEMENT TO BUCKLEY:

BEGINS:

THANK YOU FOR YOUR LETTER OF 27 JANUARY ABOUT THE UNITED KINGDOM'S PROPOSED DEFENCE SALES TO THE PEOPLE'S REPUBLIC OF CHINA. I QUITE UNDERSTAND WHAT YOU SAY.

ENDS

ADVANCES TO MCLEAN (TRED), FED AND SANDARS (DS13, MOD).

FCO PASS SAVING PEKING

ADVANCED AS REQUESTED

HENDERSON

LIMITED
DEFENCE)

ACDD

FED

TRED

PS/MR HURD

PS/PUS

MR WRIGHT

MR DONAH

MR SILKMORE

MR GOODISON

ADDITIONAL DISTN:
DEFENCE SALES TO CHINA
SXWP

[PASSED AS REQUESTED]

CONFIDENTIAL

GR 350

CONFIDENTIAL

CONFIDENTIAL

DESKBY 010900Z

FM WASHINGTON 301810Z JAN 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 295 OF 30 JANUARY

INFO IMMEDIATE MODUK (FOR DS 13)

INFO SAVING TO PEKING

MIPT: DEFENCE SALES TO CHINA

1. TEXT OF BUCKLEY'S LETTER IS AS FOLLOWS:

BEGINS

AS YOU SUGGESTED IN YOUR PREVIOUS LETTER, BOTH THE UNITED STATES AND THE UNITED KINGDOM WISH TO ENCOURAGE CHINESE POLICIES TO EVOLVE IN A MANNER FAVOURABLE TO THE WEST. WE AGREE THAT IT IS IN OUR MUTUAL INTEREST TO SELL MILITARY EQUIPMENT TO INCREASE CHINA'S DEFENSIVE MILITARY CAPABILITIES, PROVIDING THE SALES ARE PLACED IN THE PROPER STRATEGIC CONTEXT. AS YOU POINT OUT, THE CENTRAL QUESTION IS WHERE TO DRAW THE LINE.

WE HAVE REVIEWED THE TECHNICAL DATA ON THE LUDA DESTROYER RETROFIT, AND I AM HAPPY TO REPORT THAT WE HAVE APPROVED THIS TRANSFER WITH NO MODIFICATIONS. THE FORMAL NOTIFICATION WILL BE RETURNED TO COCOM FOR ACTION. HOWEVER, AS I UNDERSTAND THE TECHNICAL DELIBERATIONS, THERE WAS CONCERN OVER THE SEA DART AIR DEFENSE WEAPONS SYSTEMS. CONSEQUENTLY, I DOUBT THAT WE WOULD APPROVE ANY ADDITIONAL PROGRAMS THAT WOULD EXPAND THE PRC'S SEA DART CAPABILITY IN THE FORESEEABLE FUTURE.

AS TO THE EMI CASE, I CANNOT BE SO FORTHCOMING. WE HAVE REVIEWED YOUR PROPOSAL AT VERY HIGH LEVELS AND HAVE CONCLUDED THAT WE CANNOT DROP OUR OBJECTION. I ASSURE YOU, HOWEVER, THAT WE FULLY UNDERSTAND THE FOREIGN POLICY IMPLICATIONS THAT DENYING THIS EXPORT COULD ENTAIL FOR THE BRITISH GOVERNMENT.

OUR SPECIFIC OBJECTION IS TO THE ANTI-SUBMARINE WARFARE R AND D CAPABILITY THIS EXPORT WOULD PROVIDE TO THE PRC. BASED ON OUR EXCHANGE OF DATA AND OUR NATIONAL SECURITY CONCERNS, OUR EXPERTS DETERMINED THAT THERE ARE NO TECHNICAL MODIFICATIONS TO THE PORTABLE ACOUSTIC TRACKING SYSTEM AND THE DEEP MOBILE TARGET WHICH WOULD BE MUTUALLY ACCEPTABLE TO THE UNITED STATES, THE UNITED KINGDOM AND CHINA.

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I AM CONFIDENT THAT EARLY CONSULTATIONS IN THE FUTURE WILL ENSURE THAT THESE POTENTIALLY EMBARRASSING SITUATIONS DO NOT ARISE AGAIN.
ENDS

ADVANCES TO MCCLEAN (TRED), FED AND SANDARS (DS13, MOD).

FCO PASS SAVING PEKING

HENDERSON

ADVANCED AS REQUESTED

LIMITED
DEF
ACDD
FED
TRED
PS/MR HURD
PS/PUS
MR WRIGHT
MR DONALD
MR BILMORE
MR GOODISON

ADDITIONAL DISTN:
DEFENCE SALES TO CHINA
SXWP

[PASSED AS REQUESTED]

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DESKBY 010900Z

FM WASHINGTON 301805Z JAN 82

TO IMMEDIATE F C O

TELEGRAM NUMBER 294 OF 30 JANUARY

INFO IMMEDIATE MODUK (FOR DS13)

INFO SAVING PEKING

OUT TELNOS 79, 80 AND 88: DEFENCE SALES TO CHINA

1. MIFT CONTAINS THE TEXT OF BUCKLEY'S LETTER TO ME DATED 27 JANUARY CONVEYING US APPROVAL OF THE LUDA REFIT. IT ALSO, NOT SURPRISINGLY, EXPRESSES CONTINUING OBJECTION TO THE PATS AND DMT, WITH SLIGHTLY MORE DETAILED REASONING THAN WAS GIVEN US PREVIOUSLY.

2. HOLDRIDGE HAS RECENTLY CONFIRMED TO THE MINISTER UNOFFICIALLY THAT ALTHOUGH THE ADMINISTRATION COULD NOT FORMALLY DROP THEIR OBJECTION TO THE PATS AND DMT THEY WERE NEVERTHELESS PREPARED TO SEE THE SALE PROCEED - QUIETLY, WITH NO PUBLICITY. BUT HE INDICATED THAT EMI SHOULD GET ON WITH IT, WHILE THE DOOR WAS OPEN.

3. I OUGHT TO ACKNOWLEDGE BUCKLEY'S LETTER. SINCE IT IS CLEARLY IN OUR INTERESTS TO CLOSE THIS MATTER ONCE AND FOR ALL, I SUGGEST THAT A BRIEF ACKNOWLEDGEMENT IS ALL THAT IS REQUIRED. MY SECOND IFT CONTAINS A SUGGESTED TEXT.

4. ADVANCES TO MCLEAN (TRED), FED AND SANDARS (DS13, MOD).

FCO PASS SAVING PEKING

HENDERSON

LIMITED
DEFENCE

ACDD

FED

TRED

PS/MR HURD

PS/PUS

MR WRIGHT

MR DONAH

MR BILLMORE

MR HODDISON

ADDITIONAL DISTN:
DEFENCE SALES TO CHINA.
SXWP.

ADVANCED AS REQUESTED

[PASSED AS REQUESTED]

CONFIDENTIAL

2



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

7 December 1981

China
Prime Minister

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for
Foreign & Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
SW1

ASL 8/12

mf

r.a.
ASL 10/12

Dear Peter,

CHINA PROJECT 051

I have seen John Nott's minute to you of 20 November about the COCOM and other problems we might face in this case, and I agree with what he says.

2 I cannot stress too highly the importance and value of this contract to UK industry, particularly in view of the effects of the Defence White Paper on our naval shipbuilding plans. If we are successful it could also lead to similarly valuable refit work on the remaining Chinese LUDA warships. I agree with him that we must make every effort to avoid losing this contract.

3 I am copying this to John Nott and the other recipients of his minute.

Yours
Peter

8 DEC 1981

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THORN EMI Ltd.

Sir RICHARD CAVE CHAIRMAN

THORN HOUSE UPPER ST MARTIN'S LANE LONDON WC2H 9ED
Tel 01-836 2444

3rd December, 1981.

The Rt. Hon. Margaret Thatcher, PC, MP,
10 Downing Street,
LONDON, S.W.1.

24/12

1) Copy to F/C.O. ✓
(Mr. Lyne)

New Prime Minister

2) p.a.

102 4/12

I am most grateful to you for informing me of the action that has been taken concerning the supply of equipment by us to the People's Republic of China, as outlined in my letter of the 23rd November.

I so much hope that when the Americans take another look at the technical arguments their decision will be in our favour.

Yours sincerely,
Richard [Signature]

RGC/JSO.

10 DOWNING STREET

THE PRIME MINISTER

1 December, 1981.

Dear Sir Richard,

In my letter of 25 November I promised to let you know the outcome of Douglas Hurd's discussions in Washington about your company's sale of equipment for the Chinese Navy.

On the basis of these representations, the Americans have agreed that further expert discussions on the technical aspects of the proposed export should take place as soon as possible. We are therefore planning to send a team to Washington towards the end of next week.

It would be idle to pretend that the Americans will be easily persuaded to change their decision on re-export licences in this case. However, their agreement to take another look at our arguments does mean that their decision will be reviewed.

Yours sincerely,

(SGD) MT

Sir Richard Cave, M.C.

LD

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

27 November 1981

Dear Michael,

Thorn/EMI

In her letter of November to Sir Richard Cave, the Prime Minister promised to let him know the outcome of the Minister of State's discussions in Washington this week about the Thorn EMI sale of equipment for the Chinese Navy. While no immediate progress towards a decision was made, the Americans agreed that expert discussions should be held as soon as possible. We are therefore arranging to send a suitable team to Washington towards the end of next week.

I enclose a draft reply from the Prime Minister to Sir Richard Cave.

Yours ever
Roderic Lyne

(R M J Lyne)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
London SW1

CONFIDENTIAL

DSR 11 (Revised)

DRAFT: ~~minute/letter/teletype/despatch/note~~
XXXXXXXXXXXXXXXXXXXXXXXX

TYPE: Draft/Final 1+

FROM: Prime Minister

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO: Sir Richard Cave MC
Chairman
Thorn EMI Ltd
Thorne House
Upper St Martin's Lane
London WC2H 9ED

Your Reference

Top Secret

Secret

Confidential

Restricted

Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

25 *
A

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the outcome of Douglas Hurd's discussions in Washington
about your company's sale of equipment for the
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It would be idle to pretend that the Americans will be
easily persuaded to change their decision on re-export
licences in this case. However, their agreement to
take another look at our arguments does mean that their
decision will be reversed.

reversed.

Ans

*
Draft submitted
earlier this
week
RMJL.

Enclosures—flag(s).....



File JD
cc fro

10 DOWNING STREET

THE PRIME MINISTER

25 November, 1981.

Dear Sir Richard

Thank you for your letter of 23 November. I understand that your discussions with the Chinese have reached a crucial point, and I am therefore sending you an immediate interim reply.

As you say, Ministers have been making repeated attempts to persuade the United States to grant re-export licences. Douglas Hurd is at present in Washington, where he will keep up the pressure. His aim is to persuade the Americans at least to review their decision, on both commercial and political grounds. We shall be in touch with you again as soon as we know the outcome of his discussions.

Yours sincerely
Raymond Storer

Sir Richard Cave, M.C.

26

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

24 November 1981

Type for PM's signature

Dear Michael,

Thank you for your letter of 23 November, enclosing a letter from Sir Richard Cave to the Prime Minister.

You will have seen the minute of 20 November from the Secretary of State for Defence to the Foreign and Commonwealth Secretary on "China - Project 051", which touches on the Thorn EMI case in paragraph 5. Any decision on further action will need to wait until we know the outcome of Mr Hurd's current discussions in Washington.

/ I enclose a draft interim reply cleared with the Ministry of Defence.

I am sending copies of this letter to David Oman (Ministry of Defence) and David Wright (Cabinet Office).

Yours ever

Roderic Lyne

(R M J Lyne)
Private Secretary

M O'D B Alexander Esq
10 Downing Street

CONFIDENTIAL

DRAFT: ~~XXXX~~/letter/~~XXXXXXXXXXXXXXXXXXXX~~

TYPE: Draft/Final 1+

FROM:

Reference

Prime Minister

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

Top Secret

Sir Richard Cave MC
Chairman
Thorn EMI Ltd
Thorn House
Upper St Martin's Lane
LONDON WC2H 9ED

Secret

Confidential

Restricted

Unclassified

Copies to:

25/11

PRIVACY MARKING

SUBJECT:

.....In Confidence

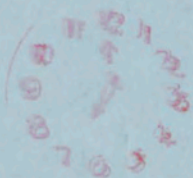
Thank you for your letter of 23 November. I understand that your discussions with the Chinese ^{have} reach a crucial point on ~~25~~ November and I am therefore sending you an immediate interim reply.

CAVEAT.....

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Enclosures—flag(s).....

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JTB

3/12

10 DOWNING STREET

From the Private Secretary

23 November 1981

Sir Richard CAVE

I enclose a copy of a letter which the Prime Minister has received from the Chairman of Thorn EMI Limited about the export of sensitive equipment to China.

I should be grateful if you could let me have a draft reply which the Prime Minister might send to Sir Richard Cave. It would be helpful if this draft could reach me by Thursday 3 December.

I am sending copies of this letter and its enclosure to David Omand (Ministry of Defence) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Roderic Lyne, Esq.,
Foreign and Commonwealth Office.

JTB

THORN EMI Ltd.

Sir RICHARD CAVE CHAIRMAN

THORN HOUSE UPPER ST MARTIN'S LANE LONDON WC2H 9ED
Tel 01-836 2444

23rd November, 1981.

The Rt. Hon. Margaret Thatcher, PC, MP,
10 Downing Street,
LONDON, S.W.1.

Dear Prime Minister

In 1980 following receipt of export licences from the Department of Trade, which were renewed in March 1981, my company signed two contracts to supply the People's Republic of China with equipments related to underwater warfare valued at £3.6 million and for which we have received £2.2 million in advance payments.

Each equipment embodies three vital items of United States origin (total value £82,000) for which there is no direct replacement and for which re-export licences are required from the United States.

The manufacture of the first equipment is complete. For some months representatives of the People's Republic have been engaged at our works where the final inspection and delivery is scheduled to take place very shortly.

As the re-export licences are not forthcoming we made an approach to Viscount Trenchard a few weeks ago and he took up the matter with the U.S. Government. We understand that he has been advised that the U.S. Navy will not grant re-export licences and unless the United States position is changed, the alternatives facing us are either to refrain from fulfilling the contracts or do so without the re-export licences.

Our failure to fulfil the contracts would need to be adequately explained at all levels and would undoubtedly cause the People's Republic much consternation and, amongst other things, bring into question the sincerity and credibility of the United Kingdom and perhaps the United States. The cost to my company of such frustration would be an exceedingly heavy burden both financially and in its effect on potential large export contracts.

We dare not contemplate the alternative of completing the contract without the re-export licences. As you may be aware, we are well advanced in negotiation for the sale of the Searchwater radar to the U.S. Navy. The prospect is very encouraging and success is potentially worth more than £100 million and of course great prestige useful in seeking further export markets. If the current situation results in an adverse effect to this unique opportunity I fear that the consequences to the U.K., not just THORN EMI, may be widespread.

I appreciate the efforts that your Ministers are making to persuade the United States to grant the re-export licences, but as the licences have not been forthcoming I feel that I must now seek your intervention because of the very serious commercial and diplomatic implications of the situation.

Yours sincerely,

Richard [Signature]



MO 11/14

FOREIGN AND COMMONWEALTH SECRETARYCHINA - PROJECT 051

China
 (2)
 K. Smith
 Prime Minister
 It is perhaps surprising that this case has not been brought up sooner.

Negotiations have been taking place, as you will know, with the Chinese for the modernisation of two LUDA class destroyers. The negotiations have in fact taken rather longer than expected and the scope of the project (called Project 051) has contracted slightly from what was originally envisaged. Nevertheless it could still be worth between £100M and £200M. It now looks as though the negotiations are nearing completion, and we have been told that, for financial reasons the Chinese will wish to sign a contract by the end of this year.

2. The question of clearing the deal with our COCOM partners arose in correspondence last year and you agreed that we should defer this until negotiations were more advanced. Since then, we have agreed a "China differential" with our COCOM partners and, consequently, we are now under an obligation to put the case formally to COCOM. I understand that your officials are making arrangements for this to be done as a matter of urgency and that they have also given advance warning of the case to our major COCOM partners.

3. We could well find ourselves under some pressure to give early approval to British Shipbuilders and British Aerospace to proceed. Certain details of the contract - in particular the financial arrangements - are still not finally settled, and indeed it is possible that the whole deal could founder, but we have received reliable evidence that the Chinese have allocated funds for the project in next year's budget. If that is so, it is a powerful incentive for them



to reach an early decision on the deal, since, under the Chinese system, the funds will be withdrawn if they have not been committed by the end of this calendar year.

4. Our Ambassador in Peking has therefore urged strongly that, although we cannot be sure that the Chinese will be ready to sign by the end of the year, we should ensure that we should be in a position to give British Shipbuilders the necessary Government approval at short notice. The Ambassador has argued that we will jeopardise the contract if we cause delay at this stage.

5. It is for this reason that we are putting the case urgently to COCOM. However, we can expect severe difficulties with some of our partners, and particularly the United States. The current dispute we are having with them over their refusal to grant re-export licences for certain minor US components in equipment which Thorn-EMI have contracted to supply to China has indicated the extent of US sensitivity on China cases. Project 051 is considerably more sensitive in military terms than the Thorn EMI case. It also contains a substantial number of US components, so the US has ample opportunity to make difficulties. We are therefore offering to discuss the case with American officials in Washington as a matter of urgency in order to counter the objections we expect them to raise.

6. There are likely, therefore, to be considerable problems ahead, and it is seeming increasingly unlikely that we shall be able to clear the project through COCOM before the end of the year, if indeed we can clear it at all. If COCOM does not clear the project, the consequences would be severe. British Shipbuilders and British Aerospace have invested much time and effort in the negotiations with



the Chinese and we may expect a very forceful reaction from them if we have to veto the project at this late stage because we cannot obtain COCOM agreement. The effects of a COCOM rejection in our relations with the Chinese will be severe and it would certainly put an end to any further equipment sales, since the Chinese regard this case as a test of our developing defence sales relationship.

7. On the other hand, if we were to override a COCOM objection, particularly if it stemmed from the US, we would put a severe strain on our relations with our COCOM partners. Such action would in any case, be only partially worthwhile, since the US could still disrupt the deal by refusing permission for the re-export of crucial components.

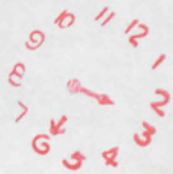
8. Until we have a reaction from our COCOM partners it is difficult to know how much of a problem this is going to be. However, I thought you should be aware at this stage of the likely difficulties ahead. In particular, you will wish to be aware of the possibility of a prolonged and possibly acrimonious dispute with the US which may have to be resolved at the highest political level. In my view we must be prepared to face up to this since this is a case we cannot afford to lose.

9. I am copying this minute to the Prime Minister, to the other members of OD, to the Secretary of State for Industry and to Sir Robert Armstrong.

JW

Ministry of Defence
20th November 1981

23 NOV 1981



*China**NBPM**MP**13/11/81*

MO 26/9/10

FOREIGN AND COMMONWEALTH SECRETARYCOCOM: DEFENCE SALES TO CHINA

Thank you for your minute of 27th July.

2. The purpose of our proposals to COCOM was that we should arrive at a position which enabled our defence sales to proceed while preserving the credibility and efficiency of COCOM. Your proposal secures the best way of achieving this and I am therefore content to continue as you suggest.

3. I am copying this minute to the Prime Minister, to other members of OD, to the Secretary of State for Industry, and to Sir Robert Armstrong.

SW

Ministry of Defence
12th August 1981

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done*NBPA**Phut*FCS/81/100SECRETARY OF STATE FOR DEFENCECOCOM: Defence Sales to China

1. I wrote to Francis Pym on 19 November 1980 giving the text of a formula for a 'China differential' to be tabled in COCOM. Our aim in tabling this was to make it possible to resume submission to COCOM of proposals for a wide range of defence sales to China in the knowledge that our COCOM partners would treat them sympathetically.
2. Our proposal was formally tabled in COCOM on 26 November, 1980. In the ensuing weeks it was approved by all our COCOM partners with the exception of France. The French made it clear that they could not agree to any formal procedure which discriminated in favour of China as against the Soviet Union and other "proscribed destinations". At the same time, they indicated that they did not expect to raise objections to anything which we might wish to export to China.
3. In these circumstances, we concluded that it would be fruitless to press for formal agreement in COCOM. It seemed preferable to make use of the approval given by the majority of our partners, and of the assurance with the French had given about their general attitude to exports to China, by informing all our partners (in capitals), that we intended to resume the submission to COCOM of all relevant cases on the assumption that our partners would treat them as though agreement had been reached on our proposal. Having obtained French and American agreement to proceeding in this way, we instructed our Embassies in COCOM countries to act accordingly.



4. None of our partners has since expressed significant reservations about the course we propose to follow. The way is now open to us, therefore, to resume the submission to COCOM of all relevant cases concerning exports to China. We shall have to see how such submissions fare before we can say that the system is working (though the recently announced changes in US policy on exports to China should work in favour of our own exports). If the system does work smoothly, the outcome will be satisfactory, not least in terms of our wish to preserve the credibility and efficiency of COCOM in relation to exports to the Soviet Union.

5. I am copying this minute to the Prime Minister, other members of OD, the Secretary of State for Industry and Sir Robert Armstrong.


(CARRINGTON)

Foreign and Commonwealth Office
27 July 1981

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China

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FM PEKING 021100Z MAR 81

TO PRIORITY FCO

TELEGRAM NUMBER 245 OF 2/4

INFO WASHINGTON, UKMIS NEW YORK, PARIS, BONN, MEXICO CITY,
VIENNA, TOKYO

FROM PRIVATE SECRETARY

SECOND MEETING BETWEEN SECRETARY OF STATE AND CHINESE
FOREIGN MINISTER.

RELATIONS BETWEEN DEVELOPED AND DEVELOPING COUNTRIES.

1. LORD CARRINGTON SAID THE BRITISH GOVERNMENT DID NOT CONSIDER THAT THE MEXICO SUMMIT SHOULD BE LINKED DIRECTLY TO THE GLOBAL NEGOTIATIONS, THOUGH WE NATURALLY HOPED THAT IT WOULD SET A PATTERN WHICH WOULD BE USEFUL ALSO IN THE CONTEXT OF THE GNS. WE REGARDED THE MATTERS TO BE DISCUSSED AT MEXICO AS SUBJECTS OF THE FIRST IMPORTANCE. THE MOST IMPORTANT STEP WHICH COULD BE TAKEN TO EASE THE PROBLEMS OF THE DEVELOPING COUNTRIES WOULD BE TO IMPROVE THE RECYCLING OF OPEC SURPLUSES. THOUGH WE THOUGHT THAT THE MULTILATERAL INSTITUTIONS SHOULD BE ADAPTED TO MEET CHANGING REQUIREMENTS, IT WOULD BE A GREAT MISTAKE TO CALL THEIR RESPONSIBILITIES IN QUESTION OR TO REMOVE CONTROL OF THEM FROM THE DONOR COUNTRIES. THE CONFIDENCE OF LENDERS WOULD BE UNDERMINED IF THE INSTITUTIONS WERE CONTROLLED BY REPRESENTATIVES OF COUNTRIES WHICH DID NOT HAVE THE SAME DEGREE OF INVOLVEMENT AND FINANCIAL RISK. WE SHOULD TRY TO MAKE IT EASIER FOR DEVELOPING COUNTRIES TO BORROW FROM THE SURPLUSES OF OPEC AND INDUSTRIALISED COUNTRIES, AND SHOULD CONCENTRATE OUR AID ON THE POOREST COUNTRIES WHO COULD NOT AFFORD TO BORROW. STABILISATION OF OIL PRICES WOULD BE THE SINGLE MOST IMPORTANT FACTOR IF THE SITUATION WAS TO BE IMPROVED. HUANG HUA COMMENTED THAT OPEC WOULD LOOK FOR CORRESPONDING ACTION ON THE PRICE OF MANUFACTURED GOODS IF THEY WERE TO STABILISE OIL PRICES. LORD CARRINGTON AGREED THAT THERE SHOULD BE SOME RELATIONSHIP BETWEEN THE TWO.

2. LORD CARRINGTON HOPED THAT THE MEXICO SUMMIT WOULD NOT TRY TO PRODUCE A FINAL DOCUMENT, WHICH WOULD INEVITABLY REPRESENT THE LOWEST COMMON DENOMINATOR. THE BEST OUTCOME WOULD BE A MOOD OF DETERMINATION TO IMPROVE RELATIONS BETWEEN DEVELOPED AND DEVELOPING COUNTRIES (TO REFER TO THEM AS NORTH AND SOUTH WAS A MISLEADING OVERSIMPLIFICATION)

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3. HUANG HUA SAID THAT, TO ESCAPE FROM THE PRESENT TIGHT ECONOMIC SITUATION, IT WAS ESSENTIAL FOR THE NORTH TO TAKE A MORE FAR-SIGHTED APPROACH AND POSITIVE ATTITUDE. THE UNDERDEVELOPED COUNTRIES OF THE SOUTH WERE IN GREATER DIFFICULTIES THAN AT ANY TIME SINCE THE 1950S. THEIR POLITICAL INSTABILITY HAD OFFERED GREAT OPPORTUNITIES FOR SOVIET INFILTRATION. HE REFERRED TO THE ZIMBABWE SETTLEMENT AS A SATISFACTORY EXAMPLE OF CO-OPERATION BETWEEN GROUPS OF DEVELOPED AND DEVELOPING COUNTRIES, BUT SAID THAT THE COUNTRY'S FUTURE STABILITY DEPENDED ON RECEIVING GREATER ECONOMIC ASSISTANCE. TANZANIA WAS ANOTHER COUNTRY WHICH NEEDED HELP: IT WAS IN SEVERE ECONOMIC STRAITS AND ENCOUNTERING ITS MOST SEVERE PROBLEMS SINCE INDEPENDENCE. HE CONCLUDED THAT WE NEEDED A BREAKTHROUGH TO OVERCOME THE STAGNATION OF THE NORTH/SOUTH DIALOGUE: AND THAT NOT ALL DEVELOPING COUNTRIES FAVOURED THE EXTREME PROPOSITIONS PUT FORWARD BY FOLLOWERS OF THE SOVIET UNION IN THE NORTH/SOUTH DIALOGUE.

4. LORD CARRINGTON SAID THAT COMPROMISE WAS NEEDED ON BOTH SIDES: AND DESCRIBED THE MASSIVE HELP GIVEN BY THE UNITED KINGDOM TO ZIMBABWE.

CRADOCK

FCO/WH.
FEI

THIS TELEGRAM
WAS NOT
ADVANCED

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GR 1400

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FM PEKING 020640Z APR

TO IMMEDIATE FCO TELNO 242 OF 2 APRIL 81

INFO IMMEDIATE WASHINGTON AND ISLAMABAD, ROUTINE PARIS BONN
MOSCOW UKMIS NEW YORK NEW DELHI TOKYO UKDEL NATO KUALA LUMPUR
BANGKOK MANILA JAKARTA SINGAPORE.

FROM PRIVATE SECRETARY. MY 2 MIPTS (NOT TO ALL.)

SECRETARY OF STATE'S MEETING WITH CHINESE FOREIGN MINISTER.
AFGHANISTAN AND SOUTH EAST ASIA.

