

PREM 19/1502

CONFIDENTIAL FILING

Prime Minister's visit to China^{U.S.} and Hong Kong
18-23 December 1984.

Foreign Policy

Bliss

November 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
10/11/84							
11/11/84							
23/11/84							
31.12.84							
6/12/84							
10/12/84							
11/12/84							
12/12/84							
14/12/84							
28.12.84							
15.1.85							
22.1.85							
25.3.85							

PREM 19/1502



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10 DOWNING STREET

THE PRIME MINISTER

25 March 1985

Dear Ambassador,

Thank you so much for sending me the photograph of the signature ceremony of the Sino-British Joint Declaration on Hong Kong. This will be an excellent reminder of an historic occasion.

We shall miss you very much but I wish you every success on your return to Peking.

With best wishes,

Yours sincerely
Margaret Thatcher

His Excellency Mr. Chen Zhaoyuan

67

285



10 DOWNING STREET

From the Principal Private Secretary

15 January 1985

US ANTI-TRUST SUITS

Many thanks for your letter of 14 January to Andrew Turnbull enclosing a draft letter to the American Ambassador.

I enclose a copy of the terms in which I have now written to Mr. Price, together with the enclosure.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office), Callum McCarthy (Department of Trade and Industry) and Henry Steel (Attorney General's Office).

File

Miss Dinah Nichols,
Department of Transport.

Covering CONFIDENTIAL



070
中华人民共和国驻英国大使馆
Embassy of the People's Republic of China

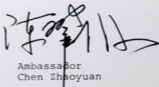
31 Portland Place, London W1N 3AG
Telephone: 01-636 5726

22nd March, 1985

首相阁下：

It is a great pleasure for me to present to you herewith a photo showing the historical moments when you and Premier Zhao Ziyang together signed the Sino-British Joint Declaration on the Question of Hong Kong. I hope the picture would serve as a fitting memento of that historical event.

With my best regards,



Ambassador
Chen Zhaoyuan

The Rt. Hon. Margret Thatcher,
The Prime Minister,
10 Downing Street,
London SW1

Ru

File



Visit to Hong Kong
December 1984

10 DOWNING STREET

THE PRIME MINISTER

22 January 1985

Dear Sir Sir,

Thank you for your letter of 14 January,
and how very kind to you to send me a book
of idioms. This will be a marvellous quarry
for speeches. For every situation there
seems to be a Chinese saying!
With every good wish.

Yours sincerely
Margaret Thatcher

Sir S.Y. Chung, CBE, LL.D, DSc, Ph.D, JP.

RG

CONFIDENTIAL

SLH



10 DOWNING STREET

cc: O/Transp.
FCO
DTI
HH-Gen.

15 January 1985

From the Principal Private Secretary

Dear Charlie,

I have shown the Prime Minister your letter of 24 December 1984 regarding what you said at Camp David about the interpretation of the Bermuda 2 Agreement and in particular Article 12(4), and she was grateful for it.

You will know that the position of both Governments on these matters has been expounded at numerous meetings between us. I am enclosing an Annex to a Note from the British Embassy in Washington to the Department of State on 6 May 1983, which summarises our position.

It is clear from these notes that our two Governments are in disagreement on the legal issues: the present dispute as to the interpretation and application of the Agreement has now lasted for nearly two years. The Prime Minister's feeling is that there is no alternative to resolving these issues between us on an agreed basis, since air services between our two countries can only take place on terms which are acceptable to us both. The Prime Minister's strong wish is that officials of our two Governments should resume discussions on how this issue can be resolved and a more satisfactory framework established.

Yours ever,

Robin Butler

His Excellency The Honorable Charles H. Price II.

DG2ABK

CONFIDENTIAL

DG

OUTLINE OF MAIN UNITED KINGDOM ARGUMENTS

ANNEX TO THE BRITISH EMBASSY NOTE OF 6 MAY 1983

The informal consultations held in March and the formal consultations held in April revealed that an investigation is being carried out by a Grand Jury at the instigation of the Department of Justice into allegations that United Kingdom designated airlines held tariff discussions and entered into tariff agreements between 1977 and 1982. The nature of the investigation is such as to require the participation under compulsion of those airlines and entails potential criminal sanctions. In addition certain of the matters under investigation by the Grand Jury are the subject of an anti-trust civil action in the United States courts for penal damages.

Where the activities of airlines are authorised and regulated in accordance with an international agreement such as Bermuda 2, the domestic laws of a contracting party may not be used to constrain or regulate those activities, unless either this is expressly provided for or it is necessary in order to implement the Agreement or the laws can be applied in a manner which is not incompatible with the Agreement.

Article 11 (and Annex 2) and Article 12 of Bermuda 2 contain full, self-contained and exclusive schemes for the regulation of competition generally, and capacity and tariffs in particular. Together with the designation article and the route schedule, they are the core of any air services agreement. The unilateral application of incompatible domestic laws (including unilaterally determined enforcement measures) is a breach of the Agreement.

The plain words of Article 12(4) are intelligible and capable of application without any elaboration or need to resort to the travaux preparatoires. The terms employed are not consistent with United States anti-trust law under which tariff agreements are unlawful per se. The expression "tariff agreements" cannot include discussions or concerted practices. The reference to "tariff agreements ... concluded as a result of inter-carrier discussions" necessarily imports a freedom for the designated airlines to enter into such discussions without preconditions imposed by the domestic law of either contracting party. To require them to obtain anti-trust immunity under the Federal Aviation Act before entering into tariff discussions goes further than is legitimate under Article 12(4).

There are further indications that discussions or agreements between designated airlines on tariffs cannot be properly subjected to United States anti-trust law. Nowhere in Bermuda 2 is there any explicit, or even implicit, reference to such law: yet when Bermuda 2 envisages the application of domestic law it says so very specifically eg. the final sentence of Article 12(4), Article 4, Article 5 (1)(B) and Article 13(2). Moreover before 1980 there was no mechanism in United States law by which a non-United States airline could itself obtain either anti-trust immunity for tariff discussions or approval of a tariff agreement if the discussions took place or the Agreement was concluded outside an IATA traffic conference.

In deciding whether to approve a tariff agreement the aero-nautical authorities must necessarily apply the standards and criteria of Article 12(2) rather than the different and inconsistent ones of United States anti-trust law or the Federal Aviation Act.

Resort to the travaux preparatoires does not confirm the United States interpretation. The United Kingdom had

during the negotiation of Bermuda 2 proposed a provision expressly exempting tariff procedures from the anti-trust and restrictive practices legislation of the parties. This proposal was not agreed to: but nor was any provision which would have permitted the application of such legislation. Therefore, given the plain words of Article 12 and the object and purpose of the treaty, the non-adoption of that proposal cannot be construed as acceptance by the United Kingdom that United States anti-trust legislation can apply to tariff agreements.

If an airline is alleged not to have followed the procedure of Article 12(4), how to deal with that allegation should be the subject of consultations under Article 16 of the Agreement and is not a matter to be dealt with unilaterally by one of the contracting parties under its domestic law.

SLHAGH

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Foreign and Commonwealth Office

London SW1A 2AH

15 January, 1985

NBVT

CDP K9i

Dear Charles,

Prime Minister's Visit to China

You might be interested to see a copy of the despatch from our Charge d'Affaires at Peking on the Prime Minister's recent visit to China.

Yours,

P F Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street



CONFIDENTIAL

VISIT OF THE PRIME MINISTER TO CHINA

S U M M A R Y

1. Aims of the visit to sign the Joint Declaration on the question of Hong Kong and to demonstrate British and secure Chinese commitment to it; and to develop rapport with Chinese leaders and lay foundations for increased trade. (Paragraphs 2 - 4)

2. Exceptional turn-out for signature ceremony. Fulsome expressions of Chinese intention to honour agreement. Assurance that Hong Kong views would be solicited in drafting Basic Law. Prime Minister's emphasis on British commitment up to 1997.

(Paragraphs 5 and 6)

3. Discussion of other bilateral matters and East-West and Sino-Soviet relations in hectic programme of meetings with four most senior Chinese leaders.

(Paragraphs 7 - 9)

4. Major significance of, and publicity for, agreement in China. High standing of Prime Minister.

(Paragraph 10)

CONFIDENTIAL



BRITISH EMBASSY,
PEKING.

4 January 1985

The Rt Honourable
Sir Geoffrey Howe, Q.C., M.P.,
etc etc etc

VISIT OF THE PRIME MINISTER TO CHINA, 18-20 DECEMBER 1984

Sir

1. I have the honour to report that the Prime Minister, the Rt Hon Mrs Margaret Thatcher, F.R.S., M.P., accompanied by yourself and Lady Howe, visited China from 18-20 December 1984. Her programme and a list of her party are attached at Annexes A and B.

2. The Prime Minister's principal purpose in paying her visit was to sign the Joint Declaration on the Question of Hong Kong which had been initialled in Peking on 26 September, and by so doing to demonstrate British commitment to the full implementation of the agreement and to secure a similar degree of commitment from the Chinese side. In her talks with Chinese leaders, Mrs Thatcher further aimed to express our readiness to cooperate with the Chinese Government in putting the agreement into effect and thus to elicit a similar response from the Chinese; to obtain assurances that Hong Kong people would be fully consulted about the drafting of the Basic Law which will be the territory's constitutional instrument after 1997; and to reassure Chinese leaders that up to 1997 Hong Kong would continue to be administered effectively and prudently.

/3...



- 2 -

3. Hong Kong was at centre stage throughout the visit, but there were other objectives too. The Prime Minister wished to meet and develop personal rapport with as many Chinese leaders as possible, to lay the foundation for a marked increase in Britain's market share of Chinese imports, and to continue a dialogue with the Chinese leadership on international issues.

4. This added up to a lot of aims for a visit in which all substantive engagements took place on a single day, 19 December; but the Prime Minister achieved every one of them.

5. The signature ceremony was the centrepiece. On the Chinese side this was attended by three members of the Politburo's Standing Committee - Deng Xiaoping, Li Xiannian and Zhao Ziyang, the last of whom signed the Joint Declaration for the Chinese Government in his capacity of Premier. The level and depth of this attendance - we were told afterwards that no agreement between China and another country had ever been signed with three members of the Standing Committee present - emphatically underlined the importance which China attached to the agreement and her commitment to it. 101 of Hong Kong's most prominent citizens also attended as observers.

6. Chinese commitment to the agreement was voiced publicly by Premier Zhao at the signature ceremony when he spoke of China's and Britain's common interest in ensuring the full implementation of the Joint Declaration and of China's intention to cooperate with Britain in realising this goal. In talks with the Prime Minister, he added that it was a tradition of the Chinese people to act in good faith, that China always lived up to her international commitments and that the Chinese Government

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- 3 -

would prove its words by its deeds, all assurances which Mrs Thatcher was able to repeat in Hong Kong. Chairman Deng Xiaoping and Party General Secretary Hu Yaobang gave similar assurances. On the Basic Law, Zhao reaffirmed the terms of the Joint Declaration, stating that the law would embody the terms of the agreement. He also assured the Prime Minister that in the course of its drafting the views of the people of Hong Kong would be widely solicited. Mrs Thatcher for her part stressed that the maintenance of Hong Kong's stability and prosperity was a cardinal British aim in the years leading up to 1997 and that we would continue to administer the territory prudently and with foresight. When Deng met the Prime Minister he repeated none of the doubts about British intentions in Hong Kong between now and 1997 which he had voiced when he met you in April and July. This does not mean that he no longer harbours any misgivings. But repeated assurances of our commitment to the territory do seem to have prompted the Chinese not to play up this theme during Mrs Thatcher's visit.

7. In terms of meeting Chinese leaders the Prime Minister set a record for a foreign visitor: she held separate talks or was hosted at a meal by four members of the Politburo Standing Committee in one day. During her business-like talks with Zhao, she was able to inform him that Her Majesty The Queen was happy to accept in principle an invitation to visit China. Zhao confirmed that he would take up the Prime Minister's invitation to him to visit Britain, probably in June this year. The Prime Minister became the first senior British visitor to meet Party Leader Hu Yaobang and invited him also to visit Britain at a



- 4 -

suitable time. This meeting was useful not only in terms of personal relations with the Chinese leadership, but also in that it provided first hand confirmation of Hu's exuberance, extravagance and, frankly, unpredictability. The meeting with Deng Xiaoping went very smoothly. Deng, who was in buoyant and expansive form, was clearly determined that no note of controversy should ruffle the day of signature. The lunch hosted by President Li Xiannian was more of a formality, but also a relaxed and enjoyable occasion.

8. On commercial matters, Zhao stated in his banquet speech that China wished to see a steady and enduring expansion of economic and technological cooperation with Britain. It was agreed that a high-level trade delegation, led by Lord Young, should visit China in March this year and both Hu and Zhao stated that they would involve themselves personally with this. The Prime Minister spoke forcefully in support of British companies, particularly in the fields of oil exploration, coal mining, electricity generation and aerospace. Zhao praised British transfer of technology terms but urged more competitive prices.

9. Useful exchanges of view were held on East-West and Sino-Soviet relations. The Prime Minister briefed Deng and Zhao on her meeting with Gorbachev and they spoke on Chinese relations with the Soviet Union, stressing that no progress had been made towards removing the three political obstacles to the normalisation of relations (troops on the border, Afghanistan and Cambodia) although trade and cultural contacts were growing.

/10..



- 5 -

10. Among people in Britain and by the British media the signature of the Hong Kong Agreement was not treated as a major national event. But in China it really was, as Hu Yaobang remarked, a Red Letter day. The People's Daily devoted all of its first two pages on 20 December to the Prime Minister's visit and there was blanket coverage on television. The sense of national pride in the agreement felt by Chinese at every level is enormous. As Deng Xiaoping put it, an historical trauma has been healed and the shadow hanging over Sino-British relations lifted. Not only does this pride arise naturally with agreement on the recovery of a piece of Chinese territory. It is also pride among ordinary Chinese in the maturity displayed by their own government in advancing the concept of "one country, two systems". The prestige in which the Prime Minister is held personally is very high too. All the Chinese leaders whom she met referred to her far-sightedness and statesmanship. Among ordinary Chinese, who already admired her as a result of her leadership during the Falklands campaign, she is considered to have shown wisdom in agreeing to return Hong Kong to China, and great ability in securing the detailed terms that are a feature of the agreement. To give an example of popular sentiment, a Chinese cook employed in the household of a member of the Embassy told his master in mid-December that the Chinese people considered the three greatest world statesmen of all time to be Lenin, Zhou Enlai and Mrs Thatcher. An interesting compliment for the Prime Minister to remember her visit by.

/11..



- 6 -

/ 11. I enclose the British copy of the Agreement, signed by the Prime Minister and by Premier Zhao Ziyang.

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

I am, Sir,

Yours faithfully

P A B Thomson

Charge d'Affairs

VISIT BY PRIME MINISTER AND SECRETARY OF STATE: PROGRAMME

Tuesday 18 December

2020 Arrive Peking Airport
2110 Arrive at the Diaoyutai State Guesthouse
2130 Private dinner at Guesthouse

Wednesday 19 December

0900 Welcoming Ceremony at the Great Hall of the People
0915 Courtesy meeting with Premier Zhao Ziyang at the Great Hall of the People
0930 Talks with Premier Zhao Ziyang at the Great Hall of the People
1230 Meeting with President Li Xiannian at the Diaoyutai State Guesthouse
1245 Lunch with President Li Xiannian at the Diaoyutai State Guesthouse
1500 Meeting with CCP General Secretary Hu Yaobang at Zhongnanhai
1600 Meeting with Chairman Deng Xiaoping at the Great Hall of the People
1730 Signature Ceremony at the Great Hall of the People
1930 Welcoming banquet at the Great Hall of the People
2130 Presentation of Ferranti word processor to Premier Zhao Ziyang
2200 Meeting with British press at Residence

Thursday 20 December

0800 Farewell call by Premier Zhao Ziyang
0815 Leave the Diaoyutai State Guesthouse for Peking Airport
0900 Depart for Hong Kong

ANNEX B

OFFICIALS ACCOMPANYING THE PRIME MINISTER AND SECRETARY OF STATE

Sir P Cradock, GCMG, Deputy Under Secretary of State, FCO

Sir E Youde, GCMG, MBE, Governor of Hong Kong

Mr R E F Butler, Principal Private Secretary to the Prime Minister

Mr R J T McLaren, CMG, Assistant Under Secretary of State, FCO

Dr D C Wilson, Assistant Under Secretary of State, FCO

Mr C D Powell, Private Secretary to the Prime Minister

Mr B Ingham, Chief Press Secretary to the Prime Minister

Mr L V Appleyard, Principal Private Secretary to the
Secretary of State

Mr C J R Meyer, Head of News Department, FCO

Mr P F Ricketts, Assistant Private Secretary to the
Secretary of State

Mr I Murray, Press Secretary to the Prime Minister

UMELCO

Office of Unofficial Members of Executive and Legislative Councils
行政立法兩局非官守議員辦事處

Senior Unofficial Member Sir S.Y.Chung, CB,LLD,DS,PD,P

R18

14 January 1985

The Rt Hon Margaret Thatcher, MP
10 Downing Street
London, SW1A 2AL
England

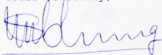
Dear Prime Minister,

At a dinner in the Government House in December last year when you were in Hong Kong, we talked about Chinese idioms and their English translation and equivalents. You indicated that you would wish to have a book handy for your reference and I undertook to locate one.

I now have pleasure in presenting to you herewith a copy of a new book titled "Chinese Idioms and their English Equivalents" by Professor Y Z Chen and Dr Spring Chen and hope that you will find it useful.

With best wishes for the New Year.

Yours sincerely,



S Y Chung

Enclosure



10 DOWNING STREET

FERB

Although the draft reply has been worked up by Knight & Brink some time over a week, it is still not entirely satisfactory.

(i) I find the third para unnecessarily abusive for a letter from you to Charles Price

(ii) it does not make point that Charles Price was forced to retract his statement.

AT

14/1

Pl. type the draft attached to Miss Nichols' letter for my signature.

R-B



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Andrew Turnbull Esq
Private Secretary
10 Downing Street
LONDON SW1

17th January 1985

Dear Andrew,

US ANTI-TRUST SUITS

Robin Butler wrote to Len Appleyard on 28 December enclosing a copy of a letter from Ambassador Price covering a point he made at the Camp David discussions on the current anti-trust suits.

I enclose the draft of a reply which the Prime Minister might send to Ambassador Price. It has been agreed at official level between ourselves and the Foreign Office.

I am copying this to Len Appleyard (Foreign & Commonwealth Office), Callum McCarthy (Trade & Industry), and Henry Steele (Attorney General's Office).

Yours,

Dinah

MISS D A NICHOLS
Private Secretary

CONFIDENTIAL

DRAFT LETTER FROM THE PRIME MINISTER'S PRIVATE SECRETARY

ADDRESSED TO: His Excellency
The Honourable Charles H. Price II

I have shown the Prime Minister

~~Thank you for your letter of 24 December 1984 regarding what you said at Camp David about the interpretation of the Bermuda 2 Agreement and in particular Article 12(4); and she was grateful for it.~~

You will know that the position of both Governments on these matters has been expounded at numerous meetings between us. ~~Our position was formally summarised in an Annex to a Note from the British Embassy in Washington to the Department of State on 6 May 1983, of which you may like to have a copy~~ *I am enclosing* ~~which formally summarises our position.~~ ✓

It is clear from these notes

~~The fact is that our two Governments are in disagreement on the legal issues: the present dispute as to the interpretation and application of the Agreement has now lasted for nearly two years. There is no alternative to resolving these issues between us on an agreed basis, since air services between our two countries can only take place on terms which are acceptable to us both. As you know the current situation is not acceptable to the United Kingdom but~~
The Prime Minister's feeling is that
The Prime Minister's strong wish is that officials of our two Governments should resume discussions on how this issue can be resolved and a more satisfactory framework put in place.

CONFIDENTIAL

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Handwritten text, possibly a date or reference number, mostly illegible.

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NOTE NO 63

Her Britannic Majesty's Embassy presents its compliments to the Department of State and has the honour to refer to the consultations between the Government of the United Kingdom and the Government of the United States, held at Washington on 26 and 27 April 1983, which considered the question whether and to what extent it is consistent with their respective rights and obligations under the Agreement between them concerning air services of 23 July 1977 ('Bermuda 2') for the provisions of United States anti-trust law to be applied to the activities of the designated airlines of the contracting parties. The consultations on this dispute were held at the request of the Government of the United Kingdom under Article 16 of Bermuda 2.

During these consultations the United Kingdom delegation gave reasons for its contention that the United States had not complied with certain of its obligations towards the United Kingdom under Bermuda 2. The United States delegation rejected this contention. Although both delegations gave their reasons at some length, at the end of the formal consultations the United States delegation stated that the consultations had not been sufficient to allow for an adequate examination of the points at issue and requested that the United Kingdom's arguments be presented in writing.

The United Kingdom delegation did not accept that the consultations were insufficient, nor did they consider that it was necessary

for their detailed case to be presented in writing. Nevertheless the Government of the United Kingdom are willing to give in outline once again their main arguments on the basis that it is without prejudice to their right to reformulate, modify or expand them as necessary at any future stage of the dispute. The arguments are set out in the Annex to this Note.

If, having reconsidered the arguments advanced during the informal consultations and the first round of formal consultations, and this Note and its Annex, the United States Government considers that a second round of formal consultations might resolve the dispute the Government of the United Kingdom is ready and willing to engage in them. In view of the urgency of the matter and of the fact that the Grand Jury investigation is still proceeding, however, the Government of the United Kingdom will regard themselves free to take such further steps as are open to them under Bermuda 2 to bring about a resolution of the dispute unless a second round of consultations is held within a reasonable period. Given the informal and formal consultations already held, it seems reasonable that any further round should be held and completed during the current month.

In its Note of 14 April 1983, and during the formal consultation the United States delegation expressed the view that the dispute is not one which arises under Bermuda 2. As their delegation said during the formal consultations, the Government of the United Kingdom categorically reject such a contention. The

United States Government has instigated a Grand Jury investigation into alleged breaches of its anti-trust laws by United States and United Kingdom airlines designated under Bermuda 2 in respect of certain activities of those airlines in exercise of their rights granted to them pursuant to that Agreement. The Government of the United Kingdom consider that, on a proper interpretation of Bermuda 2, such an investigation is incompatible with the rights and obligations of the contracting parties, in the light of the object and purpose of the Agreement. They consider that the United States is failing to comply with its obligations under Bermuda 2 by permitting its anti-trust laws to be applied in such a way as to found liability to an award of penal damages in respect of tariff arrangements between airlines which are in the view of the Government of the United Kingdom regulated exclusively by Bermuda 2. The United States disagrees with the United Kingdom Government's interpretation of Bermuda 2 on these matters and, in particular, over the true construction of Article 12. There is thus a dispute as to the interpretation and application of, or compliance with, Bermuda 2, which may be and has been, properly the subject of consultations under Article 16.

In the Embassy's Notes of 29 March and 13 April 1983 the Government of the United Kingdom expressed their expectation that the United States Government would, whilst consultations are pending, ensure that no further steps are taken with regard to the Grand Jury investigation. This expectation was expressed

again during the formal consultations. No further explanation for the refusal of the United States Government to accede to this request was, however, given. Once again, therefore, the Government of the United Kingdom fully reserve their rights and the rights of their airlines with respect to any damage, costs or expenses which they may incur as a result of such refusal, or otherwise.

The Embassy avails itself of this opportunity to renew the assurance of its highest consideration.



British Embassy
Washington DC

6 May 1983

slhagh

OUTLINE OF MAIN UNITED KINGDOM ARGUMENTS

The informal consultations held in March and the formal consultations held in April revealed that an investigation is being carried out by a Grand Jury at the instigation of the Department of Justice into allegations that United Kingdom designated airlines held tariff discussions and entered into tariff agreements between 1977 and 1982. The nature of the investigation is such as to require the participation under compulsion of those airlines and entails potential criminal sanctions. In addition certain of the matters under investigation by the Grand Jury are the subject of an anti-trust civil action in the United States courts for penal damages.

Where the activities of airlines are authorised and regulated in accordance with an international agreement such as Bermuda 2, the domestic laws of a contracting party may not be used to constrain or regulate those activities, unless either this is expressly provided for or it is necessary in order to implement the Agreement or the laws can be applied in a manner which is not incompatible with the Agreement.

Article 11 (and Annex 2) and Article 12 of Bermuda 2 contain full, self-contained and exclusive schemes for the regulation of competition generally, and capacity and tariffs in particular. Together with the designation article and the route schedule, they are the core of any air services agreement. The unilateral application of incompatible domestic laws (including unilateral determined enforcement measures) is a breach of the Agreement.

The plain words of Article 12(4) are intelligible and capable of application without any elaboration or need to resort to the travaux preparatoires. The terms employed are not consistent with United States anti-trust law under which tariff agreements are unlawful per se. The expression "tariff agreements" cannot include discussions or concerted practices. The reference to "tariff agreements... concluded as a result of inter-carrier discussions" necessarily imports a freedom for the designated airlines to enter into such discussions without preconditions imposed by the domestic law of either contracting party. To require them to obtain anti-trust immunity under the Federal Aviation Act before entering into tariff discussions goes further than is legitimate under Article 12(4).

There are further indications that discussions or agreements between designated airlines on tariffs cannot be properly subjected to United States anti-trust law. Nowhere in Bermuda 2 is there any explicit, or even implicit, reference to such law: yet when Bermuda 2 envisages the application of domestic law it says so very specifically eg the final sentence of Article 12(4), Article 4, Article 5 (1)(B) and Article 13(2). Moreover before 1980 there was no mechanism in United States law by which a non-United States airline could itself obtain either anti-trust immunity for tariff discussions or approval of a tariff agreement if the discussions took place or the Agreement was concluded outside an IATA traffic conference.

In deciding whether to approve a tariff agreement the aeronautical authorities must necessarily apply the standards and criteria of Article 12(2) rather than the different and inconsistent ones of United States anti-trust law or the Federal Aviation Act.

Resort to the travaux preparatoires does not confirm the United States interpretation, ~~what~~ The United Kingdom had during the negotiation of Bermuda 2 proposed a provision expressly exempting tariff procedures from the anti-trust and restrictive practices legislation of the parties. This proposal was not agreed to: but nor was any provision which would have permitted the application of such legislation. Therefore, given the plain words of Article 12 and the object and purpose of the treaty, the non-adoption of that proposal cannot be construed as acceptance by the United Kingdom that United States anti-trust legislation can apply to tariff agreements.

If an airline is alleged not to have followed the procedure of Article 12(4), how to deal with that allegation should be the subject of consultations under Article 16 of the Agreement and is not a matter to be dealt with unilaterally by one of the contracting parties under its domestic law.

MR. POWELL

You wanted to know the names of the RAF pilots during the various stages of the Prime Minister's recent visit to China, etc. These are:

Squadron Leader John H. Wolley, R.A.F.
London to Bahrain

Flight-Lieutenant Brian Johnston, R.A.F.
Bahrain to Honolulu

Squadron Leader P. I. A. Neil, R.A.F.
Honolulu to London

Billian

3 January 1984

c/PC

CC MASTER SET



(D/P) 3/1

British Embassy
PEKING

28 December 1984

Charles Powell Esq
Prime Minister's Office
No. 10
Downing Street
London SW1

Dear Charles

PRIME MINISTER'S VISIT TO PEKING: RECORDS

I enclose records of the Prime Minister's meetings with
Hu Yaobang, Deng Xiaoping and Zhao Ziyang.

*Yours
Peter Thomson*

P A B Thomson

- cc: L V Appleyard Esq, Private Office, FCO
- R J T McLaren Esq, Political Adviser, Hong Kong
- M E Elliott Esq, FED, FCO

CONFIDENTIAL

RECORD OF A MEETING BETWEEN
THE PRIME MINISTER

AND

HU YAOBANG, GENERAL SECRETARY OF THE CHINESE COMMUNIST PARTY

AT

ZHONGNANHAI, PEKING

ON

WEDNESDAY 19 DECEMBER AT 3.00 p.m.

Present:

The Rt Hon Margaret Thatcher, FRS, MP, Prime Minister

The Rt Hon Sir Geoffrey Howe, QC, MP, Secretary of State for
Foreign and Commonwealth Affairs

Sir Richard Evans, KCMG, H.M. Ambassador, Peking

Sir Percy Cradock, GCMG, Deputy Under Secretary of State, FCO

Sir Edward Youde, GCMG, MBE, Governor of Hong Kong

Mr R E T Butler, Principal Private Secretary to the Prime Minister

Dr D C Wilson, Assistant Under Secretary of State, FCO

Mr R J T McLaren, CMG, Assistant Under Secretary of State, FCO

Mr C D Powell, Private Secretary to the Prime Minister

Mr B Ingham, Chief Press Secretary to the Prime Minister

Mr L C Appleyard, Principal Private Secretary to the Secretary of State

Mr C J Meyer, Head of News Department, FCO

Mr P A B Thomson, Counsellor, British Embassy, Peking

Mr H L Davies, Commercial Counsellor, British Embassy, Peking

Mr W G Ehrman, First Secretary, British Embassy, Peking

Mr P F Ricketts, Private Secretary to the Secretary of State

Mr D G Blunt, First Secretary, British Embassy, Peking

Mr T W M Smith, Second Secretary, British Embassy, Peking

Miss A Batty, Attache, British Embassy, Peking

Mr Y P Cheng, Interpreter

HE Mr Hu Yaobang, General Secretary of the Chinese Communist Party

HE Mr Wu Xueqian, State Councillor and Foreign Minister

HE Mr Zhou Nan, Vice-Minister of Foreign Affairs

HE Mr Jia Shi, Vice-Minister of Foreign Economic Relations and Trade

HE Mr Chen Zhaoyuan, Chinese Ambassador at London

Mr Guo Fengmin, Director of the Western European Department of the
Foreign Ministry

Mr Tang Longbin, Director of the Protocol Department of the
Foreign Ministry

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Mr Ma Youzhen, Director of the Information Department of
the Foreign Ministry

Mr Shao Tianren, Legal Adviser to the Foreign Ministry

Mr Lu Ping, Adviser to the Foreign Ministry

Mr Ke Zaishuo, Adviser to the Foreign Ministry

Mr Luo Jiahuan, Counsellor of the Western European Department
of the Foreign Ministry

Mr Yue Junqing, Division Chief of the Western European Department
of the Foreign Ministry

Madame Zhang Youyun, Interpreter

Chinese notetakers

1. Hu Yaobang said it was a joyous occasion: a day to be remembered. The Prime Minister and Chairman Deng Xiaoping had laid a milestone for relations between Britain and China, which would always be remembered by people alive today and by generations to come. The Prime Minister remarked that there had been so much to do in the two years Chairman Deng had said were available she had never thought it could be completed. Hu Yaobang said the Prime Minister had displayed bravery and far-sightedness. The Prime Minister said the British side were very pleased that the people of Hong Kong had shown that they accepted the agreement.
2. Hu Yaobang then presented the Prime Minister with a concise edition in Chinese of the Encyclopaedia Britannica and a new English-Chinese dictionary, which was to express the growth in common language among the people of the two countries. The Prime Minister said she would treasure both gifts. Journalists left at this point and the meeting continued in private.
3. The Prime Minister said that it was a very historic day. She was very pleased that quite a considerable number of people from Hong Kong had been present at the welcoming ceremony and would also attend the signing ceremony. She was anxious to give them every reassurance that the agreement would be implemented in full by both Britain and China. Hu Yaobang said the Hong Kong people were witnesses. Both he and Premier Zhao Ziyang were very firm and strong supporters of the implementation of the agreement. The Prime Minister said that was very good to know. Hu Yaobang said that there was a Chinese proverb: "one hundred catties of gold may buy fame, but it needs one thousand catties of gold to secure a good reputation." He remarked that failure to implement the agreement would damage Chinese but not British credibility. The Prime Minister said she fully understood his meaning: it took a great deal to acquire a good reputation but far more to keep it. But both sides wished to maintain their good reputation. If by chance anything went wrong people would say that she herself had misjudged the matter and that must not be said of her any more than it must be said of Hu. The interests of the two sides were identical. Hu Yaobang agreed. The Prime Minister continued that she was sure the signature of the agreement would give the people of Hong Kong confidence to face the future. Assurances about their future that Hu, Premier Zhao and Chairman Deng had personally given had provided extra confidence. Hu Yaobang said the Prime Minister could rest assured that the Chinese side would do their best to increase confidence in Hong Kong year by year.

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4. Turning to economic cooperation between Britain and China, Hu Yaobang said he had checked the figures for last year on the volume of trade between China and Britain: Yuan 1.5 billion, which was one thirtieth or about 4% of China's total foreign trade. The Prime Minister said there was scope for expansion. Hu Yaobang agreed. The Prime Minister said Britain was hoping to send a trade delegation to China next March. She was sure both countries would make renewed efforts to increase trade. Britain would keep up to date with China's modernisation programme and plans so as to be able to pay attention to areas of special British expertise. Hu Yaobang said the most important areas for China were energy, transportation and new technologies. China planned to increase her volume of foreign trade by over 30% next year. Both he and Premier Zhao would be involved in the visit in March of the British trade delegation. Both Britain and China had their own strong points. The two sides should pursue the principle of equality and mutual benefit. So long as they did so the prospects for economic and trade relations were bright.

5. The Prime Minister asked if Hu could tell her something about domestic plans for China. Hu Yaobang said all was well in China. There were currently three main domestic tasks. Firstly, reform of the economy. Suggestions had been made in this context that China was abandoning socialism. China would never do so. But China had to embark on a road with Chinese characteristics. The Chinese were making efforts to blaze a new path that would lift China out of the state characterised by backward economic management, low productivity and a backward system of distribution. In the resolution that had been recently adopted at the Third Plenary Session of the Twelfth Central Committee it was stated that China would fulfil this task in the next five years. It was in fact likely to be fulfilled in the main in three years time. He did not expect great confusion would be created as a result. Some minor errors might be made but great attention would be paid to the task in order to avoid them, so that the momentum of economic development could be maintained and in the coming decade China would be able to double her national output. The Prime Minister remarked that it was a very ambitious target, but no doubt it could be reached. Chinese people were renowned for their resourcefulness, nevertheless no country had as many people as China, which was a very great problem in itself. Hu Yaobang said the Chinese people were working hard and single-mindedly towards modernisation. Secondly, China was making determined efforts to continue to pursue the policy of opening to the outside world. Thirdly, during the course of Party rectification,

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China would ensure that large numbers of young people were promoted to leading posts. Those promoted would have three qualities: youth; learning and determination to create a new situation in whatever they did. One of China's most difficult problems was that many elderly leading cadres who had taken part in the guerilla war against Chiang Kai-shek had not received much education.

6. The Prime Minister expressed understanding; good management was difficult to create. Only so much could be taught, the rest had to come from experience. Good management was the single most important requirement for industrial production. Hu Yaobang said that in science, technology and management, China should learn from the advanced countries of the world. They sincerely welcomed scientists, scholars and specialists to China. The Prime Minister invited Hu to visit Britain to look, particularly at science and technology, in which Britain was very inventive. Hu Yaobang thanked the Prime Minister for her kindness in inviting him. Premier Zhao was scheduled to visit Britain in 1985, but he too looked forward to making a visit, although his face was very red because he was only the General Secretary of the Chinese Communist Party. The Prime Minister said she was sure that if Hu did visit Britain he would be given a very warm welcome. Hu Yaobang said if he had the honour to visit Britain he would set himself three aims: to learn from the great British people; to learn from Britain's advanced science and technology; and to try his best to make his own contribution to enduring and friendly relations and cooperation between China and Britain.

7. Hu Yaobang asked the Prime Minister to convey his regards to Her Majesty the Queen and his respects to the great British people. The Prime Minister said she would certainly do this and thanked him for the warm welcome she had received. Hu Yaobang concluded that he hoped the Prime Minister, with her vitality, intelligence and wisdom, would make even greater contributions to British interests, to the maintenance of friendly relations and cooperation between the two countries and to the maintenance of world peace.

8. The meeting ended at 3.45 p.m.

BRITISH EMBASSY
PEKING

28 December 1984

CONFIDENTIAL

RECORD OF A MEETING BETWEEN
THE PRIME MINISTER
AND
CHAIRMAN DENG XIAOPING
AT
THE GREAT HALL OF THE PEOPLE, PEKING
ON
19 DECEMBER 1984, AT 4.00 P.M.

PRESENT:

The Rt Hon Margaret Thatcher FRS, MP, Prime Minister
The Rt Hon Sir Geoffrey Howe QC, MP, Secretary of State
for Foreign and Commonwealth Affairs
Sir Richard Evans KCMG, HM Ambassador, Peking
Sir Percy Cradock GCMG, Deputy Under Secretary of
State, FCO
Sir Edward Youde GCMG, MBE, Governor of Hong Kong
Mr F E R Butler, Principal Private Secretary to the
Prime Minister
Dr D C Wilson, Assistant Under Secretary of State, FCO
Mr R J T McLaren, CMG, Assistant Under Secretary of State,
FCO
Mr C D Powell, Private Secretary to the Prime Minister
Mr B Ingham, Chief Press Secretary to the Prime Minister
Mr L V Appleyard, Principal Private Secretary to the
Secretary of State
Mr C J Meyer, Head of News Department, FCO
Mr P A B Thomson, Counsellor, British Embassy, Peking
Mr H L Davies, Commercial Counsellor, British Embassy, Peking
Mr W G Ehrman, First Secretary, British Embassy, Peking
Mr P F Ricketts, Private Secretary to the Secretary of State
Miss A L Batty, Attache, British Embassy, Peking
Mr Y P Cheng, Interpreter

HE Mr Deng Xiaoping, Chairman of the Central Advisory Commission
of the Chinese Communist Party
HE Mr Ji Pengfei, State Councillor
HE Mr Wu Xueqian, State Councillor and Foreign Minister
HE Mr Zhou Nan, Vice-Minister of Foreign Affairs
HE Mr Jia Shi, Vice-Minister of Foreign Economic Relations
and Trade

HE Mr Chen Zhaoyuan, Chinese Ambassador at London
Mr Guo Fengmin, Director of the Western European Department
of the Foreign Ministry
Mr Tang Longbin, Director of the Protocol Department of
the Foreign Ministry
Mr Ma Youzhen, Director of the Information Department of
the Foreign Ministry
Mr Shao Tianren, Legal Adviser to the Foreign Ministry
Mr Lu Ping, Advisor to the Foreign Ministry
Mr Ke Zaishuo, Advisor to the Foreign Ministry
Mr Luo Jiahuan, Counsellor of the Western European Department
of the Foreign Ministry
Mr Yue Junqing, Division Chief of the Western European Department
of the Foreign Ministry
Madame Zhang Youyun, Interpreter
Chinese notetakers

HONG KONG

1. After an exchange of courtesies, Chairman Deng said that the achievement of the leaders of China and Britain was of historic importance. A failure to solve the Hong Kong question would have cast a shadow over the relations between the countries. There was now a very bright future.
2. The Prime Minister agreed. During the past two years of work we had taken people along with us and taken account of their needs. Chairman Deng had received many Hong Kong groups and they had been able personally to hear his assurances and to let him know of their wishes. Many Hong Kong people had visited London to see her. When she had last met members of the Executive and Legislative Councils they had asked her to convey their wish that Chairman Deng should still be alive in 1997 when the agreement was implemented. If people were taken along it made matters far easier to settle satisfactorily in the end. Chairman Deng said that he cherished the hope of visiting Hong Kong if he were still alive in 1997.
3. The Prime Minister said that the stroke of genius in the negotiations had been the concept of "one country, two systems". Deceptively simple, it had been the key that had unlocked the future. Chairman Deng said that if the concept was of far-reaching significance the credit should go to Marxist historical dialectics, or to "seeking truth from the facts". To solve the Hong Kong question peacefully an answer which satisfied China, Britain and the people in Hong Kong had had to be found. The imposition of socialism on the territory would have been easy but would not have been acceptable to Britain or to the people of Hong Kong. Nor, even if it had been acceptable, would it have preserved Hong Kong's prosperity. The same consideration applied to Taiwan. The concept of "one country, two systems" had in fact been devised originally to solve the Taiwan and not the Hong Kong question. It had flowed from Chairman Ye Jianying's nine point proposal in 1980 for Taiwan. Chinese leaders were deeply convinced that it could work and the two years of Sino-British talks appeared to testify to this. The next 63 years would prove the concept. Some people harboured doubts about whether China would honour the agreement. Chairman Deng said that he wished to inform the Prime Minister and the whole world that China had always honoured its commitments.
4. Some Japanese friends had asked why China had set a period of 50 years after 1997 for the duration of the agreement. The reason was that China hoped to approach the economic level of advanced countries by the end of that time. If China wanted to develop itself, it had to open to the outside world for the whole of that period. The maintenance of Hong Kong's stability and prosperity accorded with China's interest in modernising its economy. So the period for the agreement had

been set in the light of the needs of Chinese modernisation. In the first 50 years of the next century there was also a need for a stable Taiwan. China did not wish to go to war with Taiwan. If people understood the considerations behind China's policy they would not have misgivings that it would change. The possibility of change after the first 50 years of the next century was even less because by then economic exchanges with other countries would have resulted in China and other countries having come to depend upon each other.

5. The Prime Minister said that Chairman Deng's concept was a great design which she believed could be achieved. He had said that China deduced truth from facts. He must therefore know that the concept would work because capitalist Hong Kong worked very well now and it was not going to be changed after 1997. Our two countries had signed the agreement in the eyes of the world. She was sure that China would therefore honour the agreement. So would Britain. Nevertheless it was natural that in the face of change some people in Hong Kong harboured doubts. They needed to be reassured and it was helpful to be able to explain the reasons why Chinese policy would not change, as Chairman Deng had explained it. Up to 1997 Britain would administer Hong Kong prudently and with foresight and would pay particular importance to the work of the Joint Liaison Group so that the transition would be smooth.

6. Chairman Deng said that the one billion Chinese on the mainland would pursue socialism firmly. If the people of Taiwan who numbered somewhat over 10 million and the 5 million people of Hong Kong practiced capitalism this would not affect the socialist orientation of the bulk of the country. Indeed the practice of capitalism in some small areas would benefit socialist policy. The policy of opening to the outside world would help China's socialist policy to grow in strength.

7. The Prime Minister said that she believed that the agreement would be honoured, that the concept of "one country, two systems" would work and that the 50 year economic plan for China would also work, since all would be of benefit to China.

INTERNATIONAL ISSUES

8. After discussion on Hong Kong, the Prime Minister asked Chairman Deng for his views on Sino-Soviet relations and on the recent Soviet-US decision to resume arms control talks.
9. Chairman Deng said that China hoped to see progress at the Soviet-US talks. He asked the Prime Minister to persuade President Reagan not to develop weapons in outer space as that would mean escalation in the arms race and an even more tense international situation. Of course China understood that the intention of the US in developing space weapons was to force the Soviet Union to make concessions on nuclear missiles. But space weapons should nevertheless not be developed. Throughout the 1970s and the first two years of the 1980s China's view had been that the danger of another world war existed. Now this view had changed somewhat because the forces for peace were growing fast. The British Government and the Prime Minister had exerted effective efforts in this respect. China was all for breaking the existing Soviet-American deadlock. She was making efforts to increase her own contacts with the Soviet Union. But China's situation was different from Britain's. China was faced with a direct Soviet threat. She had therefore consistently tried to normalise relations by removing the "three obstacles" (Soviet troops on her border, Afghanistan and Cambodia). Up to now, the Soviet Union had refused to remove even one, so there was no normalisation of Sino-Soviet relations to speak of at present. Some development of economic and cultural relations had taken place and contacts of this kind could serve the interests of peace and detente. Confrontation was not the way out.
10. The Prime Minister said that Chairman Deng's views accorded in many respects with hers. Some people, but not herself, believed that wars were caused by the existence of arms. The real danger however was not when two countries were strong enough to deter attack but when one was stronger and possessed territorial ambitions and the other was weak. Britain would like security at a lower level of weaponry. But this had to be balanced security. We had only deployed Cruise and Pershing in Europe because SS20s were targetted on us. If the Soviet Union was to destroy some SS20s in the period over which US missiles were to be deployed it would be possible to halt their deployment. We had to watch the Soviet Union closely however to ensure that she did not simply move SS20s beyond the Urals, because that would not be real disarmament. There were two other sources of imbalance which had to be dealt with in disarmament talks: first, the Soviet Union possessed enormous stocks of chemical weapons and, secondly, the Soviet Union had an anti-satellite satellite capability. It was only when the Americans had shown that they could develop an even more sophisticated capability in this second area that the Soviet Union had been persuaded to return to the negotiating table.
11. Chairman Deng asked for the Prime Minister's view of Mr Gorbachev. The Prime Minister said that she had enjoyed

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meeting him and felt that she could do business with him. The Soviet Union continued to state that the US was not sincere in wanting disarmament. But she believed that President Reagan wanted arms reduction to be one of the major achievements of his second term in office. For that to be achieved trust was necessary. Chairman Deng enquired whether the Prime Minister had asked Mr Gorbachev whether the Soviet Union was sincere in wanting to disarm. The Prime Minister said that she had drawn her own conclusions. The Russians did not have the right to call the West insincere with Soviet troops continuing to occupy Afghanistan. But it was in Soviet economic interests to reduce the burden of armaments.

12. Chairman Deng asked the Prime Minister to take with her his sincere regards to President Reagan and his congratulations on his re-election. He asked the Prime Minister to convey his hope that in President Reagan's second term China and the US would cooperate in solving the question of Taiwan. If the US and President Reagan thought the concept of "one country, two systems" was desirable, there was much that they could do in this respect. The Prime Minister said that she would certainly convey this message. The US had welcomed the Hong Kong agreement.

13. The meeting concluded at 5.15pm.

BRITISH EMBASSY

PEKING

28 December 1984

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RECORD OF A MEETING BETWEEN
THE PRIME MINISTER
AND
PREMIER ZHAO ZIYANG
AT
THE GREAT HALL OF THE PEOPLE, PEKING
ON
19 DECEMBER, 1984, AT 9.35 A.M.

PRESENT:

The Rt Hon Margaret Thatcher, FRS, MP, Prime Minister
The Rt Hon Sir Geoffrey Howe, QC, MP, Secretary of State for
Foreign and Commonwealth Affairs
Sir Richard Evans, KCMG, H.M. Ambassador, Peking
Sir Percy Cradock, GCMG, Deputy Under Secretary of State, FCO
Sir Edward Youde, GCMG, MBE, Governor of Hong Kong
Mr F E R Butler, Principal Private Secretary to the Prime Minister
Dr D C Wilson, Assistant Under Secretary of State, FCO
Mr R J T McLaren, CMG, Assistant Under Secretary of State, FCO
Mr C D Powell, Private Secretary to the Prime Minister
Mr B Ingham, Chief Press Secretary to the Prime Minister
Mr L V Appleyard, Principal Private Secretary to the Secretary of State
Mr C J Meyer, Head of News Department, FCO
Mr P A B Thomson, Counsellor, British Embassy, Peking
Mr H L Davies, Commercial Counsellor, British Embassy, Peking
Mr W G Ehrman, First Secretary, British Embassy, Peking
Mr P F Ricketts, Private Secretary to the Secretary of State
Mr D G Blunt, First Secretary, British Embassy, Peking
Mr T W M Smith, Second Secretary, British Embassy, Peking
Mrs G T Ellis, Attache, British Embassy, Peking
Mr Y P Cheng, Interpreter

HE Mr Zhao Ziyang, Premier of the State Council
HE Mr Ji Pengfei, State Councillor
HE Mr Wu Xueqian, State Councillor and Foreign Minister
HE Mr Zhou Nan, Vice-Minister of Foreign Affairs
HE Mr Jia Shi, Vice-Minister of Foreign Economic Relations and Trade
HE Mr Chen Zhaoyuan, Chinese Ambassador at London
Mr Guo Fengmin, Director of the Western European Department of
the Foreign Ministry
Mr Tang Longbin, Director of the Protocol Department of the
Foreign Ministry

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Mr Ma Youzhen, Director of the Information Department of the
Foreign Ministry

Mr Shao Tianren, Legal Adviser to the Foreign Ministry

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Mr Ke Zaishuo, Adviser to the Foreign Ministry

Mr Luo Jiahuan, Counsellor of the Western European Department
of the Foreign Ministry

Mr Yue Junqing, Division Chief of the Western European
Department of the Foreign Ministry

Madame Zhang Youyun, Interpreter

Chinese notetakers

HONG KONG

1. After an exchange of courtesies, the Prime Minister said that when she had come to Peking two years ago Britain and China had embarked upon a great adventure. She had not known quite how it would turn out and had indeed wondered whether work could be completed within the time limit of two years set by Chairman Deng Xiaoping and Premier Zhao. In the event, had a time limit not been set, the two sides might not have given the subject the concentration which it had required and warranted.
2. The Prime Minister continued that she could not over-emphasise the importance which we attached to the agreement: it was for that reason that she had been so pleased when it was suggested that she and Premier Zhao should sign it on behalf of their respective governments. The agreement fully met the interests of both countries and laid a foundation for the people of Hong Kong to build an even more flourishing community than they already possessed. The friendly relations between Britain and China had enabled the two countries to achieve the agreement; the fact of the agreement now created the basis for greater cooperation and even more friendly relations between the two countries.
3. The Prime Minister said that she would like to make three points about the agreement. First, the government which she led was committed to implementing the Joint Declaration in every respect. It would be both its pride and duty to do so. We appreciated the very clear and categorical statements that Chairman Deng and Premier Zhao had made to the same effect. Those statements had contributed to the excellent reception which the agreement had received both from the international community and in Hong Kong. Hong Kong people had told her of Premier Zhao's statement to them pledging total commitment to the fulfilment of the agreement; they had found that very reassuring indeed and were most grateful for it. Britain was of course committed to working very closely with China to put the agreement into effect.
4. Secondly, we were very much aware that a task of particular importance would be the drafting of the Basic Law. A considerable part of the substance of that law was indicated in the agreement, but Premier Zhao would be aware that the people of Hong Kong were naturally concerned about its drafting. The Prime Minister said that she had greatly appreciated the Premier's statement to a Hong Kong delegation that when the time came to draft the Basic Law, the Chinese Government would "solicit opinion from a wide range of people in Hong Kong". This would be extremely important, both for the maintenance of confidence and also to ensure that the Basic Law would be right for the capitalist system, in accordance with Chairman Deng Xiaoping's concept of "one country, two systems". The Hong Kong people possessed a good deal of expertise on the capitalist system and would wish to indicate certain things which would help make the Basic Law totally consistent with it. The "one country, two systems" concept

would have to be embodied in a form which would work in Hong Kong's courts. The Basic Law and Hong Kong's legal system had to be compatible. The Prime Minister underlined the great importance of the drafting for also ensuring that the transition in 1997 would be, as we wanted it to be, totally smooth.

5. Thirdly, the Prime Minister assured Premier Zhao that preserving Hong Kong's stability and prosperity during the remaining years of British administration would be a principal British aim. The Hong Kong Government was well aware of the necessity of this. She could assure the Premier that financial management in the territory would remain as prudent and cautious in the future as it had been in the past. Hong Kong already exercised full control over its budget and over the exchange fund, as it would continue to do after 1997. Land leases would be dealt with in accordance with the Joint Declaration. The Prime Minister said that she wished to assure the Chinese Government again that Britain derived no direct revenue from Hong Kong. Nor would she derive any in the future.

6. The Prime Minister said that it was important not just that we should act in the manner she had outlined but that we be seen to do so in the eyes of the world. The British Government had been very pleased at the statements which the international community had made about the agreement. They had been most helpful. The US, Japan, Canada, Australia - all countries of great importance - had expressed their pleasure in the agreement and their confidence in Hong Kong's future.