1. LORD CARRINGTON SAID THE PAKISTANIS WERE CONCERNED THAT AFGHANISTAN WAS BEING OVERSHADOWED BY SUBSEQUENT CRISES (IRAN/IRAQ, POLAND ETC). IT WAS IMPORTANT TO KEEP UP THE PRESSURE ON THE SOVIET UNION. TO PRESS FOR CONFERENCE ON THE LINES OF THE FRENCH PROPOSAL WOULD HAVE THIS EFFECT, EVEN IF IN THE EVENT THE RUSSIANS REFUSED TO ATTEND ONE. THE ONLY VIABLE SOLUTION WOULD BE ONE IN WHICH THE SOVIET UNION DID NOT LOSE FACE, BUT WHICH WAS ACCEPTABLE ALSO TO NEIGHBOURING COUNTRIES AND TO THE AFGHAN PEOPLE. IT WOULD BE DIFFICULT TO IDENTIFY AN APPROPRIATE AFGHAN LEADER TO REPLACE BABRAK KAMAL, AND EVEN MORE DIFFICULT TO INSTALL HIM. BUT IF WE DID NOT CONTINUE TO SEARCH FOR A SETTLEMENT, LIFE WOULD BECOME VERY DIFFICULT FOR THE PAKISTANIS.
2. HUANG HUA DID NOT REGARD THE SOVIET INVASION OF AFGHANISTAN AND THE VIETNAMESE OCCUPATION OF CAMBODIA AS ISOLATED INCIDENTS. THESE WERE IMPORTANT STEPS IN THE SOVIET DRIVE SOUTHWARDS. THE RUSSIANS WOULD CONTINUE TO TAKE ADVANTAGE OF THE IRAN/IRAQ WAR, TO EMPLOY SUBVERSION IN IRAN AND TO TRY TO DESTABILISE PAKISTAN. IT WAS THEIR AIM TO REACH THE GULF AND TO CONTROL OIL PRODUCERS AND THE SUPPLY ROUTE. THE REGION WAS WEAKLY DEFENDED AND POLITICALLY FRAGILE. THE EXTENSION OF SOVIET POWER FROM THE PERSIAN GULF INTO THE INDIAN OCEAN AND EAST AFRICA WOULD AFFECT EUROPE ON ITS FLANKS.
3. LIKEWISE VIETNAMESE CONSOLIDATION OF CAMBODIA WOULD PLACE THAILAND UNDER A DIRECT THREAT AND THEREBY DESTABILISE SOUTH EAST ASIA. THE RUSSIANS HOPED TO ADVANCE INTO THE WESTERN PACIFIC AND TO CONTROL THE STRAITS OF MALACCA. BY THIS PINCER MOVEMENT TO CONTROL MALACCA AND HORMUZ, THE RUSSIANS WOULD COMPLETE THEIR STRATEGIC DEPLOYMENT TO THE SOUTH AND ACCELERATE THE OUTBREAK OF A MAJOR WAR. IN THESE CIRCUMSTANCES JAPAN AND WESTERN EUROPE WOULD HAVE TO CHOOSE BETWEEN GOING DOWN ON THEIR KNEES AND BEING PREPARED TO FIGHT. THE CHINESE THEREFORE THOUGHT THAT THE BATTLE LINES AGAINST SOVIET EXPANSIONISM SHOULD BE DRAWN IN AFGHANISTAN AND CAMBODIA. WE SHOULD GIVE MATERIAL SUPPORT TO THE RESISTANCE IN BOTH COUNTRIES AND SHOULD STRENGTHEN

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THE DEFENCES OF NEIGHBOURING COUNTRIES. THE PAST TWO YEARS HAD SHOWN THAT WITH OUTSIDE SUPPORT THE RESISTANCE MOVEMENTS COULD CARRY ON THE STRUGGLE AGAINST SOVIET AND VIETNAMESE FORCES. IF THIS WAS CO-ORDINATED WITH DIPLOMATIC PRESSURE, IT SHOULD BE POSSIBLE TO BRING ABOUT A CHANGE IN VIETNAM AND TO INCREASE THE NUMEROUS BURDENS OF THE SOVIET UNION. THEREBY FAVOURABLE CONDITIONS WOULD BE CREATED FOR A POLITICAL SETTLEMENT.

4. HUANG HUA SAID THAT THE CHINESE WERE NOT AGAINST NEGOTIATED SETTLEMENTS, BUT THE CONDITIONS WERE NOT YET RIGHT.

5. HUANG HUA SAID THAT IN TWO YEARS OF WAR THE FORCES OPPOSING THE VIETNAMESE OCCUPATION OF CAMBODIA HAD STRENGTHENED THEIR COMBAT CAPABILITY. THEY WERE ABLE TO OPERATE OVER TWO-THIRDS OF CAMBODIAN TERRITORY. SOME HEADWAY HAD BEEN MADE IN POLITICAL EFFORTS TO UNITE THE RESISTANCE GROUPS. IF THESE EFFORTS HAD THE SUPPORT OF THE WEST, IT SHOULD BE POSSIBLE TO BRING THE DIFFERENT FACTIONS TO FORM A UNITED FRONT AND COALITION GOVERNMENT BEFORE THE NEXT U.N. GENERAL ASSEMBLY.

6. IT WAS ESSENTIAL TO KEEP UP THE PRESSURE ON VIETNAM, AND TO REFRAIN FROM GIVING AID BILATERALLY OR THROUGH INTERNATIONAL AGENCIES. SO-CALLED HUMANITARIAN AID WOULD HELP THE VIETNAMESE CONSOLIDATE THEIR OCCUPATION AND SHOULD THEREFORE BE GIVEN ONLY TO REFUGEES IN THAILAND AND THE BUFFER ZONES.

7. HUANG HUA HOPED THAT A POLICY OF CONTAINMENT OF THE SOVIET UNION AND VIETNAM COULD BE COORDINATED SO AS TO POSTPONE OR PREVENT A MAJOR WAR.

8. LORD CARRINGTON SAID THAT NEGOTIATIONS WERE NOT INCOMPATIBLE WITH SUPPORT FOR RESISTANCE MOVEMENTS. HE SAW ADVANTAGES IN A BROADER-BASED CAMBODIAN FRONT, BUT WONDERED WHETHER IT WAS NOT OVER-OPTIMISTIC TO EXPECT PROGRESS BY SEPTEMBER. HUANG HUA SAID THAT SIHANOUK HAD INTERNATIONAL INFLUENCE BUT ONLY 500 SUPPORTERS ON THE GROUND. THEY WERE MAINLY IN THAILAND ENGAGED IN SMUGGLING. HE HAD NO COMBAT FORCES. SON SANN HAD 3,000 MEN, WHO HAD NOT DONE MUCH FIGHTING. IN VARYING DEGREES SON SANN AND SIHANOUK WERE READY TO UNDERTAKE JOINT MILITARY ACTION AND TO UNITE THEIR MOVEMENTS. BUT THEY WERE WORRIED THAT THEIR SMALL FORCES WOULD BE SWALLOWED UP IF UNITED WITH THE DK. THEY THEREFORE REQUIRED MILITARY AID. THE CHINESE WERE IN FAVOUR OF PROVIDING THIS IN ORDER TO ESTABLISH A VIABLE NON-COMMUNIST FORCE. NEGOTIATIONS BETWEEN THE THREE FACTIONS WERE CONTINUING, WITH THE ENCOURAGEMENT OF ASEAN AND CHINA. HE HOPED THAT WESTERN COUNTRIES WOULD PROVIDE ECONOMIC AND MILITARY ASSISTANCE: CHINA'S ABILITY TO PROVIDE WEAPONS WAS VERY LIMITED.

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9. HUANG HUA ALSO HOPED THAT THE WEST AND COMMONWEALTH COUNTRIES EXCEPT INDIA WOULD ADOPT A MORE ROBUST STAND ON THE CAMBODIAN QUESTION. HE WAS DISAPPOINTED THAT THE AUSTRALIANS HAD FOLLOWED THE UK IN DE-RECOGNISING THE POL POT GOVERNMENT. THIS HAD NOT HELPED ATTEMPTS TO SET UP A UNITED FRONT. LORD CARRINGTON EXPLAINED OUR REASONS FOR DE-RECOGNISING POL POT, WHILE SUPPORTING (RELUCTANTLY) THE DK'S CREDENTIALS AT THE UN. HE STRESSED THAT THE UNITED FRONT WOULD NEED A LEADER WHO WAS GENERALLY ACCEPTABLE IN THE OUTSIDE WORLD AND THE UN. HE HAD THE IMPRESSION THAT ASEAN WAS NOT WHOLLY UNITED IN ITS ATTITUDES: INDONESIA AND MALAYSIA WERE MUCH KEENER ON NEGOTIATIONS WITH THE VIETNAMESE THAN THAILAND AND SINGAPORE. ASEAN, LIKE THE WEST, SHOULD FIND IT EASIER TO SUPPORT A UNITED FRONT.

10. HUANG HUA AGREED. SIHANOUK WAS WILLING TO LEAD A UNITED FRONT WITHOUT INVOLVING HIMSELF DIRECTLY IN THE EXECUTION OF ITS POLICIES: BUT HAD DEMANDED UNREASONABLE CONDITIONS. IN MID-APRIL SIHANOUK WOULD BE RETURNING FROM PYONGYANG TO PEKING. THE THAIS HAD ALSO INVITED HIM TO VISIT THEM, BUT HOPED FOR A SECRET VISIT AS HE WAS NOTORIOUS FOR HIS LOOSE TONGUE AND MIGHT UPSET THE PROSPECTS FOR UNITY. HUANG HUA SAID THAT INDONESIA WRONGLY FELT ITSELF THREATENED MORE BY CHINA THAN BY THE USSR, AND WANTED A COMPROMISE WHICH WOULD TURN CAMBODIA INTO A BUFFER ZONE. IT HAD BEEN DEMONSTRATED THAT CHINA HAD NOT INSTIGATED THE EVENTS OF 1965 IN INDONESIA, AND THE CHINESE WERE READY TO RESTORE DIPLOMATIC RELATIONS AS SOON AS THE INDONESIANS INDICATED WILLINGNESS TO DO SO. THE VIETNAMESE HAD TRIED TO FOSTER THE IMPRESSION THAT THEY HAD DIFFICULTIES WITH THE USSR AND WERE STRONGLY ATTACHED TO THEIR NATIONAL INDEPENDENCE (IN THE HOPE OF ATTRACTING MORE ECONOMIC AID). HUANG HUA STRESSED THAT IT WAS NOT CHINA'S OBJECT TO ESTABLISH PRO-CHINESE GOVERNMENTS IN ANY OF THE SOUTH EAST ASIAN COUNTRIES. HE HOPED TO SEE A FREE ELECTION UNDER INTERNATIONAL SUPERVISION IN CAMBODIA.

THAILAND.

11. WHAT HUANG HUA DESCRIBED AS THE "MINIATURE COUP" IN THAILAND WAS DISCUSSED BRIEFLY BOTH IN THE FIRST ROUND AND AT THE RESUMPTION OF TALKS ON 2 APRIL. HUANG HUA'S INFORMATION DID NOT DIFFER IN SUBSTANCE FROM THE REPORTS IN BANGKOK TELEGRAMS RECEIVED HERE, THOUGH HE APPARENTLY WAS NOT AWARE OF THE REQUESTS TO PREM TO LEAD A COUP AGAINST HIS OWN GOVERNMENT. EVEN IF THE REVOLUTIONARY COUNCIL SUCCEEDED, HE DID NOT EXPECT FUNDAMENTAL CHANGES IN THAILAND'S FOREIGN POLICY.

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FM PEKING 020547Z APR 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 241 OF 2 APRIL

INFO IMMEDIATE WASHINGTON

INFO ROUTINE PARIS, BONN, UKMIS NEW YORK, UKDEL NATO, MOSCOW

TOKYO

INFO SAVING SINGAPORE, KUALA LUMPUR, BANGKOK, MANILA, JAKARTA

FROM PRIVATE SECRETARY

MIPT (NOT TO ALL) - MEETING BETWEEN THE SECRETARY OF STATE AND CHINESE FOREIGN MINISTER, 1 APRIL.

SINO-AMERICAN RELATIONS

1. LORD CARRINGTON SAID THAT THE REAGAN ADMINISTRATION HAD NOT YET FORMULATED ITS POLICY IN A NUMBER OF AREAS. THE ADMINISTRATION SHOULD TAKE TIME TO DISTANCE ITSELF FROM CAMPAIGN RHETORIC. HOWEVER IT HAD ALREADY DECIDED TO LET THE RUSSIANS KNOW EXACTLY WHERE THEY STOOD, AND TO AVOID THE DANGEROUS UNCERTAINTY OF PRESIDENT CARTER'S POLICIES. THE US DEFENCE CAPABILITY WOULD BE STRENGTHENED. HE HAD BEEN IMPRESSED BY THE OPEN-MINDED ATTITUDES OF MR HAIG AND HIS TEAM.

2. HUANG HUA SAID THAT US POLICY TOWARDS TAIWAN REMAINED THE MAIN OBSTACLE TO THE DEVELOPMENT OF CLOSER RELATIONS WITH THE PRC. HE REFERRED TO THE PRINCIPLES LAID DOWN IN THE 1972 AND 1979 SINO-AMERICAN JOINT COMMUNIQUE. CONTINUED ARMS SALES BY THE US TO TAIWAN WOULD NOT BE CONDUCIVE TO THE IMPLEMENTATION OF THE PRC'S DECLARED POLICY OF BRINGING ABOUT THE RETURN OF TAIWAN TO CHINA GRADUALLY, THROUGH PEACEFUL NEGOTIATIONS. HE REFERRED TO REAGAN'S REMARKS DURING THE CAMPAIGN AND (IN POSITIVE TERMS) TO GERALD FORD'S RECENT VISIT AND TO THE CHINESE AMBASSADOR'S CALLS ON LEADING MEMBERS OF THE NEW ADMINISTRATION IN WASHINGTON. THE CHINESE GOVERNMENT HAD REITERATED THAT THEY VIEWED SINO-AMERICAN RELATIONS IN THE STRATEGIC PERSPECTIVE OF THE INTERNATIONAL SITUATION: AND THAT THEY WERE READY TO CONTINUE TO DEVELOP DIPLOMATIC RELATIONS BETWEEN THE TWO COUNTRIES ON THE BASIS OF THE JOINT COMMUNIQUE. UNDERSTANDING OF EACH OTHER'S POSITIONS HAD BEEN ENHANCED, AND WOULD HELP FUTURE RELATIONS. BUT IN THEIR FUTURE STEPS ON TAIWAN, THE AMERICANS MUST OBSERVE PREVIOUS AGREEMENTS. ANY ATTEMPT TO SEPARATE TAIWAN FROM CHINA WOULD VIOLATE THE NORMS GOVERNING RELATIONS BETWEEN STATES AND THE PRINCIPLES OF THE JOINT COMMUNIQUE, AND WOULD NOT BE TOLERATED BY THE PRC. THIS WAS A MOST SENSITIVE ISSUE INVOLVING THE EMOTIONS OF THE CHINESE PEOPLE. THE AMERICANS HAD BEEN WARNED OF THE SERIOUS EFFECT WHICH IT COULD HAVE ON BILATERAL RELATIONS IF IT WAS NOT PROPERLY HANDLED.

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3. HUANG HUA NOTED THAT THE AMERICAN SIDE ALSO VIEWED SINO-AMERICAN RELATIONS FROM A STRATEGIC PERSPECTIVE. HE APPRECIATED THIS APPROACH. CHINA WAS A POOR COUNTRY WITH BACKWARD MILITARY EQUIPMENT: BUT IT KNEW ITS OWN WEIGHT IN INTERNATIONAL AFFAIRS. CHINA WAS PINNING DOWN ALONG THE SINO-SOVIET BORDER A QUARTER OF THE SOVIET UNION'S FORCES. THIS WAS OF NOT INSIGNIFICANT VALUE TO WESTERN EUROPE AND THE UNITED STATES. IN THE SOUTH, CHINA HAD TIED DOWN MORE THAN 60 PER CENT OF VIETNAMESE FORCES NORTH OF HANOI. THESE THINGS HAD AN EFFECT ON THE OVERALL STRATEGIC BALANCE.

4. HUANG HUA SAID THAT THE SOVIET UNION HAD SENT FEELERS TO THE PRC THROUGH ALL KINDS OF CHANNELS, THE LATEST BEING REMARKS BY BREZHNEV IN HIS PARTY CONGRESS SPEECH, BUT THESE HAD BEEN REJECTED. THE CHINESE HAD ALSO REJECTED A VIETNAMESE PROPOSAL THAT THERE SHOULD BE A DE-MILITARISED ZONE ALONG THE BORDER AND DISENGAGEMENT OF FORCES. CHINA MAINTAINED ITS POSITION ON HEGEMONISM AND SOVIET EXPANSIONISM IN THE INTERESTS OF WORLD PEACE. IT WOULD NOT PLAY AN AMERICAN CARD WITH THE SOVIET UNION OR VICE VERSA. IT WAS PREPARED TO FACE THE RISKS AND PRESSURES INVOLVED IN ITS PRESENT POLICY. FOR EXAMPLE, MANY OF CHINA'S FRIENDS IN EUROPE AND THE US HAD NOT FAVOURED THE PRC'S COUNTER-ATTACK IN SELF-DEFENCE AGAINST VIETNAM. DURING HIS VISIT TO THE UNITED STATES, DENG HAD GIVEN PRESIDENT CARTER ADVANCE WARNING OF THE ACTION. CARTER HAD NOT RESPONDED IMMEDIATELY, BUT HAD SUBSEQUENTLY INDICATED HIS DISAPPROVAL IN A WRITTEN REPLY. DENG HAD THEN TOLD CARTER THAT CHINA WAS PREPARED TO FACE THE RISK, WOULD HANDLE THE MATTER IN ITS OWN WAY, AND WAS SEEKING AMERICAN ASSISTANCE. CHINA'S ACTION AGAINST VIETNAM HAD BEEN SHOWN TO HAVE BEEN JUSTIFIED. IT HAD HELPED TO CONTAIN THE SOVIET DRIVE INTO SOUTH EAST ASIA AND HAD BEEN APPRECIATED BY ASEAN.

5. LORD CARRINGTON THOUGHT THE US ADMINISTRATION WAS KEEN TO HAVE PROPER RELATIONS WITH CHINA. HE HAD DETECTED NO SIGNS OF HESITATION ABOUT THIS ON THE PART OF HAIG AND OTHERS.

FCO PASS SAVING ADDRESSEES.

CRADOCK

REPEATED AS REQUESTED

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FM PEKING 020522Z APR 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 240 OF 2 APRIL

INFO IMMEDIATE WASHINGTON

INFO ROUTINE UKMIS NEW YORK, UKDEL NATO, MOSCOW, PARIS, BONN, BRUSSELS, THE HAGUE, ROME, TOKYO.

mi

FROM PRIVATE SECRETARY

MEETING BETWEEN THE SECRETARY OF STATE AND CHINESE FOREIGN MINISTER

1. LORD CARRINGTON HAD A FIRST ROUND OF TALKS LASTING TWO AND A HALF HOURS WITH HUANG HUA ON 1 APRIL. THIS TELEGRAM RECORDS THE MAIN POINTS ON EAST/WEST RELATIONS AND POLAND. SEE MY 3 IFT'S FOR OTHER SUBJECTS. FULL RECORDS BY BAG.
2. LORD CARRINGTON SAID THAT THE WEST HAD LEARNED ITS LESSON FROM THE RAGGED REACTION TO THE SOVIET INVASION OF AFGHANISTAN. POLITICAL CO-OPERATION IN EUROPE HAD IMPROVED GREATLY SINCE THEN. NATO AND THE TEN WERE PREPARED TO RESPOND QUICKLY SHOULD THERE BE A SOVIET MILITARY INTERVENTION IN POLAND. COLLECTIVE AND INDIVIDUAL STATEMENTS BY WESTERN GOVERNMENTS HAD CONTRIBUTED TO SOVIET AWARENESS OF THE DAMAGING CONSEQUENCES (WHICH HE DESCRIBED IN BROAD TERMS) OF SUCH AN INTERVENTION.
3. HUANG HUA ASKED IF THE GAS PIPELINE PROJECT FROM THE USSR TO WESTERN EUROPE WOULD BE AFFECTED BY THE MEASURES UNDER CONSIDERATION. LORD CARRINGTON SAID THAT ACTION ON THE PIPELINE WAS ONE OF A NUMBER OF MEASURES WHICH MIGHT BE CONSIDERED, BUT A WIDE VARIETY OF ACTIONS COULD BE TAKEN ACCORDING TO THE NATURE OF THE SITUATION WHICH WE FACED. HUANG HUA SAID THAT THE PRC ALSO WOULD DECIDE ON ITS REACTION IN THE LIGHT OF THE CONCRETE SITUATION AT THE TIME.
4. LORD CARRINGTON THEN EXPLAINED THE PARALLEL APPROACH TO TNF MODERNISATION. HUANG HUA ASKED IF THE NEGATIVE STANCE OF BELGIUM AND THE NETHERLANDS TOWARDS TNF MIGHT NOT SPREAD TO THE FRG AND OTHER COUNTRIES. LORD CARRINGTON SAID THAT IT WAS FOR THIS REASON THAT WE HAD STRESSED THE IMPORTANCE OF COUPLING TNF MODERNISATION WITH ARMS LIMITATION TALKS. HE WAS ENCOURAGED THAT THE US ADMINISTRATION HAD EXPRESSED THEIR INTENTION OF TAKING PART IN SUCH TALKS.
5. COD PLEASE ADVANCE TO PS, PS/LPS AND NEWS D.

CRADOCK

FCO/WHITEHALL
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[ADVANCED AS REQUESTED]

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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~933~~202X 218 2111/3

MO 11/14

15th January 1981

NBRM

Am 15/1

John Rodric

BL755 CLUSTER BOMB FOR CHINA

Thank you for your letter of 17th December which I have shown to Mr Nott. He has also seen Michael Alexander's letter of 19th December 1980.

In the light of the points made by the Prime Minister and by Lord Carrington Mr Nott agrees that negotiations should continue with the Chinese without a firm commitment to supply at this stage, and that the proposal should be re-considered by Ministers when we have a better indication of the size of the order which the Chinese are prepared to place in this country. He has added that we would certainly not contemplate selling the BL755 technology if the Chinese were only prepared to buy 500 sets of components from us (this being the figure you mentioned). We would need a much more substantial order placed on British Industry and the Royal Ordnance Factories before concluding a deal but clearly we shall need to establish how far the Chinese are prepared to go before we take final decisions.

As you said in your letter, the Chinese have now asked for an evaluation of BL755 in China (and using Chinese aircraft). This proposal poses a number of financial and technical problems for us which are still under study. It is not yet clear when such a demonstration could be arranged, but in further discussions with the Chinese we shall impress upon them the need for secrecy and close consultation on the timing of the exercise. In view of the concern which you have expressed, particularly on timing, our officials will keep in close touch with yours.

I am copying this letter to Michael Alexander (No 10), the Private Secretaries to the other members of OD, to Ian Ellison (DOI) and to David Wright (Cabinet Office).

John

(J D S DAWSON)
Private Secretary

John Dawson

R M J Lyne Esq
Foreign and Commonwealth Office

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115 JAN 1987

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OD:- HO ✓ L P Seal ✓
L Chanc ✓ Trade ✓
FCO ✓
Tres ✓
Def ✓
L. Pres ✓

19(December, 1980

BL 755 Cluster Bomb for China

The Prime Minister has seen a copy of Roderick Lyne's letter to you on this subject. She agrees that it would be right to delay a decision in principle about the supply of this weapon system until we are clear about the size of the order.

I am sending copies of this letter to the Private Secretaries to members of OD, Ian Ellison (Department of Industry) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

J D S Dawson, Esq
Ministry of Defence

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Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

①

The FCO are worried that the order may not be large enough to justify the political risk. They suggest delaying a decision until the terms of the deal are clearer. Agree? Yes

17 December 1980

The order must be large enough if we are to go ahead

Ph - 17/12

Dear Jonathan,

BL 755 Cluster Bomb for China

Thank you for your letter of 18 November about the possible sale of BL 755 and retarded bombs to China, and the transfer of the technology involved.

As you say, the supply of these weapons would represent a new departure in our defence relations with China. We agree that there is a case for their sale in terms of improving China's defences against attack by the Soviet Union. But it must also be recognised that BL 755 is a somewhat emotive weapon and that its provision to China would be bound to attract criticism, not only from the Russians but also from friendly countries such as India and some of the ASEAN states. Some of our COCOM partners are also likely to have reservations, particularly the Japanese. If, as we hope, they accept our proposal for a 'China differential' we would have to submit the deal to COCOM, not merely notify it, and might run the risk of a veto. The technology transfer aspect clearly adds to the difficulties. We understand that the licenced manufacture of BL 755 has not previously been approved for any foreign country.

It might be worth accepting these political risks if the deal was sufficiently attractive from the commercial point of view. In para 3 of your letter you say that the numbers so far discussed with the Chinese are for a minimum of 3,000 sets of components for each type for assembly in China; and that the package could be worth some £50 million. We understand however that the Chinese have said that the prices quoted are too high and are talking of buying no more than 500 sets of each weapon. As so often happens, they are seeking to acquire the technology with the minimum purchase of hardware. We do not believe that the benefits which a deal on the lines which the Chinese now seem to have in mind would outweigh the political disadvantages.

Against this background, Lord Carrington believes that no decision in principle about the supply of these weapons should be taken until the main features of the proposed deal

/are

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are very much clearer than they are now. He is however prepared to agree to the continuation of the negotiations, without commitment, in order to establish the terms on which a deal might be possible. He sees no reason why the Chinese should not be told informally that the sale of these weapons, in particular BL 755, would create political difficulties for the government which they would only contemplate facing if the deal was worthwhile in terms of the work which it would bring to British industry and the Royal Ordnance Factories.

We understand that the Chinese have now asked whether a demonstration of BL 755 in China could be arranged to coincide with the next sales visit. We are satisfied that the Chinese would share our desire to keep the proposed demonstration secret. But a leak could not be excluded. While we are prepared to agree in principle to the demonstration in China we should be grateful if you would consult us about the timing. We should want to take into consideration the state of East-West relations, particularly over Poland.

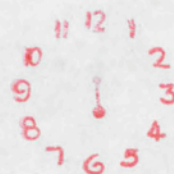
I am copying this letter to Michael Alexander (No 10), to the Private Secretaries to other members of OD, to the Private Secretary to the Secretary of State for Industry and to David Wright (Cabinet Office).

yours ever
Roderic Lyne

(R M J Lyne)
Private Secretary

J D S Dawson Esq
Assistant Private Secretary
to the Secretary of State
for Defence
Ministry of Defence

17 DEC 1980





MO 26/9/10

FOREIGN AND COMMONWEALTH SECRETARYCOCOM: DEFENCE SALES TO CHINA

Thank you for your minute of 19th November.

2. I agree that we should now present the revised UK formula to COCOM together with the supporting statement which you attached to it. It is unfortunate that we have been obliged to drop the phrase "such cases in general should be approved" since this undoubtedly weakens the formula, but I accept that this was a necessary concession in order to prevent even more restrictive terminology being included by the Americans. I hope that we shall encounter a positive attitude towards defence sales to China from our COCOM partners under this formula and that objections will not be raised to our proposals. If we were to encounter difficulties - I note that there is some concern over likely Japanese attitudes - I think we would need to consider very carefully whether the disadvantages of procuring sales to China in COCOM under the new formula were outweighed by the broader benefits which you mention, in particular maintaining the effectiveness of COCOM towards the Soviet Union. We shall therefore need to watch progress very carefully on the first UK proposals to be considered under the revised formula, which will probably be the LUDA frigate refits.

3. I agree with you that there is every advantage in trying to settle this before the change of Administration in the United States.

4. I am copying this minute to the recipients of yours.

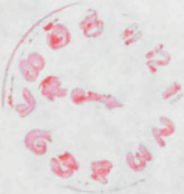
Ministry of Defence

21st November 1980

D. Dawson
(Private Secretary)
(Appointed by F P
and signed in his absence)



24 NOV 1980





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Prime Minister
[Signature]

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This seems sensible. Agree?

Nidrahim

FCS/80/161

Lg. [Signature] 24/x1

Yes [Signature]

[Signature] 19/x1

SECRETARY OF STATE FOR DEFENCE

COCOM: Defence Sales to China

1. I wrote to you on 8 July to propose a formula for a "China differential" in COCOM which would reconcile the desire of some of our partners that defence sales to China should be put through COCOM with our own wish to maintain as much freedom as possible in deciding what sales we should allow British firms to make.

2. As agreed, we have now consulted our main partners and have reached agreement on a draft formula based on the one I suggested in July. However, in order to accommodate the Americans and the Japanese, we have weakened slightly the presumption of approval by COCOM of defence sales to China (by omitting the phrase at the end of our original formula "that such cases in general should be approved"). In spite of this omission, the presumption in favour of sales to China remains strong.

3. In the course of our consultations, we have emphasised to our main COCOM partners that in our view the sort of sales we have in mind would not threaten the collective security of member states; we therefore trust that they will not adopt a restrictive attitude towards them. We have also underlined our view that it is no longer appropriate to apply to China the same criteria for supplying strategic materials that we apply to the USSR and its allies. I think that our partners accept this, although the Japanese are understandably more nervous than most other COCOM countries about the prospect

/of a militarily

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of a militarily stronger China. In presenting our formula, we would reiterate these points, both in COCOM and in capitals, on the lines of the enclosure to this minute.

4. It would suit us better to by-pass COCOM entirely for our defence sales to China, or at least to continue with our present procedure of bilateral notification in capitals, than to resubmit ourselves to the formal discipline submission to COCOM. However, our partners have made it clear that they would much prefer us to return to the COCOM fold. If we do not follow the normal COCOM procedures in our defence sales to China, it will be harder for other governments to require their manufacturers to do so for their proposed sales, civil as well as military. We would also be offering a precedent for other Governments to evade the COCOM disciplines for strategic sales to other COCOM-embargoed countries. This would not be in our interests. As the Secretary of State for Trade said in his letter of 14 July, we need to maintain the effectiveness of COCOM vis-a-vis the Soviet Union.

5. There is of course a risk that some COCOM countries may object to certain of our proposed sales. But I do not think they will do so lightly. It is clear from our enquiries that they are ready to go along with limited defence sales to China, including weapons. Moreover, they are well aware that we have over-ridden COCOM objections in the past; if, therefore, they want us to continue to submit our defence sales to China to COCOM, they will have a strong interest in accommodating us.

6. As you will recall, we adopted our present bilateral notification arrangement at the request of the Americans. If we now return to full COCOM procedures for defence sales to China, we shall be able to extract in return a helpful and

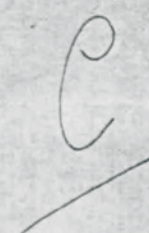
/significant



significant change in the treatment in COCOM of defence sales to China. I hope that you and other colleagues can agree that we may now formally put to COCOM our revised formula for a China differential, with the caveats set out in para 3 above. As I said in my earlier minute, we would seek to have the formula adopted by oral consensus.

7. There would be advantage in moving quickly. American officials have told us informally that they are happy with our proposed formula. Although it seems unlikely that the policies of the Reagan Administration in this field will be significantly different, it would be prudent to put the formula to COCOM while the Carter Administration is still prepared to take decisions. Unless my colleagues express reservations before 24 November, I intend to send instructions on that date to our COCOM delegate to act accordingly.

8. I am copying this minute to the Prime Minister, other members of OD, the Secretary of State for Industry and Sir Robert Armstrong.


(CARRINGTON)

Foreign and Commonwealth Office
19 November 1980



British Formula for a Differential in COCOM in Favour of China

'The Committee records a consensus that recent changes in the People's Republic of China and the current Chinese position in international affairs justify a positive approach to the treatment of exceptions cases for exports to the People's Republic of China. This favourable treatment should apply to items on all three COCOM lists: the industrial list, the international munitions list and the international atomic energy list. The proposed export to China of any COCOM listed item, except those which are approved at national discretion pursuant to notes on the lists, should be reviewed by the Committee in this light, regardless of which list it is on and whether it is for a civilian or military end-use'.

Supporting Statement:

The British Government do not intend to allow British firms to export (or seek approval to export) nuclear weapons, or equipment and technical data which could make a significant contribution to the design, development or manufacture of nuclear weapons or of their delivery systems. The Government do however propose to seek approval for their supply of certain weapons as well as dual-use items. Potential sales in these categories might best be handled in COCOM on a case-by-case basis.

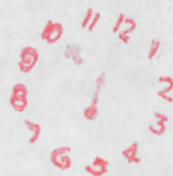
In the absence of an agreed procedure in COCOM the British Government have been using their own judgement on the sale of military equipment to China. With Government approval, British firms are now engaged in negotiations with the Chinese about the supply of a variety of equipment, including weapons. In view of the British Government, such sales as may result would not be inconsistent with the proposed China differential.

/Nor would



Nor would they threaten the collective security of member states. The British Government trust that their partners will take a liberal view in COCOM of what the UK should supply and will not necessarily expect the UK to restrict sales to China to those they would themselves be prepared to make.'

19 NOV 1980



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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~5507822~~ 218 2111/3

Warrant Box

Prime Minister

MO 11/14

18th November 1980

*To write at
this stage.*

Paul 19/11

Star Paul,

mb

BL 755 CLUSTER BOMB FOR CHINA

We have recently corresponded about the sale of the BL 755 Cluster Bomb to Egypt. For some time now the Chinese have been interested in acquiring BL 755 and bombs with retarder tails. A Defence Sales team has just returned from Peking, and the Defence Secretary considers that it is now time to consider whether to authorise detailed contractual negotiations and, if successful, whether to supply these weapons to the Chinese.

As you will recall, BL 755 is a low-level close support weapon, developed to deliver a relatively high quantity of explosives against concentrations of armour. We are not sure to which of their aircraft the Chinese intend to fit it, although one possibility is the F7 - for which we are also providing an avionics refit. The bombs with retarder tails are standard 1000 lb and 540 lb bombs - the purpose of the retarder tail is to enable delivery at low level. BL 755 is a MOD weapon made in the Royal Ordnance Factories and industry, chiefly Hunting Engineering. It is filled and assembled at ROF Glascoed. Retarder tails are made by Hunting Engineering, and are attached to bombs made in the Royal Ordnance Factories. Sales of both weapons are handled by the MOD, which would be responsible for negotiating the details of any contract.

Since the discussions have hitherto been only exploratory, we do not have precise details of Chinese requirements. But they have made it clear that, in the case of both weapons, they would wish to proceed in three stages: first the purchase of complete weapons from the UK; second, assembly of weapons from sets of components and, finally, full licensed production in China. The first two stages would be those which would provide the greatest economic benefit to the UK and it has been made clear to the Chinese that any deal would have to provide for certain minimum numbers of weapons to be provided whole or as components before we could agree to licensed manufacture. Until we have details of precise Chinese requirements it is difficult to be specific, but the numbers so far discussed with the Chinese are for a minimum of 5,000 complete weapons of each type (BL 755 and retarded bombs) followed by a minimum of 3,000 sets of components



for assembly in China, and licensed manufacture thereafter. The Chinese have indicated that they would wish to see a reduced price and a higher proportion manufactured in China. These points will need to be pursued in further negotiations. Nevertheless the deal could be worth some £50M and would provide much needed work for the ROFs and industry, including Hunting Engineering. Without details of Chinese requirements it is difficult to be precise about timescale, but, by way of an example, a contract signed early next year for the quantity mentioned above would enable deliveries to start in early 1982 and be completed during 1984. The Chinese would then be capable of full licensed manufacture possibly by 1985/86.

Despite the attractions of the deal in terms of work for the ROFs and industry, it would nevertheless represent a new development in our defence sales relations with China. Although the essential purpose of both BL 755 and the retarded bombs is anti-armour and defensive, they do have a clear offensive capability and could not be presented as anything other than a significant contribution to the Chinese strike force. Moreover, the deal would be an isolated one and not part of a wider package such as Sea Dart or Stingray in the projected destroyer refits. It would also be the first time that a Government-to-Government deal had been specifically authorised with the Chinese, although this has always been a likely development.

In security terms, the equipment carries a maximum classification of Confidential, but we believe that it should be possible to conduct both the sale and licensed manufacture at Restricted level, and on this basis we would have no objections. It may eventually become necessary to release some Confidential information but we believe that this should not cause any insuperable problems.

In terms of the strategic balance, the acquisition of BL 755 (in the numbers and over the timescale mentioned in paragraph 3) would partly fill a Chinese defensive gap against vastly superior Soviet armour positioned on their northern frontier. The effect of deploying the weapons would be to redress an imbalance between Chinese and Soviet forces. A strong Soviet political reaction could therefore be expected to the sale. The deployment of BL 755 in the South against Vietnam would have little significant effect on the military situation, given the nature of the terrain which precludes the large-scale use of armour.

✓ On balance, the Defence Secretary considers that we should authorise contractual negotiations and agree, in principle, to the supply and manufacture of the weapons if these are successful, subject to reference back to OD before any contract

CONFIDENTIAL



is signed. We would need, at a later stage, to notify our Cocom partners, and we could expect that they might find this a particularly difficult proposal to endorse. Mr Pym thinks, however, that the time to address this aspect is when contract negotiations are further advanced and we have a firmer idea of Chinese intentions.

I am copying this letter to Michael Alexander (No 10), to the Private Secretaries to other members of OD, to the Private Secretary to the Secretary of State for Industry and to David Wright (Cabinet Office).

Yours truly
J D S Dawson

(J D S DAWSON)

Oct 1 1950



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China



Foreign and Commonwealth Office

Pennie Amster (2)

London SW1A 2AH

13 October 1980

Amst 13/10

[Handwritten initials]

[Handwritten initials]

Dear Brian,

China: Proposals to Modernise Luda Class Destroyers

The Foreign and Commonwealth Secretary has seen the Defence Secretary's minute of 23 September about British Shipbuilders' (BS) proposal to modernise two LUDA class destroyers for the Chinese and set up a shore test facility in this country. He agrees that BS should be authorised to start contract negotiations.

Lord Carrington accepts that the transfer of some of the technology involved is a price which will have to be paid if a deal is to be concluded. He would have no objection to this in principle, but agrees that individual proposals should be examined on their merits. Since political as well as security considerations will need to be taken into account, we would be grateful if you would arrange for the FCO to be consulted as necessary. We understand that the transfer of technology on the Lynx helicopter is not in question at this stage and would only arise, if at all, in the context of discussions about refitting further LUDA destroyers.

Lord Carrington shares the Defence Secretary's view that some of our COCOM partners may have reservations about the project. The Americans could create difficulties about the supply of some of the equipments included; and the Japanese may be unhappy about the improvement in China's naval capability which the deal would facilitate. He therefore thinks it important to give our partners adequate time to consider what is proposed - and ourselves time to consider and respond to any objections which they may raise. We understand that the final contract is unlikely to be signed, assuming all goes well, before March next year at the earliest. On that basis Lord Carrington is content to delay formal notification to our partners until the negotiations are further advanced, perhaps early next year. The Americans have already been told in general terms about the proposed refit and have asked for more information. I understand that your officials agreed with the FCO officials that further information should be given to them in the context of our discussions with them of a China differential. In the light of these discussions, it may also become necessary to tell other COCOM partners - in particular the Japanese - what we have in mind. The exact timing of a formal approach will be a matter for careful judgement in the light, among other things, of the dates chosen for Lord Carrington's rearranged visits to Japan and China.

/For

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For that reason we should be grateful to be kept closely informed of progress in BS's discussions with the Chinese. In the meantime Lord Carrington thinks it would be prudent to remind BS that Ministers will need to take account of the views of COCOM partners before final decisions are taken.

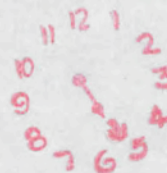
I am copying this letter to the Private Secretaries to other members of OD, to the Secretary of State for Industry, and to David Wright (Cabinet Office).

*Yours ever
R M J Lyne*

(R M J Lyne)
Private Secretary

13 OCT 1980

Brian Norbury Esq
Private Secretary to the Secretary of
State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON





Chinese
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 responses

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FOREIGN AND COMMONWEALTH SECRETARY

CHINA - PROPOSALS TO MODERNISE LUDA CLASS DESTROYERS

You will recall that, when we discussed defence sales to China in OD on 29th February, one of the projects which we approved was the British Shipbuilders (BS) proposal to re-equip Chinese LUDA class destroyers and construct new destroyers. Since then, further discussions between BS and the Chinese have taken place, and a BS team has recently returned from Peking. From these contacts it is clear that the Chinese do not intend to proceed with the part of the original proposals relating to new construction, at least for the time being, but the LUDA refit discussions have made good progress and BS's recent visit concluded with the signature of a Letter of Intent. In summary, this is an agreement, subject to the approval of both Governments, to enter contract negotiations to modernise two LUDA class destroyers in Shanghai with a Shore Test Facility in the United Kingdom. The intended weapon fit of the project as now defined is at Annex. The project has now been designated the 051 Destroyer Project and BS have undertaken to present draft contract documents at the end of November 1980 - provided that Government approval for the project has been obtained.

2. I believe we should give that approval. Although the proposals have been scaled down from BS's earlier hopes, they still represent a considerable amount of business and would be an extremely valuable source of work for BS and the other companies involved. The value of the refit of these two ships is roughly £100M. There are good prospects, however, for the refit of further LUDAs which might, subject to agreement on the supply of an acceptable torpedo, include sale of the Lynx helicopter and torpedoes, (which are not included in the first two refits). There are seven LUDA class ships, and, we believe, an eighth in course of building.

3. From a security point of view, we are content that the equipments may be sold to China. A certain degree of sanitisation will be required for the Sea Dart missile, and this is under discussion with the manufacturers, British Aerospace. There is also the question of technology transfer. The Chinese have made it clear that they will seek transfer on, inter alia, Sea Dart



and Lynx as a condition of purchase. This is not specifically mentioned in the Letter of Intent since it has always been understood that technology transfer discussions must be direct with the appropriate suppliers and not through BS. Some initial discussions have taken place: when specific proposals are ready, each will have to be examined carefully before they are offered to the Chinese, but I do not believe we should refuse transfer as a matter of principle if security considerations permit.

4. From a strategic point of view, little has changed since the LUDA proposals were discussed at OD in February and, since the project is now less elaborate than was then envisaged its strategic significance is correspondingly lessened. We do however need to consider at this stage what action, if any, to take with our COCOM partners. Although we are doing little more at this stage than to re-endorse the approval given in February, it will, if BS present their draft contract and get it accepted, become increasingly difficult, if not impossible to stop the project without a major effect on Sino-British relations. Nevertheless I do not believe that we should notify our COCOM partners at this stage. In the circumstances I suggest that the best time to do this, so as not to cause ourselves unnecessary difficulties with our partners - the Japanese in particular may have some reservations about the project - would be when contract negotiations are further advanced. This would have the advantage of giving us more time to agree with our partners a procedure for dealing with China cases in COCOM.

5. I am copying this minute to the other members of OD, to the Secretary of State for Industry and to Sir Robert Armstrong.

Ministry of Defence

23rd September 1980

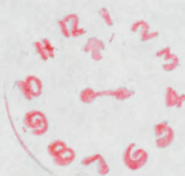
CHINA - BRITISH SHIPBUILDERS PROPOSALS FOR REFIT OF LUBA CLASS DESTROYERS

British Shipbuilders proposals for the refit of the LUBA class destroyers are designed to enhance the ships' defensive capability against attack from air and surface missiles, to improve the fast reaction capability of their weapons systems and to introduce a capability for Electronic Counter Measures and a real-time digital data and information system.

2. In equipment terms, the main features of the proposals can be summarised as follows:

- a. Weapons - light weight Sea Dart and 30mm guns.
- b. Combat Information Command and Control Systems - action information and fire control systems.
- c. Electronic Warfare Systems - jammer and chaff and infra-red rocket launchers.
- d. Radar Equipment - surveillance, tracker illuminator and fire control radars.
- e. Optronic Sights - laser range finders and TV devices.
- f. Underwater Acoustics - sonar.
- g. Communications Equipment - internal communications.
- h. Navigational Equipment - gyro compass stabilisers.

24 SEP 1980



China



Foreign and Commonwealth Office

London SW1A 2AH

1 August 1980

Dear Jonathan

NBPA

RHS

CHINA : BRITISH AEROSPACE'S AIR-TO-AIR MISSILE PROJECT

Thank you for your letter of 23 July to Roderic Lyne about this project.

In Lord Carrington's absence in South America the papers have been submitted to the Lord Privy Seal. Sir Ian Gilmour was pleased to learn that BAe have made progress in their discussions with the Chinese. He agrees that the company should be authorised to take matters further on the basis outlined in your letter, and on the understanding that BAe's proposed MOU will be submitted to your department for clearance before signature. We shall wish to examine the political implications, including those relating to COCOM, very carefully at that stage. Any MOU will certainly have to include (as you suggest) a clear statement of the need for further government approval before the start of development and production contracts.

Sir Ian Gilmour agrees that COCOM partners should not be informed about this project in the meantime. If a deal is eventually concluded it would involve a significant transfer of technology in a sensitive area and some of our partners might well be unhappy about it. However, the final shape of the project is unclear and it is far

/from

J D S Dawson Esq
 Assistant Private Secretary to the
 Secretary of State for Defence
 Ministry of Defence
 Main Building
 Whitehall
 London SW1



from certain that BAe will succeed in reaching agreement with the Chinese. We also see advantage in delaying an approach until there is an agreed procedure for handling defence sales to China in the COCOM machinery.

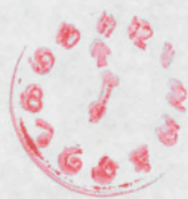
I am copying this letter to the recipients of yours.

Yours ever

Michael Arthur

M A Arthur
Private Secretary to the
Lord Privy Seal

11 AUG 1980





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MKP 4/8

Secretary of State for Defence

COCOM: DEFENCE SALES TO CHINA

Thank you for your minute of 17 July to Peter Carrington, who is as you know in South America.

Our Embassy in Washington have now put our formula on sales to China to the Americans. The Americans' preliminary reaction was not unhelpful; and they have promised to give us their considered response as soon as possible. We then intend to put our formula to our other COCOM partners for their consideration before COCOM reconvenes in September.

If it is accepted by our COCOM partners, it will be explicitly agreed that in general defence sales to China will be approved. But as Peter Carrington said in his minute of 8 July, and you note in your minute of 17 July, we have to accept that a veto might be exercised in exceptional cases. I understand your presumption that we should expect to resist such a veto. But I think it is too early for us to adopt a hard and fast position on this; only when (and if) a veto is exercised could we decide whether to acquiesce in it or not, in the light of all the circumstances of the case.

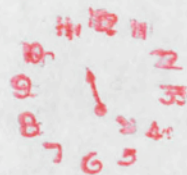
In the meantime we shall continue as you say to use our bilateral notification procedure.

I am copying this minute to the Prime Minister and other members of OD, the Secretary of State for Industry, and Sir Robert Armstrong.

/H7.

1 August 1980

4 AUG 1980



Defence



MINISTRY OF DEFENCE
 MAIN BUILDING WHITEHALL LONDON SW1
 Telephone 01-~~XXXXXX~~ 218 2111/3

MO 11/14

23rd July 1980

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Handwritten signature
 - 23/7

Dear Roden,

CHINA: BRITISH AEROSPACE'S PR4 AIR-TO-AIR
 MISSILE PROJECT

You will recall that, when OD discussed defence sales to China on 29th February one of the specific projects which was approved in principle was British Aerospace's proposal to assist in the development by the Chinese of an air-to-air missile (named PR-4). There have been some recent encouraging developments in BAe's discussions with the Chinese of which your Secretary of State will wish to be aware.

BAe's basic proposals have not changed since February. Their intention is to enter into a collaborative arrangement with the Chinese under which BAe will provide the guidance and firing systems to go into a Chinese-designed air-to-air missile. Following the OD approval in February, BAe apparently satisfied the Chinese on the technical content of the programme, which the Chinese confirmed would meet their requirements, although, on price, it became clear that there was a substantial difference between BAe's estimate of what the programme would cost, and what the Chinese were prepared to pay.

During his recent visit to the UK to sign a contract for avionic equipment with Marconi Mr Duan Zi Jun of the Third Ministry of Machine Building visited the BAe facilities at Stevenage and Hatfield, and told BAe that the Chinese had every intention of proceeding with the programme "provided

R M J Lyne Esq
 Foreign and Commonwealth Office



an acceptable price can be agreed". Mr Duan asked BAe to send a delegation to Peking to discuss a preliminary contract which would cover a Project Definition phase (nine months), during which a detailed development and production plan could be agreed. BAe also expect that the Project Definition Contract will be accompanied by an MOU between the Third Ministry of Machine Building and BAe, confirming the intention of both sides to proceed to production if all goes well. The visit was originally planned for the end of July, but has now been postponed and will probably not take place until September.

BAe expect to be able to complete the PD phase within the limits of the security clearances they have already been given, and provided they can do this, we would see no objection to them going ahead. But we shall need to look carefully at any agreed development and production plan that emerges after PD to ensure that it meets our requirements. Accordingly, our officials will instruct BAe that any MOU they may sign containing statements of intent to proceed after PD must include a reference to the need for HMG approval before the start of the development and production contracts.

Ministers will therefore have another opportunity to take stock at the end of nine months, if the programme proceeds according to plan. Nevertheless, it would be wrong not to recognise that it would be difficult to stop the project then except for very pressing reasons. In this connection, it is necessary to consider the question of the timing of any approach to COCOM partners. Our officials are already in contact with yours on this point. Our view is that we should wait until the end of the PD phase and see the exact scope of the project that emerges before notifying our partners. Indeed until that step is reached we shall not know if a programme acceptable to both sides is possible. But it would be helpful to have your views on this.

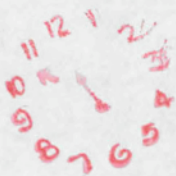


I am copying this letter to Michael Alexander (No 10),
to the Private Secretaries to the other members of OD, and
to David Wright (Cabinet Office):

Yours truly
J D S Dawson

(J D S DAWSON)

24 JUL 1980



*China*

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MBP
*Phu*FOREIGN AND COMMONWEALTH SECRETARYCOCOM: DEFENCE SALES TO CHINA

Thank you for your minute of 8th July.

2. I agree with your analysis of the problem and your proposals for handling it, including the approach to our partners in capitals before a UK amendment is tabled in COCOM. As John Nott comments in his letter of 14th July, this seems the best way of reconciling our two objectives of protecting our defence sales interests in China and maintaining COCOM as an effective constraint on the transfer of strategic equipment and technology to the Soviet Union and other members of the Warsaw Pact.
3. In agreeing to this course of action, I must emphasise the importance which I attach to the points made in paragraphs 7 and 8 of your minute. The present procedure for notifying capitals does indeed suit our defence sales interests better than a more formal arrangement, and I could only accept submission through COCOM if it was clear that our partners would in fact refrain from using their veto as a general rule. Moreover, I am bound to say that, although it may be right to recognise, in principle, that there could be exceptional cases in which our partners might wish to exercise their veto, the presumption in my own mind would be that this is something we should expect to resist. In the period during which the UK amendment is under discussion, I take it that we shall continue to follow the notification procedure which we are using at present.
4. I am sending copies of this minute to the Prime Minister, the other members of OD, the Secretary of State for Industry and Sir Robert Armstrong.

Handwritten initials

17 JUL 1980

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China

From the Secretary of State

CONFIDENTIAL

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London, SW1A 2AH

14 July 1980

Dear Peter.

to Am?

COCOM: DEFENCE SALES TO CHINA

You wrote on 8 July to Francis Pym about this.

I support the amendment to the United States' proposals for a COCOM differential in favour of China; and am content that before we present it to COCOM, our Embassies in COCOM capitals should be instructed to explain our thinking and seek our partners' comments. This approach is the most likely to satisfy the two potentially conflicting objectives. We wish to ensure that our prospects for sales of defence equipment to China are put to a minimum of risk; but at the same time we wish to maintain the effectiveness of COCOM as a check upon exports of strategic equipment and technology to the Soviet Union and her allies.

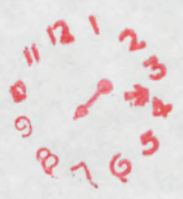
It is important that this problem should be resolved in a way which protects our interests. There is increasing concern among United Kingdom businessmen that the Americans are using the COCOM arrangements to ensnare our own defence sales efforts in China until such time as they themselves are free to enter the market.

I am copying this letter to the recipients of yours.

*Yours ever
John*

CONFIDENTIAL

JUL 1980





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Paul

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SECRETARY OF STATE FOR DEFENCE

COCOM : Defence Sales to China

1. As envisaged in Ian Gilmour's letter to you of 18 April, our officials have had consultations with our key partners about the American proposal for a COCOM differential in favour of China.
2. These consultations have led us to conclude that our partners would prefer us to submit our defence sales to COCOM rather than continuing to notify them bilaterally in capitals. They would be against a more radical alternative, such as taking China out of the list of COCOM-embargoed countries. Most of them favour a China differential on the lines put forward by the Americans.
3. However, in its present form the differential is not sufficiently positive in favour of China to meet our requirements, and there is some risk, if we accepted it, that some of our proposed defence sales might be vetoed. It is also too closely related to the situation inside China (a more general formula is required, reflecting the implications of a sale for the international security situation). We therefore need to modify the American proposal in a way which strengthens the presupposition that such sales will be approved, and breaking the link to the internal situation in China alone.
4. I enclose the text of a formula which I believe could meet our requirements. Eventually, we would have to present it in COCOM. But before doing so, I should like as a first step to instruct our Embassies in COCOM capitals to explain the purpose of our amendment and to seek the comments of our partners. Our Embassies would say that, if our partners were willing to agree to an amendment on these lines, we

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would submit to COCOM all applications for sales to China of items covered by COCOM's three lists. The amendment implies that such sales would in general be approved.

5. The coverage proposed in paragraph 2 of our formula includes the three lists in the US formula. But we would of course have no intention of selling nuclear weapons to China, and would make that clear as necessary.

6. The French have made it clear that they could only accept the American formula if it is adopted by oral consensus rather than written into the COCOM procedures. (This may reflect partly their wish not to discriminate openly against the Soviet Union, partly their feeling that a written formula is less open to subsequent change than an oral understanding). It looks as though we too will have to content ourselves with an oral consensus. For that reason our formula omits the last sentence of the American formula.

7. We would explain that if our partners are not able to accept an oral consensus based on our formula, or one of equivalent effect, we would have to continue to process our defence sales outside COCOM. Our present procedures suit us better than submission to COCOM and in our view are more in keeping with the realities of China's position in the world. But we are ready to envisage an appropriate differential in COCOM in favour of China in the knowledge that this is what our partners would prefer and in recognition of the need to maintain the effectiveness of COCOM, post-Afghanistan.

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8. In effect, we would be telling our partners that we were only prepared to put our defence sales to China through COCOM if they refrained from using their veto as a general rule. We have to accept that they might wish to do so in exceptional cases (and if so, we would have to consider whether we acquiesced in it). However, I do not think that we are likely to secure general assent unless we are ready to accept this small degree of constraint on our freedom of action.

9. I am copying this minute to the Prime Minister and the other members of OD, to the Secretary of State for Industry and Sir Robert Armstrong.

C
/

(CARRINGTON)

Foreign and Commonwealth Office

8 July 1980



DRAFT FORMULA

PROPOSED AMENDMENT TO THE UNITED STATES PROPOSAL FOR A
DIFFERENTIAL IN COCOM IN FAVOUR OF CHINA

The Committee records a consensus that recent changes in the People's Republic of China and the current Chinese position in international affairs justify a positive approach to the treatment of exceptions cases for exports to the People's Republic of China; and that such cases should in general be approved.