7. The Prime Minister said that she wished to add one final point. The Chinese Government would be aware of proposals for constitutional development in Hong Kong. We were anxious to give the people the experience which they needed to run their own administration after 1997 to a greater extent than they did now. We would go steadily and surely. It was important to build securely, brick by brick. We would move forward in very close consultation with the people of Hong Kong in order to carry them with us. This would ensure the smoothest possible transition.

8. The Prime Minister concluded by expressing appreciation for the detailed consideration given by Zhou Nan, under the watchful eye of Wu Xueqian, to the agreement, and for the efforts of all the Chinese officials who had so ably supported him.

9. Premier Zhao thanked the Prime Minister for her comments on the agreement. Most of the views which she had expressed were shared by the Chinese Government. It was not improper to describe the conclusion of the agreement as a great event in contemporary world history. It had not only successfully solved the question of China's resumption of the exercise of sovereignty over Hong Kong, but it was also conducive to the maintenance of the territory's long-term stability and prosperity and to peace in Asia and the world as a whole. It had opened a new chapter in the history of Sino-British cooperation and friendship. It had also provided fresh experience for the resolution of issues left over from the past.

10. The agreement, as the Prime Minister had pointed out, fully conformed with the interests of the entire Chinese people, including the compatriots of Hong Kong, as well as with the interests of the British people. On behalf of the Chinese Government, Premier Zhao expressed his appreciation and thanks to the Prime Minister for the vision and statesmanship which she had displayed and which had so signally contributed to the successful conclusion of the agreement. He also expressed his thanks to Sir Geoffrey Howe who had visited China at two crucial moments during the talks, giving fresh impetus to them on each occasion. Credit should also be given too to the two government delegations, headed respectively by Wu Xueqian and Sir Geoffrey Howe.

11. Now the task was to implement the agreement in every respect. China was ready to do so. Premier Zhao was sure that Britain was also ready to do so. The concept of "one country, two systems" was a policy upon which the Chinese Government had settled after very careful consideration. It was not a measure of expediency. Recently the Sixth National People's Congress (NPC) had held the 8th session of its Standing Committee which, on 14 November, had endorsed the agreement. It had at the same time decided that, after the formal signing, the agreement would be submitted to the Third Plenary Session of the NPC which would be held in the first half of 1985. It was a tradition of the Chinese nation to act in good faith. China always lived up to her international commitments. Even during the years of domestic turmoil she had lived up to them. She had a good historical record in this respect. The agreement reached on Hong Kong was such a good agreement that no one wanted to alter or change it. The Chinese people supported it, the British people supported it, and so did the people of Hong Kong. The agreement had also received a very positive response from the international community. That said, there were a handful of people in the world who harboured doubts about it. They feared there might be some change in the policies now pursued by the Chinese Government. There were no grounds for such doubts. They were unnecessary. China would prove her words by her deeds.

12. Now a transitional period of 12½ years lay ahead. China was concerned about this period. If everything passed smoothly and if the Hong Kong economy prospered, a solid foundation would be laid for the 50 years after 1997. It was the shared desire of China and Britain to maintain the stability and prosperity of Hong Kong during the transitional period in order to ensure a smooth transfer of Government in 1997. However, sometimes there could be a gap between a subjective wish and an objective reality. Measures were therefore called for to ensure that the subjective wish would translate into the objective reality. As a Chinese proverb put it: "If preparations are made, troubles may be averted. Without preparations there will be troubles". In the past, on a number of occasions, the Chinese had let their British friends know some of their worries about the possibility of disturbances during the transitional period. They hoped the

British side would take preventative measures to avert the possible occurrence of troubles. It was very important for the two sides to enhance their mutual trust and to intensify their cooperation.

13. Premier Zhao referred to the Prime Minister's expression of concern about the drafting of the Basic Law. For their part, the Chinese would make efforts to expedite its drafting. It should give expression to the agreement which had been reached and should be widely welcomed by the people of Hong Kong. In accordance with the Chinese Constitution, the NPC first had to authorise the establishment of a Hong Kong Special Administrative Region. Then a Basic Law drafting committee would be set up. These measures would be taken by the Third Session of the Sixth NPC. The drafting committee would then start its work as soon as possible. The committee's composition and working procedures were matters for the Standing Committee of the NPC, but the Prime Minister could rest assured that in the course of drafting the views of the people of Hong Kong would be solicited on a wide basis. The Basic Law would be promulgated no later than 1990.

14. Turning to questions of constitutional development in Hong Kong, which the Prime Minister had touched upon, Premier Zhao said that the Basic Law would define the government structure, the form of legislature and the method of selection of the Chief Executive of the future Special Administrative Region. The Chinese Government was not prepared to make any comment on constitutional development during the transitional period. In principle, like us, they wanted to see more and more Hong Kong people working in Government departments in Hong Kong and playing an even greater role than hitherto. But any measures to this end should not adversely affect the stability and prosperity of Hong Kong or the smooth transfer of government in 1997. He said that he was sure the British Government was well aware of these Chinese concerns and would take them fully into consideration.

15. The Prime Minister thanked Premier Zhao for his remarks. She wished to comment on one or two points. The first was on implementation. Could she repeat Premier Zhao's assurances to the people of Hong Kong? They were facing what for them was a great change. People were always a little bit fearful of change. They needed constant reassurance. Premier Zhao said that he would welcome it if the Prime Minister were to repeat his assurances.

16. The Prime Minister said that she agreed with Premier Zhao that if there were preparations then troubles would be averted. There was a similar saying in Britain: "Be prepared". Premier Zhao had been wise to mention this point because undoubtedly there would be some troubles (she would be very surprised if there were no troubles) during the next 12½ years. It would be absolutely vital that we stay totally calm and decisive and that we remain in consultation through the Joint Liaison Group. She had always found that calmness and knowing what to do was critical in any period of trouble, as was staying in close touch. If we were prepared for the fact that there might be trouble then we would be able to handle it well.

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17. Her third comment related to the assurances given by Premier Zhao that in the course of drafting the Basic Law the views of the people of Hong Kong would be solicited on a wide basis. Could she also repeat this assurance in Hong Kong? Premier Zhao said that she could.

18. The Prime Minister said that the House of Commons had approved the agreement on 5 December and the House of Lords on 10 December. We were pledged to secure ratification by 30 June 1985.

19. Premier Zhao said that a satisfactory agreement on the question of Hong Kong had been reached by the two sides through showing mutual trust, through friendly cooperation and through setting store by their respective countries' greater interests. If work continued in the same spirit, China and Britain would succeed in fully implementing the agreement.

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BILATERAL ISSUES

20. The Prime Minister said that Chairman Deng Xiaoping and Premier Zhao had invited Her Majesty The Queen to consider paying a visit to China. The Queen was very happy to accept in principle. Her visits were already arranged for 1985, but she had reserved the second half of 1986 for a visit and was looking forward to it very much indeed. Premier Zhao said that China eagerly looked forward to the visit to be paid by Her Majesty in the second half of 1986. He suggested September as an ideal month to visit. The Prime Minister indicated that The Queen usually spent September in Scotland. She suggested, and Premier Zhao agreed, that dates be further discussed in consultation with Buckingham Palace.

21. The Prime Minister said that she herself would be delighted to welcome Premier Zhao to Britain in 1985, as early as he wished to come. She understood that he might be considering visiting Europe in June. Premier Zhao said that he looked forward to visiting Britain in June.

22. The Prime Minister said that she very much welcomed Premier Zhao's expressed wish that trade should grow faster. Britain carefully studied China's plans for the modernisation of those industries in which Britain possessed a special expertise. The Prime Minister proposed that an official government trade delegation, under the leadership of Lord Young, should visit China in early 1985 to hold detailed discussions on how to expand Sino-British trade. Premier Zhao said that he would warmly welcome this delegation. March would be the best time as it would allow for the visit to be well prepared and would follow the Spring Festival Holiday. The Prime Minister agreed. The visit must go well. Lord Young would bring with him a party of very high level British businessmen.

23. The Prime Minister said that she was very pleased that work in developing China's offshore oil and gas was going well. BP were participating in this and were prepared to do further work in the South China Sea. British oil companies probably possessed more expertise than any others in exploration and production work in harsh weather areas. Britain also possessed great expertise in the mining of coal. We possessed advanced mining equipment and our manufacturers were already in contact with China.

24. The Prime Minister said that progress was being made towards the establishment of the joint venture company for the Guangdong nuclear project. It was a very exciting project which the British Government wished well. We had done something about credit for it, making the best premium terms available. Premier Zhao said that the nuclear project joint venture would be not only the largest China/UK joint venture but also the largest between China and any foreign country since inception of China's opening to the outside world. He hoped that both sides would cooperate to make it successful. GEC would be providing the generating equipment. Since this would be GEC's first experience in manufacturing this type of generator, the Chinese hoped that the prices set would take account of this fact. Premier Zhao also

expressed the hope that the British side would set a limit on price escalation and would help over the OECD consensus rate. In sum, he was asking that Britain should give favourable terms. The Prime Minister pointed out that GEC had great experience in building generators of high quality, even if they had not made them of this particular size. She was fully confident of GEC's ability. As to the point about price, she would pass this on to Lord Weinstock. She would also pass on to those concerned the point about price escalation. She commented that one factor in price escalation was inflation, and this was the responsibility of governments to control. The British Government was playing its part in this respect.

25. On aerospace, the Prime Minister welcomed the news of the signature of a memorandum of understanding under which China intends to buy five Airbus 310. It was also welcome that a memorandum of understanding had been signed for fifteen 36-seater Short Brothers aircraft. The Prime Minister went on strongly to urge the Chinese Government to buy the BAE 146, referring to the successful demonstration tour in July and to the long period of negotiations. She listed the airlines which had already ordered the aircraft and referred to BAE's long relationship with CAAC. Premier Zhao said that it was true that CAAC would be buying many aircraft. He would convey what the Prime Minister had said about the BAE 146 and thought that CAAC would take this into positive consideration.

26. More generally, Premier Zhao thanked the Prime Minister for her positive observations on political and economic bilateral relations. China had always attached importance to cooperation in the technological and economic field. In recent years a number of Sino-British agreements had been signed which had opened up new vistas for development of these relations. China had a number of times expressed the hope that the percentage of her foreign trade occupied by Western Europe would increase. Now a satisfactory agreement on Hong Kong had ushered in a new era for friendly Sino-British cooperation. One aspect of this should be an increase in economic and technological interchange. It was China's policy to increase trade with Britain, but it was for Britain to enhance the competitiveness of her products. China took considerations of quality, price and transfer of technology terms into account in deciding on which products she should buy. She did not consider price alone. The attitude of Western European countries, including Britain, to transfer of technology was more liberal than that adopted by the US and Japan. Premier Zhao agreed that areas for Sino-British economic cooperation included offshore oil, where British companies had much expertise, coal, where not only British equipment but also British design and management techniques were advanced (Premier Zhao mentioned that he had been very impressed with British design for the Jining No 2 Coal Project in Shangdong), energy saving equipment and aircraft.

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- 8 -

27. On culture, Premier Zhao thanked the Prime Minister for increasing the number of scholarships for Chinese students in Britain. He hoped that this trend would continue. The Prime Minister agreed that this was a very good scheme and that it was working well. She remarked on the success of the British Council's language training schemes in Peking and mentioned that she was pleased with the sale of a number of good BBC TV programmes to China.

INTERNATIONAL ISSUES

28. Turning to international issues, the Prime Minister first commented on East-West relations. A number of factors had recently combined to cause the Soviet Union and the United States both to consider the resumption of negotiations on arms control. The chances of results were better than in the last two or three years. The prospect of the development of a new generation of weapons in outer space had been instrumental in bringing about the resumption of talks. We recognised that each country, including the Soviet Union, had to feel secure within its own borders and in its own way of life. For that, a balance of forces was necessary. The choice was between a balance at a high level of armaments or reaching agreement which could secure a balance at lower levels. Any such agreement had to be verifiable. Because the cost of moving to the next generation of weapons was so high, it was right to seek balance at lower levels. It was an opportunity that must not be missed, although a great deal of detailed and complex negotiations on all types of weapons and forces was necessary.

29. The Prime Minister said that she and Gorbachev, during their recent discussion, had agreed that neither side should look at the other through rose-tinted spectacles. Each looked from the view-point of two very different systems. Nevertheless, two views were held in common:

- (a) there must never be another major world conflict; and
- (b) there was an urgency about seeking arms control agreements.

30. Premier Zhao said in reply that China understood why a number of Western European countries had agreed to INF deployment to offset Soviet nuclear superiority in Europe. But the escalating arms race, particularly in nuclear weapons, was making the situation in Europe and the whole world even more tense, which was a matter of concern to people throughout the world and also to the Chinese Government. China hoped to see relaxation of tension between the two sides and was glad to see recently more contact and an improvement in relations between countries of East and West Europe.

31. China welcomed the agreement between the Soviet Union and the United States to resume arms control talks in January and hoped this would lead to a relaxation of tension and genuine disarmament. Nevertheless, the process would clearly be a difficult one. It seemed that it represented merely a change of tactics by the two superpowers - neither had in fact abandoned its intention of seeking military superiority. Zhao hoped that countries close to the United States, particularly Britain, would urge the US to abandon efforts to seek such superiority. He had recently told the visiting Norwegian Premier that although the Soviet Union faced economic difficulties in sustaining military expenditure, nevertheless the Soviet people would be willing to make sacrifices if the Soviet Union felt insecure as

a result of American failure to show restraint. China therefore hoped the United States would show restraint in INF deployment and would make efforts to reach agreement with the Soviet Union.

32. The Prime Minister pointed out that the superpowers were fundamentally different. The Soviet brand of communism, unlike any other political system, had world domination as its objective, which it sought through the threat posed by the great forces at its command, through active subversion and through the use of proxy forces such as the Cubans. The United States on the other hand used its strength solely for defence. Despite having for years had a total monopoly on nuclear weapons, the United States had at no stage used that power to extend its territory.

33. She continued that nuclear weapons, by their horrific power, had provided a kind of security that did not exist before, provided no nation obtained a means to knock out another's nuclear weapons. The current escalation was because each side felt that the other might first develop such a capacity and so upset the balance. The Prime Minister said one of her tasks was to explain to the Soviet Union that the United States was not seeking superiority but that balance could be upset if one side got so far ahead that the other felt insecure. Another task was to convince the Soviet Union that the West was sincere in wanting genuine disarmament. This could not be achieved without other measures to relax tension and build confidence. The Prime Minister concluded by emphasising that world security would not be helped by an agreement which merely resulted in the relocation of existing Soviet nuclear weapons.

34. Premier Zhao replied that China's views on the nature of the Soviet knion were identical to ours. He had made his point about the escalation of the arms race against the background of a new posture on the part of both the Soviet Union and the United States. In the 70s it had been the Soviet Union that was increasing its armaments, but now the situation was different, particularly after the United States deployment of the first INF in Europe. It was in that context that he had said the United States should show restraint. He asked the Prime Minister to convey his greetings and regards to President Reagan and to say that China sincerely hoped to see the development of healthy Sino-US relations on an enduring and steady basis and hoped that in the President's second term there would be further development of existing relations on the basis of the three joint communiques.

35. On Sino-Soviet relations Premier Zhao said that the situation was unchanged. Progress depended on the removal of the three obstacles. No progress had been made in this respect either at the Foreign Ministers' meeting at the UN or at the most recent round of normalisation talks. But exchanges in the economic, technological and cultural fields had increased

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- 11 -

and would continue to increase. The forthcoming visit of Arkhipov would be concerned mainly with economic and trade matters, for which Arkhipov was responsible. Premier Zhao did not expect the three obstacles or the normalisation of relations would be discussed during the visit but if they were, no progress was expected.

The meeting concluded at 12.15 p.m.

BRITISH EMBASSY
PEKING

28 December 1984

CONFIDENTIAL

3 JAN 1985

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10 DOWNING STREET

From the Private Secretary

28 December 1984

Thank you for your letter of 27 December about briefing following the Prime Minister's visit to Washington. As you know, the Prime Minister was content with most of these proposals. On Ireland, however, she would be grateful if the briefing could take the form of the following:

"The Prime Minister has briefed the President on discussions between herself and the Taoiseach and reassured the President that further talks would take place in the early months of 1985".

No doubt you will take this into account.

Timothy Flesher

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

RESTRICTED



10 DOWNING STREET

PRIME MINISTER

The office would be grateful to know if you agree the last paragraph of this letter.

Vanessa

Vanessa

27 December 1984



27 December 1984

Dear Tim,

Also must know of Middle East discussion with President re.
Prime Minister

The Prime Minister's Visit to Washington: 21-22 December

There is naturally much interest among our Community Partners and other allies and close friendly governments in the Prime Minister's meetings with President Reagan and Vice-President Bush. Sir Oliver Wright has given a short briefing to Community Ambassadors in Washington and to the Spanish and Portuguese Ambassadors; and has given all of them copies of the speaking note on SDI which the Prime Minister used at her press conference at Andrews Air Force Base on 22 December.

In response to requests for briefings, we would propose to say to the Canadians, the Australians, the New Zealanders, non-Community members of NATO and the Japanese that, as expected, a large part of the Prime Minister's discussion was taken up with arms control, particularly the strategic defence initiative. We would make available to those countries the text of the SDI public statement. We would go no further than this statement in substance, but would draw on material in the transcript of the Prime Minister's press conference, should further elucidation of detail prove necessary.

On East/West relations we would say that the Prime Minister gave President Reagan a full account of her meeting with Mr Gorbachev and also told him about her visit to China. We would say that the Prime Minister and the President had also exchanged views briefly on a number of regional subjects including the Middle East, Central America and the Ethiopian situation. Both were taking a close interest in the problems of the famine.

On other issues we would say:

~~the President and the Prime Minister had discussed Ireland, on which the Prime Minister had reassured the President that the British and Irish Governments were in step; they had also exchanged views on the Laker Airline question;~~

briefed the

President (1) on other dimensions between the two heads of state and President that further talks would take place in the early months of 1985

/(11)

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early months of 1985



- (ii) the Prime Minister had had a shorter meeting with with Mr Bush over breakfast at which she had, among other things, told him about her visit to China in which he was particularly interested.

I would be grateful for confirmation that you would be content for us to brief the countries mentioned above on the lines indicated.

Yr. serv,
Peter Ricketts

(P F Ricketts)
Private Secretary

Tim Flesher Esq
10 Downing Street

CF: to keep track of X p. 2
2



Sub
31/12

10 DOWNING STREET

BF 7/1

PRIME MINISTER

It seems from the attached that your briefing on Laker was not deficient and that Ambassador Price was wrong in saying that Article 12.4 of Bermuda 2 referred specifically to the anti-trust laws.

X ||| I have asked for advice on whether we should take advantage of his partial withdrawal to send back a statement of our case.

FR.R.B.

ms

re: US Ambr to FERA 24/12/84

28 December 1984



Foreign and Commonwealth Office

London SW1A 2AH

27 December 1984

Dear Tim,

The Prime Minister's Visit to Washington: 21-22 December

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- (i) the President and the Prime Minister had discussed Ireland, on which the Prime Minister had reassured the President that the British and Irish Governments were in step. They had also exchanged views on the Laker Airline question;

/(ii)



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I would be grateful for confirmation that you would be content for us to brief the countries mentioned above on the lines indicated.

*y
en ew,*

Peter Ricketts

(P F Ricketts)
Private Secretary

Tim Flesher Esq
10 Downing Street

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T 211A/84 PM to US President dated
24 December 1984

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Use the card for one piece/item number only

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EMBASSY OF THE UNITED STATES OF AMERICA
LONDON

December 24, 1984

Mr. F. E. R. Butler
Principal Private Secretary
Prime Minister's Office
10 Downing Street
London S.W.1.

Dear Robin:

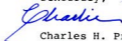
In our discussions on civil aviation at Camp David, I mentioned that Article 12(4) of the Bermuda II Agreement specifically referred to US antitrust laws. On further checking, I find that there is no direct reference to antitrust legislation in the article itself.

However, the Bermuda II Agreement does not contain language which creates an immunity from US antitrust laws, and both the negotiating history and subsequent conduct under the agreement indicate very clearly that no such immunity was intended by the United States. Article 12(4) of Bermuda II requires American and British carriers to submit any agreements they may reach to the aeronautical authorities of both countries for approval. Fare agreements that are so disclosed and approved are protected under the US antitrust laws. On the other hand, fare agreements that are not approved by the governments not only fail to comply with Bermuda II, but also violate US antitrust law.

That, of course, is the basis of our position throughout the many months of the Laker investigation and in the numerous consultative meetings held between representatives of our governments. I am enclosing for your information a more detailed memorandum which provides the legal rationale for our approach to the issues under discussion. You may wish to share this letter and the attached memorandum with the Prime Minister.

Again, I enjoyed very much our discussions during the Prime Minister's highly successful visit to the United States. I look forward to seeing you again soon.

Sincerely,



Charles H. Price II
Ambassador

CIVIL AVIATION: Provisions of Bermuda II Relating
to Fare Discussions and Agreements

In the discussions of the tariff provisions of Bermuda II in relation to the Laker antitrust investigation and to negotiations on a new aviation regime for the North Atlantic, the British Government has argued that the terms of Article 12(4) necessarily render the antitrust laws inapplicable to intercarrier fare discussions and agreements. In the British Government's view, that provision contemplates that airlines will meet to discuss tariffs and will reach tariff agreements which they are then directed to submit to the UK Civil Aviation Authority and the US Civil Aeronautics Board for approval before implementation of the agreed individual fares as may then be approved under Article 12(5). According to the British Government, such discussions are necessarily contemplated and authorized by the fare setting process established by Bermuda II.

In the view of the United States Government, Article 12(4) and other provisions of Bermuda II do not support the British Government's position regarding the rights of private parties to enter into undisclosed fare discussions and agreements without regard to US antitrust law.

Briefly, the Article 12(4) tariff provisions do not contain undertakings which preclude the applicability of US antitrust laws to an undisclosed tariff agreement concluded in a forum to which antitrust immunity has not been expressly provided. Article 12(4) does not promise an unfettered liberty to reach tariff agreements. It only states that tariff agreements, if and when concluded, must be submitted for approval.

Indeed, Article 12(4), when read in conjunction with Article 12(9), requires disclosure of intercarrier discussions and agreements. Article 12(4) specifies that any such agreements "will be subject to the approval of the aeronautical authorities" of the two governments and "shall be submitted" under specified procedures. This language clearly obligates the airlines to disclose. Furthermore, Article 12(9) states that, during the pendency of consideration of approval for these agreements, the two governments may exchange views and recommendations which will be taken into consideration by the other government if requested. Therefore, by necessary implication, Bermuda II effectively requires that both governments be notified of the agreement, that the governments will foster disclosure adequate to allow an exchange of views, and that they will cooperate in assessing the acceptability of such agreements.

In addition, the negotiating history makes clear that it was drafted and intended to accommodate the United States unwillingness to provide blanket advance antitrust immunity for intercarrier price discussions, while recognizing that we had a policy of providing immunity for discussions within IATA and had the possibility of extending that immunity to additional intercarrier discussions on specific application.

Finally, we have found no record of any US retreat from its firmly held and articulated position. The compromise language ultimately adopted as Article 12(4) was based on a US proposal to protect our antitrust authority. Hence, we conclude that the negotiating history demonstrates the intent of the US to assure the continued application of the antitrust laws and the UK understanding of that intent.

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In addition, the negotiating history shows that it was
drafted and intended to accommodate the United States
requirements in possible bilateral defense matters
regarding the International Atomic Energy Agency, while
recognizing that we had a policy of providing technical
for information about IAEA and had the possibility of
extending that authority to additional International Organizations
on specific application.

Finally, we have found no record of any US request from the
Agency and related entities. The proposed language
initially drafted as Article 11(4) was based on a US proposal
to protect our national authority. Hence, we conclude that
the negotiating history demonstrates the intent of the US to
reserve the national application of the national laws and
the understanding of that intent.

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28 DEC 1964

Subject
C. Master Set

CONFIDENTIAL



J. L. V.

10 DOWNING STREET

From the Principal Private Secretary

23 December 1984

Dear Len,

PRIME MINISTER'S MEETING WITH VICE PRESIDENT BUSH

The Prime Minister was entertained to breakfast at 0900 on 22 December by Vice President and Mrs Bush at the Vice Premier's house, Naval Observatory, Washington. Sir Oliver Wright and I accompanied the Prime Minister: Admiral Murphy and Mr Gregg were also present on the American side.

The Vice President began by referring to the Prime Minister's visit to China and congratulating her on the agreement over Hong Kong. He commented that, in his personal view, the concept adopted in that agreement was of great interest and could one day have a relevance to Taiwan. The Prime Minister said that Chairman Deng Xiaoping had asked her to convey a message to the United States Government that he was ready to seek a solution to the problem of Taiwan on the basis of "one country, two systems": she had undertaken to deliver this message, but did not expect that it would be immediately acted upon! Vice President Bush said that the Chinese aspirations in this matter were probably based on their extended concepts of time.

The Prime Minister gave the Vice President a general account of her discussions with the Chinese leaders. She said that Deng Xiaoping seemed to her to have aged considerably since her visit two years ago; and that Deng Xiaoping claimed to have based the period of fifty years in the Hong Kong agreement on the time which would be taken for China to approach the level of development in the industrialised world. Deng had also said that China would remain a Socialist country and that the proportion of the Chinese population living under capitalist regimes should remain very small because otherwise "capitalism would eat up socialism". The Vice President was interested in the Prime Minister's impressions of Hua Yaobang and Zhao Ziyang, and agreed with her view that Zhao Ziyang seemed at present the most likely successor to Deng Xiaoping.

The Prime Minister then gave the Vice President a report on her talks with Mr. Gorbachev. This led into a discussion of the Strategic Defence Initiative. The Prime Minister said that she was anxious about taking for granted

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that an effective defence system in space was achievable. She also said that she was confused by briefing given in the last day or two by White House officials and other members of the US Administration that deployment of defence systems in space would be a matter for negotiation.