This favourable treatment should apply to items on all three COCOM lists: the industrial list, the international munitions list and the international atomic energy list. The proposed export to China of any COCOM listed item, except those which are approved at national discretion pursuant to notes on the lists, should be reviewed by the Committee in this light, regardless of which list it is on and whether it is for a civilian or military end-user.

CURRENT US PROPOSAL

The Committee should record a consensus that the current situation in the People's Republic of China warrants a more favourable treatment of exceptions cases for export to that country than to other COCOM proscribed destinations.

This more favourable treatment should apply to items on all three COCOM lists: the industrial list, the international munitions list, and the international atomic energy list.

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The proposed export to China of any COCOM listed item, except those approvable at national discretion pursuant to notes on the lists, should be reviewed by the Committee in the usual fashion, regardless of which list it is on and whether it is for a civilian or a military end-user. Accordingly, a new chapter should be added to the exceptions procedures as follows : 'China exceptions procedure: Committee consideration of exceptions cases for export to the People's Republic of China of items on the International List, and the International Atomic Energy List may, where appropriate, be on the basis of the current situation in China and not subject to the established exception procedures'.

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China

Prime Minister (2)

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PRIME MINISTERDEFENCE SALES TO CHINA

I thought that I should report that the Chinese signed a contract yesterday with Marconi Avionics Ltd for the supply and licensing of avionics equipment for the Chinese F7 aircraft. The contract is worth about £40M, with more to come.

2. This deal indicates that the Chinese are following up the intentions they expressed to me during my visit to China in March when they said that they were looking first to this country for the modernisation of their existing equipment.

3. When I met the Chinese delegation today they told me that they hoped to reach agreement in principle in the next week or so over the supply of radars, head-up displays and other items for their F8 aircraft with Ferranti, Smiths and several other companies. This should be worth another £30M or so.

4. Negotiations are also continuing on several other items including an air to air missile and the refit and modernisation of the Chinese Luda class frigates. There is therefore an encouraging prospect of substantial additional business.

5. Both the Chinese and Marconi Avionics Ltd have asked that the fact that a contract has been signed should be treated as confidential for the time being.

6. I am copying this minute to the other members of OD; the Secretary of State for Industry; and Sir Robert Armstrong.

Ministry of Defence

1st July 1980

CONFIDENTIAL

RE JUL 1980



China

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MAP

CONFIDENTIAL



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephones 01-218 2111/3 (Direct Dialling)
01-218 9000 (Switchboard)

MO 11/14

20th June 1980

Dear Roderic,

DEFENCE SALES TO CHINA

Thank you for your letter of 18th June which my Secretary of State has seen. Mr Pym agrees that, given the nature and scope of our defence sales activities in China, we have no reasonable grounds for objecting to an American sale of helicopter technology to China. He also agrees with Lord Carrington's view that it would be inappropriate for our delegates to COCOM to take an active part in the Committee's discussion of the case, and that he should therefore denote his assent by silence.

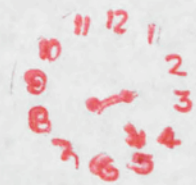
I am copying this letter to the recipients of yours.

Yours truly,
David Omand
(D B OMAND)

R M J Lyne Esq

CONFIDENTIAL

23 JUN 1980



CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

18 June 1980

Dear Jonathan,

MRON
Plus

Defence Sales to China

Ministers agreed that they would consult when cases of politically sensitive defence sales to China arose.

The United States have now submitted to COCOM an application to export technical data which would enable helicopters to be assembled in China. Although this technology is stated to be for a civil end use, I understand that MOD officials have pointed out that the technology could be equally used in the assembly of helicopters for military use. As such it should be regarded as politically sensitive (Category 3) which Ministers agreed in June last year would require their prior approval if such a sale were contemplated by a British manufacturer.

Given that Ministers have already approved in principle the sale of British defence equipment of similar sensitivity, notably Rolls Royce tank engines and an avionics fit for the Chinese F7 aircraft, the Foreign and Commonwealth Secretary does not think that we have any reasonable grounds for objecting to an American sale of helicopter technology to China.

We need to consider how we should react to the US application in COCOM. We have been bypassing the organisation for our own politically sensitive sales and notifying our partners of them bilaterally in capitals. But we are under pressure from our partners to respond positively to the broader American proposal that sales to China be given more favourable treatment than those to other Communist countries, and to submit our own defence-sales cases to COCOM. In these circumstances Lord Carrington thinks that it would be inappropriate for our delegate to COCOM to take an active part in the Committee's discussion of the case. The right course would seem to be for him to keep silent which, under COCOM's procedures, would denote assent.

The case is likely to be taken at the next regular meeting on 24 June. We would like to be able to send appropriate instructions to our delegate before then. (Otherwise he would be obliged to enter a reserve which would upset the Americans who have of course been sympathetic to our own defence sales problems). If I do not

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hear to the contrary from you and other recipients of this letter by close of play on 20 June, we shall assume that your Secretary of State is content with the line proposed.

I am copying this letter to Michael Alexander at No 10, the Private Secretaries to other members of OD, the Private Secretary to the Secretary of State for Industry and David Wright in the Cabinet Office.

yours ever
Roderic Lyne

(R M J Lyne)
Private Secretary

J D S Dawson Esq
Ministry of Defence
Main Building
Whitehall
London SW1

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11 8 JUN 1960

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China



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~XXXXXX~~ 218 2111/3

MO 11/14

16th June 1980

Dear [Name]

NRSD

Repts 17/6

ROLLS ROYCE TANK ENGINES

Thank you for your letter of 6th June. My Secretary of State is grateful for Lord Carrington's agreement that Rolls Royce may proceed with their plans for collaboration with the Chinese on tank engine technology.

My Secretary of State takes the point that we should seek to avoid unnecessary speculation and that Rolls Royce should be required to handle the exchange - particularly the presence of a Chinese tank in this country - without publicity. Neither MOD nor Rolls Royce can guarantee that a leak will not occur, but we would not expect that this would cause any difficulty from Rolls Royce's point of view.

We also take the point that collaboration with the Chinese on an offensive item such as the tank is a sensitive issue, and can be expected to provoke a reaction from those who do not share our views on China; and that we cannot take the acquiescence of our partners in COCOM for granted. At the same time, it is fair to note that collaboration on a tank engine, including any extension to licenced manufacture, would represent a qualitative improvement rather than a quantitative increase in operational ability. In this respect, the Rolls Royce proposals have a good deal in common with the provision of fire control systems and night vision equipment, to which our COCOM partners have not raised any serious objections.

We will also warn Rolls Royce that approval to the MOU does not imply that the Government would necessarily approve any eventual contract for sales or technology transfer which may emerge.

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R M J Lyne Esq
Foreign and Commonwealth Office

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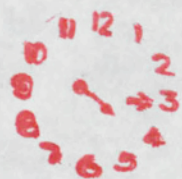
We are writing to Rolls Royce to put these points on record.

I am copying this letter to the Private Secretaries to the other members of OD, Ian Fair (Department of Employment) and David Wright (Cabinet Office).

*Yours and
Boris Norbury*

(B M NORBURY)

17 JUN 1980



China,

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

16 June 1980

Dear Jonathan,

kg
- 17/6

China: Marconi Avionics Ltd (MAL)

Thank you for your further letter of 10 June on this subject.

For the reasons set out in my letter of 6 June, we should have preferred to give our COCOM partners more time to comment on the deal before signature was completed. However, we see the commercial pressures for early signature, and certainly do not wish to give the Chinese any impression that we may be having second thoughts about the deal. Given that none of our partners has so far reacted strongly against the deal, we are therefore content that signature should be completed as soon as commercial considerations allow.

Incidentally, no criticism was intended in para 3 of my letter of 6 June. Naturally we recognise that your Department cannot notify us of an impending deal until it is brought to your own attention. I simply wished to make the point that it is helpful for us to have as much notice as possible to complete the necessary consultations with our COCOM partners.

I am copying this letter to recipients of yours.

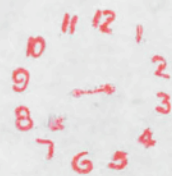
yours ever
Rodric Lyne

(R M J Lyne)
Private Secretary

J D S Dawson Esq
PS/Secretary of State
Ministry of Defence
Main Building
Whitehall
London

CONFIDENTIAL

16 JUN 1980



CONFIDENTIAL

China



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~8357822~~ 218 2111/3

MO 11/14

10th June 1980

Ivan Rodnic

NBP

Paul

Thank you for your letter of the 6th June in which you conveyed Lord Carrington's agreement in principle that Marconi Avionics Ltd (MAL) should be authorised to sign the contract for avionics equipment for the Chinese F7 aircraft.

You went on, however, to suggest that because our COCOM partners have only just been notified of the proposed contract it would be prudent to consider asking Marconi to delay the signing of the contract until say the end of June in order to allow more time lest any of the COCOM countries raised objections.

We have consulted Marconis. I understand that they would be very reluctant to postpone the signing of the contract. The negotiations with the Chinese have been long and difficult and now that Marconi have got the Chinese to the point of signature, they are anxious to complete the deal as quickly as possible. They are re-inforced in this view by the recent changes in US policy towards the sale of defence equipment to China. My Secretary of State, who discussed the sale of this avionic equipment with Chinese Ministers in March, strongly supports MAL and would be very reluctant to seek any postponement of the proposed visit by the Chinese Vice Minister. However, the date of the proposed visit by the Chinese Vice Minister is not yet finally fixed. This is because there are still some issues outstanding between the Chinese and MAL. There could therefore be some delay in the visit on this account, but this would naturally be a

R M J Lyne Esq
Foreign and Commonwealth Office

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very different matter from our taking an initiative to bring about a postponement. My Secretary of State therefore urges that the proposed deal between the Chinese and MAL be completed as soon as possible.

Finally I should add, in view of the implied criticism in Paragraph 3 of your letter, that the Ministry of Defence did in fact notify the Foreign and Commonwealth Office as soon as we were made aware that a deal was likely. I understand that this deal which at one stage seemed dead, was suddenly revived by the Chinese, and that the pace of negotiations speeded up very rapidly.

I am copying this letter to Michael Alexander (No 10), the Private Secretaries to other members of OD and the Secretary of State for Industry, and to David Wright (Cabinet Office).

Yours sincerely

James D. Dawson

(J D S DAWSON)

11 JUN 1960





CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

6 June 1980

h.s.
Prime Minister (2)

Prime Minister 6/6

Dear Brian,

Rolls-Royce Tank Engines

The Foreign and Commonwealth Secretary has seen the Defence Secretary's minute of 1 May about Rolls-Royce's proposals for collaboration with the Chinese on tank engine technology. He has also seen the comments of the Prime Minister, Chancellor of the Exchequer, Industry Secretary and Lord President. This reply has been delayed while we sought further information from your department.

Lord Carrington agrees that we should in principle support Rolls-Royce's efforts to expand their business with China. He sees no real problem in the supply to China of one CV12 engine (which could be regarded as part of the exploratory discussions on tank technology authorised by OD last year); nor in the complementary arrangement for the Chinese to send a tank to the UK. But there is no point in provoking unnecessary speculation and Lord Carrington thinks that Rolls-Royce should be required to handle the exchange - and in particular the presence of a Chinese tank here - without publicity.

Lord Carrington notes that Rolls-Royce's Memorandum of Understanding provides for further discussions which could lead to the supply of British tank engines to China and their licensed manufacture there. This would be a major step. Tanks are essentially offensive items of military equipment and the extensive collaboration which Rolls-Royce appear to have in mind could be expected to provoke a reaction from (at least) India and the Soviet Union. We could not take for granted our COCOM partners' acquiescence in a technology transfer in this area.

Ideally, we would have wished to see an assessment of the strategic implications for such a deal before approving the arrangements covered by Rolls-Royce's MOU. But we accept that this would be difficult to make given the timescale and uncertainties involved particularly over the numbers of engines to be supplied and manufactured.

/Lord Carrington

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Lord Carrington is therefore content with Mr Pym's proposals. But in view of the long term political implications he thinks it would be as well for Rolls-Royce to be reminded that approval of the MOU does not imply that the government would necessarily approve any eventual contract for sales or technology transfer which may emerge.

I am copying this letter to the Private Secretaries to the other members of OD, Ian Fair (Department of Employment) and David Wright (Cabinet Office).

yours ever
Roderic Lyne

(R M J Lyne)
Private Secretary

B M Norbury Esq
PS/Secretary of State
for Defence
Ministry of Defence
London

CONFIDENTIAL

6 JUN 1980



CONFIDENTIAL

China



Foreign and Commonwealth Office

London SW1A 2AH

6 June 1980

Dear Jonathan,

L. M. J. Lyne 4/6

Defence Sales to China

Thank you for your letter of 30 May about the contract which Marconi Avionics Ltd expect to conclude for the supply to China of avionics equipment worth some £40 million. Lord Carrington was pleased to hear of this success which should encourage other British suppliers of defence equipment to continue their efforts in the China market.

As you say, Ministers have already approved negotiations for the supply of this sort of equipment to China and Lord Carrington agrees in principle that Marconi should be authorised to sign the proposed contract. We understand from your department that there should be no problem over US components since substitutes could, if necessary, be purchased from alternative sources.

There is however a timing difficulty. Contrary to what you suggest in your letter we are only now in the process of notifying our COCOM partners of the contract, on the basis of information very recently supplied by your department (it would be helpful if we could be given more notice of impending sales in future). In view of the size and possible sensitivity of the deal, Lord Carrington considers that our partners should be given the opportunity to comment before the contract is signed. If any of them were to raise serious objections, we might need to review the position.

I understand that there is a possibility that a Chinese Vice-Minister might visit this country to sign the contract. It would clearly be embarrassing if any difficulties with COCOM partners had not been resolved by the time he arrived. You may therefore wish to consider asking Marconi to delay signature until, say, the end of this month.

I am copying this letter to the recipients of yours.

yours ever
Roderic Lyne

(R M J Lyne)
Private Secretary

J S Dawson Esq
Assistant Private Secretary to the
Secretary of State for Defence
Ministry of Defence

CONFIDENTIAL

6 JUN 1980



CONFIDENTIAL



200
China

10 DOWNING STREET

From the Private Secretary

3 June 1980

DEFENCE SALES TO CHINA

The Prime Minister has seen your letter of 30 May to Roderic Lyne on this subject. She is content that the deal described in your letter should be concluded.

I am sending copies of this letter to the Private Secretaries to the other members of OD, to Ian Ellison (Department of Industry) and to David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

J.D.S. Dawson, Esq.,
Ministry of Defence.

CONFIDENTIAL

3/12



MINISTRY OF DEFENCE
 MAIN BUILDING WHITEHALL LONDON SW1
 Telephone 01-~~938X02X~~ 218 2111/3

MO 11/14

30th May 1980

Dear Rodric,

Prime Minister ^②

MB ^{2/6}

DEFENCE SALES TO CHINA

While my Secretary of State was in China in March he held a number of discussions, as you will know, with Chinese Ministers and officials on the sale of defence equipment. It quickly became clear in the discussions that the Chinese authorities regarded their programme to up-date the avionics equipment for their F7 fighters as having the highest priority. However, the Chinese repeatedly claimed that the prices which were being offered by the manufacturers, Marconi Avionics Limited, were much too high. It is therefore satisfactory to report that we have just heard from Marconi that their negotiations look like coming to a successful conclusion. I understand that a contract is expected to be agreed by 7th June for signature - probably in the UK - on 17th June.

I gather that the deal for the avionics equipment will be worth some £40M to Marconi, including a fee for licensed manufacture in China. Delivery will start in three years' time and will be completed in five years; licensed manufacture in China will follow.

Cocom partners have been notified of the proposed deal, and, assuming they are content, my Secretary of State would recommend that in accordance with the discussion in OD (OD(80) 6th meeting) we should give full approval for the deal to be concluded.

I am copying this letter to Michael Alexander (No 10), to Private Secretaries to other members of OD and the Secretary of State for Industry, and to David Wright, Cabinet Office.

J D S Dawson

(J D S DAWSON)

-2 JUN 1960

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Civil Service Department,
Whitehall,
London, SW1A 2AZ

*With the Compliments
of the
Private Secretary
to the
Lord President of the Council*

China



Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

13 May 1980

B Norbury Esq
Ministry of Defence
Main Building
Whitehall
LONDON SW1A 2HB

As
Mint

Dear Brian,

CHINA: ROLLS ROYCE TANK ENGINES

The Lord President has seen a copy of the Defence Secretary's minute of 1 May to the Foreign and Commonwealth Secretary and has no objection to what Mr Pym proposes.

A copy of this letter goes to the Private Secretaries to the recipients of Mr Pym's minute.

Yours ever,

Edmund Chaplin

E G M CHAPLIN
Private Secretary

14 MAY 1980

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Departmental Series
Far Eastern Department
DS No 4/80

VISIT TO CHINA BY THE RIGHT HONOURABLE FRANCIS PYM MP,
SECRETARY OF STATE FOR DEFENCE, MARCH 1980

(Her Majesty's Ambassador at Peking to the
Secretary of State for Foreign and Commonwealth
Affairs)

SUMMARY

1. Mr Pym visited China from 23 to 28 March, presided at the opening of the British Aerospace Exhibition in Shanghai and held talks in Peking with a number of Chinese leaders. His de facto host was Vice-Premier Wang Zhen (paragraphs 1-3).
2. In the political and strategic talks the Chinese expounded their policies on Afghanistan and expressed their dislike of neutrality proposals. Mr Pym explained the value of our proposals in maintaining public pressure on the Soviet Union. He reminded the Chinese of the value of the Rhodesia settlement. On Cambodia the Chinese were more hopeful than last year. Cambodian seating at the United Nations could cause problems (paragraphs 4-7).
3. On defence sales, the Chinese explained their philosophy of first improving existing weapons and then acquiring, as cheaply as possible, the technology for the next generation. Mr Pym explained that we were ready to provide technology on the basis of sales of a sufficient quantity of hardware (paragraph 8).
4. The Chinese list of requirements from the UK was headed by the refit of the F7 and F8 fighters and the LUDA class destroyer. It did not include Harrier (paragraphs 9 and 10)
5. An agreed minute recorded the main points of the technical talks. There was virtually no pressure on sensitive items (paragraphs 11 and 12).
6. Future military exchanges were promoted (paragraph 13).
7. A group from the Department of Industry concurrently pushed civil sales (paragraph 14).
8. Though our press has been negative, the visit was a distinct success.

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Mr Pym was able to smoke out Chinese intentions on defence sales and contracts of fighter and destroyer refits, if concluded, would be considerable business and would open further opportunities (paragraph 15).

Peking
3 April 1980

My Lord

1. I have already reported by telegram the salient points of the visit to China by the Secretary of State for Defence, The Right Honourable Francis Pym MP, from 23 to 28 March. This despatch gives a rather fuller account. A copy of Mr Pym's programme and a list of his delegation are at Annexes A and B*.
2. The occasion for the visit was the opening in Shanghai on 27 March of the British Aerospace Exhibition. The ceremony was performed by Vice-Premier Wang Zhen in the presence not only of Mr Pym but of Han Zheyi, the Deputy Mayor of Shanghai (in the absence of the Mayor whose translation to the Centre is imminently expected) and of Lu Dong, whose Third Ministry of Machine Building is responsible for the aircraft industry. The Exhibition was a major effort involving more than sixty companies under the aegis of the Society of British Aerospace Companies in association with the British Overseas Trade Board. By no means all the products on display or the seminars held had to do with defence. It was a strong bid to maintain Britain's place in the Chinese aerospace industry as a whole. We shall be reporting separately on the Exhibition. Mr Pym was, however, able to visit all the stands, and, by his presence and speeches, to boost the efforts of the companies concerned.
3. The visit to Shanghai was preceded by two and a half days of talks and calls in Peking. Mr Pym was the first Cabinet Minister of the present administration, and I think the first West European Defence Minister, to visit China. Following Prime Minister Hua Guofeng's visit to Britain last November and the Soviet invasion of Afghanistan his arrival had a special significance and in protocol terms he was given top-level treatment. His host was nominally Xu Xiangqian, Vice-Premier and Minister of National Defence. Apart from attending the banquets and having a preliminary discussion with Mr Pym, however, Xu, who is 78 and in poor health, took no part in the proceedings. The de facto host was Vice-Premier Wang Zhen, who accompanied Mr Pym to Shanghai and in Peking chaired the key discussions attended by two Deputy Chiefs of the General Staff. In addition, Mr Pym paid long calls on both Prime Minister Hua Guofeng and Foreign Minister Huang Hua, and in Shanghai had a workmanlike session with Minister Lu Dong. He visited the Sixth Tank Division, where he saw a fire-power display, and found time for a visit to the Great Wall and the Forbidden City.

* Not attached

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4. As I have already reported, the talks in Peking fell into two parts, relating to political and general defence matters on the one hand and defence sales and cooperation on the other. In the first area it would be wrong to say there was any real dialogue. The age of many of the Chinese leaders and the nature of their discourse at any age, a quality both complacent and didactic, are factors that do not encourage the give and take of discussion as we know it. The Chinese spoke of Soviet policy along predictable lines. As usual, they sought to give the impression that the threat of being out-flanked imperils the West rather than China also. They were unspecific about their own plans for improving their defence except in relation to the particular weapons systems under discussion and they gave no suggestion that defence modernisation enjoys higher priority as a result of Afghanistan. Mr Pym for his part gave a clear and effective exposition of our defence strategy, reminding them that the Atlantic Alliance has upheld peace in the West for the past 35 years and is now building up its strength to meet the growing Soviet threat. He explained also the importance and the problems of strengthening the defence of the "soft spots" in the Middle East, south of the Soviet borders. He underlined the dangers of the next ten to fifteen years and it is in the interest both of sound strategic assessment and our own defence sales to press this point on the Chinese.

5. On Afghanistan the Chinese set out their views at length. They do not rule out an eventual political solution; but they envisage no early Soviet withdrawal and they stand pat on demanding an unconditional withdrawal of Soviet forces and self-determination by the Afghan people, failing which all right-thinking governments should support the Afghan liberation struggle. They stressed the dangers of proposals that might blur these clear lines of policy and allow the Soviet Union to turn the tables on its accusers by demanding guarantees of non-interference by outsiders. The Foreign Minister was particularly strong on this subject. Mr Pym was able to assure the Chinese that our proposals, which assume that the Soviet Union would not readily withdraw, were complementary to the General Assembly Resolution and had as their object the arousal and maintenance of public opinion against Soviet aggression. At this level, as a means of propaganda pressure, our neutrality ideas are at their least objectionable to the Chinese, but it would be wrong to say that there is any real meeting of minds on the subject.

6. In discussing the threat to the "soft spots" between East and West, Mr Pym was able to point to the success in Rhodesia and particularly to the role played by the British monitoring forces in enabling elections to take place. Hua Guofeng went out of his way to make pleasant remarks about recent British actions in Rhodesia, and commended Mr Mugabe not only for his generally conciliatory attitude but, in particular, for retaining the services of General Walls and for eschewing guerrilla attacks on South Africa.

7. The other Chinese theme was Cambodia and Soviet aggression by Vietnamese proxy there. The "counter attack in self-defence" of last year was presented, particularly by Xu Xiangqian, as a model way of dealing with hegemonist ambitions. Hua Guofeng pointed out that two-thirds of the best Vietnamese forces

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are now tied up facing China, thus relieving pressure on the Democratic Kampuchean regime, which has, on Khieu Samphan's account, come through the recent dry season in better shape than had been expected at the time of Hua's visit to Britain. The Chinese came back several times to the question of Democratic Kampuchea's seat in the United Nations, and there is no doubt that if, following our withdrawal of recognition, we went on to withdraw support for their seating, the Chinese would take this seriously amiss.

8. On defence sales Chinese comments reflected their wish, particularly during the present period of readjustment, to avoid over-extending themselves, to improve existing weapons as a first step and as a second to acquire as cheaply as possible the technology for the next generation. They expressed themselves anxious to cooperate with us but expected Mr Pym to exert his influence over British firms to lower prices. Mr Pym repeatedly explained that the British side recognised that the extent of Chinese long-term requirements was such that only domestic production could meet them; but that Britain had to sell know-how on the basis of a preliminary sale of hardware. Cost would be much lower if larger numbers were ordered and in all cases we needed earlier and more reliable information on what the Chinese really want.

9. Following this general exchange, Liu Huaqing, a Deputy Chief of the General Staff, set out those areas where the Chinese sought our immediate assistance, the first time in some two years of conflicting messages that we have had any such statement. The list is headed by the refit of the F7 and F8 fighters and refit of the LUDA class destroyers. These projects should involve considerable hardware sales as well as technology transfer. The Chinese indicated that they wanted to reach the contract stage by the middle of this year and although we may expect some slippage, they do not say such things lightly. There were also a number of smaller projects mentioned.

10. The list, however, did not include Harrier, although only a week before the British Aerospace representative had had a message to the effect that it enjoyed top priority. The Chinese said it was too expensive to buy just a few and that they preferred to consider the matter later on the basis of transfer of technology. The postponement must however be regarded as indefinite. The military arguments in favour of buying Harrier have never been overwhelming. But much political capital has been invested in the deal and it was a symbol of Britain's willingness to help China in the defence field. Mr Pym reminded Hua Guofeng that he had earlier thanked Britain for her steadfastness on Harrier in the face of pressure from Mr Brezhnev, and that the disappearance of this most visible item in our defence sales inventory was bound to be something of an embarrassment. In private, the Chinese were apologetic about the confusion they had caused and the hopes they had raised; but I fear Harrier must now be regarded as a very long shot indeed.

11. The Chinese indicated that they would very much like an agreed minute recording the main points of the technical talks and after some negotiation a

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reasonably balanced document for internal use only was produced and signed by officials. A copy is at Annex C.* In addition we expect from them a formal list of their requirements. Provided that we can build on this, and ensure that it is up-dated, it should provide us with a tool of continuing use in the pursuit of defence sales. It may also save wasted effort, as over Harrier.

12. Mr Pym came under almost no pressure on sensitive items. Tornado and its engine were not mentioned. He was able to turn aside enquiries about the L70 self-propelled gun and the Mark 46 torpedo by indicating that the first was not yet in service and in any event a collaborative project and that the second was American and not British. At his press conference he dealt with the distinction between offensive and defensive weapons by making the honest point that the distinction is often meaningless. China will value the assurance that she is to be treated like any other country in defence sales matters, each item to be dealt with on its merits.

13. Some progress was made in arranging future military exchanges. A visit to China by the Royal Air Force Central Flying School was agreed and a visit by Royal Naval ships to Shanghai in September was announced.

14. A further aspect of the visit was that a small group from the Department of Industry headed by its Permanent Secretary, Sir Peter Carey, formed part of Mr Pym's delegation and pursued a separate programme. They were able to reaffirm our interest in civil as well as military sales and extended an invitation to the Chinese Minister of Light Industry to visit the United Kingdom.

15. The British press, with its Harrier fixation, has been rather gloomy in reporting this visit. In fact it was a distinct success. Mr Pym was received very warmly at the highest level. The preparations were even more chaotic than usual and we have still not seen a Chinese programme. But the actual arrangements went well, and the Secretary of State carried out his functions with great aplomb and good humour. He reaffirmed our wish to cooperate with China in defence as in the other three modernisations and the Chinese for their part confirmed that they look to us as a major supplier. Moreover he was able finally to smoke out Chinese intentions in this area. We now have an authoritative picture of what they want immediately from us and one which makes sense in terms of their economic circumstances. Within the sectors they have laid down, they clearly mean business and Lu Dong's request to set up a separate office for his Ministry in London was an earnest of this. The refit of fighters and destroyers would be considerable business and should open up opportunities for further cooperation. The key role of course remains with our firms, in their ability to organise themselves to deal with the defence market in China in the face of sharp European and even some American competition, and to provide the right product at the right price at the right time. But if they can exploit the present openings and can plan for long-term cooperation we have good prospects for steady though not always dramatic sales over a long period of years.

* Not attached

CONFIDENTIAL

16. I am sending copies of this despatch, without the annexes, to Her Majesty's Representatives at Washington, Moscow, New Delhi, Islamabad and Canberra and to the Governor of Hong Kong.

I am, My Lord,
Yours faithfully

Percy Cradock

CONFIDENTIAL

CONFIDENTIAL

-7 MAY 1980



CONFIDENTIAL



Secretary of State for Industry

CONFIDENTIAL

Change
DEPARTMENT OF INDUSTRY

ASHDOWN HOUSE

123 VICTORIA STREET

LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301

SWITCHBOARD 01-212 7676

12 May 1980

Rt Hon Francis Pym MC MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall SW1

Dear Francis.

CHINA: ROLLS ROYCE TANK ENGINES

Thank you for sending me a copy of your minute of 1 May 1980 to the Foreign and Commonwealth Secretary.

I welcome the proposal that Rolls Royce should proceed according to the Memorandum of Understanding subject of course to coming back to Ministers before final decisions are taken. This development would provide a very useful bridgehead for both civil as well as military sales in China. This is particularly important given the strong competition for the Chinese market.

I am sending copies of this letter to other members of OD, to the Secretary of State for Employment, and to Sir Robert Armstrong.

Em

Keith

12 MAY 1960



CONFIDENTIAL



2 P85

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

12th May 1980

B. Norbury Esq.
Ministry of Defence
Main Building
Whitehall
SW1

Des Brian,

H.S. Vint

CHINA: ROLLS ROYCE TANK ENGINES

The Chancellor has seen a copy of the Defence Secretary's minute to the Foreign and Commonwealth Secretary of 1 May, and the Prime Minister's comments (in Michael Alexander's letter of 6 May) agreeing to what he proposes subject to the views of other members of OD Committee.

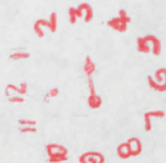
I am writing to say that the Chancellor sees no objections to the proposals. A copy of this letter goes to the private secretaries to the recipients of Mr Pym's minute.

Yours,
M.A. Hall

M.A. HALL
Private Secretary

CONFIDENTIAL

12 11 1980





DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Michael Alexander Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON
SW1

②
Prime Minister
K.A.
Aunt 11/5
Aunt
6 May 1980

Dear Michael

You asked on 23 April for an assessment of the prospects of Chinese orders for the four British railway industry firms mentioned in Mr Fowler's report to the Prime Minister of 21 April on his visit to China.

The position is as follows.

GEC Traction report that they are actively interested in establishing a joint venture with the Chinese for the manufacture in China of some electrical parts for supply to China and to third world countries. Since there is so far very little experience of joint ventures of this kind, this would clearly take some time. Meanwhile, GEC have at the Chinese invitation offered to supply parts for a Chinese tender to supply some locomotives to Sri Lanka. The Chinese seem interested in developing co-operation of this kind.

Cowans Sheldon have very special experience in designing heavy railway cranes of a kind that the Chinese are going to need and appear not to have been successful in developing. The firm have put specific proposals to the Chinese for a design contract and for a licensing agreement, which the Chinese are now considering.

Dowty Engineering supply a unique kind of equipment for controlling the movement of wagons in marshalling yards. The Chinese asked them to make a specific proposal, by mid-year, for equipping a small yard as a trial. There is a clear prospect here of a starting order, which would not be large (well under £1m) but Dowty are having to consider the copying point mentioned in my Minister's report.

COMMERCIAL IN CONFIDENCE

In all three cases the Chinese followed up promptly after their visit here, they have identified things in which British firms have something special to offer, and there seem to be reasonable prospects of good orders though not very big ones. The firms are well aware of the need not to let our technology go too cheaply. It is too early to make an assessment of the prospects for Brush, since they have not yet been to China, but the experience with the other three firms suggests that the Chinese will have identified some special interest which they will want to follow up.

Mr Fowler thinks that the Prime Minister will also be interested to know that following his Permanent Secretary's visit to China last autumn we have been able to develop some ideas for Chinese leasing of equipment via Hong Kong, and have succeeded in interesting Lloyds Bank in this possibility, which is now being followed up by the Department of Trade.

I am sending copies of this letter to Roderick Lyne (FCO), Ian Ellison (DoI), Stuart Hampson (DoT) and David Wright (Cabinet Office).

Yours

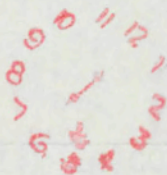
Gene

MRS E C FLANAGAN
Private Secretary

COMMERCIAL IN CONFIDENCE

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- 6 MAY 1960



CONFIDENTIAL

China DSG

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cc HO HMT D/Emp
DGT FCO CO
LPS LCO
LPO D/Ind

6 May 1980

CHINA: ROLLS ROYCE TANK ENGINES

The Prime Minister has seen the Defence Secretary's minute of 1 May to the Foreign and Commonwealth Secretary on this subject. The Prime Minister agrees that, subject to the views of colleagues and the proviso in paragraph 5 of Mr. Pym's minute, Rolls Royce may proceed according to the Memorandum of Understanding.

I am sending copies of this letter to the Private Secretaries to the other members of OD, Ian Ellison (Department of Industry), Ian Fair (Department of Employment) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Brian Norbury, Esq.,
Ministry of Defence.

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ds



MO 11/14

Annex

*Agree, subject to views of
colleagues?*

*Annex Yes
not*

FOREIGN AND COMMONWEALTH SECRETARY

CHINA: ROLLS ROYCE TANK ENGINES

Rolls Royce Motors have for sometime been discussing with the Chinese authorities the possibility of selling CV8 and CV12 diesel engines. During my visit to China the Chinese made clear to me their interest, in particular, in the CV12. Recently, a Chinese team has been visiting the Rolls Royce factory at Shrewsbury and, as a result, Rolls Royce have initialled a Memorandum of Understanding with the Chinese.

2. The MOU states that Rolls Royce will provide the Chinese, free of charge, with a CV12 engine by 31st October 1980 for evaluation. These tests would be completed by August 1981. In return, the Northern Industrial Company of China will provide Rolls Royce by 31st July 1980 with a T59 tank, into which Rolls Royce would fit a VC8 engine for demonstration. The MOU also provides, in general terms, for further discussions, if these tests and demonstrations are successful, leading to the supply of engines from the UK and, eventually, licensed manufacture in China.

3. When we discussed defence sales to China in OD last June, and again in February this year, we placed tanks and tank engines in Category 3 (those items of equipment of which there were to be only exploratory discussions without commitment). The arrangements now made by Rolls Royce Motors go beyond what we foresaw, although the MOU, which has only been initialled, is not of course a binding contract. However, I would have no objection, from my point of view, to the sale of either the CV8 or the CV12 engine to China - let alone the more limited proposals envisaged in the MOU. For their part Rolls Royce believe that the arrangement could result in a substantial amount of business. I consider that we should back their judgement in this and not seek to stand in their way. I do not believe that at this stage it is necessary for us to inform our COCOM partners, although this will be necessary if a firm sale becomes likely.



4. The proposal to send a Chinese T59 tank to the UK does of course have political implications, particularly at present, and on which you will wish to comment. I do not, however, believe that these should be insuperable. In fact, as our defence sales relationship with China develops, I do see such arrangements, as here envisaged, as a natural step forward. Moreover, in terms of the prospects for the expansion of our defence sales, I am encouraged by the fact that the Chinese are prepared to entrust us with one of their tanks as, perhaps, an indication of the sincerity of their intentions.

5. I should be grateful, therefore, to know that you, and other OD colleagues, are content that Rolls Royce may proceed according to the Memorandum of Understanding subject, of course, to referring back to Ministers before any decision is taken to start contract negotiations for sales.

6. I am copying this minute to the other members of OD, to the Secretaries of State for Industry and Employment and to Sir Robert Armstrong.

Ministry of Defence

1st May 1980

2 MAY 1980





10 DOWNING STREET

From the Private Secretary

23 April 1980

B/F 30.480

The Prime Minister has read with interest your Minister's minute of 21 April about his visit to China. She would be grateful to have an assessment of the prospects for the four British rail firms mentioned in your letter receiving orders from the Chinese.

I am sending copies of this letter to Roderic Lyne (FCO), Ian Ellison (Department of Industry), Stuart Hampson (Department of Trade) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Mrs. E.C. Flanagan,
Department of Transport.

ec

CONFIDENTIAL

PM
China



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 7691
SWITCHBOARD 01-212 7676

From the
Minister of State
Lord Trenchard

Sir Ian Gilmour MP
Lord Privy Seal
Foreign & Commonwealth Office
London SW1

Handwritten initials

23 April 1980

Handwritten initials

Dear Ian

DEFENCE SALES TO CHINA AND COCOM

Thank you for sending me a copy of your letter of 18 April to Francis Pym.

I agree that in the circumstances it is right to pursue your option (a), ie to sound out our partners about their views on the scope for adapting the American proposals. We should attempt to seek modifications which align them as closely as possible to our present position, given the importance of our defence industries and the prospects for business in China.

I am sending copies of this letter to the Prime Minister, other members of OD and Cecil Parkinson.

Handwritten signature

LORD TRENCHARD

CONFIDENTIAL

24 APR 1960





MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 26/9/10

23rd April 1980

Dear Sir,

*L.
Pym*

DEFENCE SALES TO CHINA AND COCOM

Thank you for your letter of 18th April.

I recognise that the formal American position, which they have now adopted in COCOM, presents us with a dilemma. As you suggest, the terms of the American proposal go some way to match our interests. However, we have to recognise that this has been devised to meet the more limited American approach to the sale of equipment to China and, despite the view which the Americans themselves might be prepared to take on the sale of British weapons, other COCOM partners may well take a more restrictive attitude. The possibility of them exercising a veto on our defence sales to China is something which we could hardly contemplate at this stage in the development of our relations with the Chinese.

I see the tactical advantage of not rejecting the American proposal at present, but at the same time I believe it is important that we should get on record, as quickly as possible, at least with our other COCOM partners, the difficulties which we see in accepting it. I should be grateful if your officials would continue to keep in close touch with mine in developing a considered view on the American proposal and in consulting our COCOM partners.

I am sending copies of this letter to the Prime Minister other members of OD and to Tom Trenchard and Cecil Parkinson.

James Baker
Francis Pym

Francis Pym

24 APR 1960



CONFIDENTIAL



JS

10 DOWNING STREET

From the Private Secretary

23 April 1980

DEFENCE SALES TO CHINA AND COCOM

The Prime Minister has seen and taken note of the Lord Privy Seal's minute of 18 April to the Defence Secretary on this subject.

MIA

Michael Richardson, Esq.,
Lord Privy Seal's Office.

cc.



②

Prime Minister

ms

ms

Prime Minister

As you know I spent last week in China, visiting Peking and Canton, as the guest of their Minister of Railways, Guo Weicheng. I also had three days in Hongkong as the guest of the Governor, Sir Murray MacLehose.

The Chinese visit was I think successful in terms of improving relations between the two countries and paving the way for orders for British firms. The Minister of Railways had obviously been impressed by his reception here last year and he and his Ministry were friendly and helpful throughout. The Minister himself accompanied me on several of the visits and his Vice-Minister, Mr Liao, came specially to Canton to see me, at some inconvenience to his arrangements. I was also received by Wang Chen, the Vice-Premier who visited Britain in 1978, and who talked in enthusiastic terms of the importance they attached to developing closer ties with America and Western Europe, particularly the United Kingdom.


The main purpose of my visit was to assess the market for railway equipment and expertise in China and to see what could be done to help British manufacturers and consultants with their efforts in this field. My general conclusion is that there are real opportunities for British exports here. The competition will be fierce, and China's



period of reassessment means that any progress will be slow. The Japanese already have a way into the market through their low interest loans tied to railways. Railways is also a field where the Chinese will be able to provide much of what they need themselves. Nevertheless railways are bound to be a substantial priority in the modernisation of the Chinese economy and our experience of modernising an existing railway system is particularly relevant to Chinese needs. They also seem unlikely to be able to provide for themselves the advanced technology they will need.

It was encouraging that the Chinese seemed to be treating the Arrangement for Scientific and Technical Co-operation which I signed with the Minister of Railways last year as a framework for developing possible trade contacts. Three British rail firms - GEC Traction, Cowans-Sheldon and Dowty Engineering - have already visited China under the Arrangement and put proposals to the Chinese for supplying equipment. A fourth, Brush Electric, will be going out to China fairly soon and the prospects for at least some business look fairly good. I also established that the Chinese will be inviting Transmark, British Rail's overseas operation, who are project managers on the electrification of the rail line from Hongkong to the Chinese border, to advise on the electrification of the line on the Chinese side as far as Canton. The only worrying point is that one of the firms, Dowty Engineering, were shown quite openly by the Chinese a piece of equipment which had been copied from Dowty patents.

Any order?



Dowty has a licensing agreement with Japan and this appears to have been the source. Clearly this is - and Downtys recognise this - a wider issue affecting trade with China which we need to consider carefully.

The other major area I covered was exchanges of information and experts. We made good progress on this with both the Minister of Railways and the Minister of Communications, whom I called on briefly. A number of Chinese engineers will be coming to Britain later this year on both the road and rail sides and I shall be sending one of my traffic control experts to Peking. I took the opportunity when I saw the Minister of Communications to repeat my invitation to him to visit Britain. There seems unfortunately little prospect of his making an early visit because he is clearly a sick man, but his area of responsibility - ports, roads and traffic communications - is I am sure one with potential for us and I think exchanges and visits can only be useful.

My visit to Hongkong was necessarily short but I had time for talks with the Governor and some of the senior members of the Hongkong Government. There are strains in relations at present - notably over the Civil Aviation Authority's decision to grant British Caledonian rather than Cathay Pacific a licence on the Hongkong-London route - and I have spoken to John Nott about this. During my visit I offered to second a road safety expert and a traffic management adviser to the Hongkong Government to help them with some of their considerable traffic problems and this offer was much



appreciated. I did not discuss any particular current export effort but Hongkong is obviously an established market for us and British firms already have a good reputation in the transport field - the most recent example being the new mass transit system. Hongkong is also well placed for showing off what British firms can do to neighbouring countries. There do therefore seem to be continuing opportunities on the transport side here - in civil engineering and in traffic communications, and there are now good opportunities for substantial orders for our bus manufacturers. But the message that comes across very strongly was that success lies in responding flexibly to Hongkong's needs.

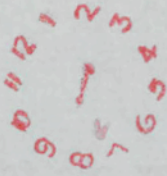
I am copying this minute to Peter Carrington, Keith Joseph and John Nott and to Sir Robert Armstrong.

NORMAN FOWLER

21 April 1980



22 APR 1980





Prime Minister

(2)

Paul

Foreign and Commonwealth Office
London SW1

18 April 1980

Francis

DEFENCE SALES TO CHINA AND COCOM

At OD on 29 February we agreed that we should continue with our present policy of allowing industry to sell defence equipment to China while accepting the need for careful political monitoring.

Paragraph 9 of the memorandum which Peter Carrington submitted for that meeting mentioned that the Americans were now themselves contemplating sales of defence-related material to China; that our partners were more relaxed about such sales; but that we had not yet been able to reach agreement on procedures for handling defence sales within the COCOM framework.

The Americans have put forward a formal proposal to treat China more favourably than the Warsaw Pact countries in considering exports of items on the COCOM lists. Their proposal covers defence equipment (including weapons) as well as high technology civil equipment. In notifying us of this proposal, the Americans implied that they would be prepared to agree to the defence sales we have in mind.

The proposal goes some way towards meeting our requirements. But COCOM works on the basis of unanimity; some of our partners do not themselves sell defence equipment to China and have reservations about others doing so. If we were to agree to the proposal as it /stands,

The Rt Hon Francis Pym MP
Secretary of State for Defence
Main Building, Whitehall

stands, there is a risk that other countries might veto sales by the UK which the Americans are prepared to approve. We would then have to choose between either giving up a useful contract and giving much offence to the Chinese, or overriding the veto and damaging both our relations with our COCOM partners and COCOM itself.

It will not be easy to make progress in this area. We are committed to sales of defence equipment to China. But we must take due account of the view of our allies; and we must ensure that COCOM remains an effective organisation for controlling strategic sales to the Soviet Union. Broadly, we are faced with three options:

- (a) to seek to adapt the American proposal in a way which meets our criteria;
- (b) to introduce an alternative proposal;
- (c) to continue as at present, notifying our partners of sales without consulting.

The Americans have framed their proposal to suit their own interests, and it will be difficult to get the agreement of our partners to arrangements which would accommodate the kind of sales we want to make. However, the Americans seem to have tried to take account of our interests and their proposal looks like having considerable appeal to other members of COCOM. It would therefore be tactically unwise to reject it. This points towards pursuing option (a) in the first instance. But before reaching conclusions we need to explore with our other main partners (and subsequently with the Americans) the scope for adapting the American proposal. Officials should report back to us in the light of their findings.

If we do not press forward fairly quickly, there is a risk that a consensus may emerge in favour of the American proposal in its present form. In the absence of any comments from my colleagues by close of play on 23 April, I propose to instruct my officials to go ahead.

/I am

CONFIDENTIAL

I am sending copies of this letter to the Prime Minister, other members of OD, and to Tom Trenchard and Cecil Parkinson who were also present at our earlier meeting.

yes ✓

lan

CONFIDENTIAL

12 APR 1960





ms
 To: Mr. Ching
 Prime Minister

MO 25/2/9/2

PRIME MINISTER

mt
 Mr. 44

VISIT TO CHINA, 23rd TO 28th MARCH

This minute reports the immediate impressions I formed during my visit to China last week. HM Ambassador Peking will of course be giving his own assessment, and Keith Joseph will be receiving a parallel account from Sir Peter Carey, whose own visit to China coincided with mine and whose advice and support were of the greatest value to me.

2. I had two hours of talks with Premier Hua, and more than an hour with the Foreign Minister: was accompanied throughout by Vice Premier Wang Zhen: and saw my host the Defence Minister twice. At the more detailed discussions in Peking and Shanghai the Chinese fielded a full and competent team of officials and considerable trouble seemed to me to have been taken throughout to make me and my party welcome and to show that the first visit by a Cabinet Minister of this administration (and the first by any West European Defence Minister) was an occasion to which the Chinese leaders attached importance.

3. In my discussions with Premier Hua and his colleagues I was given - at length - their views on global and regional "hegemonism" as practiced by the Soviet Union and Vietnam respectively. They all urged the importance of maintaining the strong NATO and Chinese defences which had so far been successful in containing Soviet expansion West and East, and parrying their now evident thrust towards the South. They also sought to justify their own invasion of Vietnam in terms of containing Vietnamese expansionism and thereby indirectly that of the Soviet Union.

4. All this was familiar ground, and I confirmed that their perception of the Soviet threat was very close to our own. They made no effort to draw me into criticism of our European allies' perceptions. I did need, however, on occasion to remind them that it was a mistake for the Chinese to think that the threat to the Persian Gulf was one only the West had to worry about: and although they said little about India, I had an opportunity to impress on them the need to take due account of Indian sensitivities. Finally, I got Huang Hua to accept that our objectives in Afghanistan were the same even if the Chinese did not share our views on the neutrality proposal.

5. My detailed discussions on defence sales registered some progress and one check. The Chinese told me that purchase of



Harrier had been "postponed". They said also that within their available resources their main emphasis in the field of defence procurement would, for the immediate future, be on modernisation of the aircraft, ships, and tanks which they already had in service, and that in some cases at least they were looking first to us for the equipment they require to do this. Nevertheless, their statement about Harrier, coming barely a week after they had (admittedly at a lower level) proposed sending an evaluation team to Britain as a preliminary to possible contract negotiations in the summer, and three days before the opening of the SBAC Exhibition, was a surprise and a disappointment. I said as much to Premier Hua who could not, I thought, conceal a certain embarrassment.

6. Against that, there is no denying that the general approach of the Chinese is a sensible one. They readily accepted my suggestion that it would help us both if they were to spell out their priorities so that our firms could concentrate their efforts where they are most needed: and they said they wanted to set up a small office in London to facilitate future aerospace business with us. I said that this last proposal was one for Peter Carrington, but that I would willingly tell him of it; I added that in principle it seemed to me a welcome and useful suggestion. The subject of counter purchases of oil and non ferrous metals was also mentioned: I am asking my officials, in consultation with those in the other Departments concerned, to examine this possible way of increasing China's ability to pay for defence purchases from the UK.

7. In general, it seems to me that the present Chinese leadership is setting about its "four modernisations" with a good deal of practical good sense. I judge that they are determined to work within their limited resources, and thus avoid getting into a position of technical and financial dependence on other countries. What technical help they do seek they will try to pay as little as possible for, and they still cherish a number of illusions. For our part we should have to guard against their obvious policy of trying to get technology from the West on the cheap. That said, I believe that this process of firmly controlled modernisation does offer important opportunities in the civil and military markets for those British companies with good products and with the considerable will-power and patience that negotiations with the Chinese call for.

8. I was able in Shanghai, together with Sir Peter Carey and his team, to go over much of this ground with the senior industrialists present for the SBAC Exhibition (the quality of



which impressed me and which is a credit to all concerned). I think they found this trilateral exchange helpful and there may be something of value here on which it will be possible to build in future.

9. I also had two days in Hong Kong. Huang Hua (who had just been there) had acknowledged in Peking that illegal immigration on the scale of the last 18 months or so was in neither Hong Kong's interest nor theirs, and this was helpful. In the meantime I saw at first hand that the three Services in Hong Kong are all making a tremendous contribution towards controlling it, and that although they are as a result being driven very hard, they are, as ever, in good heart.

10. I am sending copies of this minute to the Foreign and Commonwealth Secretary; the other members of OD; the Secretary of State for Industry; and Sir Robert Armstrong.

Handwritten signature/initials

Ministry of Defence

31st March 1980

CONFIDENTIAL

China

Ref. A01555

PRIME MINISTER

Defence Sales to China

(OD(80) 15 and 17)

BACKGROUND

OD discussed this subject on 11th June last year, and generally endorsed the defence sales to China policy initiated by the previous Administration: offensive weapons to be excluded, contracts to be considered on a case-by-case basis, and our COCOM partners to be kept informed but not consulted about our intentions.

2. Since that discussion Premier Hua Guofeng has visited this country and been informed of our readiness to supply China with military equipment. The attitude of our international partners, particularly the United States, towards such sales has been improved by the Soviet invasion of Afghanistan.

3. In his memorandum the Secretary of State for Defence proposes a continuation of the case-by-case approach, and suggests that OD should agree now to certain proposals from industry regarding destroyers, air-to-air missiles and (with one exception) aeroengines. Taken together these potential orders represent a step-change in the scale of United Kingdom defence sales to China which amounts to a significant change in policy.

4. The Foreign and Commonwealth Secretary supports the Secretary of State for Defence's proposals, though with some misgivings.

5. The Secretary of State for Industry has been invited for this item in view of the industrial implications of the Secretary of State for Defence's proposals. The Secretary of State for Trade will be represented by Mr. Parkinson.

6. There is some urgency because a Chinese trade delegation is arriving this weekend to negotiate with British Aerospace, and because Mr. Pym is visiting China in late March.

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HANDLING

7. You will wish to ask the Secretary of State for Defence to introduce his paper, and the Foreign and Commonwealth Secretary to speak to his. You may then care to invite the Secretary of State for Industry to deal with the industrial implications and Mr. Parkinson to deal with the trade aspects.

8. The points to establish in subsequent discussion are:-

- (a) How serious does the Secretary of State for Defence believe Chinese intentions to be? The Chinese have got a reputation for window-shopping and trying to pick up Western technology on the cheap. Do they really intend to go through with orders of the size suggested? How will they pay for them?
- (b) Do the proposed orders include components produced by our COCOM partners which may give rise to problems? For example the shipbuilding proposals include the provision of Lynx helicopters equipped with torpedoes. It has apparently not been decided whether these will be Mark 46 torpedoes (of United States design and manufacture) or our own even more advanced Stingray.
- (c) If the proposed orders come to fruition, how much of the work will actually be carried out in this country? It seems likely that the destroyers will be refitted in Chinese yards, and the new destroyers built in China except perhaps for the first-of-class. Is the Secretary of State for Industry satisfied that the provision of equipment and expertise, which will be the main United Kingdom contribution, will be a satisfactory return for the investment of effort involved?
- (d) What are our NATO allies doing about defence sales to China? Last June there were indications that the French were planning to proceed, outside COCOM and without consultation, on the sale of such items as the anti-tank guided weapon system HOT. The Americans and West Germans (and Japanese) did not at that stage wish to sell defence equipment to China as a matter of principle. The Americans have since Afghanistan decided on some modification of their policy; and paragraph 9 of Lord Carrington's paper suggests that our other leading COCOM partners are now more relaxed about such sales.

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- (e) How serious is the risk of an adverse Soviet reaction? Given that our economic relationships with the Soviet Union are being deliberately reduced because of Afghanistan, and that such relationships in any case depend on mutual economic advantage, is there any likelihood that the Soviet Union will take economic retaliation?

CONCLUSION

9. Subject to the discussion, the Committee might be guided to agree to the recommendations proposed by the Secretary of State for Defence and supported by the Foreign and Commonwealth Secretary. You may however wish to stress that the phrase "subject to making satisfactory arrangements with COCOM" in paragraph 6b. of the Secretary of State for Defence's memorandum does not mean "subject to prior consultation with COCOM". What it does mean is that our COCOM partners should be told of our proposals in terms to which it is hoped they will not take strong exception.

RA

ROBERT ARMSTRONG

28th February, 1980

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five

China

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18 February 1980

PROPOSED NAVAL VISIT TO CHINA

The Prime Minister has seen your letter to me of 15 February on this subject. She agrees that the ship visit to China by the Royal Navy may go ahead.

I am copying this letter to Brian Norbury (MOD).

M. O'D. B. ALEXANDER

R.M.J. Lyne, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

[Handwritten signature]



Foreign and Commonwealth Office

London SW1A 2AH

15 February 1980

Dear Michael,

Prime Minister

Yes ✓
 Agrees that the visit
 should go ahead? ①

PROPOSED NAVAL VISIT TO CHINA

The Chinese Embassy in London, on instructions, have invited the Ministry of Defence to arrange a ship visit to China by the Royal Navy.

Lord Carrington considers that it would be in keeping with our improved relations with China if this invitation were to be accepted. A Royal Navy Task Group of five ships will be in the area in September after first spending some time in the Persian Gulf and the Indian Ocean earlier in the summer. Mr Pym has said that the Group would be able to call at Shanghai, and Lord Carrington agrees that a visit by the Group at that time would be appropriate.

Provided the Prime Minister approves, the Ministry of Defence will inform the Chinese Embassy of their willingness to go ahead with the proposed visit on these lines. No announcement will be made until the details have been settled with the Chinese.

I am copying this letter to Brian Norbury in the MOD.

Yours ever
 Roderic Lyne

(R M J Lyne)

M O'D B Alexander Esq
 10 Downing Street

15 FEB 1980



CONFIDENTIAL



Foreign and Commonwealth Office

Weekend Box.

London SW1A 2AH

④

P. Minister

29 January 1980

Phd 25/1

MS.

AS.

Dear Michael,

Afghanistan: Forward Planning: China

You may find it useful to see the enclosed internal FCO memorandum on policy towards China. Lord Carrington agrees generally with its conclusions and has given instructions for matters to be carried forward, as agreed by Ministers in OD on 22 January. I will keep you informed of progress,

*yours ever
Roderic Lyne*

(R M J Lyne)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
LONDON

CONFIDENTIAL

POLICY TOWARDS CHINA AFTER AFGHANISTAN

1. The Russians argue that in recent decades the 'correlation of forces' has been moving in their favour. We need, after Afghanistan, to find ways of making it clear to them that things are not moving inexorably their way; and that if they try to change the rules of the game in one sphere they must expect to find the rules changed against them in others. The deliberate development of closer ties with China is one possibility which could be considered. This paper sets out some preliminary thoughts.