Vice President Bush said that, if the Prime Minister was confused, she should "join the club". But he was clear that the President saw the Strategic Defence Initiative in a spirit of idealism. People criticised this as naive, and perhaps it contained an element of naivety, but the President firmly believed that it was better to destroy weapons rather than people. The President was pursuing this objective for its own sake and not as a potential bargaining counter in the negotiations. The Prime Minister pointed out that the President had said in his 31 March message to Congress that his Administration would consider arms control measures banning or limiting the testing or deployment of space weapons systems: the Vice President commented that the President did not necessarily identify defence systems with weapons systems.

At this point the meeting had to be brought to an end so that the Prime Minister and the Vice President could leave for Camp David: there was no discussion of civil aviation or budget matters.

I am copying this letter to Richard Mottram (Ministry of Defence) and Sir Robert Armstrong.

Yours ever,

Robin Butler

TRB

L.V. Appleyard, Esq.,
Foreign and Commonwealth Office.



10 DOWNING STREET

From the Private Secretary

23 December 1984

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cpc

Dear An,

PRIME MINISTER'S VISIT TO WASHINGTON :
21/22 DECEMBER 1984

I enclose records of the Prime Minister's meetings with President Reagan at Camp David on 22 December. I should be grateful if they could be given only a restricted distribution.

As will be evident from the records, the greater part of the talks was devoted to the Strategic Defence Initiative. Most of the other issues were touched on only relatively briefly. At the end of the discussion on SDI the Prime Minister instructed us to prepare a statement which she could make to the press setting out carefully the position reached in discussion with President Reagan, and identifying the points of agreement. This should be agreed with the Americans. We produced the enclosed text, which was then agreed with minor modifications with Macfarlane and Burt, and was subsequently approved by the President and the Prime Minister during lunch. Since it is an important statement of British and American views on this subject, you will wish to give it a wide distribution. The Prime Minister has commented that we should draw upon it in preparing a draft reply to President Chernenko's message.

I should record that the Prime Minister did not hand over to President Reagan the paper entitled Ballistic Missile Defence and Anti-Satellite Systems.

I am sending copies of this letter and the full records to Richard Mottram (Ministry of Defence), David Peretz (HM Treasury) and Richard Hatfield (Cabinet Office). The record of that part of the discussion dealing with civil aviation goes to Callum McCarthy (Department of Trade and Industry), Dinah Nichols (Department of Transport) and Henry Steel (Law Officers' Department).

Yours sincerely,
Charles Powell

C.D. POWELL

L.V. Appleyard, Esq.,
Foreign and Commonwealth Office.

TEXT OF PRIME MINISTER'S STATEMENT ON SDI AT PRESS CONFERENCE
IN WASHINGTON ON 22 DECEMBER AS AGREED WITH PRESIDENT REAGAN

President Reagan and I have had a very thorough and extensive discussion of the prospects for arms control negotiations, in the course of which we also naturally touched on the Strategic Defence Initiative (SDI).

I was not surprised to discover that we see matters in very much the same light. I told the President that I had made it absolutely clear to Mr. Gorbachev that there was no question of the Soviet Union being able to divide the United Kingdom from the United States on these matters. Wedge-driving is just not on.

I told the President of my firm conviction that the SDI research programme should go ahead. Research is of course permitted under existing US-Soviet treaties; and we of course know that the Russians already have their research programme, and, in the US view, have already gone beyond research.

We agreed on four points:

- 1) The US, and Western, aim was not to achieve superiority, but to maintain balance, taking account of Soviet developments;
- 2) SDI-related deployment would, in view of treaty obligations, have to be a matter for negotiation;
- 3) The overall aim is to enhance, not undercut, deterrence;
- 4) East-West negotiation should aim to achieve security with reduced levels of offensive systems on both sides. This will be the purpose of the resumed US-Soviet negotiations on arms control, which I warmly welcome.

Subject on
Soviet Union,
UK Relations
p. 3

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White House on
22xii)
PDP

MEETING WITH PRESIDENT REAGAN: GORBACHEV

I spent about five hours with Gorbachev last Sunday. He gives the impression of confidence and authority. He is relatively open in manner and intelligent. He is affable and has some charm and humour. He listens carefully to what the other person says. He talks readily and, in contrast to the stultified manner of Soviet leaders, does not just stick to prepared statements. He picks up points made in discussion and responds to them. He was clearly not used to the sort of rigorous questioning which he got from me on things like human rights in the Soviet Union and Soviet payments to our mine-workers' union. But he kept cool and avoided the usual Soviet reaction of reciting lengthy positions of principle. He went to great pains to invoke Chernenko's name frequently in discussion as a source of authority for his remarks. I certainly found him a man one could do business with. I actually rather liked him - there is no doubt that he is completely loyal to the Soviet system but he is prepared to listen and have a genuine dialogue and make up his own mind.

I got the impression that in some ways he was using me as a stalking horse for you. He questioned me very closely on American motives and intentions for the Geneva talks and was clearly interested to obtain a first hand and informed impression of you and your main colleagues and of your policies. At the same time, he was on the look-out for possible divergences of view between us which might be exploited to Soviet advantage. I made it absolutely clear to him that we are loyal members of the Alliance and right behind you.

On the substance of my talks with him - and those which Geoffrey Howe had the following day - the most striking point was the amount of time devoted to the threat of an arms race in outer space. His line was that if you go ahead with the SDI, the Russians would either have to develop their own or, more probably, develop nuclear weapons that would get past your SDI defences. He made much of the role of the ABM treaty as the key-stone to arms control negotiations and said that if events proceeded to the point where the ABM treaty was irrevocably undermined, the prospect of any further agreements thereafter would be minimal.

/ He was not

He was not very precise on the scope of the negotiations which he expected to emerge from the Geneva meeting, but seemed to expect them to cover space, strategic nuclear weapons and INF. He made much of the difficulties which the Soviet Union had faced in deciding to go to Geneva.

On the other hand, he showed a keen awareness of the penalties of spending yet more resources on defence and agreed with the concept of achieving balanced security at lower levels of weapons. He claimed that the Russians would be ready to come to Geneva with serious new proposals and referred to Chernenko's remark that the Soviet Union would be ready to agree to the most radical measures. He appeared at one point to be saying that the SDI was simply an attempt by the United States to establish a bargaining position and that if that was the case, the Soviets could play the game and bargain as well as anyone. But the over-riding impression left was that the Russians are genuinely fearful of the immense cost of having to keep up with a further American technological advance and are therefore prepared to negotiate seriously on nuclear weapons if they believe that you are politically committed to reductions.

I left him in no doubt that we did not see SDI in the same light as he does: still less did we see it as linked in any way to a US first strike strategy. I stressed your profound sincerity in the search for balanced arms control and a reduction in nuclear weapons. I warned him of trying to drive wedges between the Allies: we were at one on this issue.

These were the main points which arose in his talk with me. He also saw Geoffrey Howe the next day and I understand that Geoffrey will be sending George Shultz a message giving his impressions and details of other steps which they discussed in rather more formal surroundings.

Mr Powell

POST CLOSURES

Line to Take

(a) General

Necessary economies. Determined to keep firm grip on public spending.

(b) Santo Domingo

1. Decision to close in Santo Domingo does not reflect any lessening of the British commitment to stability in the Caribbean.

2. We are closing ten posts but only one in Central or Southern America. No substantial British investment or business community in the Dominican Republic. HM Ambassador in Caracas will be accredited to Santo Domingo.

3. The Secretary of State has sent a personal message to the Dominican Foreign Minister.

(c) MBFR

1. No risk that HM Ambassador in Vienna (Michael Alexander) becoming concurrently Head of the UK MBFR delegation will damage our input to the MBFR exercise. On the contrary.

2. Delegation otherwise unchanged.

Background

1. Posts to be closed are: Antwerp, Blantyre, Cagliari, Gothenburg, Halifax, Salonika, Santo Domingo, Vientiane, Vigo and Zagreb. HM Ambassador in Vienna is also in future to head the MBFR delegation there.

2. The US Administration have complained about Santo Domingo, and MBFR.

3. On Santo Domingo, Ambassador Price has said in London that the Administration would rather we stayed, and indeed intensified our effort there.

4. On MBFR, the State Department have said that they fear that others may follow our example, and that NATO's performance might as a result be impaired.

5. Highly unlikely that either issue will come up at Camp David. But the Prime Minister ought perhaps to be in the picture.

Joe.

21 December 1984

J O Kerr

CONFIDENTIAL

DESKBY WASHINGTON 202000Z

DESKBY HONG KONG 202300Z

FM FCO 201000Z DECEMBER 84

TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 2170 OF 20 DEC

INFO IMMEDIATE HONG KONG (FOR SECRETARY OF STATE'S AND PM'S PARTIES)
MY TELNO GUIDANCE 135 : POST CLOSURES

1. THE AMERICAN AMBASSADOR WAS IN TOUCH WITH SIR W HARDING TWICE ON 14 DEC ABOUT THE CLOSURE OF OUR EMBASSY IN SANTO DOMINGO. PRICE HAD BEEN TIPPED OFF BY THE DOMINICAN REPUBLIC'S AMBASSADOR IN LONDON WHO IS THE DEAN OF THE DIPLOMATIC CORPS AND WHO HAS BEEN LOBBYING VIGOROUSLY AGAINST OUR DECISION. PRICE HAD CONSULTED MOTLEY WHO HAD SAID THAT THE CLOSURE OF THE BRITISH EMBASSY IN SUCH A SIGNIFICANT CARIBBEAN COUNTRY WOULD NOT BE AT ALL WELCOME TO THE US GOVERNMENT, WHO HOPED RATHER TO SEE THE BRITISH PRESENCE IN THE AREA IN GENERAL INTENSIFY. HE HOPED WE COULD BE PERSUADED TO CHANGE OUR MINDS.
2. HARDING EXPLAINED THE PES BACKGROUND TO OUR DECISION TO CLOSE TEN POSTS (PLEASE SEE MY TUR), ADDING THAT SANTO DOMINGO HAD BEEN CHOSEN BECAUSE WE HAD TRIED TO MAINTAIN GEOGRAPHICAL BALANCE AND IT SEEMED THE MOST PAINLESS SACRIFICE IN THE LATIN AMERICAN REGION. BRITISH EXPORTS TO THE DOMINICAN REPUBLIC WERE ONLY ABOUT POUNDS 10 MILLION, THERE WAS NO SUBSTANTIAL BRITISH INVESTMENT OR BUSINESS COMMUNITY IN THE DOMINICAN REPUBLIC. TO LIMIT ANY DAMAGE, THE AMBASSADOR IN CARACAS WOULD BE ACCREDITED TO SANTO DOMINGO.
3. PRICE TELEPHONED AGAIN TO SAY THAT HE HAD BEEN ASKED FORMALLY BY MOTLEY TO EMPHASISE (A) THE IMPORTANCE THE AMERICANS ATTACH TO OUR CONTINUED REPRESENTATION IN THIS IMPORTANT CARIBBEAN COUNTRY AND (B) THE DESIRABILITY OF POSTPONING AN ANNOUNCEMENT OF THE CLOSURE IN ORDER TO GIVE FURTHER TIME FOR REFLECTION.
4. MEANWHILE THE GOVERNMENT OF THE DOMINICAN REPUBLIC HAVE SAID THAT THEY ARE CONSIDERING CLOSING THEIR EMBASSY IN LONDON IN RETALIATION.

/5.....

DIST:
CHANCERY LIMITED

ACTION OFFICER:
H OF C
HK

ADVANCE COPIES TO:
P.O.
MINISTER
H OF C

✓✓✓
5. HARDING SPOKE TO PRICE AGAIN ON 17 DEC TO WARN HIM ABOUT THE PUBLIC ANNOUNCEMENT OF THE POST CLOSURE. PRICE DOUBTED WHETHER THE US GOVERNMENT WOULD PURSUE THE MATTER FURTHER. IT THEREFORE SEEMS UNLIKELY THAT THE SUBJECT WILL BE RAISED WITH THE PRIME MINISTER WHILE SHE IS IN WASHINGTON. BUT IT CANNOT BE RULED OUT AND THE SUBJECT COULD WELL BE MENTIONED AT OFFICIAL LEVEL IN THE MARGINS.

6. WE SHOULD BE GRATEFUL THEREFORE IF THE PRIME MINISTER'S PARTY COULD BE GIVEN A SHORT SUPPLEMENTARY BRIEF WITH A DEFENSIVE LINE TO TAKE ON THE LINES OF PARA 2 ABOVE. IT SHOULD BE PREFACED BY A SENTENCE EXPLAINING THAT THE CLOSURE DOES NOT REFLECT ANY LESSENING OF THE BRITISH COMMITMENT TO STABILITY IN THE CARIBBEAN. IT IS PART OF A WORLDWIDE PACKAGE.

7. THE LINE TO TAKE MIGHT CONCLUDE BY SAYING THAT THE SECRETARY OF STATE HAS SENT A PERSONAL MESSAGE TO THE DOMINICAN REPUBLIC FOREIGN MINISTER ASSURING HIM THAT WE WISH TO MAINTAIN OUR TRADITIONAL TIES THROUGH OUR AMBASSADOR IN CARACAS AND WE HOPE THAT THE DOMINICANS WILL MAINTAIN THEIR EMBASSY IN LONDON.

HOWE



UNCLASSIFIED

PS/Prime Minister (Mr Powell)

cc Mr Butler (with attachment)
Mr Ingham "
Private Secretary (without attachment)
H of C (without attachment)

CAMP DAVID

1. I attach a White House Press Office fact sheet on Camp David, which we are making available to the British press.

2. The fact sheet does not list all the foreign leaders who have visited Camp David, but the full list includes three previous British Prime Ministers:

- Winston Churchill (with FDR in 1943 and Eisenhower in 1960)
- Harold MacMillan (with Eisenhower twice in 1959)
- Edward Heath (with Nixon in 1970 and 1973)

Nigel Sheinwald

21 December 1984

N E Sheinwald

UNCLASSIFIED

THE WHITE HOUSE
Office of the Press Secretary

December 21, 1984

FACT SHEET

CAMP DAVID

During the months following America's entry into World War II, officials in Washington, following the urging of President Franklin D. Roosevelt, searched the countryside surrounding Washington for an area that would be suitable for the President to use as a retreat. There were many factors that had to be considered in selecting the site. For security reasons, a long trip could not be considered; there would also be a serious problem of communications, as the President liked to keep in constant contact with his War Room in the White House. For reasons that dealt with the President's health, his physicians preferred some place that would remove the President from the oppressive heat of summertime Washington. Thus, the criteria for the President's Retreat would be: proximity to Washington, elevation to insure coolness, and above all, it would have to be located where Presidential security could be maintained.

In the mid-1930's, the Department of the Interior had purchased a ten thousand acre tract of the Catoctin Mountains for use as a National Park. Three demonstration recreation camps, Misty Mount, Greentop, and Hi-Catoctin, were built in 1937, 1938, and 1939, respectively, by WPA and CCC workers, utilizing local timber and stone. Approximately two and one-half million board feet of blighted chestnut and local oak trees were felled for cabin work, and numerous light fixtures were fabricated in the blacksmith shop from scrap iron.

In 1942, President Roosevelt selected Camp Hi-Catoctin as the site for the Presidential Retreat. Following this decision, the entire Catoctin Park area was declared a security area and Office of the Strategic Service trainees, along with a detachment of Marines, were stationed in Camps Greentop and Misty Mount to provide area security. Construction of a main lodge and minor work required to support the President were completed during the early summer and the facility was first used by the President in July 1942.

After the successful attack on Tokyo by Jimmy Doolittle and his pilots, President Roosevelt named the secretly cloaked camp "Shangri-La" in honor of the mythical location from which he said the bombers were launched. The President frequently visited the Camp during the remaining years of his administration, holding conferences with his wartime advisors and relaxing away from Washington.

During his first visit, President Truman was described as being interested, but not enthusiastic about the retreat. He did, however, decide to keep the Camp open year round, so all buildings were made tight for the mountain-top winters. Steam heat was installed in the main lodge and some of the guest cabins. He also opened the Camp to members of his staff, when he or Mrs. Truman were not there. Although the President did not use "Shangri-La" extensively, with these improvements and changes in policy, the retreat was in use part of nearly every week of the Truman Administration.

-more-

On January 20, 1953, Dwight D. Eisenhower took office as the President of the United States and continued to use the Catoclin Mountain Retreat. President Eisenhower renamed the compound "Camp David" after his grandson, David Eisenhower. While Camp David was primarily used as a place to relax, there were a number of monumental events which took place at the Camp during the Eisenhower Administration. The most prominent of these being President Eisenhower's historic meetings with Chairman Nikita Khrushchev of the Soviet Union. From these meetings, the phrase of "Spirit of Camp David" was coined to denote what was then thought to be a more amicable attitude toward world problems.

After President Kennedy took office, he and his family continued the use of Camp David. During the Kennedy Administration, Camp David was not in use as much as it had been, but when the entire First Family was in residence, they would relax, using many of the facilities. They would also simply walk about the Camp enjoying the outdoor scenery. The Camp was a favorite place for Mrs. Kennedy and the children, as she especially enjoyed the privacy and freedom the Camp afforded her.

President Johnson used the Camp for conferences, meetings with foreign heads-of-state, and "to get away from the noise and carbon monoxide of downtown Washington" for a "clearer view of national horizons." He and his family also enjoyed the recreational opportunities offered by the mountain-top retreat.

President Nixon and his family were frequent visitors and used the Camp as a favorite place for relaxation, change of pace, and for informal working sessions. A number of conferences of national and international significance were also held at the retreat. President Nixon hosted foreign heads-of-state at Camp David on eleven occasions, including the June 1973 visit of Secretary General Brezhnev of the Soviet Union.

Although not frequent visitors, President Ford and his family did use the Camp for relaxation and meetings with members of his Administration. In July 1975, President Ford hosted President Suharto of Indonesia at Camp David during his visit to the United States.

President Carter, the First Family, and members of his administration used the Camp on a regular basis. In February 1978, President Carter received President Sadat of Egypt at Camp David during his visit to the United States. Subsequently, in September 1978, President Carter, President Sadat and Prime Minister Begin of Israel conducted Mideast peace negotiations which became known as the Camp David Summit.

Since his inauguration in January 1981, President and Mrs. Reagan have been frequent visitors to Camp David. Horseback riding along the Camp's nature trails, daily walks and swimming are among the First Family's favorite outdoor activities. Under the Reagan Administration, Camp David has been the scene of many important Presidential meetings, including a series of working sessions with President Lopez-Portillo of Mexico in January 1981 and several other meetings with Members of Congress, the Cabinet and other Administration officials. Many of the President's weekly radio broadcasts to the American people originate from Camp David, including the one about the evils of drug abuse, in which he was joined at the microphone by the First Lady. The President and Mrs. Reagan find Camp David provides a welcome respite from the hectic pace of Washington and a place where they can really relax.

Camp David is a naval installation staffed by permanently assigned naval personnel, a complement of Marines for security, and a contingent of the White House Communications Agency which provides communications support.

The natural appearance of Camp David has changed little since the original construction. The cabins are rustic board and batten construction, stained or painted a moss green hue. The native woods have been maintained wherever possible and every effort is made to maintain the natural beauty of the Camp, and retain the flavor of the outdoors.

Laurel Lodge is Camp David's main conference facility. It contains a Presidential office, a conference room and dining facilities. Aspen Lodge - the Presidential residence at the Camp - is a two bedroom ranch-style house.

1.

H/K
21-12-84

THIS PRESS CONFERENCE IS MY LAST PUBLIC ENGAGEMENT IN HONG KONG BEFORE I FLY HOME FOR CHRISTMAS, THE LONG WAY ROUND THIS TIME, IN ORDER TO SEE PRESIDENT REAGAN.

AS YOU KNOW I HAVE JUST BEEN IN PEKING. MY PURPOSE IN GOING WAS TO SIGN THE JOINT DECLARATION ON THE FUTURE OF HONG KONG - AND TO TALK PERSONALLY WITH CHINESE LEADERS BOTH ABOUT HONG KONG AND ABOUT THE KEY ISSUES OF WORLD AFFAIRS.

I SAID IN PEKING THAT THE AGREEMENT WE HAVE SIGNED WITH THE CHINESE ABOUT HONG KONG IS AN HISTORIC DOCUMENT. IT IS INDEED. IT IS THE CULMINATION OF TWO YEARS LONG AND OFTEN HARD NEGOTIATION. IT IS THE BEGINNING OF A NEW PERIOD IN HONG KONG'S HISTORY.

THE FIRST POINT I WISH TO MAKE ABOUT THIS AGREEMENT IS THAT IT ASSURES THE CONTINUATION OF HONG KONG AS A FREE TRADING CAPITALIST SOCIETY FOR A VERY LONG TIME TO COME - INTO THE MIDDLE OF THE NEXT CENTURY.

THIS MEANS THAT HONG KONG CAN PLAN LONG TERM WITH CONFIDENCE. I BELIEVE CHAIRMAN DENG INTENDS HIS BOLD CONCEPT OF "ONE COUNTRY TWO SYSTEMS" TO LAST.

THE SECOND POINT IS THAT YOU HAVE MY ABSOLUTE ASSURANCE THAT BRITAIN WILL ADMINISTER HONG KONG WISELY AND WELL BETWEEN NOW AND 1997. WE ^{shall} ~~INTEND TO~~ HONOUR OUR OBLIGATIONS TO THE FULL.

MY THIRD POINT IS THAT BRITAIN WILL NOT MERELY DO ALL IN ITS POWER TO WORK FOR HONG KONG'S STEADY DEVELOPMENT AND A SMOOTH TRANSITION - WE SHALL ALSO SEEK TO WIN THE WIDEST

/POSSIBLE

Stability changes,

South America - posts

Falkland islands

H.K.

One only

GATT

1979 →

Reduction of Construction of Europe

EU Banking - Save PLA

Save people in Europe

Basic line

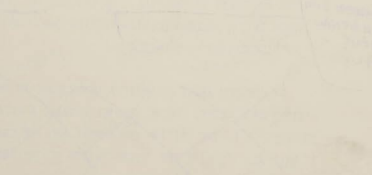
Save

South America Group

8

if they join

Save Britain



fol

POSSIBLE ACCEPTANCE OF THE AGREEMENT IN THE REST OF THE WORLD.

WE START THIS EXERCISE UNDER VERY FAVOURABLE CIRCUMSTANCES:

- THE AGREEMENT HAS ALREADY WON HIGH PRAISE FROM MANY LEADING NATIONS IN THE WORLD;
- THE AGREEMENT IS REGARDED AS A GOOD ONE BY THE OVERWHELMING MAJORITY OF THE PEOPLE OF HONG KONG;
- THE BRITISH GOVERNMENT ARE ^{finally} FINALLY COMMITTED TO CARRYING OUT THE AGREEMENT TO THE FULL. SO TOO ARE THE CHINESE GOVERNMENT. THIS IS THE ASSURANCE WHICH ^{high} PREMIER ZHAO ^{of Beijing} GAVE TO ME DURING MY DISCUSSIONS ON WEDNESDAY.

Letter Both CHAIRMAN DEUS AWJ

~~WE ARE NOW ABOUT TO WRITE A NEW VOLUME IN HONG KONG'S HISTORY OF SUCCESS. DOING SO WILL REQUIRE APPLICATION AND COOPERATION BY THE BRITISH GOVERNMENT AND THE CHINESE GOVERNMENT. IT WILL ALSO REQUIRE THE DETERMINATION OF THE PEOPLE OF HONG KONG.~~

OF COURSE THERE ARE CONCERNS WHICH ^{Shanghai} PEOPLE HERE HAVE ABOUT THE AGREEMENT. MANY ARE REFLECTED IN THE CAREFUL REPORT PREPARED BY THE ASSESSMENT OFFICE. I UNDERSTAND THESE CONCERNS. THEY WILL BE VERY MUCH IN OUR MINDS AS WE ~~AND THE CHINESE GOVERNMENT~~ START THE PROCESS OF IMPLEMENTING THE AGREEMENT.

~~I HAVE ALREADY SPOKEN ABOUT THE AGREEMENT IN PEKING AND HERE TO A COMBINED SESSION OF THE EXECUTIVE AND LEGISLATIVE COUNCIL. I WILL NOT SAY MORE NOW. ONLY THAT THIS IS A GOOD AGREEMENT. GOOD FOR HONG KONG AND FOR ITS FUTURE. IT IS NOW UP TO ALL OF US - TOGETHER - TO MAKE SURE THAT IT WORKS.~~

H/Kowg

DRAFT OPENING STATEMENT FOR THE PRIME MINISTER'S PRESS
CONFERENCE, FRIDAY, 21 DECEMBER

This press conference is my last public engagement in Hong Kong before I fly home for Christmas, the long way round this time, in order to see President Reagan.

However, while it marks the end of my all too fleeting visit here it also signals the start of a new period in the history of Hong Kong's development as a quite remarkable, high-rise monument of the resilience and achievement of a free enterprise, entrepreneurial society.

Before I depart - and not, I assure you, for the last time by all means - I want to say a few words about Hong Kong's future development because it is to the future we have been looking since I signed the agreement with Premier Zhao in Peking on Wednesday.

The first point I want to make is that the agreement has, quite simply, secured Hong Kong's development as a free capitalist society - not simply for the next 12½ years, nor even for the 50 years after that. It has secured its way of life for as long as we can foresee, and perhaps even beyond that - a point confirmed by Chairman Deng when I saw him on Wednesday.

This means that Hong Kong can plan long-term with confidence. I believe Chairman Deng intends his concept of "one nation, two systems" to last.

The second point is that you have my absolute assurance that Britain will administer Hong Kong wisely and well between now and 1997. We intend to honour our obligations to the full.

/ We believe

We believe we have done our duty by the Hong Kong people in securing the agreement with China. But we know that our duty will not be properly discharged unless we consistently and assiduously provide sound and sensitive administration for the next 12½ years.

My third point is that Britain will do all in its power not merely to work for Hong Kong's steady development and smooth transition; we shall also seek to win the widest possible acceptance of the agreement in the wider world.