SINO-BRITISH CONSIDERATIONS

2. Unlike the Soviet Union, China presents no threat to the West, at least in the short and medium term. There is no prospect in the foreseeable future of a reconciliation between China and the Soviet Union or of the re-emergence of a monolithic Sino-Soviet bloc. Externally, China's global and regional importance seems likely to grow steadily. The Chinese domestic political situation now seems relatively stable. The Cultural Revolution decade (1965-76) looks increasingly like an aberration, and although a reversion cannot be ruled out it is a reasonable assumption that current pragmatic policies will continue through the 1980s. Modernisation will be slow, but China will gradually become an important force in world trade. There is thus good scope for continuing to develop the bilateral relationship with China which we have built up in recent years. But there are limitations to this process. As communists, the Chinese have long term aims and interests different from ours. They have embarked on a new relationship with the West for reasons of self-interest. They want to see a strong NATO and a politically united Western Europe for their own anti-Soviet reasons. They also see us as a source of cheap credits, cheap technology and advanced military equipment at bargain rates. There is, in short, only a limited coincidence of interests between the West and China, unlike the broad community of interests which exists among the Western countries themselves.

/SOVIET

SOVIET CONSIDERATIONS

3. The Russians are irrationally nervous about China (the 'Yellow Peril' syndrome). They have reacted badly to the development so far of Western ties with China. They would be concerned by major new moves in this direction, particularly in the defence field. Their alarm would be stridently expressed. The West would want to stop short of the point at which the Russians saw a threat to their vital interests.

4. Action by the UK alone might marginally improve prospects for trade with China (and help us over Hong Kong). But it would be unlikely to have any real effect on the Russians except to reinforce the Soviet conception of us as the European power most prepared to align itself with the US and expose us to selective Soviet reprisals. This underscores the need to carry as many allies as possible (including Canada and Australia) with us in any deliberate strengthening of relations with China, partly to avoid difficulties with them and partly to present any new policy as a general Western one. Moreover, we shall undoubtedly wish to work for an improvement in relations with Moscow at some time in the future. This suggests that we should look for measures which would have as much impact as possible in the short term but would not tie our hands for the future.

WESTERN PARTNERS

5. The Americans have been moving fast towards China. Public pronouncements during the visit to Peking of Defence Secretary Brown (the timing of which was settled long before the Soviet intervention in Afghanistan) have given the impression that the US is no longer making any pretence of even-handedness as between Moscow and Peking. The Americans are now prepared to sell dual civil/military purpose technology to China and have told us that they intend to sound out their partners about establishing a 'China differential' in COCOM (we are hoping to arrange bilateral consultations first). But they still maintain their policy of refusing to sell defence equipment. This position could well change in the next 3 to 4

/years

years. In the meantime the Americans are likely to view more sympathetically sales of strategic materials by their allies. If the Americans are moving towards direct defence sales, we must try to ensure that they do not promote policies in this field which suit their interests but are incompatible with ours. All this argues for UK firms getting firmly into the market now. There have been some hints from Washington that this is what the US expects and wants to see.

6. Other Western countries are likely to be more diffident about arms sales and defence co-operation and may seek to restrain us. The Germans and Japanese do not wish to sell arms to China and have some reservations about others doing so. The French and Italians have no such inhibitions; but the French at least are more constrained by their relationship with the Soviet Union and are unlikely to favour any linkage between Afghanistan and increased defence co-operation with China.

OTHER COUNTRIES

7. We would need to take great care with India and the ASEAN countries. India's position is crucial, particularly given Mrs Gandhi's known views. The Indians already regard China as aggressive and irresponsible; the 'punishment' of Vietnam was an uncomfortably close parallel to China's action against India in 1962. They are nervous about increased Western support for Pakistan and would be increasingly worried if China matched Western efforts or, worse, began to force the pace. In general the ASEAN countries are currently less concerned because their attention remains concentrated on Vietnam's actions in Indo-China. But it would not take much - if Indo-China gradually went off the boil - to persuade at least Indonesia and possibly also Malaysia that the long term threat still came from China.

OPTIONS AVAILABLE FOR STRENGTHENING UK RELATIONS WITH CHINA

8. (a) THICKENING-UP MILITARY CO-OPERATION

- i visit by the Secretary of State for Defence. Mr Pym has suggested that he should visit China in March to open the SBAC exhibition

/(Sir K Joseph

(Sir K Joseph cannot now go). HM Ambassadors in Peking and Moscow see advantages in such a visit post-Afghanistan but it might worry the Indians. The Department will be submitting separately;

- ii defence sales. Ministers decided in June 1979 to give case-by-case consideration to projects as they arise. A number of major projects in which the Chinese have expressed interest are being considered interdepartmentally and the Defence Secretary will shortly be consulting his colleagues in OD. Difficult decisions will be required. Although some of the Soviet constraints have now been removed, national security, the views of our Western partners and the possible impact on relations with other countries will still inhibit sales of sensitive equipment or offensive weapons. But even though the Chinese appear to be giving a low priority to defence at present, the opportunity to improve defence sales ought not to be missed;
- iii naval visit. A separate submission recommends that 3 ships from a Naval Task Group should visit Shanghai in the late summer;
- iv military exchanges and training. Consideration should be given to further exchanges at various levels. We are recommending separately a visit by the CNS this year. The RCDS are proposing another visit to China in 1981. Staff college exchanges and, possibly, offers of military training in the UK for Chinese officers might now be considered.

(b) ROYAL VISITS:

A visit by the Duke of Gloucester is to take place this April. There is no real scope for further visits in the near

/future

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ACT 2000

future - and in any case Royal visits may be an inappropriate vehicle for making too blunt a political point;

- (c) EXPANSION OF MINISTERIAL VISITS: Lord Carrington has already recommended that the Prime Minister should take up Premier Hua's return invitation this year (or, alternatively, that he himself might go). A visit might now be given higher priority. Several other Ministers are already scheduled to visit China in 1980 and while much less important in the Soviet context than the Prime Minister's or Mr Pym's visits, these will help to underline our developing ties with China compared to the freeze in our relations with the Soviet Union;
- (d) BROADENING OF OFFICIAL AND OTHER CONTACTS: we might now propose regular (eg annual) political consultations, possibly at Political Director level;
- (e) AID AND CONCESSIONARY CREDIT: we could consider whether the political advantages would outweigh the likely commercial disadvantages (eg stimulating a credit race).

9. Whatever their longer term effect, the public announcement of measures such as these could in the short term have a considerable impact on the Russians. Careful publicity and timing would therefore be important.

CONCLUSIONS

- 10. (a) there are good reasons, Afghanistan apart, for continuing to develop our relations with China. There is some scope for accelerating the process as part of our response to the Christmas coup in Kabul;
- (b) if our action is to have a significant impact on the Soviet Union, and to avoid singling us out, we would need to carry our allies and other Western partners with us as far as possible;

/(c)

- (c) we would need to consider carefully the effect on our relations with other countries, particularly India;
- (d) the most suitable measures would be those which would have a considerable effect in the short term but would not impede an improvement in Anglo/Soviet relations if circumstances changed. Increased Ministerial visits, particularly by the Prime Minister and the Defence Secretary, expansion of contacts in the defence field and more political consultation are the most promising possibilities;
- (e) we should seek to increase defence sales, but there will still be constraints. We will need to find an acceptable means of handling such sales in relation to the COCOM machinery;
- (f) we should remain wary of long term Chinese intentions and recognise that the present coincidence of interests will not necessarily last long.

FAR EASTERN DEPARTMENT
18 JANUARY 1980

1950 JAN 29

29 JAN 1950



China

The President said that the Secretary for Defense would be going to China in the New Year to discuss matters of common strategic and political interest. It was not the intention to sell weapons to the Chinese.

The Prime Minister said that the British were prepared to sell Harriers to the Chinese if they wished to buy them. She added that the British Government had now withdrawn recognition of the Pol Pot regime in Cambodia; this decision had upset the Chinese, and the ASEAN countries. The President commented wryly that the Americans were a little upset too. He said that the American Government wished that it were possible to get Prince Sihanouk back into Cambodia; but the Chinese were clinging to Pol Pot. The Foreign and Commonwealth Secretary said that, when Chairman Hua visited the United Kingdom, he had given the impression that Chinese enthusiasm for Pol Pot was diminishing.

The President asked the Prime Minister what impression she had formed of Chairman Hua. The Prime Minister said that, as when she first met him, he had seemed very much in command. He had been very relaxed, though his entourage seemed to speak less easily in front of him on this occasion than when she had first met him. He had talked readily and at length, but when she had pressed him for an answer on a specific matter - such as Hong Kong - he had not come up with clear answers. The Foreign and Commonwealth Secretary added that Chairman Hua had not struck him as being of the same quality as Deng Hsiao-Ping: neither as incisive nor as decisive. Dr. Brzezinski commented that Chairman Hua was much more in the Imperial tradition: gentler and more general and wide-ranging than Deng Hsiao-Ping. The Prime Minister had commented that he had seemed to adapt very easily to the ways of the various countries which he had visited; but she did not think that he necessarily carried that difference of attitude back with him when he returned to China. It could well be that, like many people from non-western cultures, Chairman Hua was able to switch without difficulty between a Chinese and a western culture, without carrying his attitudes across.

The meeting adjourned at about 1250 p.m.

Ans

China

Foreign and Commonwealth Office

London SW1A 2AH

3 December 1979

*Paul**Dear Brian,*Defence Sales to China: Cymbeline Radar

In his Minute of 6 November to your Secretary of State, the Foreign and Commonwealth Secretary agreed that the sale of this equipment should be authorised provided that the notification exercise with our COCOM partners produced no sharp reaction.

You should know that the Germans have made representations to us at a fairly low official level about the notification procedure that we adopted. In substance, the line was similar to the one they took over the six items. They added, at a senior level, on 14 November that they might have a further communication to make; but nothing has yet materialised. The Belgians (who also raised objections over the six items) have spoken to our Embassy in Brussels in similar though less strong terms. We have not had any reaction from the Canadians, who have previously expressed their dislike of our procedure.

FCO officials do not consider that the German and Belgian reactions amount to a "sharp reaction", and are of the opinion that (subject to the views of other Departments) the sale can now go ahead, without any further reference to Ministers. Nonetheless, it seems that the degree of opposition on the part of our COCOM partners to our notification procedure may be increasing; it may therefore be advisable to mount a further round of diplomatic consultations to defuse objections before we try to push through any further sales - in particular, if they are more contentious than Cymbeline. FCO officials will be in touch with their colleagues in other Departments about this in the near future; it may also be necessary to consult Ministers.

I am copying this letter to Michael Alexander at No 10, to the Private Secretaries of other Members of OD, the Private Secretary at the Department of Industry and to Martin Vile at the Cabinet Office.

*Yours etc**Paul*(P Lever)
Private Secretary

B M Norbury Esq
Private Secretary to the
Secretary of State for
Defence

*China**Ag
Rms*FCS/79/175SECRETARY OF STATE FOR DEFENCEDefence Sales to China - Cymbeline Radar

1. In your minute of 25 October, you suggested that, in the absence of any agreed procedure for handling sales to China through the formal COCOM machinery, we should now notify our COCOM partners in capitals of this contract. Appropriate instructions have now been sent to posts.
2. I agree that, provided there is no sharp reaction from our COCOM partners, the companies should be authorised to go ahead without further reference to Ministers.
3. I also agree that, in future, the processing of Category 1 items should be handled in the same way by our officials, with the proviso that Ministers should be consulted if there are any serious objections by our COCOM partners.
4. I am copying this minute to the Prime Minister, other members of OD, the Secretary of State for Industry and Sir Robert Armstrong.

(CARRINGTON)

Foreign and Commonwealth Office

6 November 1979

-6 NOV 1979

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China

Extract from Discussion ^{between} ₃ PM and Premier Hua Guofeng
at 10 Downing St on 1/11/1979.

Premier Hua said that he wished the Prime Minister to know that the Chinese Government had decided to treat Guangdong Province in a special way, to allow its economy to develop quicker. Several counties bordering on Hong Kong had been designated special areas, in the hope that this would cause production and incomes to increase and the differentials with Hong Kong to narrow. Two counties, Baoan and Zhuhai, had already been designated, and Chaozhou would follow. These counties would have powers to develop their own foreign trade.

The Secretary of State for Foreign and Commonwealth Affairs said that when he had seen the Governor of Hong Kong in London, and in Hong Kong, the Governor had been full of gratitude for the reception he had received on his visit to China, and the extent of Chinese economic collaboration with Hong Kong. Lord Carrington had seen for himself some of the problems caused by the illegal immigrants in Hong Kong. The numbers were very large by Hong Kong standards, if not by the standards of China, especially when added to the nearly 70,000 boat people in Hong Kong. Only the Chinese in Hong Kong could have coped as well as they had.

Sino-British Trade

The Prime Minister asked what assistance the British Government could give the Chinese Government in the commercial field. The British Government were ready to supply China with a wide range of defence equipment, including Harrier. At Prime Minister's Questions in the House of Commons, she had just been accused of causing trouble between China and the Soviet Union. When she had responded by affirming her readiness to supply Harriers to China, to further the expansion of Sino-British commercial relations, great cheers had gone up. Pravda had apparently yesterday warned her against this. She understood that a Chinese delegation would shortly be visiting Britain. In this field the Chinese Government would be given every facility and help possible. She wished Premier Hua to know that this policy came from the top.

/ Premier Hua

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Premier Hua said that he wished to thank the British Government, and the Prime Minister. He thought that the Prime Minister was taking a far sighted political view of the problem. If the Chinese Government achieved modernisation of their national defence, they would be in a better position to serve as a restraint on the Soviet Union. They were ready to take on this burden.

Premier Hua wished to inform the Prime Minister of two points which he had made to the French and German Governments. Firstly, he had said that a friend had told him that Mr. Brezhnev had threatened to exert pressure to stop the supply of arms to China. But the country which sold the most weapons internationally was of course the Soviet Union. His second point had been about the distinction between offensive and defensive weapons. As he had told President Giscard, long range missiles must be considered offensive; but French missiles had to be considered defensive, because it was inconceivable that France would use them to attack anyone. Rifles, as short range weapons, must be considered defensive; but it was rifles that the Vietnamese were using. Premier Hua had told President Giscard that the range of a weapon should not be the sole criterion of whether it was offensive or defensive. ^{The only criterion was the country which possessed them.} No-one believed that Britain had nuclear weapons in order to mount an attack on the Soviet Union. The Prime Minister commented that British missiles were for a second strike, as a deterrent. Premier Hua observed that they were for defence against blackmail. The Chinese Government were in favour of the Japanese having the means to defend themselves.

The Secretary of State for Defence expressed pleasure that the first two contracts for British defence sales to China had just been signed. The British defence industry was ready to discuss other sales, and some negotiations were already in hand. Premier Hua noted that a British friend had told him that Britain had advanced technology in this field, and that its munitions industry could produce more advanced equipment than Britain needed. Britain could go into joint production with China, whose needs were greater. The Chinese Government took a positive attitude towards production of weapons with Britain.

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- 5 -

There were no inhibitions on China's part about importing advanced weapons. They were not afraid of Soviet comment. But they had of course to take into account the position of certain countries. One way out would be to have cooperation in civil industries, which would serve as a cover for cooperation in the military field.

Premier Hua's delegation had had very good discussions with Rolls Royce, after their visit to the Rolls Royce plant on the previous day. Collaboration would not be limited to the Spey engine, but would continue in other fields such as marine turbines. This was why, in his remarks at dinner at Rolls Royce, he had used a metaphor about the progress of Sino-British relations being like a steamship with modern engines. Sir Kenneth Keith had said that Rolls Royce were maintaining contacts with the Third and Sixth Machine Building Ministries. Premier Hua had seen Rolls Royce's tank engine. Rolls Royce were aware of what the Chinese could do in their Xian plant, and Sir Kenneth Keith had suggested that some parts of engines could be manufactured in Xian, and others in Britain. This would help China to pay for her imports. China had purchased 3 Boeing 747s. It was now too late for these to be fitted with Rolls Royce engines, but in her future purchases of wide-bodied planes, China could cooperate with Rolls Royce by using RB 211s partly produced in China.

The Prime Minister said that she was concerned that the Chinese Government should receive all cooperation possible on the development of commercial relations, including those with Rolls Royce, and for example in coal mining, and power generation. She knew that the Chinese Government would want to make their decisions after the delegation got back to Peking. She had therefore arranged to have her Secretaries of State for Defence, Trade and Industry, as well as her Secretary of State for Foreign and Commonwealth Affairs, present at this meeting.

Premier Hua said that he had had commercial discussions with the West Germans and the French, and had told them that China now had total offers of 20 to 30 billion dollars of credit. Some friends of China wanted her to use these funds as quickly as possible, but it was necessary to be prudent, and to consider China's ability to

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/ pay for what

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- 6 -

pay for what she bought, and means of increasing her ability to pay. In some fields this was not a matter for concern. For example, Britain had had great success in opening up the North Sea oil fields and, as he had told the Chancellor of the Exchequer earlier that day, this had helped Britain to save very large sums of money. West Germany and France were not in a comparable position. But he wished to suggest that the British Government should undertake exploitation of their oil reserves in a planned way, to ensure that some reserves remained. Some US oil fields had been plundered, since, after their discovery, a number of companies had rushed in to get rich quick. He was raising this point because he knew from earlier remarks by the Prime Minister that she had noted the Soviet Union's attempts to outflank Western Europe through its soft under-belly. Britain therefore needed to hold on to some oil reserves.

Premier Hua said that he had diverted the conversation to this topic because he wished to express interest in Britain's oil industry. But the principal point he wished to make was about operations in the Yellow Sea by BP. He had seen data about a section some 5,000 meters square, which BP considered promising, although they had not yet undertaken analysis. Of course, they would need luck. (The Prime Minister interjected that skill was needed as well.) Premier Hua thought BP would be lucky. Oil had already been struck in the Bohai Gulf. American companies were very keen to explore some areas, like the mouth of the Pearl River. The Chinese Sea was called 'Pacific' and was not so stormy or deep as the North Sea, and should therefore be easier to exploit. The Chinese Government were optimistic about the potential. They had reached agreement with the French on cooperation on Chinese continental fields. Cooperation with Britain in the future on this was a possibility. There would be no question about China's ability to repay, since the oil produced would simply be divided according to contract. The same went for coal, of which China had abundant reserves. The long term estimate of the coal reserves in Premier Hua's home province of Shani was 500,000 million tonnes. This would allow for 500 million tonnes a year to be mined for a thousand years.

The Prime Minister commented that a lot of machinery would be needed. Premier Hua said that the current problem was lack of

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/ rail transport.

rail transport. Five railways ran into the province, but this was still not enough to get all the coal out. The Japanese wanted to cooperate on an integrated basis, involving mining, and the development of China's railways and deep sea ports. Deep sea ports were needed to ship coal to Western Europe, in 50,000 tonne, or even better 100,000 tonne vessels. The French had said they would also cooperate in selling Chinese coal elsewhere. There were also abundant coal reserves in Shandong province.

Air Services Agreement

The Prime Minister intervened to suggest that, before continuing on this subject, she wished to invite her Secretary of State for Trade to speak about the Air Services Agreement. Mr. Nott said that he understood that the Chinese Government might be prepared to sign this Agreement. He wished first to give them two firm assurances:- firstly, that Gatwick, now London's most modern airport, would continue to be developed as such, and to grow; and secondly, that if Heathrow were opened up to new airlines, the British Government would do their best to get CAAC in. However, Gatwick was the better airport, and most people preferred to use it. If the Agreement was signed, the British Government hoped that services would be able to start not later than April 1980.

Vice-Minister of Foreign Affairs Zhang Wenjin said that CAAC hoped that, if Heathrow was opened to new airlines, CAAC would be the first on the list. The Secretary of State for Trade replied that the British Government would look at this as favourably as possible. Premier Hua noted that the Agreement had already been initialled, and his Vice-Minister of Foreign Affairs had been in contact with the British Ambassador. The Prime Minister said that the Agreement would be signed at the end of the meeting. (In informal conversation after the meeting, and before signature, the Secretary of State for Trade and Vice-Minister of Foreign Affairs agreed that the Agreement would be signed on the understanding that, if Heathrow was opened to new airlines, CAAC would be given priority; but that this would not be a formal condition of signature, and that the British Government could not commit themselves to putting China top of the list.)

Sino-British Trade (continued)

At the Prime Minister's invitation, the Secretary of State for Industry resumed the discussion of industrial cooperation. On the previous day, Premier Hua had seen the British Rail Centre, and the Chinese Minister of Railways would be visiting Britain soon. The British Government hoped to cooperate with the Chinese in this field. Premier Hua said that, as he had made clear when he had been shown an advanced passenger train in Derby, China's principal transport requirement was for freight, particularly coal, which comprised a third of the freight carried. The Chinese Minister of Railways would be able to have detailed discussions during his visit. The Secretary of State for Industry observed that British Rail's technology enabled the best possible use to be made of already existing track, and therefore could speed up transport on China's present railway system.

Sir Keith Joseph went on to note that China had huge mineral wealth, eg in tin, lead, tungsten and cobalt. Proposals had been made by a number of British companies, particularly John Brown Constructors, which were so arranged that the Chinese would have to pay out nothing, as the interest would be deferred. The Secretary of State for Trade commented that the Chairman of John Brown Constructors had been one of the businessmen who had accompanied him on his call on Premier Hua on Tuesday. The Secretary of State for Industry noted that there was a lot of tin in Yunnan, lead and zinc in Qinghai and Gansu, tungsten in Hunan, cobalt in Hainan Island and copper in Jiangxi. Premier Hua said that the Chinese Government would look at these proposals. A joint venture with the British at Yangzhou in Shandong, were work by the Chinese side was already half-way to completion, could be considered.

Hong Kong

The Prime Minister then invited the Secretary of State for Foreign and Commonwealth Affairs to make a further point about Hong Kong. Lord Carrington said that Premier Hua would remember, or (if he did not), Minister of Foreign Affairs Huang Hua would remember, that when the Governor of Hong Kong had visited China, he had raised the question of the New Territories leases. The

/ problem was that,

Subject filed on China: Visit of Hua
May 79cc. China: Sino-British
Relations etc. before late.
May 79

From the Secretary of State

f.a. PWS

M O'B Alexander Esq
Private Secretary
10 Downing Street
London SW1

31 October 1979

Dear Michael

VISIT OF PREMIER HUA: TRADE TALKS, TUESDAY 30 OCTOBER

The Prime Minister may like to see a short report on two meetings dealing with UK/China trade with Premier Hua and his colleagues.

The first meeting was between Premier Hua and a group of 10 senior British businessmen led by Mr Nott. The time was short and the businessmen had been strictly enjoined not to exceed their allotment of time. Unfortunately the timing was upset by Premier Hua arriving late, then making a statement himself and questioning some of the businessmen on their presentations. Nevertheless all the businessmen were able to make their main points.

Premier Hua showed himself alert, interested and quick to follow up particular points. His own statement was couched in fairly general terms and, while encouraging about the possibilities of expanding Sino-British trade, emphasised the need for the Chinese to be certain that they could pay for the technology they bought from abroad. He emphasised the importance of co-operation in developing economic relations, by which he meant such devices as joint production and compensation trade.

The second meeting was between Sir Keith Joseph (who had to leave early for a meeting of E Committee), Mr Nott and Yu Qiuli, Vice Premier of the State Council and head of the State Planning Commission. At this meeting Sir Keith and Mr Nott raised a considerable number of specific trade and industrial issues; in particular they asked when commercial negotiations were likely to be resumed or when further discussions in certain fields would take place. Yu Qiuli declined to reply to each point as it was made and at the conclusion of the presentation by Ministers contented himself with a very general statement. He outlined the economic priorities of the present government, and the emphasis on agriculture; the Chinese needed



From the Secretary of State

to modernise industry while continuing production rather than starting again, and in this process the Vice Premier felt that British companies had a good deal of experience to offer. He accepted that China would need to buy know-how but said that they could not afford to pay large fees. This appeared to be a reference both to the contribution which British consultants could make, on which both Ministers had commented, and to the costs of sending Chinese students to the UK. His message seemed to be that, in order to create goodwill, we should be prepared to provide these services free. He referred to China's natural resources in the minerals and metals field and said that there could be joint ventures in their extraction. The specific points raised by the two Ministers could, he said, be discussed further with the Vice Ministers of the State Planning Commission and Foreign Trade, who were present at the meeting, and we are following this suggestion up.

Mr Nott did not consider that this meeting had been very fruitful, but we hope to learn more from discussions with the Vice Ministers.

I am writing separately about the discussions on the Air Services Agreement, and the use by the Chinese airline of Gatwick.

I am sending copies of this letter to Paul Lever (FCO), Ian Ellison (Industry), Bill Burroughs (Energy) and Martin Vile (Cabinet Office).

Yours sincerely,

Stuart Hampson

S HAMPSON
Private Secretary

~~CONFIDENTIAL~~



China

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALING 01-218 2111/3

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MO 11/14

FOREIGN AND COMMONWEALTH SECRETARY

DEFENCE SALES TO CHINA - CYMBELINE RADAR

The first two contracts for the sale of defence equipment to the Chinese have now been signed with the United Kingdom Companies concerned. One is for the Field Artillery Computing Equipment (FACE) system, and the other for a mortar-locating radar (Cymbeline) manufactured by Marconi Space and Defence Systems and EMI respectively. Both orders are for small quantities of equipment for evaluation purposes; the value of each is about £1m.

2. Both items fall within Category 1 of the equipment approved by Ministers for further negotiation with the Chinese at the OD meeting on 11th June 1979. FACE has already been notified to our COCOM partners but similar action now needs to be taken in respect of Cymbeline. In the absence of any agreed procedures for processing sales to China through the formal COCOM machinery, I suggest we adopt the procedure previously used and approach COCOM capitals direct. The contract for Cymbeline has been signed "subject to HMG approval", but the Company are naturally keen to press ahead with the further work that is required to make good the order, and I would therefore be most grateful if you would arrange for our COCOM partners to be informed of this contract in this way. As on the previous occasion, it would be helpful if this could be done against a short timescale and on the understanding that, provided there was no serious objection,

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the Company could be authorised to go ahead with the order without further reference to Ministers.

3. As this is the first of what I hope will be many orders I wonder if we could also agree that in future this procedure for Category 1 items could be handled by our officials.

4. I am copying this minute to the Prime Minister, other members of OD, the Secretary of State for Industry, and Sir John Hunt.

A handwritten signature in dark ink, appearing to be 'JH', with a horizontal line underneath.

25th October 1979

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Subject filed on China:
Visit of Hua: May 79

cc China: May 79
Sino-British Relations
the Defence talks.

Michael

CLIVE WHITMORE ✓

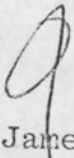
Let's see how
much of this is covered
by the brief which he got
as MOD will no doubt be
preparing for the Home Minister's
use. RM/18x

In preparing the brief for the
Prime Minister for the visit of Chairman Hua,
the attached may be useful.

The brief is admirably succinct.

Attached also is a memorandum
which was given to Mr Yang Yong in
July and has recently been updated for
the Lord Privy Seal.

Sir Peter Matthews, the Managing
Director and Chairman-designate of Vickers
Ltd is to be invited to the Hua dinner:
the brief is therefore very relevant.


Henry L James
9 October 1979



Vickers Limited
Vickers House
Millbank Tower
London SW1P 4RA
Telephone: (01) 828 7777

BRIEF REGARDING VICKERS LIMITED'S IMMEDIATE INTERESTS
IN TRADE WITH CHINA.

Vickers Limited have traded with China for a great many years in the fields of both civil and military requirements. At the moment Vickers have a number of modest contracts to the order of £10m. each for provision of special testing facilities for components of aircraft and aircraft engines.

Under negotiation at the present time is a very important project for the provision of research and test facilities for the design and validation of jet engines. The facilities are required to simulate and measure effects of high altitude supersonic conditions, to facilitate design of the engine itself and the mountings and fixings of the engine to the aircraft.

The cost of such a facility is to the order of £100m. We understand that the Chinese wish to place this order with Vickers and that we can expect final negotiations to be opened shortly. These follow many exchanges of technical missions both ways.

HMG's interests, both in regard to the NGTE test facilities and the Ministry of Defence, are supporting the Vickers' proposals. Vickers have been informed that the Chinese authorities intend this to be one of the items which they will include within their presently available financial facilities.

Vickers are very well aware of the slow time-scale of bringing commercial contracts to finalisation in China and they feel that at this stage an expression at a high political level of awareness of and interest in this particular contract, relating as it does to supply of equipment and transfer of high technology, might be opportune and helpful.

8.10.79

SIR PETER MATTHEWS

VICKERS HOUSE,
MILLBANK TOWER,
MILLBANK,
LONDON, SW1P 4RA.

TELEPHONE: 01-828 7777

30th August 1979.

MEMORANDUM OF VICKERS LIMITED INTERESTS IN DEFENCE AND
RELATED EQUIPMENT FOR THE PEOPLE'S REPUBLIC OF CHINA.

1. Vickers Limited have already concluded contracts for provision of test equipments for the Rolls-Royce Spey engine, which is to be manufactured in China. This includes special equipment for testing tyres and aircraft undercarriage systems. Further similar test equipments have been offered and are under negotiation.

2. Also related to aircraft, Vickers Limited have been in detailed discussion with Chinese Aerospace authorities regarding the supply of test equipment required to support design of new supersonic high altitude aero engines. This is a major project, the total cost of which may amount to between £100m. and £150m. Vickers Limited have submitted an outline proposal with considerable detail. A mission has visited China to discuss this, and we have entertained a number of Chinese missions here. We have now been asked to put in revised prices and are sending a high level team to China in October to try to negotiate a contract.

We now know the Chinese will approve this as one project which will go ahead despite any financial restrictions and they are openly stating that they wish to place the contract with us subject to price. We understand a special branch office of the Third Ministry of Machines is being established under Mr. Liu at the Embassy at Blackheath, very probably largely to progress this order.

There are possible problems, the most complex arising from the fact that although the equipment is wanted to validate their own Spey engine production, they also wish to use it for further research and development. This tends to mean continual advance and change in computer programmes, instrumentation etc., which make the drawing up of a totally agreed specification extremely difficult. Indeed this might take two years work and consequently delay completion. We are urging the Chinese to accept the main machinery specification and principal test procedures and order on that basis, with a view to amending and updating later if need be. We are trying to persuade them that this is what we would do in this country in this situation and that our Government is quite accustomed to drawing up contracts of a development or new nature in this way with companies such as ours, without detailing every point in the first instance.

As regards Cocom, MOD is well aware of the position and we are hoping to process this simply by notification and as an extension of the Spey contract.

/continued.....

With regard to tanks, Vickers representatives have seen Pau Tow and Da Tung and have received a delegation led by Mr. Tang of Northern Industries. Vickers Limited have put forward proposals embracing views of main British contractors - Marconi, Rolls-Royce Motors, MEL and others - covering the main points:-

- (a) Improvements to the existing Chinese tank; aiming sights, fire control, engine power, transmission.
 - (b) Provision of specialised machine tools and equipment to improve production techniques.
 - (c) Provision of a completely equipped research facility for design and development of future tanks.
 - (d) Discussions have established that the new Vickers Mark IV tank meets the specification drawn up by the Northern Industrial Corporation for the future Chinese Main Battle Tank. This new vehicle incorporates all recent technological developments relating to armour plate, engine transmission, gun and its control systems. The first vehicle which Mr. Tang saw under construction during his visit has now been completed and has recently completed successful proving trials.
 - (e) The underlying objective here, of course, is to equip the Chinese to manufacture this tank for themselves in China. This involves many issues, updating the tank, building the factory, building a new engine, building a new gun, manufacture of ammunition, development of supply of electronics. There is also the question of Chobham armour, and issues will arise in regard to Cocom.
4. Following my visit to China in October 1978 and a series of subsequent meetings, I had a specific meeting with Mr. Callaghan before the visit of Mr. Wang Chen, the Deputy Premier, when we agreed that we should continue to explore this whole possibility under the general heading of "Engineering and General Collaboration", in the hope and belief that specific objections might evaporate as time goes by and the programme develops. In my view this programme may represent the biggest single opportunity for engineering collaboration and supplies to China.
5. The Latest Position:
We had expected to demonstrate the new fire control system on a T59 tank in Peking in June. This was delayed as part of their general review of expenditure. However, it is now agreed that this is to go ahead and take place in October.

PAM/AB.

Handed to Mr. Yang Tang at 5.00
(copy to Mr. Wu)

SIR PETER MATTHEWS

VICKERS HOUSE,
MILLBANK TOWER,
MILLBANK,
LONDON, SW1P 4RA.
TELEPHONE 01 828 7777

MEMORANDUM OF VICKERS LIMITED INTERESTS IN DEFENCE
AND RELATED EQUIPMENT FOR THE PEOPLE'S REPUBLIC OF CHINA.

1. Vickers Limited have already concluded contracts for provision of test equipments for the Rolls-Royce Spey engine, which is to be manufactured in China. This includes special equipment for testing tyres and aircraft undercarriage systems. Further similar test equipments have been offered and are under negotiation.
2. Also related to aircraft, Vickers Limited have been in detailed discussion with Chinese Aerospace authorities regarding the supply of test equipment required to support design of new supersonic high altitude aero engines. This is a major project, the total cost of which may amount to between £100m. and £150m. Vickers Limited have submitted an outline proposal with considerable detail and a mission has visited China to discuss this. It may now be necessary to sub-divide this contract into two parts, the first to cover detailed design, including preparation of special computer programmes etc., the second to provide for supply, erection and commissioning of equipments. The problem is that the detailed design and discussion required to explore this is in itself a very big undertaking, which Vickers Limited cannot do without a contractual agreement.
3. With regard to tanks, Vickers representatives have seen Fou Tou and Da Tung and have received a delegation led by Mr. Tang of Northern Industries. Vickers Limited have put forward proposals embracing views of main British contractors Marconi, Rolls-Royce Motors, MEL and others - covering the main points:-
 - (a) Improvements to the existing Chinese tank; aiming sights, fire control, engine power, transmission.

continued

- (b) Provision of specialised machine tools and equipment to improve production techniques.
 - (c) Provision of a completely equipped research facility for design and development of future tanks.
 - (d) Discussions have established that the new Vickers Mark IV tank meets the specification drawn up by the Northern Industrial Corporation for the future Chinese Main Battle Tank. This new vehicle incorporates all recent technological developments relating to armour plate, engine transmission, gun and its control systems. The first vehicle which Mr. Tang saw under construction during his visit has now been completed and is undergoing proving trials, which you may wish to see while you are here.
4. All our proposals are currently being considered by the Northern Industrial Corporation. We had expected to be invited to demonstrate new Fire Control System on a T59 tank in Peking in June. Unfortunately this has been postponed, and we should like to be advised of the new date as soon as possible.

PAM/AB
4 July 1979.

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TO PRIORITY FCO
TELEGRAM NUMBER 813 OF 19 SEPTEMBER
INFO PRIORITY MODUK.

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Prime Minister
Paul

DEFENCE SALES.

1. . IN THE COURSE OF A LONG TALK WITH DENG XIAOPING ON 17 SEPT-
EMBER, MR HEATH ASKED WHAT PROPORTION OF THE MODERNISATION BUDGET
WAS LIKELY TO BE DEVOTED TO MILITARY EQUIPMENT. DENG DID NOT
ANSWER THE QUESTION DIRECTLY BUT REFERRED TO CHINA'S NEED TO
DEVELOP HER MILITARY INDUSTRY, PARTICULARLY AIRCRAFT. HE UNDERSTOOD
BRITAIN, ITALY AND THE FRG WERE COOPERATING ON A NEW AIRCRAFT,
THE 'TORNADO', AND ASKED WHETHER IT WAS POLITICALLY FEASIBLE FOR
CHINA EITHER TO JOIN IN THE DEVELOPMENT AND PRODUCTION OR AT
LEAST TO BUY SOME OF THE FIRST AIRCRAFT TO BE PRODUCED.

SOME PARTS MIGHT EVEN BE MANUFACTURED IN CHINA. HE SAID HE HAD
PROPOSED BUYING F15 OR F16 AIRCRAFT FROM THE UNITED STATES BUT,
THE AMERICANS HAD NOT AGREED. TORNADO WAS A FIGHTER AND SOME
MIGHT ARGUE THAT THIS WAS AN OFFENSIVE WEAPON, BUT THE DISTINCTION
BETWEEN OFFENSIVE AND DEFENSIVE WEAPONRY WAS HARD TO DRAW. CHINA
URGENTLY NEEDED A PLANE CAPABLE OF COPING WITH THE MIG23 OR 25.

2. MR HEATH SAID THAT SINCE THIS WAS A COOPERATIVE VENTURE,
WE WOULD HAVE TO TALK TO OUR PARTNERS ABOUT ANY SUCH STEP.
I SAID I WOULD REPORT WHAT DENG HAD SAID BUT WARNED THAT SO FAR
EVEN WE OURSELVES DID NOT HAVE TORNADO.

3. DENG WENT ON TO SAY THAT ALTHOUGH FRANCE HAD SOLD MIRAGE
TO OTHER COUNTRIES, SHE HAD NOT YET AGREED TO SUPPLY CHINA AND
HE WONDERED WHETHER FRANCE WAS RESTRAINED BY COCOM RULES AND THE
DISTINCTION BETWEEN OFFENSIVE AND DEFENSIVE EQUIPMENT. HE SAID
THAT THE US GOVT HAD MADE IT CLEAR THAT THEY WOULD NOT SELL
MILITARY EQUIPMENT TO CHINA BUT DID NOT OBJECT TO AMERICA'S ALLIES
DOING SO.

4. MR HEATH RAISED AS AN AREA OF POSSIBLE COOPERATION ANTI-
TANK MISSILES, AND DENG AGREED THAT COOPERATION HERE WOULD BE A
GOOD THING.

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5. MR HEATH ALSO ASKED WHETHER THE CHINESE HAD REACHED A DECISION ON HARRIER. DENG IMMEDIATELY COMPLAINED ABOUT THE HIGH PRICE, SAYING THAT HARRIER HAD BEEN SOLD TO THE UNITED STATES FOR US DOLLARS 3 MILLION AND WAS NOW BEING OFFERED TO CHINA FOR US DOLLARS 10 MILLION. I EXPLAINED THAT THE CHINESE PACKAGE, UNLIKE THE US PACKAGE, INCLUDED ARMAMENTS AND COST OF TRAINING. DENG REITERATED THAT THE AIRCRAFT WAS TOO EXPENSIVE. IT WAS ALMOST AS EXPENSIVE AS THE F16 BUT HAD A MORE LIMITED ROLE. CHINESE PILOTS HAD TEST FLOWN THE HARRIER IN BRITAIN SUCCESSFULLY SO TRAINING SHOULD NOT BE VERY EXPENSIVE. HE APPEALED TO US FOR A MORE REASONABLE PRICE, APPROACHING THE QUESTION FROM A POLITICAL VIEWPOINT. HE ARGUED THAT IN THE LAST RESORT IT WAS FOR THE BRITISH GOVERNMENT TO FIX THE PRICE.

6. GRATEFUL TO KNOW WHETHER THERE IS ANYTHING FURTHER I CAN SAY TO CORRECT CHINESE MISCONCEPTIONS OVER THE HARRIER PRICE. ON TORNADO, IF, AS I ASSUME, THIS IS JUST NOT ON, A QUICK INDICATION OF OUR POSITION WOULD PROBABLY BE WISE.

7. RECORD FOLLOWS BY BAG.

CRADOCK

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ACDD
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NAD
PLANNING STAFF
TRED
PS
PS/SIR I GILMOUR
PS/MR BLAKER
PS/MR HURD

PS/PUS
SIR A DUFF

MR BUTLER
MR EVANS
MR P H MOBERLY
MR CORTAZZI

MR FERGUSON
MR MURRAY
MR BULLARD

ADDITIONAL DISTRIBUTION
DEFENCE SALES TO CHINA
S X W P

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China.

NRPO

Hunt - 2/5

SECRETARY OF STATE FOR DEFENCE

CHINESE NAVY DELEGATION - SUBMARINE VISIT

Thank you for your minute MO 8/14 of 28 August about the possible visit of a Chinese naval delegation to a Royal Navy Submarine.

I agree that, in order to promote Chinese interest in other defence equipment purchases, we should not refuse their request. But it is important to avoid giving them any impression that we might be willing to consider selling them submarines. It is equally important that neither the Soviet Union nor our COCOM partners should get that impression. We are likely to have enough trouble securing COCOM's acquiescence in our exports of much less sensitive defence equipment.

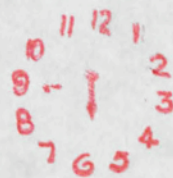
I am content therefore for the visit to go ahead provided that the conditions in paragraph 5 of your letter are made absolutely clear to the Chinese and provided that there are strict controls on publicity. We do not want photographs of the visit appearing in the press.

I am sending copies of this minute to the other members of OD as well as to Sir John Hunt.

7 September 1979

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- 7 SEP 1979



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China

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111

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MO 8/14

NRPN yet

Ans. 30/8

LORD PRIVY SEAL

CHINESE NAVY VISIT TO THE ROYAL NAVY EQUIPMENT EXHIBITION

As you may know, we are expecting a delegation from the Peoples Republic of China to visit the Royal Navy Equipment Exhibition at Portsmouth from 10th - 14th September. I understand that the delegation will be led by the Deputy Commander in Chief of the Chinese Navy, and they have asked to stay in the UK for two weeks after the Exhibition to see something of the Royal Navy and of the British Naval Equipment industry.

2. The Chinese have already given us some indication of the sort of things they would like to see and do, including visits to RN Type 21 and Type 42 ships at sea, discussions on Sea Dart and Sea Wolf missiles and the Lynx helicopter, and visits to a Naval base and to Naval training establishments. For the most part these requests do not present us with any problems and we are arranging a programme accordingly.
3. There is, however, one area in which the Chinese have expressed considerable interest and have asked to have included in the programme which is more sensitive, and that is submarines and underwater weapons. The Chinese have made it clear that they would regard the inclusion of a visit to a submarine in their programme as very important and positive gesture on our part which would contribute substantially to the success of the visit.
4. In strict security terms, there would be no difficulties in a visit to an Oberon conventional submarine (SSK). This could easily be rigged to enable a visit to be conducted at a purely unclassified level. I believe that it would be an appropriate gesture Navy to Navy to offer such a visit and the Royal Navy would be happy to make the necessary arrangements.

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5. Of course, when we discussed the sale of defence equipment to China in OD on 11th June, we ruled out the sale of submarines to China. It would, therefore, have to be made clear to the Chinese that the visit was being arranged as a courtesy only and that there could be no follow-up or technical discussion. This, however, I believe would be easier for them to swallow than an outright refusal.

6. Unless, therefore, you see any objections, I propose to go ahead and include a visit to an SSK in the Chinese programme.

7. I am copying this minute to the other members of OD, and to Sir John Hunt.

28th August 1979

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FUE



10 DOWNING STREET

cc OD China
Home Sec.
Lord Chancellor
(Foreign Sec)
Chancellor / Ex.
Defence Sec.

From the Private Secretary

17 July 1979
Lord President
Lord Privy Seal
Trade Sec.

+ C.O.

DEFENCE SALES TO CHINA

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute (PM/79/65) of 16 July about the reactions of our COCOM partners to our plans for the sale of defence equipment to China.

The Prime Minister has taken note of the COCOM response and, subject to the views of her colleagues in OD, agrees with the further action proposed in paragraph 3 of Lord Carrington's minute.

I am sending copies of this letter to the Private Secretaries to the other members of OD and to Martin Vile (Cabinet Office).

B. G. CARTLEDGE

J. S. Wall, Esq.,
Foreign and Commonwealth Office.

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PM/79/65

PRIME MINISTERPrime Minister

Content with 'X'?

Agreed out
16/7Defence Sales to China

1. On 11 June OD authorised me to inform our COCOM partners bilaterally of our intention to permit the sale to China of six specific items of defence related equipment for which negotiations are at an advanced stage. We agreed that although our partners' concurrence should not be sought, a final decision to authorise the sales should be reserved until it was known how sharply they reacted to the notification.
2. In the event, the response was generally mild. Many of our partners, including the Americans (whose recommended procedure we had followed) made no comments. Significant reactions from others are summarised in the annex to this minute.
3. Unless any of my colleagues sees objection, I recommend that Francis Pym should now authorise the manufacturers of the 6 items to proceed towards signature of contracts with the Chinese.
4. On Harrier, British Aerospace have put forward detailed technical proposals in Peking. But there seems to have been some loss of interest by the Chinese: they are concerned about the price compared with that paid by the Americans; even if they buy, they will probably want fewer than the 70 mentioned last year; and no contract is likely before the end of the year. If the eventual deal is largely concerned with the transfer of technology, we may face a tougher time with our COCOM partners, particularly the Americans.
5. I am copying this minute to other members of OD and to Sir John Hunt.

C

(CARRINGTON)

Foreign and Commonwealth Office
16 July 1979



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ANNEX

REACTIONS TO BILATERAL APPROACHES

a) The Belgians, in taking note of our action (which they correctly assumed to be the outcome of a failure to achieve a consensus on an alternative procedure) emphasised the desirability of adhering to existing COCOM procedures and thought there might be implications for other sales in the future.

b) The Germans, similarly, referred to their earlier expression of preference for using existing COCOM procedures for these sales. The absence of further comment from the Germans may be the result of the discussion on this subject which Mr Vance told Mr Pym he would hold with Herr Genscher.

c) The Japanese reminded us of the political importance they attached to this matter, and reserved the right to comment further. However the Japanese Embassy in London have told us that they will probably not create serious difficulties for us. We have emphasised to them that our action in this case is not our preferred course.

d) The Canadians questioned our view that the six items were strategically uncontentious. They expressed fears for the future of the COCOM machinery, but accepted that, in the present

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case, we had little alternative to bilateral notification
of our intentions.

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*China MAF
Original
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cc: JTI

10 DOWNING STREET

THE PRIME MINISTER

6 July 1979

Thank you for your letter of 20 June.

I very much doubt whether the order for cranes which the Chinese placed last year in Japan was influenced in any way by the pace of negotiations on Harrier. The Chinese expressed a firm interest in the purchase of Harriers only towards the end of 1978, and the previous Government made it clear in January that it was ready to see negotiations for the sale of Harriers go ahead as part of a balanced trade package. I can assure you that the Chinese are well aware that this Government is keen to see commercial negotiations brought to a satisfactory conclusion. Commercial discussions are proceeding actively.

More generally, as you may know, the Chinese are undertaking a comprehensive re-appraisal of their development plans and they have held up the conclusion of a number of contracts, both with this country and others, pending clarification of their plans.

Whilst therefore I do not consider that my personal intervention is necessary at this stage I nevertheless appreciate your interest in this matter. I hope that when the Chinese complete their current review of priorities you will be able to secure good business with them.

(SGD) MARGARET THATCHER

W.A. de Vigier, Esq.

vb

Original in B/R

ccw



10 DOWNING STREET

THE PRIME MINISTER

6 July 1979

Thank you for your letter of 21 June about the proposed Parliamentary delegation to China.

I am glad that this visit is to take place and I wish it well.

I have drawn your letter to the attention of the Chief Whip and I am sure that it would be helpful for you to get in touch with him.

With many thanks for your very kind good wishes. — and
the postscript

(SGD) MARGARET THATCHER

The Rt. Hon. The Lord Rhodes, K.G., D.F.C., D.L.

vb

Ref: B05752



Chang

PRIME MINISTERDefence Sales to China: Future Policy
(OD(79) 5)

BACKGROUND

In his memorandum the Foreign and Commonwealth Secretary recommends that we should go ahead with the sale to China of 6 items of defence equipment (listed in Annex A) negotiations for which are nearing completion, subject only to possible second thoughts if we are faced with very adverse reactions when we notify our COCOM partners bilaterally of our intention. His other recommendations are, in effect, that we should move cautiously over future defence sales, ruling out entirely especially offensive items and taking positive steps to neutralise Soviet objections. This is a complex and wide ranging subject and much of the meat of the argument in the paper has been relegated to Annexes C and D.

2. Previous sales to China have included the Spey aircraft engine in 1975 (despite COCOM objections) and marine gas turbines last year (outside COCOM) despite strong Japanese objections.. Parliament was told in January of the previous Government's readiness, in principle, to sell Harrier. Commercial negotiations on this are well advanced.

HANDLING

3. I suggest you should invite the Foreign and Commonwealth Secretary to introduce his memorandum. Before considering the Foreign and Commonwealth Secretary's specific recommendations, you may wish to ask for views of members of the Committee on the general policy, in the light of the arguments set out in Annex D. Are the Committee agreed that it is right to go ahead with the policy of defence sales to China, on the general lines adopted by the previous Government? Are the risks of adverse Soviet reactions - which are probably unavoidable whatever steps are taken to neutralise them - acceptable, and worth the commercial and industrial advantage which we hope will result?

4. The Committee might then consider in turn the recommendations in paragraph 5 of OD(79) 5.

a. Although they would all be excluded by the existing COCOM rules, the 6 items listed in Annex A are relatively uncontentious.



The reactions of our COCOM partners are likely to be based on the importance they attach to maintaining the integrity of COCOM procedures rather than on substance. Some of them may be severe (see Annex C). The Foreign and Commonwealth Secretary's recommendation is qualified to allow the opportunity for reconsideration. But this amounts only to putting off the decision whether we are prepared to allow existing COCOM rules - which would not be easy to change - to block our trade with China in a field in which we may have an edge over our competitors. The French have made their position clear. What do the Committee think? Do they agree with this recommendation?

b. and c. This cautious approach is clearly a sensible one, given the likely reactions of our COCOM partners and of the Russians. We should particularly need to keep in touch with the Americans, who may be ready to reconsider their attitude to our proposed "no comment" procedure (see paragraph 4 of Appendix to Annex C), which looks like being the only way forward without seriously damaging COCOM. Do the Committee agree with these recommendations?

d. and e. These recommendations are in line with the above approach. The categories listed in Annex B have been drawn up by the Ministry of Defence and you may wish to ask the Defence Secretary whether he is satisfied that the distinctions made are reasonable. It is consistent with the aircraft's role that Harrier should be included in Category 1 and negotiations have proceeded on this basis. It has been cited by the Chinese as something of a test of our intentions, and Russian objections have probably been exaggerated as a result of the publicity surrounding it. It will be necessary to consider very carefully before authorising negotiation on Category 3 items. Tanks, in particular, could cause trouble and although there is no question of selling main battle tanks (eg Chieftain or Shir 1) what is suggested under this item goes a long way towards helping the Chinese to build up an "offensive" capability in this important area. Do the Committee agree with these recommendations?



f. The meaning of this is not entirely clear. How does it relate to the prospects for and development of our civil trade with China? Is the intention that we should aim at a general balance in our exports so that defense sales do not predominate? Is this attainable? You may wish to ask the Secretary of State for Trade to comment.

g. It will clearly be important to take what steps we can to minimise adverse Soviet reactions. But we have no reason to be on the defensive, especially about items which could have no significant effect on the strategic balance, which is strongly in Russia's favour. Soviet reactions may not be very severe in relation to the current 6 items (we have succeeded in riding out the Spey engine sale without much trouble), although there have been some threatening noises from Moscow. But if we move into provocative areas (Harrier is one) we can expect the Russians to step up their complaints. What does the Foreign and Commonwealth Secretary have in mind?

CONCLUSIONS

5. The first point you may wish to establish is that the Committee endorse in principle the Foreign and Commonwealth Secretary's view that there can be no question of going back on the position reached by the previous Government (see paragraph 3 above and paragraph 4 of OD(79) 5). Subject to this and to the comments of the Committee on the specific proposals made by the Foreign and Commonwealth Secretary (see paragraph 4 above) I suggest you might invite the Committee to approve the recommendations in paragraph 5 of OD(79) 5.

Clive Rose

8th June 1979

CLIVE ROSE

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Original on:

France: PM's visit: May 79

China

PM/Giscard Meeting Note: 5 June 1979

ould probably develop the cruise missile but without entering prior commitments on parity or equilibrium. When the Prime Minister commented that the Soviet Union had developed a very significant lead in medium-range missiles, President Giscard said that France was ahead so far as submarine launched missiles were concerned.

Lord Carrington said that the need to proceed with the modernisation of Theatre Nuclear Forces in parallel with SALT III created an added complication, along with domestic political difficulties in the Low Countries. It was likely that Belgium, the Netherlands, and the FRG would insist on a new strategic arms limitation conference as a pre-condition of TNF modernisation, perhaps even in advance of SALT III. So far, the NATO Council had decided only that there must be a decision on TNF modernisation by the end of 1979. President Giscard said that it would be useful to exchange views on this further. The French Government was at present studying France's interest in SALT III and in the development of the French deterrent after 1990. The main options under consideration were cruise missiles and mobile launching systems. The necessary scientific data would be ready during 1980. President Giscard went on to say that the French had never had a real discussion of these matters with the FRG, since they did not wish to imply a commitment to German security which would involve France's own deterrent. It was impossible not to discuss these problems with the Germans but equally impossible to have a real discussion. The Prime Minister said that she had discussed these matters with Chancellor Schmidt.

Lord Carrington said that he had some understanding of the West German view that they could not accept the deployment of medium-range systems on German soil unless a third country, in addition to the UK, did so too. President Giscard said that he thought that Belgium would probably accept medium-range systems in the end, perhaps for a limited period of time.

Defence Sales to China

President Giscard asked the Prime Minister whether the British Government had reached a final decision on the sale of Harrier aircraft to China. The Prime Minister said that the Government, for their part, were ready to sell Harriers to the Chinese

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but some problems had arisen during the commercial negotiations. In response to the President's question, Lord Carrington said that the United Kingdom had it in mind to sell something under one hundred aircraft along with a licence to manufacture them in China. President Giscard said that the French Government had taken a different decision since it regarded the sale of arms to China as a major bilateral test of the relations of any country with the Soviet Union. The French Government was also a little apprehensive of the future attitudes of the Chinese military establishment. No mood of expansionism was detectable yet, but would the situation last? In view of these factors France had decided to sell the Chinese nothing more than anti-tank weapons.

Vietnamese Refugees

The Prime Minister told President Giscard that UK merchant ships in the Far East were continuing to pick up large numbers of Vietnamese refugees. There were now over 40,000 refugees in Hong Kong and the UK had agreed to take another 1,000 from the "Sibonga". The Government was now faced with the problem of 300 Chinese children on a British ship off Taiwan whom the Taiwan Government were refusing to take in. President Giscard said that France had already accepted 60,000 Vietnamese and they were coming in at the rate of 500 a month. The whole problem was in essence one for the United Nations but the UN was handling it very inefficiently. President Giscard said that he had noted the Prime Minister's message to Dr. Waldheim.

The discussion ended at 1310.

Byrd.

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CHINA

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FM MOSCOW 151700Z MAY 79

TO IMMEDIATE FCO

TELEGRAM NUMBER 274 OF 15 MAY

INFO PRIORITY PEKING, HONG KONG, WASHINGTON, DOT/CREDA,
DOT/ESBOT AND MODUK AND DOI..

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16/5*

PEKING TELNOS 430 - 432: SINO - BRITISH RELATIONS.