We start this exercise under very favourable circumstances:

- (i) The agreement has already won the highest praise from many leading nations in the world;
- (ii) The agreement is regarded as a good one by the overwhelming majority of the people of Hong Kong, according to independent surveys.
- (iii) The agreement has been approved by both Houses of the British Parliament.
- (iv) The British Government is, I maintain, second to none in honouring its obligations;
- (v) And I believe the Chinese Government is determined to fulfil its commitment to preserve Hong Kong's free enterprise way of life as one of the two systems operating within the one nation of China.

This was indeed the assurance Premier Zhao gave to me during my discussions with him on Wednesday.

In the course of my talks I asked him if I could summarise for the benefit of the Hong Kong people what he had said. We took a note of it and this is how it reads:

/"It is the

"It is the tradition of the Chinese nation to act in good faith. We always live up to our international commitments. There are no grounds for misgivings. China will prove its word by its deeds."

So I come back to where I started. We are about to write a new volume in Hong Kong's history of phenomenal success. That will require application and co-operation by the British Government, the Chinese Government and the people of Hong Kong.

We have already got a very good deal for Hong Kong. Together our task is now to make it work in the eyes of the world.

I believe the commitment to do this exists in London, Peking and Hong Kong and that Hong Kong's lasting stability and increasing prosperity will be secured.

21.12.84

HONG KONG

S. B. R. responsibility for own people's side

Questions likely to be raised at the PM's Press Conference

Ch. Govt. will answer if necessary
to the people

1. Stationing of PLA in HK - did Chinese leaders give any details?

2. Conscription - do you have any assurances that it will not be introduced here?

Understand
H.K. Govt.
of this issue.
Concern fully
taken into
account.

3. Joint Liaison Group - will there be any Hong Kong representation?

Ch. Govt. - not suggested that there would be

4. BDMC status after 1997 - do you have details of timing and issue of the new passports and of their form?

5. Drafting of the Basic Law - what form will consultations take?

"Soviet" open on wide basis

6. Anglo/Chinese relations - What are the tangible trade and economic benefits to the United Kingdom?

7. Did you discuss with the Chinese the pace and form of democratisation that would be acceptable to China?

Matter for us - careful approach

8. Are you surprised by the contrast between Hong Kong and Peking on the reception of the agreement. No outward sign of enthusiasm in Hong Kong - a joyous atmosphere in Peking?

Overwhelming acceptance

9. Aside from verbal assurances, what positive measures will HMG take to demonstrate its commitment to Hong Kong?

Nothing in charge of admin. until 1997?
through H.K. post.

10. Were consultations with Exco always smooth? There have been reports of one Exco member threatening to resign over the agreement.

11. If you had to name one reservation or doubt about the agreement, which one would you single out as most worrying?

12. 'Harvey Stockwin' type questions.

a. Sell-out.

b. Can't trust Communism.

c. HMG conned by Peking.

- Neither side based on the
- Done in eyes of world

d. No guarantee against upheavals in China after Deng's death.

e. No amount of sincerity in Peking will prevent cadres from interfering in Hong Kong's affairs.

Delayed agreement will
delayed

13. Briefing

File



Subject
u. Master
and
Hong Kong :
Castle Peak +
Guangdong
Pt. 3

10 DOWNING STREET

From the Principal Private Secretary

21 DECEMBER 1984

Dear Len,

PRIME MINISTER'S MEETING WITH LORD KADOORIE

THE PRIME MINISTER HELD A SHORT MEETING WITH LORD KADOORIE AT GOVERNMENT HOUSE, HONG KONG, AT 1645 ON THURSDAY 20 DECEMBER. SIR SIDNEY GORDON, VICE-CHAIRMAN OF CHINA LIGHT AND POWER, AND MR. CHRISTIAN ADAMS, BRITISH TRADE COMMISSIONER IN HONG KONG, WERE PRESENT.

LORD KADOORIE SAID THAT HE HAD WANTED TO REPORT TO THE PRIME MINISTER ON THE BACKGROUND TO THE DIFFICULTIES WHICH HAD ARISEN IN THE NEGOTIATIONS OVER THE GUANGDONG NUCLEAR PROJECT. NEGOTIATIONS HAD PROCEEDED SMOOTHLY FOR 4 YEARS AND THERE HAD BEEN NO OBJECTION FROM HIS ASSOCIATES IN EXXON. HOWEVER, DIFFICULTIES HAD ARISEN WHICH HE ASSOCIATED WITH MR. JACK BENNETT, VICE-PRESIDENT OF EXXON, WHO HAD POINTED OUT THAT CHINA LIGHT AND POWER NEEDED EXXON'S PERMISSION TO ENTER INTO AN AGREEMENT WITH THE CHINESE GOVERNMENT AND HAD ARGUED THAT THE POSITION OF EXXON MIGHT BE DAMAGED BY SUCH AN AGREEMENT. THE DIFFICULTIES HAD BEEN OVERCOME AT SOME COST TO THE CREDIBILITY OF CLP WITH THE CHINESE. LORD KADOORIE HAD BEEN PERSONALLY DISTRESSED BY THESE DIFFICULTIES BECAUSE HE FELT THAT THEY INPUGNED THE GOOD FAITH IN WHICH HE HAD BEEN DEALING WITH THE CHINESE GOVERNMENT. HE NOW WAS 90 PER CENT CERTAIN THAT THE NEGOTIATIONS WOULD PROCEED TO A SUCCESSFUL CONCLUSION AND WOULD PROVIDE A UNIQUE OPPORTUNITY FOR BRITAIN TO SUPPLY TURBINES WHICH WERE UNPRECEDENTED IN TERMS OF THEIR COMBINATION OF SIZE AND SPEED. EXXON WERE STILL THREATENING TO WRITE TO THE CHINESE GOVERNMENT ABOUT THEIR WORRIES, BUT HE THOUGHT THAT THIS COULD BE AVERTED. SIR SIDNEY GORDON ADDED THAT HE WAS EVEN MORE

DSC

CONFIDENT OF THE OUTCOME THAN LORD KADOORIE. PROVIDED THAT EXCO GAVE THEIR APPROVAL ON 3 JANUARY, HE BELIEVED THAT THE AGREEMENT COULD BE SIGNED BY 18 JANUARY.

LORD KADOORIE SAID THAT THE EFFECT ON THE HONG KONG AGREEMENT ON NATIONALITY QUESTIONS WAS MAKING IT DIFFICULT TO RETAIN KEY PERSONNEL IN HONG KONG. HE REFERRED PARTICULARLY TO ONE OF CLP'S KEY NEGOTIATORS ON THE GUANGDONG PROJECT, DR. Y. B. LEE, WHO HAD BEEN OFFERED A POSITION IN AN AUSTRALIAN UNIVERSITY: HE DID NOT WISH TO TAKE THIS UP ON HIS OWN ACCOUNT BUT MIGHT BE OBLIGED TO IN THE INTERESTS OF HIS FAMILY. HOWEVER, LORD KADOORIE HOPED THAT, WITH THE HELP OF LORD RHODES, IT WOULD BE POSSIBLE TO SECURE A BRITISH PASSPORT FOR DR. Y. B. LEE AS AN EXCEPTION TO THE GENERAL ARRANGEMENTS. MORE GENERALLY, LORD KADOORIE SAID THAT HE BELIEVED THAT THE DEPARTURE OF KEY MIDDLE-RANKING PERSONNEL FROM HONG KONG WOULD BE TEMPORARY, BUT HE STRESSED THAT SUCH PEOPLE FELT THE NEED OF SOME FALL-BACK IN CASE THINGS WENT WRONG IN HONG KONG.

THE PRIME MINISTER THANKED LORD KADOORIE FOR COMING TO CALL ON HER. SHE SAID THAT SHE HOPED THAT THE NEGOTIATIONS OVER THE GUANGDONG POWER STATION WOULD BE BROUGHT TO AN EARLY CONCLUSION THE PRESENT TIME WAS A FAVOURABLE ONE FOR SECURING A GOOD SHARE OF THE CONTRACT FOR BRITAIN. LORD KADOORIE CONCLUDED BY EMPHASISING THE CONFIDENTIALITY OF WHAT HE HAD TOLD THE PRIME MINISTER ABOUT HIS FEELINGS ABOUT EXXON.

I AM COPYING THIS LETTER TO MICHAEL REIDY (DEPARTMENT OF ENERGY) AND CALLUM MCCARTHY (DEPARTMENT OF TRADE AND INDUSTRY).

Your ever,

Robin Butler

LEN APPLBYARD ESQ
FOREIGN AND COMMONWEALTH OFFICE

COMMERCIAL IN CONFIDENCE

Visit/Prison
RESTRICTED

0609/21

FGHO 109/20

DD 202300Z HONG KONG

(210700 HK Time)

GPS 275

RESTRICTED

DESKBY HONG KONG 202300Z FOR PRIME MINISTERS PARTY
FROM WASHINGTON 202100Z DEC 84.

TO IMMEDIATE HONG KONG

TELEGRAM NUMBER 21 OF 20 DECEMBER

INFO F C O

PRIME MINISTER'S VISIT TO WASHINGTON

1. THE PRIME MINISTER WILL WISH TO BE AWARE OF THREE POINTS WHICH AROSE DURING RECONNAISSANCE VISIT TO CAMP DAVID TODAY:-

(Q) THE PRESIDENT WILL BE WEARING AN OPEN-NECKED SHIRT, SWEATER AND SLACKS AND HIS STAFF WILL ALSO BE DRESSED CASUALLY. WE HAVE SAID THAT, SINCE THE PRIME MINISTER WILL BE GIVING A PRESS CONFERENCE IMMEDIATELY AFTER CAMP DAVID, WE DOUBT THAT SHE WOULD WISH TO DRESS CASUALLY. BUT IF MEMBERS OF HER PARTY WERE ABLE TO DRESS DOWN FROM A BUSINESS SUIT (IE. SPORTS JACKET AND TIE), THAT WOULD BE IN THE CAMP DAVID SPIRIT:

(B) THE TEMPERATURE IS ABOUT 10 DEGREES COLDER AT CAMP DAVID THAN IN WASHINGTON (MID-50'S). THE PRIME MINISTER WILL WISH TO DRESS ACCORDINGLY PARTICULARLY BECAUSE.

(C) THE PRESIDENT WILL MEET THE PRIME MINISTER AT THE CAMP DAVID HELI-PAD IN HIS GOLF CART AND THE TWO OF THEM WILL PROCEED IN THE GOLF CART TO THE REAGAN'S LODGE. THE JOURNEY BY GOLF CART WILL TAKE AROUND 5 MINUTES. THE REASON FOR THE GOLF CART IS THAT THE WHITE HOUSE ARE KEEN TO HAVE A MEMORABLE AND INFORMAL PRE-CHRISTMAS PHOTO OPPORTUNITY.

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DD HONG KONG 210001Z

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GRS 219

RESTRICTED

DESKBY 210001 DEC 84 (210800 HK Time)

FM FCO 201530Z DEC 84

TO IMMEDIATE HONG KONG

TELEGRAM NUMBER 2531 OF 20 DECEMBER 1984

INFO PRIORITY WASHINGTON

FOLLOWING FOR MR. POWELL (PS/PRIME MINISTER) FROM PRIVATE OFFICE

LETTER TO THE PRIME MINISTER FROM DR DAVID OWEN MP ABOUT SDI AND COMPREHENSIVE TEST BAN (CTB)

1. THE PRIME MINISTER WILL WISH TO KNOW THAT DR OWEN WROTE TO HER ON 17 DECEMBER ABOUT SDI AND CTB. THE LETTER URGES THE PRIME MINISTER TO QUOTE EXPRESS TO PRESIDENT REAGAN ... THE BRITISH GOVERNMENT'S CLEAR OPPOSITION TO THE SDI UNQUOTE. IT LISTS A NUMBER OF SDP OBJECTIONS TO THE SDI ON STRATEGIC, POLITICAL AND TECHNICAL GROUNDS (THESE ARE COVERED IN THE PRIME MINISTER'S BRIEFING FOR HER MEETING WITH THE PRESIDENT) AND CALLS FOR A MORATORIUM ON US ASAT TESTING UNTIL SEPTEMBER 1985.
2. THE LETTER GOES ON TO URGE THE PRIME MINISTER TO EXPLORE WITH THE PRESIDENT THE PROPOSAL MADE IN HIS SEPTEMBER UN SPEECH FOR AN EXCHANGE OF NUCLEAR TEST SITE OBSERVERS, WITH A VIEW TO ACHIEVING PROGRESS TOWARDS ADEQUATE VERIFICATION OF A CTB.
3. THE DEPARTMENT WILL SUBMIT A DRAFT REPLY IN THE LIGHT OF THE TALKS AT CAMP DAVID.

HOWE

NNNN

Y

A. Ps/Prime Minister

D. Nil

RESTRICTED

GRS 630
CONFIDENTIAL

CONFIDENTIAL

PS/WO 10 DUNNING 57

FM WASHINGTON 192210Z DEC 84

TO PRIORITY FCO

TELEGRAM NUMBER 3803 OF 19 DECEMBER

INFO IMMEDIATE HONG KONG (FOR PRIME MINISTERS PARTY), ROUTINE PARIS,
BONN, TOKYO, ROME, UKDEL OECD, UKREP BRUSSELS, UKDEL NATO, MODUK
(FOR DS1 AND DS12)
INFO SAVING CO'S IN USA, UKINS NEW YORK

pre prep

THE US ECONOMY, THE FEDERAL BUDGET DEFICIT AND US DEFENCE SPENDING:
LATEST DEVELOPMENTS
SUMMARY

1. ACCORDING TO A PRELIMINARY ESTIMATE, THE US ECONOMY RESUMED
SOMEWHAT FASTER GROWTH IN THE FOURTH QUARTER, WHEN THE ANNUALISED
GROWTH RATE WAS 2.8 PERCENT. US INTEREST RATES ARE NOW FALLING.
PRESIDENT REAGAN HAS NOW CONSIDERED DEFENCE SECRETARY WEINBERGER'S
AND BUDGET DIRECTOR STOCKMAN'S ALTERNATIVE PROPOSALS FOR DEFENCE
CUTS, AND HAS DECIDED IN FAVOUR OF CUTS IN OUTLAYS OF DOLLARS
8.7 BILLION IN FY86, DOLLARS 9 BN IN FY87 AND DOLLARS 10 BN IN
FY88, OR ABOUT DOLLARS 28 BILLION IN TOTAL, COMPARED TO THE DOLLARS
58 BN TOTAL SOUGHT BY STOCKMAN.

DETAIL

2. THE **FLASH** GNP FIGURES (SUBJECT TO REVISION) RELEASED TODAY
BY THE DEPARTMENT OF COMMERCE INDICATE THAT US ECONOMIC GROWTH
IN THE FOURTH QUARTER RECOVERED SOMEWHAT TO AN ANNUAL RATE OF
2.8 PERCENT, FOLLOWING GROWTH (REVISED DOWNWARDS) AT 1.6 PERCENT
IN THE THIRD QUARTER. THIS WOULD BRING REAL GROWTH IN THE US
ECONOMY FOR 1984 OVER 1983 TO 6.7 PERCENT. THE EXPECTED GAIN IN
FOURTH-QUARTER REAL OUTPUT REFLECTS A SUBSTANTIAL INCREASE IN
FINAL SALES PARTLY OFFSET BY A DECREASE IN BUSINESS INVENTORY
INVESTMENT.

3. INTEREST RATES ARE DECLINING FURTHER, WITH THE YIELD ON 3-MONTH
TREASURY BILLS NOW BELOW 8 PERCENT. MANUFACTURERS HANOVER TRUST
REDUCED ITS PRIME LENDING RATE TO 10 3/4 PERCENT (FROM 11 AND 1/4
PERCENT) ON 17 DECEMBER. BANKERS TRUST COMPANY FOLLOWED WITH A
SIMILAR MOVE ON 19 DECEMBER, AND OTHER BANKS ARE EXPECTED TO
REDUCE THEIR RATES SOON.

4. SECRETARY OF DEFENCE WEINBERGER ANNOUNCED ON 18 DECEMBER THAT
THE ADMINISTRATION HAS NOW DECIDED ON ITS PROPOSALS FOR THE
DEFENCE BUDGET, WHICH ARE FOR ABOUT DOLLARS 28 BN IN CUTS OVER
THREE YEARS (DOLLARS 8.7 BN IN FY86, DOLLARS 9 BN IN FY87
AND DOLLARS 10 BN IN FY88) RATHER THAN THE DOLLARS 58 BN SOUGHT BY
STOCKMAN (DOLLARS 8 BN, DOLLARS 20 BN AND DOLLARS 30 BN).
THE ANNOUNCED FIGURES, EXPRESSED AS CUTS FROM FUTURE PROGRAMMES,
DISGUISE SUBSTANTIAL INCREASES IN OUTLAYS IN THE THREE YEARS.
OUTLAYS ON DEFENCE (IN NOMINAL TERMS) ARE PROPOSED TO BE DOLLARS
277.5 BN, DOLLARS 324.3 BN AND DOLLARS 359.8 BN RESPECTIVELY.
IN TERMS OF TOTAL BUDGET AUTHORITY, THE AMOUNTS PROPOSED ARE
DOLLARS 313.7 BILLION, DOLLARS 362.6 BILLION, AND DOLLARS 411.5
BILLION, EQUIVALENT TO REAL GROWTH ESTIMATED AT 6.4 PERCENT,
5.1 PERCENT AND 3.3 PERCENT. SENIOR CONGRESSMEN FROM BOTH PARTIES
HAVE SAID THAT THE PROPOSED CUTS ARE INADEQUATE. FURTHER CUTS WILL
UNDOUBTEDLY BE PROPOSED DURING THE FY86 CONGRESSIONAL BUDGET
PROCESS.

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7. IT IS POSSIBLE THAT THE ADMINISTRATIVE PROPOSED DEFENCE SAVINGS HAVE BEEN DELIBERATELY TARGETED ON THE LOW SIDE TO LEAVE ROOM FOR BARGAINING WITH THE CONGRESS ABOUT FURTHER SAVINGS ON DEFENCE. THE RELATIVELY MODEST DEFENCE TARGETS CONTRAST SHARPLY WITH THE DRACONIAN DOLLARS 34 BN IN CUTS PROPOSED FOR DOMESTIC PROGRAMMES IN FY86. FOR INSTANCE, THE PROPOSALS INCLUDE PROVISION FOR A TOTAL OF 7 PERCENT IN MILITARY PAY INCREASES IN FY85 (FOLLOWED BY A 15-MONTH FREEZE). BUT, AS SENATOR CONNICK (CHAIRMAN OF THE SENATE BUDGET COMMITTEE) SAID ON 10 DECEMBER, IT IS MUCH TOO EARLY IN THE BUDGET PROCESS TO SAY HOW MUCH REDUCTION IN THE BUDGET DEFICIT WILL BE ACHIEVED THIS YEAR. THIS APPLIES PARTICULARLY TO THE BALANCE BETWEEN DOMESTIC AND DEFENCE EXPENDITURE, WHICH IS USUALLY ONE OF THE FIAL ITEMS TO BE AGREED BETWEEN THE REPUBLICANS AND THE DEMOCRATS IN THE BUDGET NEGOTIATIONS DURING THE SUMMER.

8. FCO PLEASE ADVANCE TO BROADBENT (ECONOMIC ADVISERS, FCO), SHIELDS (TREASURY) AND SPEEN (BANK).

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ECONOMIC ADV'S. D.
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TRED.
SIR W. HARDING.
MR. DAVID THOMAS.

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FM WASHINGTON 192200Z DEC 84
TO IMMEDIATE BEKING
TELEGRAM NUMBER 14 OF 19 DECEMBER
INFO IMMEDIATE HONG KONG, FOO

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FOLLOWING FOR THE PRIME MINISTER AND SECRETARY OF STATE'S PARTIES

MART: PRIME MINISTER'S MEETING WITH THE PRESIDENT AT CAMP DAVID;
22 DECEMBER; ECONOMIC ISSUES

1. OF THE ECONOMIC ISSUES, THE BUDGET DEFICIT HAS BEEN VERY MUCH TO THE FORE IN RECENT DAYS. THE BROAD PICTURE IS THAT THE PRESIDENT HAS TO PRESENT HIS BUDGET TO CONGRESS BY THE END OF JANUARY. HE WILL GET IT BACK SOMETIME IN THE LATE SUMMER. WHETHER IT WILL BEAR MUCH RESEMBLANCE TO THE BUDGET HE SENT FORWARD IN THE FIRST PLACE, IS ANYONE'S GUESS. MY GUESS IS THAT IT WON'T, BUT THAT IT WILL ADDRESS THE DEFICIT, BUT PERHAPS NOT AS ENERGETICALLY AS WE WOULD LIKE.

2. THE NEW FACTOR IS THAT EVERYONE, PRESIDENT, CABINET, OFFICIALS, BOTH HOUSES AND BOTH SIDES OF CONGRESS AGREE THAT SOMETHING MUST BE DONE TO GET THE DEFICIT DOWN. THE TIME BETWEEN NOW AND END-JANUARY WILL BE SPENT IN MUCH TACTICAL MANOEUVRING WITHIN THE ADMINISTRATION; AND AFTER JANUARY, BETWEEN BOTH HOUSES AND BOTH PARTIES WITHIN EACH HOUSE. THE DEBATE WILL BE NOISY AND CONFUSING. DEFENCE SPENDING IS THE MOST CONTENTIOUS ITEM AND, PERHAPS FOR TACTICAL REASONS (BECAUSE HE CALCULATES CONGRESS WILL CUT IT ANYWAY), THE PRESIDENT SEEMS TO BE LEANING MORE TOWARDS WEINBERGER THAN TOWARDS HIS BUDGET ADVISERS. (THEY SOUGHT CUTS OF DOLLARS 8BN DOLLARS 20B, AND DOLLARS 30B IN FY 86/8; HE HAS OFFERED THE FULL AMOUNT IN FY86, BUT WITH THE SAVINGS TO COME FROM CREATIVE ACCOUNTING RATHER THAN PROCUREMENT CUTS, AND ONLY DOLLARS 9B AND DOLLARS 10B IN THE 2 LATER YEARS.) ALL THIS WILL TAKE MANY MONTHS TO SORT OUT. THE MAIN POINT WHICH IT SEEMS TO ME WE HAVE TO FOCUS ON IS THE NEED, FOR THE SAKE OF THE HEALTH OF THE FREE WORLD ECONOMY AS WELL AS THAT OF THE US, TO CARRY DEFICIT-CUTTING THROUGH TO THE END. I DON'T SEE THAT IT MATTERS TO US (NEXT WORD UNDERLINED) HOW THE DEFICIT IS CUT AS LONG AS IT IS CUT. THE PRESIDENT'S PLACE IN HISTORY WILL BE DETERMINED NOT ONLY BY WHETHER HE LEAVES AMERICA AND THE WORLD AT PEACE, BUT ALSO IN PART, BY THE SHAPE IN WHICH HE LEAVES THE US, AND THE WORLD'S ECONOMY.

3. THE OTHER MAIN ECONOMIC ISSUE, THE TRADE DEFICIT, SEEMS TO ME, IF ANYTHING, LIKELY TO BE EVEN MORE TROUBLESOME. THE STRENGTH OF THE DOLLAR IS CRIPPLING SOME OF THE WEAKER US INDUSTRIES AS INDEED THE STRENGTH OF THE POUND HURT BRITISH INDUSTRIES 4 YEARS OR SO AGO. PROTECTIONIST FORCES ARE THEREFORE ON THE INCREASE HERE, AND THE POSSIBLE CONJUNCTION IN 1995 OF A LOWER ECONOMIC GROWTH RATE WITH A CONTINUING STRONG DOLLAR IS SET TO BOOST THEM FURTHER. THE IDEA OF AN IMPORT SURCHARGE AS A WAY OF ATTACKING BOTH FISCAL AND TRADE DEFICITS HAS BEEN GAINING GROUND IN BUSINESS AND CONGRESSIONAL CIRCLES.

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4. WHILE THE ADMINISTRATION'S INSTINCTS REMAIN STRONGLY FREE TRADE, THEY HAVE FELT IT NECESSARY TO STRIKE A TOUGH POSITION RECENTLY IN INTERNATIONAL FORA. WITH A MAJOR REDUCTION IN US BUDGETARY SUPPORT FOR FARMERS IN PROSPECT, WE CAN EXPECT A FURTHER OUTBREAK OF HOSTILITIES OVER THE CAP AND MORE AGGRESSIVE US ATTACKS ON EXPORT MARKETS. THE OBDRATE LINE SHULTZ AND BROCK TOOK WITH THE COMMISSION LAST WEEK OVER STEEL PIPES AND TUBES HAS NOW BEEN MODIFIED AND THE PROSPECTS OF A DEAL ARE SOMEWHAT BRIGHTER. BUT THE US WITHDRAWAL FROM THE INTERNATIONAL DAIRY AGREEMENT, NOTIFIED ON 18 DECEMBER, IS A BAD AUGURY.

5. I HOPE THE PRIME MINISTER WILL PUT FIRMLY TO THE PRESIDENT THE NEED FOR ALL OF US TO RESIST PROTECTIONIST PRESSURES, AND PERHAPS REMIND HIM THAT WHEN FACED WITH SIMILAR PROBLEMS 4 YEARS AGO, WE KEPT OUR MARKET OPEN. THE FURTHER POINT WHICH SEEMS TO ME WORTH MAKING IS THAT SERIOUS PREPARATIONS FOR A NEW TRADE ROUND SHOULD BE GIVEN PRIORITY, AS BEING BY FAR THE BEST WAY OF KEEPING TO MANAGEABLE PROPORTIONS THE DAY-TO-DAY FRICTIONS BETWEEN THE MAIN INDUSTRIALISED PARTNERS AND OFFERING THE DEVELOPING WORLD THE PROSPECT OF BEING ABLE TO EARN THEIR WAY OUT OF THE DEBT MORASS. THE PRESIDENT MIGHT BE REMINDED THAT THE BONN ECONOMIC SUMMIT IS NOT TOO FAR AWAY AND THE LEADERS OF THE INDUSTRIALISED NATIONS WILL WISH TO PRESENT A UNITED AND CREDIBLY OPEN TRADING FRONT TO THE REST OF THE WORLD.

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NAD
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PLANNING STAFF.
PS
PS / LADY YOUNG.
PS / MR. RENTON.
PS / PUS.
SIR. W. HARDING.
MR. DAVID THOMAS.

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GRS 250
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 FM WASHINGTON 192000Z DEC 84
 TO IMMEDIATE PEKING
 TELEGRAM NUMBER 13 OF 19 DECEMBER
 INFO IMMEDIATE HONG KONG, FCO

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FOLLOWING FOR PRIME MINISTER'S AND SECRETARY OF STATE'S PARTIES

PRIME MINISTER'S MEETING WITH THE PRESIDENT AT CAMP DAVID:
 22 DECEMBER

1. THE PRIME MINISTER WILL, I THINK, FIND PRESIDENT REAGAN IN AN UP-BEAT MOOD. HE FACES HIS SECOND TERM WITH A TEAM WHICH HE HAS TRIED AND TRUSTS; THE RUSSIANS HAVE COME BACK TO THE NEGOTIATING TABLE QUICKER THAN MIGHT HAVE BEEN EXPECTED AND THAT CAN BE SEEN AS A VINDICATION OF HIS OWN NEGOTIATING TACTICS SINCE LAST JANUARY.
2. THE LATEST ECONOMIC INDICATORS POINT TO THE WEAKNESS OF THE LAST TWO MONTHS BEING A HICCOUGH RATHER THAN A SERIOUS TREND. INTEREST RATES CONTINUE DOWNWARDS, THE FEDERAL RESERVE IS ASSUMED TO BE LOOSENING MONEY SUPPLY, AND WALL STREET IS ENJOYING A BOUT OF PRE-CHRISTMAS EUPHORIA.
3. PLENTY OF PROBLEMS LIE AHEAD, PARTICULARLY OVER THE BUDGET AND TRADE DEFICITS AND, IN FOREIGN POLICY, OVER DECISIONS AS TO HOW FAR TO GO ON ARMS CONTROL AND WHAT TO DO IN CENTRAL AMERICA AND THE MIDDLE EAST. THE NEW CONGRESS WILL GIVE HIM EVERY BIT AS MUCH TROUBLE, IF NOT MORE, THAN THE OLD. BUT, AS YOU KNOW, BOTH HIS STYLE AND HIS TEMPERAMENT INCLINE HIM TO LOOK AT THE BRIGHTER SIDE.
4. TIME BEING SHORT ON 22 DECEMBER, DISCUSSION WILL NECESSARILY BE CONCENTRATED ON A FEW MAIN THEMES. THIS IS NO LOSS, SINCE THE PRIME MINISTER WILL HAVE A FURTHER OPPORTUNITY DURING HER FEBRUARY VISIT TO GO INTO MORE DEPTH. MY 2 IFTS DEAL WITH ECONOMIC AND FOREIGN POLICY SUBJECTS, UPDATING THE BRIEFING PREPARED IN LONDON.

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NAD.
 ERD.
 NEWS.D.
 PLANNING STAFF.

PS
 PS/LADY YOUNG.
 PS/MR. RENTON.
 PS/PUS.
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 MR. DAVID THOMAS.

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cc. Master Set

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DD 190900Z

FROM PEKING 190555Z DEC 84

TO IMMEDIATE DTI

Please keep.

TELEGRAM NUMBER OTTER 291 OF 19/12/84

INFO PRIORITY GOVERNOR HONG KONG, BTC HONG KONG,
FCD AND PARIS

YOUR TEL NO OTTER 241: PRIME MINISTER'S VISIT:

GUANGDONG NUCLEAR PROJECT

1. AT HER MEETING WITH PREMIER ZHAO ZIYANG ON 19 DECEMBER THE PRIME MINISTER TOUCHED BRIEFLY ON THE GUANGDONG NUCLEAR PROJECT AND PREMIER ZHAO RESPONDED WITH A NUMBER OF POINTS.
2. THE PRIME MINISTER SAID THAT PROGRESS WAS NOW BEING MADE TOWARDS THE ESTABLISHMENT OF THE JOINT VENTURE. THIS WAS A VERY EXCITING PROJECT WHICH THE BRITISH GOVERNMENT WISHED WELL. THE GOVERNMENT HAD DONE SOMETHING ABOUT CREDIT TERMS, BY MAKING THE BEST PREMIUM TERMS AVAILABLE.
3. ZHAO SAID THAT THE NUCLEAR PROJECT JOINT VENTURE WOULD BE NOT ONLY THE LARGEST CHINA/UK JOINT VENTURE BUT ALSO THE LARGEST BETWEEN CHINA AND ANY FOREIGN COUNTRY SINCE INCEPTION OF CHINA'S OPENING TO THE OUTSIDE WORLD. HE HOPED THAT BOTH SIDES WOULD COOPERATE TO MAKE IT SUCCESSFUL. GEC WOULD BE PROVIDING THE GENERATING EQUIPMENT. SINCE THIS WOULD BE GEC'S FIRST EXPERIENCE IN MANUFACTURING THIS TYPE OF GENERATOR, THE CHINESE HOPED THAT THE PRICES SET WOULD TAKE ACCOUNT OF THIS FACT.

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4. ZHANG ALSO EXPRESSED THE HOPE THAT THE BRITISH SIDE WOULD SET A LIMIT ON PRICE ESCALATION AND WOULD HELP OVER THE OECD CONSENSUS RATE. IN SUM, HE WAS ASKING THAT BRITAIN SHOULD GIVE FAVOURABLE TERMS.

5. THE PRIME MINISTER POINTED OUT THAT GEC HAD GREAT EXPERIENCE IN BUILDING GENERATORS OF HIGH QUALITY, EVEN IF THEY HAD NOT MADE THEM OF THIS PARTICULAR SIZE. SHE WAS FULLY CONFIDENT OF GEC'S ABILITY. AS TO THE POINT ABOUT PRICE, SHE WOULD PASS THIS ON TO LORD WEINSTOCK. SHE WOULD ALSO PASS ON TO THOSE CONCERNED THE POINT ABOUT PRICE ESCALATION. SHE COMMENTED THAT ONE FACTOR IN PRICE ESCALATION WAS INFLATION, AND THIS WAS THE RESPONSIBILITY OF GOVERNMENTS TO CONTROL. THE BRITISH GOVERNMENT WAS PLAYING ITS PART IN THIS RESPECT

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MR WESTON
MR WILSON

ADDITIONAL DISTRN.
GUANGDONG NUCLEAR
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COM'S OFFICE REG. NO.
D.T.R. 20th DECEMBER 1984 0400 HRS

FROM PEKING 191807Z DEC 84

TO IMMEDIATE FCO

Subject *cc* Master Set

TELNO 3046 OF 19/12/84

INFO IMMEDIATE HONG KONG, WASHINGTON, MOSCOW, UKDEL NATO

PRIME MINISTER'S VISIT: MEETING WITH CHAIRMAN DENG XIAOPING:
19 DECEMBER : SINO-SOVIET AND EAST-WEST RELATIONS

1. AFTER DISCUSSION ON HONG KONG (REPORTED SEPARATELY, NOT TO ALL), THE PRIME MINISTER ASKED DENG FOR HIS VIEWS ON SINO-SOVIET RELATIONS AND ON THE RECENT SOVIET-US DECISION TO RESUME ARMS CONTROL TALKS.
2. DENG SAID THAT CHINA HOPED TO SEE PROGRESS AT THE SOVIET-US TALKS. HE ASKED THE PRIME MINISTER TO PERSUADE PRESIDENT REAGAN NOT TO DEVELOP WEAPONS IN OUTER SPACE AS THAT WOULD MEAN ESCALATION IN THE ARMS RACE AND AN EVEN MORE TENSE INTERNATIONAL SITUATION. OF COURSE CHINA UNDERSTOOD THAT THE INTENTION OF THE U S IN DEVELOPING SPACE WEAPONS WAS TO FORCE THE SOVIET UNION TO MAKE CONCESSIONS ON NUCLEAR MISSILES. BUT SPACE WEAPONS SHOULD NEVERTHELESS NOT BE DEVELOPED. THROUGHOUT THE 1970S AND THE FIRST 2 YEARS OF THE 1980S CHINA'S VIEW HAD BEEN THAT THE DANGER OF ANOTHER WORLD WAR EXISTED. NOW THIS VIEW HAD CHANGED SOMEWHAT BECAUSE THE FORCES FOR PEACE WERE GROWING FAST. THE BRITISH GOVERNMENT AND THE PRIME MINISTER HAD EXERTED EFFECTIVE EFFORTS IN THIS RESPECT. CHINA WAS ALL FOR BREAKING THE EXISTING SOVIET-AMERICAN DEADLOCK. SHE WAS MAKING EFFORTS TO INCREASE HER OWN CONTACTS WITH THE SOVIET UNION. BUT CHINA'S SITUATION WAS DIFFERENT FROM BRITAIN'S. CHINA WAS FACED WITH A DIRECT SOVIET THREAT. SHE HAD THEREFORE CONSISTENTLY TRIED TO NORMALISE RELATIONS BY REMOVING THE "THREE OBSTACLES" (SOVIET TROOPS ON HER BORDER, AFGHANISTAN AND CAMBODIA). UP TO NOW, THE SOVIET UNION HAD REFUSED TO REMOVE EVEN ONE, SO THERE WAS NO NORMALISATION OF SINO-SOVIET RELATIONS TO SPEAK OF AT PRESENT. SOME DEVELOPMENT OF ECONOMIC AND CULTURAL RELATIONS HAD TAKEN PLACE AND CONTACTS OF THIS KIND COULD SERVE THE INTERESTS OF PEACE AND DETENTE. CONFRONTATION WAS NOT THE WAY OUT.

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3. THE PRIME MINISTER SAID THAT DENG'S VIEWS ACCORDED IN MANY RESPECTS WITH HERS. SOME PEOPLE, BUT NOT HERSELF, BELIEVED THAT WARS WERE CAUSED BY THE EXISTENCE OF ARMS. THE REAL DANGER HOWEVER WAS NOT WHEN TWO COUNTRIES WERE STRONG ENOUGH TO DETER ATTACK BUT WHEN ONE WAS STRONGER AND POSSESSED TERRITORIAL AMBITIONS AND THE OTHER WAS WEAK. BRITAIN WOULD LIKE SECURITY AT A LOWER LEVEL OF WEAPONRY. BUT THIS HAD TO BE BALANCED SECURITY. WE HAD ONLY DEPLOYED CRUISE AND PERSHING IN EUROPE BECAUSE SS20S WERE TARGETTED ON US. IF THE SOVIET UNION WAS TO DESTROY SOME SS20S IN THE PERIOD OVER WHICH U S MISSILES WERE TO BE DEPLOYED IT WOULD BE POSSIBLE TO HALT THEIR DEPLOYMENT. WE HAD TO WATCH THE SOVIET UNION CLOSELY HOWEVER TO ENSURE THAT SHE DID NOT SIMPLY MOVE SS20S BEYOND THE URALS, BECAUSE THAT WOULD NOT BE REAL DISARMAMENT. THERE WERE TWO OTHER SOURCES OF IMBALANCE WHICH HAD TO BE DEALT WITH IN DISARMAMENT TALKS: FIRST, THE SOVIET UNION POSSESSED ENORMOUS STOCKS OF CHEMICAL WEAPONS AND, SECONDLY, THE SOVIET UNION HAD AN ANTI-SATELLITE SATELLITE CAPABILITY. IT WAS ONLY WHEN THE AMERICANS HAD SHOWN THAT THEY COULD DEVELOP AN EVEN MORE SOPHISTICATED CAPABILITY IN THIS SECOND AREA THAT THE SOVIET UNION HAD BEEN PERSUADED TO RETURN TO THE NEGOTIATING TABLE.

5. DENG ASKED FOR THE PRIME MINISTER'S VIEW OF GORBACHEV. THE PRIME MINISTER SAID THAT SHE HAD ENJOYED MEETING HIM AND FELT THAT SHE COULD DO BUSINESS WITH HIM. THE SOVIET UNION CONTINUED TO STATE THAT THE U S WAS NOT SINCERE IN WANTING DISARMAMENT. BUT SHE BELIEVED THAT PRESIDENT REAGAN WANTED ARMS REDSCTION TO BE ONE OF THE ACHIEVEMENTS OF HIS SECOND TERM IN OFFICE. FOR THAT TO BE ACHIEVED TRUST WAS NECESSARY. DENG ENQUIRED WHETHER THE PRIME MINISTER HAD ASKED GORBACHEV WHETHER THE SOVIET UNION WAS SINCERE IN WANTING TO DISARM. THE PRIME MINISTER SAID THAT SHE HAD DRAWN HER OWN CONCLUSIONS. BUT IT WAS IN SOVIET ECONOMIC INTERESTS TO REDUCE THE BURDEN OF ARMAMENTS.

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6. DENG ASKED THE PRIME MINISTER TO TAKE WITH HER HIS SINCERE REGARDS TO PRESIDENT REAGAN AND HIS CONGRATULATIONS ON HIS RE-ELECTION. HE ASKED THE PRIME MINISTER TO CONVEY HIS HOPE THAT IN PRESIDENT REAGAN'S SECOND TERM GHINA AND THE U S WOULD COOPERATE IN SOLVING THE QUESTION OF TAIWAN. IF THE U S AND PRESIDENT REAGAN THOUGHT THE CONCEPT OF "ONE COUNTRY, TWO SYSTEMS" WAS DESIRABLE, THERE WAS MUCH THEY COULD DO IN THIS RESPECT. THE PRIME MINISTER SAID **THAT** SHE WOULD CERTAINLY CONVEY THIS MESSAGE. THE U S HAD WELCOMED THE HONG KONG AGREEMENT.

A: PA

D: HE,CS,CBF(2),DPA,APA,SforS(5),S(OD),DSB(3),HSI,HSO(2),GCO,SLO,PS/CH

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FROM PEKING 191830Z DEC 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 3047 OF 19 DECEMBER
INFO IMMEDIATE HONG KONG

COMMS OFFICE REG. NO. 18021.....
D.T.R. 20th DECEMBER 1984 0500 HRS

*Subject
a Master Set*

PRIME MINISTER'S VISIT: MEETING WITH CHAIRMAN DENG XIAOPING:

19 DECEMBER: HONG KONG ASPECTS

SUMMARY

1. DENG CHARACTERISED THE AGREEMENT AS BEING OF HISTORIC SIGNIFICANCE. CHINA ALWAYS HONOURED ITS COMMITMENTS. MAINTENANCE OF HONG KONG'S PROSPERITY ACCORDED WITH CHINA'S INTEREST IN MODERNISING IT ECONOMY.

DETAIL.

2. AFTER EXCHANGE OF COURTESIES, DENG SAID THAT THE ACHIEVEMENT OF THE LEADERS OF CHINA AND BRITAIN WAS OF HISTORIC IMPORTANCE. A FAILURE TO SOLVE THE HONG KONG QUESTION WOULD HAVE CAST A SHADOW OVER THE RELATIONS BETWEEN THE COUNTRIES. THERE WAS NOW A VERY BRIGHT FUTURE.

3. THE PRIME MINISTER AGREED. DURING THE PAST TWO YEARS OF WORK WE HAD TAKEN PEOPLE ALONG WITH US AND TAKEN ACCOUNT OF THEIR NEEDS. CHAIRMAN DENG HAD RECEIVED MANY HONG KONG GROUPS AND THEY HAD BEEN ABLE PERSONALLY TO HEAR HIS ASSURANCES AND TO LET HIM KNOW OF THEIR WISHES. MANY HONG KONG PEOPLE HAD VISITED LONDON TO SEE HER. IF PEOPLE WERE TAKEN ALONG IT MADE MATTERS FAR EASIER TO SETTLER SATISFACTORILY IN THE END.

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/ 4. THE PRIME MINISTER.....

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4. THE PRIME MINISTER SAID THAT THE STROKE OF GENIUS IN THE NEGOTIATIONS HAD BEEN THE CONCEPT OF 'ONE COUNTRY, TWO SYSTEMS'. IT WAS THE KEY THAT HAD UNLOCKED THE FUTURE. DENG SAID THAT IF THE CONCEPT WAS OF FAR-REACHING SIGNIFICANCE THE CREDIT SHOULD GO MARXIST HISTORICAL DIALECTICS, OR TO 'SEEKING TRUTH FROM THE FACTS'. TO SOLVE THE HONG KONG QUESTION PEACEFULLY AN ANSWER WHICH SATISFIED CHINA, BRITAIN AND THE PEOPLE IN HONG KONG HAD HAD TO BE FOUND. THE IMPOSITION OF SOCIALISM ON THE TERRITORY WOULD NOT HAVE BEEN ACCEPTABLE TO BRITAIN OR TO THE PEOPLE OF HONG KONG. NOR, EVEN IF IT HAD BEEN ACCEPTABLE, WOULD IT HAVE PRESERVED HONG KONG'S PROSPERITY. THE SAME CONSIDERATION APPLIED TO TAIWAN. THE CONCEPT OF 'ONE COUNTRY, TWO SYSTEMS' HAD IN FACT BEEN DEvised ORIGINALLY TO SOLVE THE TAIWAN AND NOT THE HONG KONG QUESTION. IT HAD FLOWED FROM CHAIRMAN YE JIANYING'S NINE POINT PROPOSAL IN 1980 FOR TAIWAN. CHINESE LEADERS WERE DEEPLY CONVINCED THAT IT COULD WORK AND THE TWO YEARS OF SINO-BRITISH TALKS APPEARED TO TESTIFY THIS. THE NEXT 63 YEARS WOULD PROVE THE CONCEPT. SOME PEOPLE HARBOURED DOUBTS ABOUT WHETHER CHINA WOULD HONOUR THE AGREEMENT. DENG SAID THAT HE WISHED TO INFORM THE PRIME MINISTER AND THE WHOLE WORLD THAT CHINA HAD ALWAYS HONoured ITS COMMITMENTS.

5. SOME JAPANESE FRIENDS HAD ASKED WHY CHINA HAD SET A PERIOD OF 50 YEARS AFTER 1997 FOR THE DURATION OF THE AGREEMENT. THE REASON WAS THAT CHINA HOPED TO APPROACH THE ECONOMIC LEVEL OF ADVANCED COUNTRIES BY THE END OF THAT TIME. IF CHINA WANTED TO DEVELOP ITSELF, IT HAD TO OPEN TO THE OUTSIDE WORLD FOR THE WHOLE OF THAT PERIOD. THE MAINTENANCE OF HONG KONG'S STABILITY AND PROSPERITY ACCORDED WITH CHINA'S INTEREST IN MODERNISING ITS ECONOMY. SO THE PERIOD FOR THE AGREEMENT HAD BEEN SET IN THE LIGHT OF THE NEEDS OF THE CHINESE MODERNISATION. IN THE FIRST 50 YEARS OF THE NEXT CENTURY THERE WAS ALSO A NEED FOR A STABLE TAIWAN. CHINA DID NOT WISH TO GO TO WAR WITH TAIWAN. IF PEOPLE UNDERSTOOD THE CONSIDERATIONS BEHIND CHINA'S POLICY THEY WOULD NOT HAVE MISGIVINGS THAT IT WOULD CHANGE. THE POSSIBILITY OF CHANGE AFTER THE FIRST 50 YEARS OF THE NEXT CENTURY WAS EVEN LESS BECAUSE BY THEN ECONOMIC EXCHANGES WITH OTHER COUNTRIES WOULD HAVE COME TO DEPEND UPON EACH OTHER.

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6. THE PRIME MINISTER SAID THAT DENG'S CONCEPT WAS A GREAT DESIGN WHICH SHE BELIEVED COULD BE ACHIEVED. HE HAD SAID THAT CHINA DEDUCED TRUTH FROM FACTS. HE MUST THEREFORE KNOW THAT THE CONCEPT WOULD WORK BECAUSE CAPITALIST HONG KONG WOED VERY WELL NOW AND IT WAS NOT GOING TO BE CHANGED AFTER 1997. OUR TWO COUNTRIES HAD SIGNED THE AGREEMENT IN THE EYES OF THE WORLD. SHE WAS SURE THAT CHINA WOULD THEREFORE HONOUR THE AGREEMENT. SO WOULD BRITAIN. NEVERTHELESS IT WAS NATURAL THAT IN THE FACE OF CHANGE SOME PEOPLE IN HONG KONG HARBOURED DOUBTS. THEY NEEDED TO BE REASSURED AND IT WAS HELPFUL TO BE ABLE TO EXPLAIN THE REASONS WHY CHINESE POLICY WOULD NOT CHANGE, AS CHAIRAMN DENG HAD EXPLAINED IT. UP TO 1997 BR TAIN WOULD ADMINISTER HONG KONG PRUDENTLY AND WITH FORESIGHT AND WOULD PAY PARTICULAR IMPORTANCE TO THE WORK OF THE JOINT LIAISON GROUP SO THAT THE TRANSITION WOULD BE SMOOTH.

7. DENG SAID THAT THE 1 BILLION CHINESE ON THE MAINLAND WOULD PURSUE SOCIALISM FIRMLY. IF THE PEOPLE OF TAIWAN WHO NUMBER SOMEWHAT OVER 10 MILLION AND THE 5 MILLION PEOPLE OF HONG KONG PRACTICED CAPITALISM THIS WOULD NOT AFFECT THE SOCIALIST ORIENTATION OF THE BULKK OF THE COUNTRY. INDEED THE PRACTICE OF CAPITALISM IN SOME SMALL AREAS WOULD BENEFIT SOCIALIST POLICY. THE POLICY OF OPENING TO THE OUTSIDE WORLD WOULD HELP CHINA'S SOCIALIST POLICY TO GROW IN STRENGTH.

8. THE PRIME MINISITER SAID THAT SHE BELIEVED THAT THE AGREEMENT WOULD BE HONOURED, THAT THE CONCEPT OF "ONE COUNTRY, TWO SYSTEMS" WOULD WORK AND THAT THE 50 YEAR ECONOMIC PLAN FOR CHINA WOULD ALSO WORK, SINCE ALL WOULD BE OF BENIFIT TO CHINA.

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FROM PEKING 191800Z DEC 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 3045 OF 19 DECEMBER

INFO IMMEDIATE HONG KONG

COMMS OFFICE R.G.NO...18022...
D.T.R. 20th DECEMBER 1984 0520 HRS*msg
Record**Subject**cc Mr Peter Set*

PRIME MINISTER'S TALKS WITH HU YAOBANG

SUMMARY

1. A LIVERLY AND GOOD-HUMOURED MEETING. HONG KONG, SINO-BRITISH TRADE PROSPECTS, AND CHINESE MEASURES OF REFORM AND MODERNISATION WERE ALL TOUCHED ON. THE PRIME MINISTER INVITED HU TO VISIT BRITAIN AT AN UNSPECIFIED DATE.

DETAIL

2. HU SAID THAT THE PRIME MINISTER AND DENG HAD LAID A MILESTONE FOR RELATIONS BETWEEN THE TWO COUNTRIES WHICH WOULD ALWAYS BE REMEMBERED. THE PRIME MINISTER HAD DISPLAYED BRAVERY AND FAR-SIGHTEDNESS. IN RESPONSE TO A REMARK OF THE PRIME MINISTER'S, HU EMPHASISED THAT HE AND ZHAO WERE FIRM AND STRONG IN THEIR SUPPORT FOR THE IMPLEMENTATION OF THE AGREEMENT. FAILURE TO IMPLEMENT THE AGREEMENT WOULD DAMAGE CHINESE BUT NOT BRITISH CREDIBILITY. THE PRIME MINISTER REMARKED THAT THIS WAS SOMETHING THAT MUST NOT HAPPEN (SEMI COLON) THE INTERESTS OF BOTH SIDES IN THIS REGARD WERE IDENTICAL. ASSURANCES ABOUT THE IMPLEMENTATION OF THE AGREEMENT FROM HIMSELF, FROM ZHAO AND FROM DENG, GAVE THE PEOPLE OF HONG KONG EXTRA CONFIDENCE TO FACE THEIR FUTURE. HU ASSURED THE PRIME MINISTER THAT CHINA WOULD DO HER BEST TO INCREASE CONFIDENCE IN HONG KONG YEAR BY YEAR,

3. SOME CONVERSATION ON SINO-BRITISH TRADE PROSPECTS FOLLOWED DURING WHICH HU SAID THAT TOTAL TRADE BETWEEN THE TWO COUNTRIES LAST YEAR HAD AMOUNTED TO ONE THIRTIETH OF CHINA'S TOTAL FOREIGN TRADE. CHINA PLANNED TO INCREASE THIS TOTAL BY OVER 30 PERCENT NEXT YEAR. HU HIMSELF AND ZHAO WOULD BE INVOLVED IN THE FORTHCOMING VISIT OF THE HIGH LEVEL BRITISH TRADE DELEGATION IN MARCH.

CONFIDENTIAL

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4. AT THE PRIME MINISTER'S INVITATION HU SPOKE BRIEFLY ABOUT THE DOMESTIC SCENE IN CHINA. EVERYTHING WAS GOOD. THERE WERE CURRENTLY THREE MAIN DOMESTIC TASKS:

- A) ECONOMIC REFORM TO IMPROVE MANAGEMENT, PRODUCTIVITY AND DISTRIBUTION WITH THE AIM OF DOUBLING GNP IN THE COMING DECADE:
- B) CONTINUED PURSUIT OF THE OPEN DOOR POLICY:
- C) AS PART OF THE PROCESS OF PARTY RECTIFICATION, TO PROMOTE LARGE NUMBERS OF YOUNG, WELL-QUALIFIED AND ABLE PEOPLE TO SENIOR POSTS. LOW LEVELS OF EDUCATION AMONG LEADING CADRES WAS ONE OF CHINAS MOST DIFFICULT PROBLEMS.