1. I AGREE WITH HM AMBASSADOR PEKING THAT WE SHOULD NOT LET OUTSIDE POWERS LAY DOWN THE RULES OF THE GAME. WE DO NOT NEED TO. MOST OF THE POLICIES HE RECOMMENDS - WITH THE PARTIAL EXCEPTION OF ARMS SALES - ARE IN LINE WITH THOSE OF OUR ALLIES AND NEED NOT IN SUBSTANCE COMPLICATE THE ANGLO-SOVIET RELATIONSHIP. BUT JUST BECAUSE THE SOVIET LEADERSHIP ARE SO NEUROTIC ABOUT CHINA, THE WAY OUR POLICIES ARE DEVELOPED AND PRESENTED IS ALMOST AS IMPORTANT AS THE SUBSTANCE. IT MAY THEREFORE BE HELPFUL IF I OFFER SOME COMMENT, PARTICULARLY ON THIS LATTER ASPECT.

2. THE RUSSIANS WOULD ACCEPT MR CRADOCK'S ASSESSMENT (PARA 5 OF HIS TELNO 430) THAT OPPOSITION TO THE SOVIET UNION REMAINS THE CORNERSTONE OF CHINESE FOREIGN POLICY. THEY WILL THEREFORE ASSESS IN THIS CONTEXT THE MOTIVES OF ANY THIRD COUNTRY WHICH THEY SEE AS SEEKING TO STRENGTHEN CHINA, AND THEY WILL BE OVER-READY TO CONCLUDE THAT HE WHO HELPS MY ENEMY IS MY ENEMY. SO POLICY TOWARDS CHINA HAS TO BE SEEN AS RELEVANT TO THE EQUILIBRIUM BETWEEN THE BEST PLATFORM FROM WHICH TO DEAL WITH THE SOVIET UNION.

3. WE ARE NOW AT A PARTICULAR SENSITIVE STAGE, WHEN THE RUSSIANS ARE LOOKING FOR THE FIRST EVIDENCE OF PRESENT BRITISH GOVERNMENT POLICY. MINSUNDERSTANDING IS MOST LIKELY TO OCCUR IF WE APPEAR TO THE RUSSIANS TO BE ACCORDING GREATER PRIORITY TO OUR RELATIONS WITH CHINA THAN TO OUR RELATIONS WITH THE SOVIET UNION, OR GREATER PRIORITY TO OUR RELATIONS WITH

/CHINA

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CHINA THAN IS ACCORDED BY OTHER MAJOR WESTERN COUNTRIES, OF IF WE PUBLICLY PRESENT OUR CHINA POLICY IN TERMS OF THE STRATEGIC BALANCE. WE ARE MOST LIKELY TO PROMOTE OUR INTERESTS IN CHINA WITHOUT DAMAGE TO OUR RELATIONSHIP WITH THE SOVIET UNION IF WE:

- (A) TAKE OUR CHINA POLICIES PRAGMATICALLY AND DO NOT ACT IN A HURRY UNLESS THE REASONS FOR URGENCY ARE SELF-EVIDENT;
- (B) SEEK AS FAR AS POSSIBLE TO BALANCE INITIATIVES TOWARDS CHINA WITH INITIATIVES TOWARDS THE SOVIET UNION (A RECONFIRMATION OF MR GROMYKO'S OUTSTANDING INVITATION TO PAY AN OFFICIAL VISIT TO BRITAIN IS A CASE IN POINT);
- (C) KEEP BROADLY IN LINE WITH OUR PARTNERS AND ALLIES (AND MORE ESPECIALLY WITH THE AMERICANS, FRENCH AND GERMANS) ON THESE ISSUES WHICH AFFECT RELATIONS BETWEEN CHINA, THE SOVIET UNION AND THE WEST, AND
- (D) RECOGNISE THAT THE QUESTION OF ARMS SALES TO CHINA IS AN EXTREMELY SENSITIVE ONE, WHICH COULD DO SERIOUS DAMAGE TO OUR RELATIONS WITH THE SOVIET UNION IF IT APPEARS TO GAIN DISPROPORTIONATE WEIGHT IN THE OVERALL BRITISH/CHINESE RELATIONSHIP.

4. I HOPE THAT IN THIS WAY WE CAN GET THE BEST OF BOTH WORLDS WE HAVE IMPORTANT INTERESTS IN CHINA. BUT ON THE CRUCIAL ISSUES AFFECTING WESTERN SECURITY IT IS THE SOVIET UNION WHICH IS IN THE KEY POSITION, AND OUR ABILITY TO EXERCISE INFLUENCE - BOTH DIRECTLY AND IN COOPERATION WITH OUR PARTNERS AND ALLIES- WILL BE THE MORE IF WE ARE ABLE TO MAINTAIN AN EFFECTIVE WORKING RELATIONSHIP BETWEEN LONDON AND MOSCOW.

KEEBLE

FCO WHITEHALL DIST:

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CHINA

GRS 730

CONFIDENTIAL

FM PEKING 110925Z MAY 79

TO PRIORITY FCO

TELNO 432 OF 11 MAY

INFO HONG KONG, WASHINGTON, DOT/CREDA (CRE4), DOT/ESBOT, DOI,
MODUK.

MIPTS: SINO-BRITISH RELATIONS.

1. AGAINST THIS BACKGROUND I HOPE YOU WILL AGREE THAT CHINA SHOULD OCCUPY AN IMPORTANT PLACE IN OUR SCHEME OF THINGS AND THAT WE SHOULD VIGOROUSLY PUSH FORWARD OUR BILATERAL RELATIONS, BROADLY ON CURRENT LINES. THE FOLLOWING SPECIFIC ASPECTS WILL, I SUGGEST, NEED ATTENTION.

2. WE NEED TO MAINTAIN THE EXCHANGE OF HIGH LEVEL VISITS. THE FIRST STEP WILL, I HOPE, BE TO INFORM THE CHINESE THAT WE CAN RECEIVE HUA GUOFENG IN THE UK ON THE DATES HE HAS SUGGESTED I.E. 29 OCTOBER TO 3 NOVEMBER. HE WILL NO DOUBT PRESS FOR A RETURN VISIT FROM THE PRIME MINISTER. I HOPE THAT WILL BE FAVOURABLY CONSIDERED, BUT THE FIRST STEP MIGHT BE A VISIT FROM YOU YOURSELF, SAY AT THE END OF THE YEAR. THE LAST VISIT BY A CONSERVATIVE FOREIGN SECRETARY WAS IN 1972. A VISIT BY THE SECRETARY OF STATE FOR TRADE (OR FOR INDUSTRY) WOULD BE APPROPRIATE EARLY IN 1980 WHEN WE SHOULD HAVE BEEN ABLE TO SEE MORE CLEARLY HOW THE PRESENT ECONOMIC READJUSTMENT PHASE IS AFFECTING PLANNING AND IMPORTS. WE ALSO HAVE AN INTEREST IN BUILDING ON CONTACTS MADE AT MINISTERIAL LEVEL IN SUCH AREAS AS EDUCATION, SCIENCE AND HEALTH.

3. A CONTINUED EFFORT WILL BE REQUIRED TO EXPLOIT COMMERCIAL OPPORTUNITIES AND ENSURE THAT WE GET IN ON THE GROUND FLOOR OF MODERNISATION. CURRENT CHINESE CAUTION IN ECONOMIC PLANNING IS A FURTHER REMINDER THAT OUR BUSINESSMEN WILL NEED TO BE PERSISTENT AND AVOID EXAGGERATED EXPECTATIONS. DESPITE STIFF COMPETITION THE COMMERCIAL PRIZES REMAIN BIG ONES, HOWEVER, AND WHATEVER

/ THEY.

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THEY ARE TO DO THE CHINESE WILL NEED TO MAKE STEADY ADVANCES IN SUCH FIELDS AS ENERGY, TRANSPORT, IN PARTICULAR RAILWAYS, AND PETROCHEMICALS. THEIR PRESENT PREFERENCE FOR MODERNISING EXISTING PLANT AS AGAINST BUILDING BRAND NEW INSTALLATIONS SHOULD WORK TO OUR ADVANTAGE AS AGAINST THE JAPANESE, EG IN STEEL.

4. THE AREA OF DEFENCE SALES WILL REQUIRE SPECIAL ATTENTION. THE CHINESE PARTICULARLY LOOK TO US AND THE FRENCH IN THIS AREA. WE DO NOT KNOW WHAT PROPORTION OF AVAILABLE FINANCE WILL GO TO DEFENCE SECTOR OF THE MODERNISATION PROGRAMME AND IT IS LIKELY THE CHINESE WILL HAVE TO TAKE IT SLOWLY. BUT THERE ARE CONSIDERABLE OPPORTUNITIES FOR THE SUPPLY OF AIRCRAFT, NAVAL VESSELS AND EQUIPMENT BEYOND CHINA'S CAPACITY TO DESIGN AND MANUFACTURE WITHOUT HELP. WE NEED, HOWEVER, TO BE ABLE TO SPEAK CLEARLY ABOUT OUR INTENTIONS IN THESE AREAS. WE SHALL ALSO HAVE TO TAKE ACCOUNT OF ADVERSE SOVIET REACTION. BUT THERE IS NO PROSPECT IN THE FORESEEABLE FUTURE THAT CHINA WOULD INITIATE HOSTILITIES AGAINST THE SOVIET UNION. SHE FACES AND IS LIKELY TO FACE FOR A VERY LONG TIME OVERWHELMING MILITARY SUPERIORITY ON THAT FRONT. NOR DO I THINK UNCERTAINTIES ON FUTURE CHINESE POLICY TOWARDS VIETNAM SHOULD DETER US FROM SUPPLY OF MANY CATEGORIES OF MILITARY EQUIPMENT. THEY WILL BE VALUABLE EXPORTS IN THEMSELVES AND ARE LIKELY TO BRING US RELATED BENEFITS IN CIVIL FIELDS.

5. IN THE FIELD OF ENGLISH LANGUAGE TEACHING WE OCCUPY A POTENTIALLY STRONG POSITION WHICH WE SHOULD EXPLOIT, BUT IF WE ARE TO RECRUIT EXPERIENCED LANGUAGE TEACHERS FOR CHINA WE SHALL HAVE TO BE ABLE TO SUBSIDISE THEIR SALARIES AND PROVIDE LOGISTICAL AND MATERIAL SUPPORT. SOME FORM OF AID MONEY WILL THEREFORE BE NEEDED.

6. I AM GRATEFUL FOR THE GOODWILL OF THE DEPARTMENT OVER THE NEED TO INCREASE STAFF TO DEAL WITH THESE AND OTHER TASKS AS ACCOMMODATION AND OFFICE SPACE BECOMES AVAILABLE. THIS WILL UNFORTUNATELY TAKE TIME. MEANWHILE WE SHOULD BE THINKING AHEAD ALSO - AS OUR COMPETITORS HAVE ALREADY DONE - TO THE

/OPENING.

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OPENING OF CONSULATES IN CHINA, PROBABLY IN SHANGHAI AND CANTON INITIALLY. THESE CAN FULFIL A TRADE PROMOTION FUNCTION IN A COUNTRY WHERE THE INTENTION IS INCREASINGLY TO DEVOLVE ECONOMIC DECISIONS. THE OPENING UP OF CHINA WILL ALSO BRING WITH IT

PROBLEMS OF THE PROTECTION OF BRITISH TRAVELLERS. IN THE CASE OF CANTON WE SHALL HAVE TO TAKE ACCOUNT OF THE HONG KONG ASPECT. BUT I DO NOT THINK THAT WE CAN FOR MUCH LONGER EXPECT TO LOOK AFTER BRITISH INTERESTS IN A COUNTRY CONTAINING NEARLY A QUARTER OF MANKIND FROM PEKING ALONE. FORTHCOMING OR ONGOING NEGOTIATIONS BY THE AMERICANS, WEST GERMANS, ITALIANS AND OTHERS SHOULD VERY SOON HAVE SMOOTHED THE PATH FOR NEGOTIATIONS OF OUR OWN.

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FM PEKING 110904Z

TO PRIORITY FCO

TELEGRAM NUMBER 431 OF 11 MAY 79

INFO PRIORITY HONG KONG, WASHINGTON, DOT (CRE4 ESBOT), DOI
MOD AND ECGD

MIPT: SINO-BRITISH RELATIONS

1. OUR BILATERAL RELATIONS HAVE ADVANCED RAPIDLY OVER THE PAST YEAR AND ARE AT THEIR BEST EVER. WE HAVE HAD A SERIES OF HIGH LEVEL VISITS IN BOTH DIRECTIONS. PREMIER HUA HAS ACCEPTED AN INVITATION TO VISIT BRITAIN (AS WELL AS FRANCE AND GERMANY) AND HAS PROPOSED A DATE AT THE END OF OCTOBER. THE DUKE OF KENT IS TO OPEN THE BRITISH ENERGY EXHIBITION IN PEKING IN JUNE. OVER THE LAST YEAR WE HAVE CONCLUDED A SCIENCE AND TECHNOLOGY AGREEMENT, AND ECONOMIC COOPERATION AGREEMENT PROVIDING FOR US DOLLARS 14 BILLION WORTH OF JOINT ECONOMIC ACTIVITY TO 1985, AND ARE NEGOTIATING AN AIR SERVICES AGREEMENT. WE EXPECT SOME 300-400 CHINESE STUDENTS AND GRADUATES IN BRITAIN IN 1979. WE HAVE TOLD THE CHINESE THAT WE ARE READY TO PROVIDE CERTAIN ITEMS OF DEFENCE EQUIPMENT AS PART OF A WIDER BALANCED RELATIONSHIP AND NEGOTIATIONS FOR SUPPLY OF HARRIER AND OTHER ITEMS ARE GOING AHEAD.

2. REFLECTING THE ABOVE AND CHINA'S NEED FOR HONG KONG EXPERTISE AND FOREIGN CURRENCY. HONG KONG-CHINESE RELATIONS ARE AT A HIGH POINT. IN RESPONSE TO THE FIRST EVER OFFICIAL CHINESE INVITATION, THE GOVERNOR PAID A SUCCESSFUL VISIT TO PEKING IN MARCH AND HAD USEFUL TALKS WITH DENG XIAOPING.

3. AS I SEE IT, THE RATIONALE FOR OUR APPROACH TO SINO-BRITISH RELATIONS SHOULD BE:

(A) IT IS VERY MUCH IN THE UK INTEREST THAT THE CHINESE MODERNISATION PROGRAMME SHOULD MAKE PROGRESS WITH OUR HELP. BY OUR RESPONSE WE HELP CONFIRM THE MAIN LINES OF THE MORE OPEN AND PRO-WESTERN POLICY AND ACQUIRE BOTH POLITICAL GOODWILL AND COMMERCIAL PROFIT IN THE PROCESS.

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(B) THERE IS THE WIDER CONSIDERATION THAT CHINA IS BOUND TO BE AN INCREASINGLY POWERFUL FACTOR IN THE INTERNATIONAL POWER BALANCE. A CHINA ENGAGED IN MODERNISING WITH WESTERN HELP IS MORE LIKELY TO BE A STABLE AND POSITIVE FACTOR THAN ONE THAT HAD RELAPSED INTO ISOLATION AND XENOPHOBIA. BY ITS VERY EXISTENCE A STRONG CHINA WOULD ALSO ACT AS A CHECK ON SOVIET AMBITIONS.

(C) WE NEED HAVE NO ILLUSIONS ABOUT CHINA. AS A COMMUNIST STATE HER LONG-TERM AMBITIONS DIFFER VASTLY FROM OURS AND THERE ARE MANY ASPECTS OF CURRENT CHINESE EXTERNAL POLICY FROM WHICH WE SHALL NEED TO DISTANCE OURSELVES. NEVERTHELESS IN PRACTICE HER INTERESTS OVER THE IMMEDIATE AND MIDDLE-TERM FUTURE COINCIDE WITH OURS IN A NUMBER OF IMPORTANT FIELDS. IN PARTICULAR, FOR HER OWN GOOD REASONS CHINA WANTS A PROSPEROUS AND PRO-WESTERN JAPAN, A STRONG EUROPE AND A POWERFUL UNITED STATES FULLY COMMITTED TO WEST EUROPEAN DEFENCE.

(D) GOOD SINO-BRITISH RELATIONS ARE PARTICULARLY IMPORTANT FOR HONG KONG, WHOSE RELATIONS WITH THE MAINLAND NOW APPROACH A CRITICAL PHASE.

4. THERE IS NO NECESSARY INCONSISTENCY BETWEEN THIS APPROACH TO CHINA AND THE PURSUIT OF A CONSTRUCTIVE BUT REALISTIC RELATIONSHIP WITH THE SOVIET UNION. THE RUSSIANS WILL OF COURSE MAINTAIN THE CONTRARY BUT THERE IS NO REASON TO ALLOW THEM (OR THE CHINESE) TO LAY DOWN THE RULES OF THE GAME.

5. SEE MIPT

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FM PEKING 110900Z MAY 79

TO PRIORITY FCO

TELNO 430 OF 11 MAY

INFO ROUTINE HONG KONG, WASHINGTON, DOT/CREDA (CRE4), DOT/ESBOT,
DOI, MODUK, ECGD.

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19/11*

SINO-BRITISH RELATIONS

1. IN LOOKING AFRESH AT FOREIGN POLICY YOU MAY FIND IT HELPFUL TO HAVE SOME COMMENTS ON THE CURRENT CHINESE SITUATION AND THE PROSPECTS FOR SINO-BRITISH RELATIONS.

2. THE MAIN THEME OF CHINESE POLICY REMAINS HER DEVELOPMENT INTO THE FOUR MODERNISATIONS (OF AGRICULTURE, INDUSTRY, NATIONAL DEFENCE AND SCIENCE AND TECHNOLOGY). TO ACHIEVE THIS AND OTHER STRATEGIC OBJECTIVES THE CHINESE SEEK A RAPID EXPANSION OF ECONOMIC AND POLITICAL CONTACTS WITH THE WEST. THESE POLICIES HAVE PROCEEDED APACE OVER THE PAST YEAR IN BOTH THEIR INTERNAL AND EXTERNAL ASPECTS AND HAVE BROUGHT GREAT AND POSITIVE CHANGES. THE MAIN IMPETUS HAS COME FROM DENG XIAOPING, IN NAME ONLY VICE-PREMIER, BUT IN FACT THE MOST POWERFUL FIGURE IN THE LEADERSHIP. THE PRIME MINISTER AND PARTY CHAIRMAN,

HUA GUOFENG, THOUGH NOT TO BE WRITTEN OFF, DOES NOT DISPOSE OF COMPARABLE AUTHORITY.

3. OVER THE LAST THREE MONTHS, HOWEVER, THERE HAS BEEN A MARKED SLOWING DOWN IN ORDERS FOR WESTERN PLANT AND TECHNOLOGY AND A GREATER CAUTION AND CONSERVATISM IN CERTAIN ASPECTS OF POLITICAL LIFE:

(A) THE CHINESE ARE REASSESSING THE SCALE AND PACE OF THEIR MODERNISATION PROGRAMME AND RECOGNISE THAT THEIR TARGETS SET LAST YEAR ARE UNREALISTICALLY HIGH. IN PARTICULAR THEY HAVE GROWN WORRIED ABOUT THEIR PROSPECTIVE IMPORT BILL, AND ARE EMPHASISING THE IMPORTANCE OF ARRANGEMENTS TO REDUCE COMMITMENTS IN FOREIGN CURRENCY EG COUNTER-TRADING. THEY ARE ALSO REVIEWING THEIR ECONOMIC PRIORITIES, GIVING GREATER WEIGHT TO AGRICULTURE AND TO THOSE LIGHT INDUSTRIES THAT CAN RAPIDLY EARN FOREIGN EXCHANGE, AND CUTTING BACK ON SOME PLANS FOR HEAVY INDUSTRY, IN PARTICULAR STEEL.

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(B) THE INTERNAL POLITICAL LIBERALISATION AND THE DE-MAOIFICATION MOVEMENT WHICH WERE FEATURES OF LAST WINTER HAVE BEEN CHECKED. THIS DEVELOPMENT WAS PROBABLY INEVITABLE AND REFLECTED A WIDESPREAD FEELING, PARTICULARLY IN THE PROVINCES, THAT ICONOCLASM AND FREEDOM OF EXPRESSION WERE GETTING OUT OF HAND. BUT IT HAS DISILLUSIONED AND WORRIED THE YOUNG AND THE INTELLIGENTSIA.

4. ALTHOUGH THE POLICY OF MODERNISATION HAS LOST SOME OF ITS GLAMOUR AND THE INTERNAL POLITICAL SCENE IS RATHER MORE MURKY THAN I WOULD LIKE, THERE HAS BEEN NO FUNDAMENTAL CHANGE OF DIRECTION. IN FACT ECONOMIC REALISM IS WELCOME SINCE IT IS NOT IN OUR INTEREST THAT THE MODERNISATION PROGRAMME SHOULD BECOME OVER-AMBITIOUS AND RISK COMING UNSTUS. THE ESSENTIALS, IE THE NEED TO MODERNISE, THE NEED FOR ADVANCED TECHNOLOGY, THE RELIANCE ON WESTERN ADVANCED COUNTRIES, REMAIN.

5. OPPOSITION TO THE SOVIET UNION REMAINS THE CORNER-STONE OF CHINESE FOREIGN POLICY. THE REGIME HAS REGISTERED CONSPICUOUS SUCCESSES IN THE SINO-JAPANESE TREATY OF OCTOBER 1978, NORMALISATION WITH THE UNITED STATES IN DECEMBER AND IN THE GENERAL STRENGTHENING OF RELATIONS WITH WESTERN COUNTRIES AND ASEAN. UNFORTUNATELY IT HAS ALSO NOW ENGAGED ITSELF IN WHAT IS LIKELY TO BE A LONG AND BITTER STRUGGLE WITH VIETNAM FOR INFLUENCE IN INDO-CHINA AND SOUTH EAST ASIA. THIS LED TO THE RISKY PUNITIVE CHINESE MILITARY ACTION AGAINST VIETNAM IN FEBRUARY AND, DEPENDING LARGELY ON THE PROGRESS OF ANTI-VIETNAMESE RESISTANCE IN CAMBODIA, MIGHT EVEN INVOLVE FURTHER SUCH ACTION AGAINST VIETNAM AT SOME POINT IN THE FUTURE. THE CHINESE ARE THEREFORE MORE DEEPLY EMBROILED WITH VIETNAM THAN WE WOULD LIKE. IF THEY BECAME TOO DEEPLY INVOLVED MILITARILY THIS COULD JEOPARDISE THEIR MODERNISATION PLANS AND MIGHT, DEPENDING ON THE SOVIET RESPONSE, POSE A THREAT TO INTERNATIONAL STABILITY. FOR THE PRESENT, HOWEVER, WE HOPE FOR NO MORE THAN A CONTINUING WAR OF WORDS.

6. SEE MIFT.

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P S TO PRIME MINISTER

FM FCO 101800Z

TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 468 OF 10TH MAY 1979.

INFO SAVING BONN, BRUSSELS, THE HAGUE, OTTAWA, PARIS, ROME,
PEKING, UKDEL NATO, TOKYO.

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FROM CORAZZI FOR ROBINSON

WASHINGTON TELNO 995: DEFENCE SALES TO CHINA

1. IT WILL BE SOME DAYS BEFORE MINISTERS CAN CONSIDER POLICIES TOWARDS CHINA AND THE PARTICULAR QUESTION OF DEFENCE SALES AND COCOM. ONE OF THE KEY ELEMENTS IN THE PAPERS WHICH WILL BE PUT TO MINISTERS WILL BE THE REACTION OF OUR PARTNERS (INCLUDING THE US) TO THE PROPOSALS CONTAINED IN FCO TELNO 108 AND 109 TO BONN. THESE CONTINUE TO REPRESENT THE MOST PRACTICAL WAY FORWARD WHICH OFFICIALS HAVE SO FAR BEEN ABLE TO DEVISE. MINISTERS HAVE NOT YET ENDORSED THEM.

2. THE COURSE OF ACTION WHICH THE AMERICANS APPEAR TO WANT US TO FOLLOW WOULD BE UNACCEPTABLE TO SOME AT LEAST OF OUR OTHER MAJOR COCOM PARTNERS. WE SHALL BE CONFRONTED WITH SOME VERY STARK AND UNPLEASANT ALTERNATIVES (E.G. SUSPENDING DEFENCE SALES TO CHINA OR IGNORING COCOM) IF THE AMERICANS CANNOT GO ALONG WITH OUR QUOTE NO COMMENT UNQUOTE PROCEDURE WITHIN COCOM OR ARE NOT PREPARED TO MAKE THEIR OWN ATTITUDE (AND THE REASONS FOR IT) CLEAR TO THE OTHER MEMBERS OF COCOM.

CARRINGTON

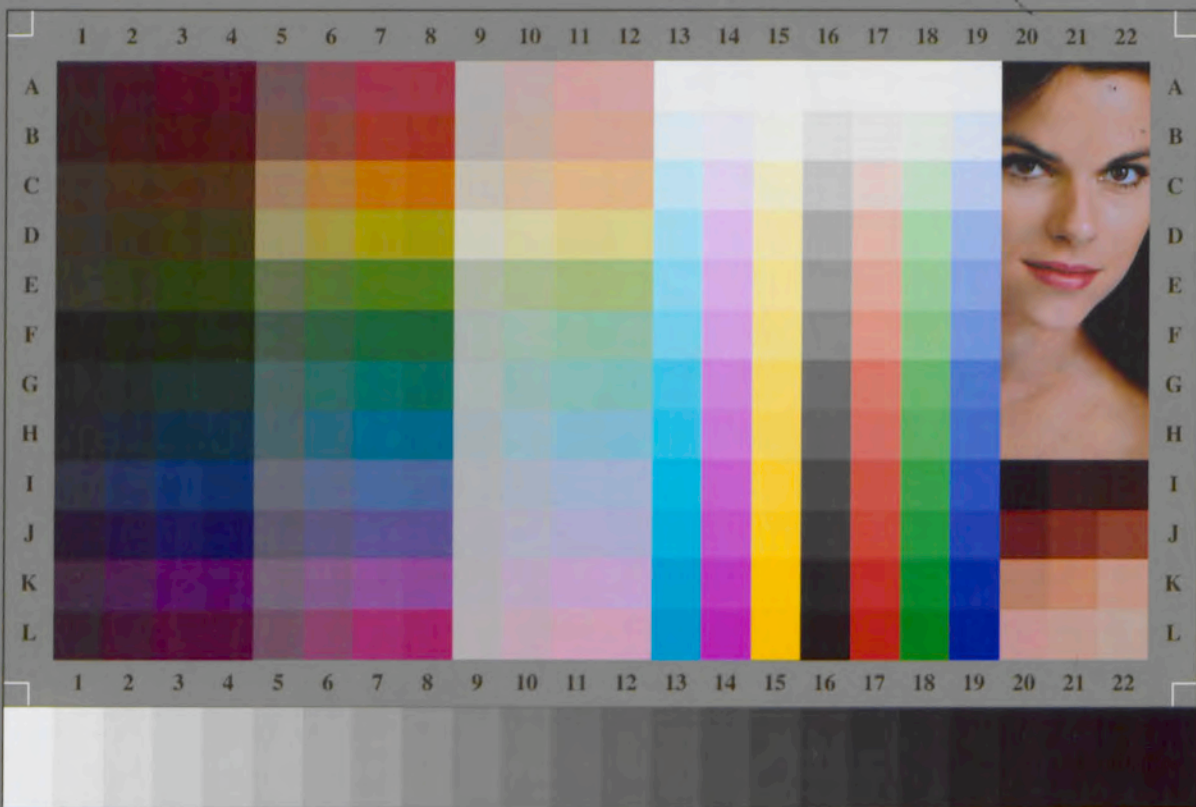
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