5. HU SPOKE OF CHINA'S NEED TO LEARN FROM ADVANCED COUNTRIES. THE PRIME MINISTER EXPRESSED THE HOPE THAT HE MIGHT PAY A VISIT TO BRITAIN IN ORDER TO LOOK AND LEARN. HU SAID HE WOULD BE HONOURED TO DO SO BUT ZHAO WAS VISITING BRITAIN NEXT YEAR AND, AS GENERAL SECRETARY OF THE COMMUNIST PARTY, HIS FACE WAS RED. HE ASKED THE PRIME MINISTER TO CONVEY HIS REGARDS TO THE QUEEN AND HIS RESPECTS TO THE PEOPLE OF BRITAIN.

A: S(CD)(5)

D: HE,CS,CDF,PS,AG(2),PA(2),PS/CH,DFA,AD(C)

ah

CONFIDENTIAL

CONFIDENTIAL

Mag Record Subject
INFORMATION

CONFIDENTIAL
FROM PEKING 190825Z DEC 84
TO IMMEDIATE FCO
TELNO 3036 OF 19/12/84
INFO IMMEDIATE WASHINGTON AND MOSCOW
INFO PRIORITY UKDEL NATO AND HONG KONG.

COMMS OFFICE REG NO. 18008
D.T.R. 20th DECEMBER 1984 0700HRS.

cc. Master

MY SECOND IPT: PRIME MINISTER'S TALKS WITH PREMIER ZHAO ZIYANG:
EAST WEST RELATIONS

SUMMARY

1. THE PRIME MINISTER AND ZHAO BOTH HOPED THAT RESUMED ARMS CONTROL TALKS BETWEEN THE SOVIET UNION AND THE UNITED STATES WOULD LEAD TO GENUINE REDUCTIONS IN ARMAMENTS. THE PRIME MINISTER EMPHASISED THE FUNDAMENTAL DIFFERENCE BETWEEN THE TWO SUPERPOWERS. ZHAO HOPED FOR FURTHER DEVELOPMENT OF SINO-US RELATIONS AND HELD OUT NO PROSPECT OF IMPROVEMENT IN SINO-SOVIET RELATIONS OTHER THAN IN TRADE AND CULTURAL FIELDS.

DETAIL

2. THE PRIME MINISTER SAID THAT A NUMBER OF FACTORS HAD RECENTLY COMBINED TO CAUSE THE SOVIET UNION AND THE UNITED STATES BOTH TO CONSIDER THE RESUMPTION OF NEGOTIATIONS ON ARMS CONTROL. THE CHANCES OF RESULTS WERE BETTER THAN IN THE LAST TWO OR THREE YEARS. THE PROSPECT OF THE DEVELOPMENT OF A NEW GENERATION OF WEAPONS IN OUTER SPACE HAD BEEN INSTRUMENTAL IN BRINGING ABOUT THE RESUMPTION OF TALKS. WE RECOGNISED THAT EACH COUNTRY, INCLUDING THE SOVIET UNION, HAD TO FEEL SECURE WITHIN ITS OWN BORDERS AND IN ITS OWN WAY OF LIFE. FOR THAT, A BALANCE OF FORCES WAS NECESSARY. THE CHOICE WAS BETWEEN A BALANCE AT A HIGH LEVEL OF ARMAMENTS OR REACHING AGREEMENT WHICH COULD SECURE A BALANCE AT LOWER LEVELS. ANY SUCH AGREEMENT HAD TO BE VERIFIABLE. BECAUSE THE COST OF MOVING TO THE NEXT GENERATION OF WEAPONS WAS SO HIGH, IT WAS RIGHT TO SEEK BALANCE AT LOWER LEVELS. IT WAS AN OPPORTUNITY THAT MUST NOT BE MISSED, ALTHOUGH A GREAT DEAL OF DETAILED AND COMPLEX NEGOTIATIONS ON ALL TYPES OF WEAPONS AND FORCES WAS NECESSARY.

CONFIDENTIAL

/3. THE PRIME....

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3. THE PRIME MINISTER SAID THAT SHE AND GORBACHEV, DURING THEIR RECENT DISCUSSION, HAD AGREED THAT NEITHER SIDE SHOULD LOOK AT THE OTHER THROUGH ROSE TINTED SPECTACLES. EACH LOOKED FROM THE VIEW-POINT OF TWO VERY DIFFERENT SYSTEMS. NEVERTHELESS, TWO VIEWS WERE HELD IN COMMON:

- A) THERE MUST NEVER BE ANOTHER MAJOR WORLD CONFLICT,
- B) THERE WAS A NEW URGENCY ABOUT SEEKING ARMS CONTROL AGREEMENTS.

4. ZHAO SAID IN REPLY THAT CHINA UNDERSTOOD WHY A NUMBER OF WESTERN EUROPEAN COUNTRIES HAD AGREED TO INF DEPLOYMENT TO OFFSET SOVIET NUCLEAR SUPERIORITY IN EUROPE. BUT THE ESCALATING ARMS RACE, PARTICULARLY IN NUCLEAR WEAPONS, WAS MAKING THE SITUATION IN EUROPE AND THE WHOLE WORLD EVEN MORE TENSE, WHICH WAS A MATTER OF CONCERN TO PEOPLE THROUGHOUT THE WORLD AND ALSO TO THE CHINESE GOVERNMENT. CHINA HOPED TO SEE RELAXATION OF TENSION BETWEEN THE TWO SIDES AND WAS GLAD TO SEE RECENTLY MORE CONTACT AND AN IMPROVEMENT IN RELATIONS BETWEEN COUNTRIES OF EAST AND WEST EUROPE.

5. CHINA WELCOMED THE AGREEMENT BETWEEN THE SOVIET UNION AND THE UNITED STATES TO RESUME ARMS CONTROL TALKS IN JANUARY AND HOPED THIS WOULD LEAD TO A RELAXATION OF TENSION AND GENUINE DISARMAMENT. NEVERTHELESS, THE PROCESS WOULD CLEARLY BE A DIFFICULT ONE. IT SEEMED THAT IT REPRESENTED MERELY A CHANGE OF TACTICS BY THE TWO SUPERPOWERS - NEITHER HAD IN FACT ABANDONED ITS INTENTION OF SEEKING MILITARY SUPERIORITY. ZHAO HOPED THAT COUNTRIES CLOSE TO THE UNITED STATES, PARTICULARLY BRITAIN, WOULD URGE THE U S TO ABANDON EFFORTS TO SEEK SUCH SUPERIORITY. HE HAD RECENTLY TOLD THE VISITING NORWEGIAN PREMIER THAT ALTHOUGH THE SOVIET UNION FACED ECONOMIC DIFFICULTIES IN SUSTAINING MILITARY EXPENDITURE, NEVERTHELESS THE SOVIET PEOPLE WOULD BE WILLING TO MAKE SACRIFICES IF THE SOVIET UNION FELT INSECURE AS A RESULT OF AMERICAN FAILURE TO SHOW RESTRAINT. CHINA THEREFORE HOPED THE UNITED STATES WOULD SHOW RESTRAINT IN INF DEPLOYMENT AND WOULD MAKE EFFORTS TO REACH AGREEMENT WITH THE SOVIET UNION.

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/6. THE PRIME....

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6. THE PRIME MINISTER POINTED OUT THAT THE SUPERPOWERS WERE FUNDAMENTALLY DIFFERENT. THE SOVIET BRAND OF COMMUNISM, UNLIKE ANY OTHER POLITICAL SYSTEM, HAD WORLD DOMINATION AS ITS OBJECTIVE, WHICH IT SOUGHT THROUGH THE THREAT POSED BY THE GREAT FORCES AT ITS COMMAND, THROUGH ACTIVE SUBVERSION AND THROUGH THE USE OF PROXY FORCES SUCH AS THE CUBANS. THE UNITED STATES ON THE OTHER HAND USED ITS STRENGTH SOLELY FOR DEFENCE. DESPITE HAVING FOR YEARS HAD A TOTAL MONOPOLY ON NUCLEAR WEAPONS, THE UNITED STATES HAD AT NO STAGE USED THAT POWER TO EXTEND ITS TERRITORY.

7. SHE CONTINUED THAT NUCLEAR WEAPONS, BY THEIR HORRIFIC POWER, HAD PROVIDED A KIND OF SECURITY THAT DID NOT EXIST BEFORE, PROVIDED NO NATION OBTAINED A MEANS TO KNOCK OUT ANOTHER'S NUCLEAR WEAPONS. THE CURRENT ESCALATION WAS BECAUSE EACH SIDE FELT THAT THE OTHER MIGHT FIRST DEVELOP SUCH A CAPACITY AND SO UPSET THE BALANCE. THE PRIME MINISTER SAID ONE OF HER TASKS WAS TO EXPLAIN TO THE SOVIET UNION THAT THE UNITED STATES WAS NOT SEEKING SUPERIORITY BUT THAT BALANCE COULD BE UPSET IF ONE SIDE GOT SO FAR AHEAD THAT THE OTHER FELT INSECURE. ANOTHER TASK WAS TO CONVINCE THE SOVIET UNION THAT THE WEST WAS SINCERE IN WANTING DISARMAMENT. THIS COULD NOT BE ACHIEVED WITHOUT OTHER MEASURES TO RELAX TENSION AND BUILD CONFIDENCE. THE PRIME MINISTER CONCLUDED BY EMPHASISING THAT WORLD SECURITY WOULD NOT BE HELPED BY AN AGREEMENT WHICH MERELY RESULTED IN THE RELOCATION OF EXISTING SOVIET NUCLEAR WEAPONS.

8. ZHAO REPLIED THAT CHINA'S VIEWS ON THE NATURE OF THE SOVIET UNION WERE IDENTICAL TO OURS. HE HAD MADE HIS POINT ABOUT THE ESCALATION OF THE ARMS RACE AGAINST THE BACKGROUND OF A NEW POSTURE ON THE PART OF BOTH THE SOVIET UNION AND THE UNITED STATES. IN THE 70S IT HAD BEEN THE SOVIET UNION THAT WAS INCREASING ITS ARMAMENTS, BUT NOW THE SITUATION WAS DIFFERENT, PARTICULARLY AFTER THE UNITED STATES DEPLOYMENT OF THE FIRST INF IN EUROPE. IT WAS IN THAT CONTEXT THAT HE HAD SAID THE UNITED STATES SHOULD SHOW RESTRAINT. HE ASKED THE PRIME MINISTER TO CONVEY HIS GREETINGS AND REGARDS TO PRESIDENT REAGAN AND TO SAY THAT CHINA SINCERELY HOPED TO SEE THE DEVELOPMENT OF HEALTHY SINO-US RELATIONS ON AN ENDURING AND STEADY BASIS AND HOPED THAT IN THE PRESIDENT'S SECOND TERM THERE WOULD BE FURTHER DEVELOPMENT OF EXISTING RELATIONS ON THE BASIS OF THE THREE JOINT COMMUNIQUES.

CONFIDENTIAL

/9. ON SINO-soviet.....

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9. ON SINO-SOVIET RELATIONS, ZHAO SAID THAT THE SITUATION WAS UNCHANGED. PROGRESS DEPENDED ON THE REMOVAL OF THE THREE OBSTACLES. NO PROGRESS HAD BEEN MADE IN THIS RESPECT EITHER AT THE FOREIGN MINISTERS' MEETING AT THE U N OR AT THE MOST RECENT ROUND OF NORMALISATION TALKS. BUT EXCHANGES IN THE ECONOMIC, TECHNOLOGICAL AND CULTURAL FIELDS HAD INCREASED AND WOULD CONTINUE TO INCREASE. THE FORTHCOMING VISIT OF ARKHIPOV WOULD BE CONCERNED MAINLY WITH ECONOMIC AND TRADE MATTERS, FOR WHICH ARKHIPOV WAS RESPONSIBLE. ZHAO DID NOT EXPECT THE THREE OBSTACLES OR THE NORMALISATION OF RELATIONS WOULD BE DISCUSSED DURING THE VISIT, BUT IF THEY WERE, NO PROGRESS WAS EXPECTED.

10. NO OTHER INTERNATIONAL ISSUES WERE DISCUSSED AT THE FORMAL TALKS.

A: PA

D: HE, CS, CBF(2), DPA, AFA, SforS(5), S(GD), DGB(3), HSI, HSG(2), GCO, SLO, PS/GH

dw

CONFIDENTIAL

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GRS 1000

CONFIDENTIAL

FROM PEKING 190810Z DEC 84

TO IMMEDIATE FCO

TELNO 3035 OF 19/12/84

INFO IMMEDIATE HONG KONG, DTI AND BTC HONG KONG.

MIPT: PRIME MINISTER'S TALKS WITH PREMIER ZHAO ZIYANG:
19 DECEMBER: BILATERAL RELATIONS

1. FOLLOWING SUMMARISES DISCUSSION OF BILATERAL ISSUES IN THE TALKS WITH ZHAO.

(A) INVITATION TO THE QUEEN TO VISIT CHINA

2. REPORTED SEPARATELY.

(B) INVITATION TO PREMIER ZHAO TO VISIT UK

3. THE PRIME MINISTER SAID THAT SHE WOULD BE DELIGHTED TO WELCOME PREMIER ZHAO TO THE UK AS EARLY AS POSSIBLE IN 1995. SHE UNDERSTOOD THAT HE MIGHT BE PLANNING TO VISIT EUROPE IN JUNE. ZHAO SAID THAT HE WAS LOOKING FORWARD TO VISITING BRITAIN AND THAT HE HOPED TO BE ABLE TO DO SO IN JUNE.

(C) ECONOMIC AND TRADE ISSUES

4. THE PRIME MINISTER SAID THAT WE WELCOMED ZHAO'S STATED WISH THAT TRADE WITH WESTERN EUROPE SHOULD GROW FASTER. WE STUDIED CLOSELY CHINA'S PLANS TO DEVELOP THOSE INDUSTRIES IN WHICH BRITISH COMPANIES POSSESSED EXPERTISE. THE PRIME MINISTER PROPOSED THAT AN OFFICIAL HIGH LEVEL TRADE DELEGATION, LED BY LORD YOUNG, SHOULD VISIT CHINA IN EARLY 1995 TO HOLD DETAILED DISCUSSIONS ON HOW TO EXPAND SINO-BRITISH TRADE. ZHAO SAID THAT THIS DELEGATION WOULD BE WELCOME. MARCH WOULD BE THE BEST TIME AS IT WOULD ALLOW FOR THE VISIT TO BE WELL PREPARED AND WOULD FOLLOW THE SPRING FESTIVAL HOLIDAY. THE PRIME MINISTER AGREED. THE VISIT MUST GO WELL. LORD YOUNG WOULD BRING WITH HIM A PARTY OF VERY HIGH LEVEL BRITISH BUSINESSMEN.

5. THE PRIME MINISTER SAID THAT SHE WAS VERY PLEASED THAT WORK IN DEVELOPING CHINA'S OFFSHORE OIL AND GAS WAS GOING WELL. BP WERE PARTICIPATING IN THIS AND WERE PREPARED TO DO FURTHER WORK IN THE SOUTH CHINA SEA. BRITISH OIL COMPANIES PROBABLY POSSESSED MORE EXPERTISE THAN ANY OTHERS IN EXPLORATION AND PRODUCTION WORK IN HARSH WEATHER AREAS. BRITAIN ALSO POSSESSED GREAT EXPERTISE IN THE MINING OF COAL. WE POSSESSED ADVANCED MINING EQUIPMENT AND OUR MANUFACTURERS WERE ALREADY IN CONTACT WITH CHINA.

6. THE EMBASSY HAS SEPARATELY REPORTED DISCUSSION ON THE GUANGDONG NUCLEAR PROJECT.

7. ON AEROSPACE, THE PRIME MINISTER WELCOMED THE NEWS OF THE SIGNATURE OF A MEMORANDUM OF UNDERSTANDING UNDER WHICH CHINA INTENDS TO BUY FIVE AIRBUS 310. IT WAS ALSO WELCOME THAT A MEMORANDUM OF UNDERSTANDING HAD BEEN SIGNED FOR FIFTEEN 36-SEATER SHORT BROTHERS AIRCRAFT. THE PRIME MINISTER SPOKE STRONGLY IN SUPPORT OF CHINA BUYING THE BAC 146: THE EMBASSY HAS REPORTED THIS DISCUSSION ALSO SEPARATELY.

Subject
My head *cc Master*

8. ZHAO THANKED THE PRIME MINISTER FOR HER POSITIVE OBSERVATIONS ON POLITICAL AND ECONOMIC BILATERAL RELATIONS. CHINA HAD ALWAYS ATTACHED IMPORTANCE TO COOPERATION IN THE TECHNOLOGICAL AND ECONOMIC FIELD. IN RECENT YEARS A NUMBER OF SINO-BRITISH AGREEMENTS HAD BEEN SIGNED WHICH HAD OPENED UP NEW VISTAS FOR DEVELOPMENT OF THESE RELATIONS. CHINA HAD A NUMBER OF TIMES EXPRESSED THE HOPE THAT THE PERCENTAGE OF HER FOREIGN TRADE OCCUPIED BY WESTERN EUROPE WOULD INCREASE. NOW A SATISFACTORY AGREEMENT ON HONG KONG HAD USHERED IN A NEW ERA FOR FRIENDLY SINO-BRITISH COOPERATION. ONE ASPECT OF THIS SHOULD BE AN INCREASE IN ECONOMIC AND TECHNOLOGICAL INTERCHANGE. IT WAS CHINA'S POLICY TO INCREASE TRADE WITH BRITAIN, BUT IT WAS FOR BRITAIN TO ENHANCE THE COMPETITIVENESS OF HER PRODUCTS. CHINA TOOK CONSIDERATIONS OF QUALITY, PRICE AND TRANSFER OF TECHNOLOGY TERMS INTO ACCOUNT IN DECIDING ON WHICH PRODUCTS SHE SHOULD BUY. SHE DID NOT CONSIDER PRICE ALONE. THE ATTITUDE OF WESTERN EUROPEAN COUNTRIES, INCLUDING BRITAIN, TO TRANSFER OF TECHNOLOGY WAS MORE LIBERAL THAN THAT ADOPTED BY THE US AND JAPAN. ZHAO AGREED THAT AREAS FOR SINO-BRITISH ECONOMIC COOPERATION INCLUDED OFFSHORE OIL, WHERE BRITISH COMPANIES HAD MUCH EXPERTISE, COAL, WHERE NOT ONLY BRITISH EQUIPMENT BUT ALSO BRITISH DESIGN AND MANAGEMENT TECHNIQUES WERE ADVANCED (ZHAO MENTIONED THAT HE HAD BEEN VERY IMPRESSED WITH BRITISH DESIGN FOR THE JINING NO 2 COAL PROJECT IN SHANGDONG), ENERGY SAVING EQUIPMENT AND AIRCRAFT.

(D) CULTURE

10. ZHAO THANKED THE PRIME MINISTER FOR INCREASING THE NUMBER OF SCHOLARSHIPS FOR CHINESE STUDENTS IN BRITAIN. HE HOPED THAT THIS TREND WOULD CONTINUE. THE PRIME MINISTER AGREED THAT THIS WAS A VERY GOOD SCHEME AND THAT IT WAS WORKING WELL. SHE REMARKED ON THE SUCCESS OF THE BRITISH COUNCIL'S LANGUAGE TRAINING SCHEMES IN PEKING AND MENTIONED THAT SHE WAS PLEASED WITH THE SALE OF A NUMBER OF GOOD BBC TV PROGRAMMES TO CHINA.

EVANS

NNNN

00 FCO DESKBY 190930Z

Subject

cc. Master

00 HONG KONG DESKBY 190930Z

GRS 1500

General distrib.

CONFIDENTIAL
DESKBY 190930 HK AND FCO
FROM PEKING 190753Z DEC 84
TO IMMEDIATE FCO
TELNO 3034 OF 19/12/84
INFO IMMEDIATE HONG KONG

My Record

FROM PS/PRIME MINISTER

PRIME MINISTER'S VISIT: TALKS WITH ZHAO: HONG KONG

SUMMARY

1. THE PRIME MINISTER ASSURED ZHAO THAT HMG WOULD IMPLEMENT THE AGREEMENT FULLY AND DO ALL POSSIBLE TO MAINTAIN STABILITY AND PROSPERITY, EMPHASISED THE IMPORTANCE OF THE BASIC LAW AND POINTED TO THE VALUE OF LISTENING TO HONG KONG VIEWS. SHE EMPHASISED THAT CONSTITUTIONAL DEVELOPMENT WOULD BE STEADY AND SECURE. ZHAO GAVE REASSURANCES THAT CHINA WOULD IMPLEMENT THE AGREEMENT FULLY, EMPHASISED THE IMPORTANCE OF AVERTING PROBLEMS DURING THE TRANSITIONAL PERIOD AND CONFIRMED THAT CHINA WOULD NOT COMMENT ON OUR CONSTITUTIONAL PROPOSALS.

DETAIL

2. THE PRIME MINISTER HAD A SHORT INFORMAL MEETING FOLLOWED BY TWO AND A HALF HOURS OF FORMAL TALKS WITH ZHAO THIS MORNING. THE ATMOSPHERE WAS FRIENDLY AND RELAXED. THE FIRST HOUR WAS DEVOTED TO HONG KONG MATTERS.

GENERAL

3. DURING THE INFORMAL MEETING, ZHAO SAID THAT THE PRIME MINISTER'S VISIT HAD LAID THE FOUNDATIONS FOR THE SATISFACTORY SETTLEMENT. THE AGREEMENT WAS A MAJOR EVENT OF HISTORICAL AND FAR-REACHING SIGNIFICANCE. HE PRAISED THE SECRETARY OF STATE'S ROLE.

4. IN THE TALKS THE PRIME MINISTER SPOKE FIRST. SHE SAID THAT THE TWO SIDES HAD BEEN UNSURE TWO YEARS AGO FOR THE NEGOTIATIONS ON HONG KONG WOULD TURN OUT. SHE STRESSED THE IMPORTANCE HMG ATTACHED TO THE AGREEMENT. SHE WAS PLEASED THAT SHE AND ZHAO WOULD SIGN. SHE BELIEVED THE AGREEMENT FULLY MET THE INTERESTS OF BOTH COUNTRIES. IT LAID THE FOUNDATION UPON WHICH THE PEOPLE OF HONG KONG COULD BUILD THEIR FUTURE AND ALSO FOR IMPROVED BILATERAL RELATIONS.

5. ZHAO SAID THAT THE SATISFACTORY CONCLUSION OF THE AGREEMENT WAS THE RESULT OF FRIENDLY BILATERAL RELATIONS. IT WAS A MAJOR EVENT OF HISTORICAL SIGNIFICANCE. THE AGREEMENT HAD NOT ONLY SUCCESSFULLY RESOLVED THE QUESTION OF THE RESUMPTION OF THE EXERCISE OF SOVEREIGNTY BUT ALSO WAS CONDUCIVE TO THE MAINTENANCE OF HONG KONG'S LONG TERM STABILITY AND PROSPERITY AND TO WORLD PEACE. IT OPENED A NEW CHAPTER IN BILATERAL RELATIONS. IT WAS AN EXAMPLE FOR OTHER PROBLEMS LEFT OVER FROM HISTORY. ZHAO AGREED THAT THE AGREEMENT CONFORMED TO THE INTERESTS OF CHINA, THE UK AND HONG KONG COMPATRIOTS. HE PRAISED THE PRIME MINISTER'S VISION AND STATESMANSHIP AND HER GREAT CONTRIBUTION TO ITS SUCCESSFUL CONCLUSION.

IMPLEMENTATION

6. THE PRIME MINISTER UNDERLINED HMG'S COMMITMENT TO IMPLEMENTING THE JOINT DECLARATION IN EVERY RESPECT. WE APPRECIATED ZHAO'S AND DENG'S COMPARABLE STATEMENTS. THE UK WAS COMMITTED TO COOPERATING CLOSELY OVER THE AGREEMENT'S IMPLEMENTATION. IT WAS IMPORTANT THAT BOTH SIDES' TOTAL COMMITMENT SHOULD BE CLEAR IN ORDER TO SUSTAIN OVERSEAS CONFIDENCE AND THUS CONTINUED INVESTMENT.

7. ZHAO SAID THAT THE TASK WAS NOW TO IMPLEMENT THE AGREEMENT IN EVERY RESPECT. CHINA WAS READY TO DO SO. HE WAS SURE THE UK WAS TOO. THE DECISION TO PROCEED WITH THE "ONE COUNTRY, TWO SYSTEMS" CONCEPT WAS NOT ONE OF EXPEDIENCY. IT WAS A TRADITION OF THE CHINESE NATION TO ACT IN GOOD FAITH AND ALWAYS TO ABIDE BY AND IMPLEMENT FAITHFULLY INTERNATIONAL AGREEMENTS. THIS HAD BEEN THE CASE EVEN DURING YEARS OF DOMESTIC TURMOIL. THERE WERE NO GROUNDS FOR MISGIVINGS ABOUT A FUTURE CHANGE IN CHINESE POLICY. CHINA WOULD PROVE HER WORDS BY DEEDS.

TRANSITIONAL PERIOD

8. THE PRIME MINISTER ASSURED ZHAO THAT THE MAINTENANCE OF STABILITY AND PROSPERITY WAS OUR PRINCIPAL AIM AND THAT HONG KONG WOULD CONTINUE ITS CAUTIOUS AND PRUDENT FINANCIAL POLICIES. THE UK DID NOT AND WOULD NOT DERIVE INCOME FROM HONG KONG.

9. ZHAO SAID THE CHINESE WERE CONCERNED ABOUT THE TRANSITIONAL PERIOD. IT WOULD BE VERY IMPORTANT. IF ALL WENT SMOOTHLY AND ECONOMIC DIFFICULTIES WERE AVOIDED A SOLID FOUNDATION FOR CONTINUED STABILITY AND PROSPERITY WOULD BE LAID. DIFFICULTIES WOULD OTHERWISE OCCUR. CHINA SHARED THE WISH TO MAINTAIN STABILITY AND PROSPERITY IN THE TRANSITIONAL PERIOD TO ENSURE A SMOOTH TRANSFER OF GOVERNMENT IN 1997. HOWEVER, WE SHOULD BE PREPARED FOR DIFFICULTIES AND TAKE EFFECTIVE COUNTER MEASURES. IT WAS IMPORTANT TO INCREASE MUTUAL TRUST AND INTENSIFY COOPERATION.

BASIC LAW

10. THE PRIME MINISTER SAID THAT DRAFTING THE BASIC LAW WOULD BE A PARTICULARLY IMPORTANT TASK. SHE WAS SURE THAT CHINA WAS AWARE OF HONG KONG'S CONCERN. CHINA'S EXPRESSED WILLINGNESS TO SOLICIT OPINIONS FROM A WIDE BASIS WITHIN HONG KONG WAS GREATLY APPRECIATED. IT WOULD BE VERY IMPORTANT FOR THE MAINTENANCE OF CONFIDENCE. THE BASIC LAW MUST BE SUITED TO THE CAPITALIST SYSTEM AND THE HONG KONG PEOPLE HAD MUCH EXPERTISE TO OFFER. IT SHOULD ALSO BE CONSISTENT WITH THE HONG KONG LEGAL SYSTEM. THE BASIC LAW MUST BE RIGHT. THIS WAS IMPORTANT FOR A SMOOTH TRANSFER OF GOVERNMENT IN 1997.

11. ZHAO SAID THAT CHINA WOULD TRY TO EXPEDITE THE DRAFTING OF THE BASIC LAW. THE PROCESS WOULD TAKE SOME TIME BUT HE EXPECTED THE LAW TO BE PROMULGATED NO LATER THAN 1990. AFTER THE NPC HAD APPROVED THE ESTABLISHMENT OF THE SAR IT WOULD SET UP A DRAFTING COMMITTEE. THIS WOULD START AS SOON AS POSSIBLE THEREAFTER. ITS COMPOSITION AND WORKING PROCEDURES WOULD BE A MATTER FOR THE STANDING COMMITTEE OF THE NPC. HOWEVER, IN THE COURSE OF DRAFTING, HONG KONG VIEWS WOULD BE SOLICITED ON A WIDE BASIS.

CONSTITUTIONAL DEVELOPMENT

12. THE PRIME MINISTER SAID THAT ZHAO WOULD BE AWARE OF OUR CONSTITUTIONAL DEVELOPMENT PROPOSALS. WE WERE KEEN TO GIVE HONG KONG PEOPLE ADMINISTRATIVE EXPERIENCE. DEVELOPMENT WOULD BE STEADY AND SECURE AND WOULD INVOLVE CLOSE CONSULTATION WITH THE PEOPLE OF HONG KONG.

13. ZHAO SAID THAT THE GOVERNMENT STRUCTURE, FORM OF LEGISLATURE OF THE SAR AND METHOD OF SELECTION OF THE CHIEF EXECUTIVE WOULD BE DEFINED BY THE BASIC LAW. THE CHINESE GOVERNMENT WERE NOT PREPARED TO MAKE ANY COMMENT ON CONSTITUTIONAL DEVELOPMENT IN THE TRANSITIONAL PERIOD. IN PRINCIPLE, THEY TOO WANTED MORE HONG KONG PEOPLE INVOLVED IN THE ADMINISTRATION. HOWEVER, CONSTITUTIONAL DEVELOPMENT SHOULD NOT ADVERSELY AFFECT STABILITY AND PROSPERITY OR THE SMOOTH TRANSFER OF GOVERNMENT IN 1997. HE WAS SURE HMG WOULD TAKE THIS FULLY INTO ACCOUNT.

14. THE PRIME MINISTER THEN MADE THREE POINTS:

(A) SHE APPRECIATED ZHAO'S REASSURANCE ABOUT IMPLEMENTATION OF THE AGREEMENT. SHE WOULD LIKE TO REPEAT HIS REMARKS PUBLICLY IN HONG KONG. ZHAO SAID HE WOULD BE GRATEFUL IF SHE DID SO.

(B) SHE AGREED ABOUT THE NEED TO BE PREPARED FOR DIFFICULTIES IN THE TRANSITIONAL PERIOD. IT WAS VITAL THAT WE SHOULD REMAIN CALM AND DECISIVE AND CONSULT THROUGH THE LIAISON GROUP.

(C) SHE WELCOMED ZHAO'S CONFIRMATION THAT WHEN DRAFTING THE BASIC LAW, THE VIEWS OF HONG KONG PEOPLE WOULD BE SOLICITED ON A WIDE BASIS AND THAT THE LAW WOULD BE PROMULGATED NOT LATER THAN 1990. SHE WOULD ALSO LIKE TO REPEAT THESE REMARKS PUBLICLY. ZHAO ASSENTED.

15. SEE MY TWO IFTS FOR DISCUSSION OF BILATERAL AND INTERNATIONAL ISSUES.

EVANS

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LIN 953/19

(Translation)

EMBARGO

NOT FOR BROADCASTING OR USE ON CLUB TAPES UNTIL DELIVERY.

The leaders of our two countries agreed to friendly talks on the settlement of the question of Hong Kong. The Chinese and British Governments have agreed on and formally signed the Joint Declaration on the Question of Hong Kong, giving us an opportunity to review the course of development of the relations between our two countries, look ahead to their broad prospects and exchange views on international issues of mutual concern.

**SPEECH BY PREMIER ZHAO ZIYANG AT THE WELCOMING BANQUET
IN HONOUR OF PRIME MINISTER MARGARET THATCHER**

19 December 1984

The Rt. Hon. Prime Minister Margaret Thatcher,
The Rt. Hon. Foreign Secretary Sir Geoffrey Howe,
Distinguished British Guests,
Friends and Comrades,

Tonight, I am privileged to extend, on behalf of the Chinese Government and people, our cordial and warm welcome to Prime Minister Margaret Thatcher, who has come to sign the Sino-British Joint Declaration on the Question of Hong Kong and pay an official visit to China, and her party. I would also like to take this opportunity to express welcome to the Hong Kong personages from various circles who have been invited to observe the signing ceremony in Beijing.

The Rt. Hon. Prime Minister is an outstanding statesman of Great Britain and an old acquaintance and friend of the Chinese people. Two years ago, Your Excellency ~~Right Honourable~~ paid your first official visit to China as the Prime Minister of the United Kingdom.

The leaders of our two countries agreed then to hold friendly talks on the settlement of the question of Hong Kong. It is highly meaningful for us to meet again today, on this joyous occasion when the Chinese and British Governments have agreed on and formally signed the Joint Declaration on the Question of Hong Kong, giving us an opportunity to review the course of development of the relations between our two countries, look ahead to their broad prospects and exchange views on international issues of mutual concern.

The Chinese and British Governments have settled the Hong Kong question, a legacy of history, through peaceful negotiations. This is a success of Sino-British friendly cooperation, and a rich reward for the historic policy decision made by the leadership of the two countries who showed great foresight and regard for larger interests and the long-term interests of the two peoples. We particularly appreciate the outstanding statesmanship of Prime Minister Margaret Thatcher and her important contribution to the success of the Sino-British talks. The satisfactory settlement of the Hong Kong question has not only laid a reliable foundation for the long-term prosperity and stability of Hong Kong but also provided useful experience for the peaceful resolution of issues between states left over from history and of international disputes. Of far-reaching significance, this important event of the 1980s will be an important chapter in the contemporary world history.

Dear Prime Minister, Friends and Comrades,

The current international situation is a matter of concern to us all. The rivalry between the superpowers

for world hegemony and the continued escalation of their nuclear arms race have threatened world peace and security. In the face of this grave situation, it is gratifying that more and more countries are endeavouring to take their destiny into their own hands and making all possible efforts to stop the arms race, ease the tension and maintain world peace. The forces for peace are growing in strength, and the factors preventing the outbreak of a new world war are on the increase. We are deeply convinced that with the concerted efforts of all peace-loving countries and peoples, a world war can be averted and peace maintained.

The Chinese people are now fully engaged in a socialist modernization drive. China needs peace. China is ready to establish and develop relations with all other countries in the world on the basis of the Five Principles of Peaceful Coexistence. In our view, efforts should be made to seek a reasonable settlement of all international disputes through peaceful negotiations instead of resorting to the use or threat of force. We hope that the United States and the Soviet Union will improve their relations as therein lies the key to relaxing world tension. For this reason, we welcome the resumption of the disarmament dialogue between the United States and the Soviet Union in the hope that they will find effective means to halt the arms race through sincere and earnest negotiations. As permanent members of the U.N. Security Council, China and the United Kingdom share a lofty international duty of maintaining world peace and international security. We are pleased to note that our two countries share common or similar views on many major international issues. We should increase contacts and exchange views more frequently so as to enhance our mutual understanding, expand the basis of cooperation and

make our respective contributions to relaxing international tension and safeguarding world peace. I believe our British colleagues share this desire.

Dear Prime Minister, Friends and Comrades,

China is now going through a very important historical period. With marked progress made in the rural economic reform, we have decided to carry out further the restructuring of the entire national economy including the industrial, commercial and other sectors with the urban economy as the focus. It is one of our major policies in the reform to open to the outside world and develop international cooperation. China attaches great importance to economic and technological cooperation with the West European countries including Great Britain. Not only are we ready to expand such cooperation, but we wish to see its steady and enduring development. While concentrating on our immediate work, we also set our eyes on the twenty-first century. Expanded international economic exchanges on the basis of equality and mutual benefit will not only help promote the economic prosperity of all countries but also ^{will be} conducive to the maintenance of world peace.

Over the years there has been a good development of Sino-British relations on the basis of the Five Principles of Peaceful Coexistence. Cooperation between the two countries in the economic, trade, scientific, technological, cultural and other fields has been growing steadily, and exchange of visits has been on the increase. With the satisfactory settlement of the Hong Kong question, Sino-British friendly relations and cooperation will undoubtedly grow in strength and develop further. The Prime Minister's current visit is short but successful. It will certainly push the relations between our two countries to a new high. Now I wish

to avail myself of this opportunity to express my sincere thanks to the British Government for their kind invitation. I look forward to meeting the Prime Minister again in London.

Now, I propose a toast,

to the Sino-British Joint Declaration on the Question of Hong Kong formally signed by the Chinese and British Governments,

to the continuous development of Sino-British friendly relations and cooperation,

to the health of Her Majesty Queen Elizabeth II,

to the health of the Rt. Hon. Prime Minister Margaret Thatcher,

to the health of the Rt. Hon. Foreign Secretary Sir Geoffrey Howe and other British friends,

to the health of the ladies and gentlemen from Hong Kong who have come to observe the signing ceremony, and,

to the health of all other friends and comrades present!

The Sino-British Joint Declaration on the question of Hong Kong has satisfactorily settled China's recognition of exercise of sovereignty over Hong Kong and laid a solid foundation for the long-term prosperity and stability of Hong Kong. Our agreement provides fresh impetus for the solution through peaceful negotiations

(Translation)

SPEECH BY PREMIER ZHAO ZIYANG AT THE SIGNING
CEREMONY OF THE SINO-BRITISH JOINT DECLARATION
ON THE QUESTION OF HONG KONG

19 December 1984

The Rt. Hon. Prime Minister Margaret Thatcher,
The Rt. Hon. Foreign Secretary Sir Geoffrey Howe,
Distinguished British Guests,
Friends and Comrades,

I am very pleased to have formally signed with Prime Minister Margaret Thatcher, on behalf of our respective Governments, the Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China on the Question of Hong Kong. We have accomplished a task of historical significance. For this, I would like to extend our warm congratulations to the Rt. Hon. Prime Minister, our other British friends and the Hong Kong personages from various circles who have been invited to attend this signing ceremony.

The Sino-British Joint Declaration on the question of Hong Kong has satisfactorily settled China's resumption of exercise of sovereignty over Hong Kong and laid a solid foundation for the long-term prosperity and stability of Hong Kong. Our agreement provides fresh experience for the solution through peaceful negotiations

of problems between nations that are left over from history. It has received extensive support from all the Chinese people, including the five million compatriots in Hong Kong, and the British people. It has also won widespread acclaim and welcome from many countries in the world.

The conclusion of the Joint Declaration is the result of the concerted efforts of our two countries. In the course of the talks over two years, both Governments have shown regard for larger interests, taken Hong Kong's history and realities into account, and displayed a spirit of mutual understanding and friendly cooperation. Here, I deem it necessary to mention in particular the vision and statesmanship of Prime Minister Margaret Thatcher. She has made a significant and praise-worthy contribution to the satisfactory settlement of the Hong Kong question. I also wish to express my thanks to Foreign Secretary Sir Geoffrey Howe, who took the trouble to make two visits to Beijing, and to all the other British friends and my Chinese colleagues who have worked hard for the success of the Sino-British talks.

The concept of "one country, two systems" is a national policy which we formulated after careful consideration. According to this concept, the Chinese Government worked out its basic policies regarding Hong Kong, which are now embodied in the Joint Declaration and its annexes. To translate this great concept into reality will be of far-reaching significance. We appreciate our British friends' understanding and high

appraisal of this concept.

It is a common interest as well as shared responsibility of our two countries to ensure the full implementation of the Joint Declaration free from any interference. The Chinese Government will continue to work with the British Government in a spirit of goodwill and cooperation and strive to realize this goal. We also expect that our Hong Kong compatriots and inhabitants of all walks of life will make concerted efforts to contribute to the prosperity and stability of Hong Kong and its still better future.

The satisfactory settlement of the Hong Kong question has opened up new prospects for the friendly relations and cooperation between China and the United Kingdom. The mutually beneficial cooperation between the two countries in various fields will be pushed to a new high. The development of Sino-British friendship not only accords with the desire of our two peoples but also helps to maintain world peace. Let us continue to make joint efforts towards this end.

Thank you!

CONFIDENTIAL

Visit Bundy in
a. USA: Foreign Policy
Part 2

18045

COMMS OFFICE REG NO.....
D.T.R. 20th DECEMBER 1984 1023HRS.

CONFIDENTIAL

FM WASHINGTON 192350Z DEC 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 3807 OF 19 DECEMBER

INFO IMMEDIATE HONG KONG (FOR PRIME MINISTER'S PARTY), PRIORITY
UKDEL NATO, BONN, PARIS, MODUK, ROUTINE MOSCOW, ROME, TOKYO.

SPEECH BY WEINBERGER ON THE STRATEGIC DEFENCE INITIATIVE (SDI)

1. ON 19 DECEMBER WEINBERGER MADE A MAJOR SPEECH ON SDI TO THE
FOREIGN PRESS. EXTENSIVE EXTRACTS IN MIFT (NOT TO ALL).

2. THIS IS THE MOST FORCEFUL AND FULLEST PUBLIC EXPOSITION
SO FAR GIVEN BY A SENIOR MEMBER OF THE ADMINISTRATION OF THE
RATIONALE BEHIND THE SDI. ITS IMMEDIATE PURPOSE WAS PROBABLY TO
REFUTE THE ARGUMENTS, RECENTLY PUT FORWARD IN QUOTE FOREIGN AFFAIRS
UNQUOTE BY MCNAMARA, BUNDY, SMITH AND KENNAN, THAT THE SDI AND
ARMS CONTROL ARE MUTUALLY EXCLUSIVE. BUT IT IS ALSO CLEARLY DIRECTED
AT A EUROPEAN AUDIENCE, (SEE, FOR EXAMPLE, HIS DISMISSAL OF THE
QUOTE (DECOUPLING UNQUOTE ARGUMENT), AS AN INDICATION OF
THE ADMINISTRATION'S APPROACH TO THE SHULTZ/GRO-MYKO MEETING IN
GENEVA. WEINBERGER IN EFFECT ENDS UP SAYING IN TERMS THAT THE US,
IF CONFRONTED BY A SOVIET REFUSAL TO CONTEMPLATE REDUCTIONS IN
OFFENSIVE SYSTEMS WHILE SDI GOES AHEAD, WOULD NOT BE PREPARED TO
DROP SDI. (SEE PARA 3 OF MY TEL NO 15 TO PEKING)

3. WEINBERGER IS UNLIKELY TO HAVE SPOKEN AS HE HAS WITHOUT EXPRESS
PRESIDENTIAL APPROVAL: THE LINE IN THE PRESIDENT'S BRIEFS FOR HIS
TALKS WITH THE PRIME MINISTER AT CAMP DAVID ON 22 DECEMBER IS
THEREFORE LIKELY TO BE RATHER SIMILAR.

A: PM'S PARTY
D: NIL
deb

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1804

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COMMS OFFICE REG NO.....
D.T.R. 20th DECEMBER 1984 1019HRS.

FM WASHINGTON 192210Z DEC 84

TO PRIORITY FCO

TELEGRAM NUMBER 3803 OF 19 DECEMBER

INFO IMMEDIATE HONG KONG (FOR PRIME MINISTERS PARTY), ROUTINE PARIS,
BONN, TOKYO, ROME, UKDEL OECD, UKREP BRUSSELS, UKDEL NATO, MODUX
(FOR DS1 AND DS12)

INFO SAVING CG'S IN USA, UKMIS NEW YORK

THE US ECONOMY, THE FEDERAL BUDGET DEFICIT AND US DEFENCE SPENDING:
LATEST DEVELOPMENTS

SUMMARY

1. ACCORDING TO A PRELIMINARY ESTIMATE, THE US ECONOMY RESUMED
SOMEWHAT FASTER GROWTH IN THE FOURTH QUARTER, WHEN THE ANNUALISED
GROWTH RATE WAS 2.8 PERCENT. US INTEREST RATES ARE NOW FALLING.
PRESIDENT REAGAN HAS NOW CONSIDERED DEFENCE SECRETARY WEINBERGER'S
AND BUDGET DIRECTOR STOCKMAN'S ALTERNATIVE PROPOSALS FOR DEFENCE
CUTS, AND HAS DECIDED IN FAVOUR OF CUTS IN OUTLAYS OF DOLLARS
8.7 BILLION IN FY86, DOLLARS 9 BN IN FY87 AND DOLLARS 10 BN IN
FY88, OR ABOUT DOLLARS 28 BILLION IN TOTAL, COMPARED TO THE DOLLARS
58 BN TOTAL SOUGHT BY STOCKMAN.

DETAIL

2. THE "FLASH" GNP FIGURES (SUBJECT TO REVISION) RELEASED TODAY
BY THE DEPARTMENT OF COMMERCE INDICATE THAT US ECONOMIC GROWTH
IN THE FOURTH QUARTER RECOVERED SOMEWHAT TO AN ANNUAL RATE OF
2.8 PERCENT, FOLLOWING GROWTH (REVISED DOWNWARDS) AT 1.6 PERCENT
IN THE THIRD QUARTER. THIS WOULD BRING REAL GROWTH IN THE US
ECONOMY FOR 1984 OVER 1983 TO 6.7 PERCENT. THE EXPECTED GAIN IN
FOURTH-QUARTER REAL OUTPUT REFLECTS A SUBSTANTIAL INCREASE IN
FINAL SALES PARTLY OFFSET BY A DECREASE IN BUSINESS INVENTORY
INVESTMENT.

3. INTEREST RATES ARE DECLINING FURTHER, WITH THE YIELD ON 3-MONTH
TREASURY BILLS NOW BELOW 8 PERCENT. MANUFACTURERS HANOVER TRUST
REDUCED ITS PRIME LENDING RATE TO 10 3/4 PERCENT (FROM 11 AND 1/4
PERCENT) ON 17 DECEMBER. BANKERS TRUST COMPANY FOLLOWED WITH A
SIMILAR MOVE ON 19 DECEMBER, AND OTHER BANKS ARE EXPECTED TO
REDUCE THEIR RATES SOON.

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/4. SECRETARY OF.....

4. SECRETARY OF DEFENCE WEINBERGER ANNOUNCED ON 18 DECEMBER 1981 THE ADMINISTRATION HAS NOW DECIDED ON ITS PROPOSALS FOR THE DEFENCE BUDGET, WHICH ARE FOR ABOUT DOLLARS 28 BN IN CUTS OVER THREE YEARS (DOLLARS 8.7 BN IN FY86, DOLLARS 9 BN IN FY87 AND DOLLARS 10 BN IN FY88) RATHER THAN THE DOLLARS 58 BN SOUGHT BY STOCKMAN (DOLLARS 8 BN, DOLLARS 20 BN AND DOLLARS 30 BN). THE ANNOUNCED FIGURES, EXPRESSED AS CUTS FROM FUTURE PROGRAMMES, DISGUISE SUBSTANTIAL INCREASES IN OUTLAYS IN THE THREE YEARS. OUTLAYS ON DEFENCE (IN NOMINAL TERMS) ARE PROPOSED TO BE DOLLARS 277.5 BN, DOLLARS 324.8 BN AND DOLLARS 358.8 BN RESPECTIVELY. IN TERMS OF TOTAL BUDGET AUTHORITY, THE AMOUNTS PROPOSED ARE DOLLARS 313.7 BILLION, DOLLARS 362.6 BILLION, AND DOLLARS 411.5 BILLION, EQUIVALENT TO REAL GROWTH ESTIMATED AT 6.4 PERCENT, 8.1 PERCENT AND 8.8 PERCENT. SENIOR CONGRESSMEN FROM BOTH PARTIES HAVE SAID THAT THE PROPOSED CUTS ARE INADEQUATE. FURTHER CUTS WILL UNDOUBTEDLY BE PROPOSED DURING THE FY86 CONGRESSIONAL BUDGET PROCESS.

COMMENT

5. IT IS POSSIBLE THAT THE ADMINISTRATION'S PROPOSED DEFENCE SAVINGS HAVE BEEN DELIBERATELY TARGETED ON THE LOW SIDE TO LEAVE ROOM FOR BARGAINING WITH THE CONGRESS ABOUT FURTHER SAVINGS ON DEFENCE. THE RELATIVELY MODEST DEFENCE TARGETS CONTRAST SHARPLY WITH THE DRACONIAN DOLLARS 34 BN IN CUTS PROPOSED FOR DOMESTIC PROGRAMMES IN FY86. FOR INSTANCE, THE PROPOSALS INCLUDE PROVISION FOR A TOTAL OF 7 PERCENT IN MILITARY PAY INCREASES IN FY85 (FOLLOWED BY A 15-MONTH FREEZE). BUT, AS SENATOR DOMENICI (CHAIRMAN OF THE SENATE BUDGET COMMITTEE) SAID ON 19 DECEMBER, IT IS MUCH TOO EARLY IN THE BUDGET PROCESS TO SAY HOW MUCH REDUCTION IN THE BUDGET DEFICIT WILL BE ACHIEVED THIS YEAR. THIS APPLIES PARTICULARLY TO THE BALANCE BETWEEN DOMESTIC AND DEFENCE EXPENDITURE, WHICH IS USUALLY ONE OF THE FINAL ITEMS TO BE AGREED BETWEEN THE REPUBLICANS AND THE DEMOCRATS IN THE BUDGET NEGOTIATIONS DURING THE SUMMER.

6. FCO PLEASE ADVANCE TO BROADBENT (ECONOMIC ADVISERS, FCO), SHIELDS (TREASURY) AND BREEN (BANK).

A: PM'S PARTY
D: NIL
dw

CONFIDENTIAL

DD 191100Z PEKING
GRS 200
CONFIDENTIAL
DESKBY 191100Z
FM FCO 191020Z DEC 84
TO IMMEDIATE PEKING
TELEGRAM NUMBER 3603 OF 19 DEC

(C) Mr Butler
Mr. Hall
City Work

FOLLOWING FOR PS
FOLLOWING TELEGRAM NOW REPEATED TO YOU AT REQUEST OF DEPT WAS
RECEIVED FROM WASHINGTON TELEGRAM NUMBER 3790 OF 18 DEC

DESKBY 190900Z
FM WASHINGTON 182335Z DEC 84
TO IMMEDIATE FCO
TELEGRAM NO 3790 OF 18 DEC
INFO BIS NEW YORK, DUBLIN

YOUR TELNO 2151: PRIME MINISTER'S MEETING WITH THE PRESIDENT:
NORTHERN IRELAND

1. THE STATE DEPARTMENT AND NSC NOW/NOW AGREE THAT IT WOULD BE BETTER TO VOLUNTEER THAT NORTHERN IRELAND HAD BEEN DISCUSSED AT CAMP DAVID. THEY, HOWEVER, CONCERNED THAT THE LINE IN YOUR TUR PLACES THE PRESIDENT IN TOO PASSIVE A POSITION AND WILL HINDER THEIR EFFORTS TO DELECT CONGRESSIONAL CRITICISM HERE.
2. AFTER DISCUSSION THE STATE DEPARTMENT HAVE SUGGESTED THAT BOTH SIDES SHOULD SAY THAT THE PRIME MINISTER HAD BRIEFED THE PRESIDENT ON THE ANGLO-IRISH SUMMIT: THERE HAD BEEN AN EXCHANGE OF VIEWS ON THE PRESENT SITUATION ON NORTHERN IRELAND: AND THE PRIME MINISTER THANKED THE PRESIDENT FOR WHAT THE UNITED STATES WAS DOING TO CLAMP DOWN ON SUPPORT FOR THE TERRORISTS.
3. UNLESS WE RECEIVE FURTHER INSTRUCTIONS, WE SHALL ASSUME THAT THIS IS ACCEPTABLE.

HOWE

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1145/19

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link to Peking Policy
INFORMATION

18030

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FROM PEKING 191900Z DEC 84
TO IMMEDIATE FCO
TELNO 2048 OF 19/12/84
INFO IMMEDIATE HONG KONG

COMMS OFFICE REG NO.....
D.T.R. 20th DECEMBER 1984 0710HRG.

FOLLOWING FROM PRIVATE SECRETARY

SECRETARY OF STATE'S MEETING WITH WU: 19 DECEMBER

SUMMARY

WU REAFFIRMED ZHAO'S ASSURANCE TO SOLICIT HONG KONG OPINION IN DRAFTING THE BASIC LAW AND TOOK NOTE OF OUR OFFER OF ADVICE AND HELP. SECRETARY OF STATE TOLD WU THAT OFFICIALS FROM THE HONG KONG GOVERNMENT WOULD BE INCLUDED IN THE BRITISH DELEGATION IN THE JOINT LAISON GROUP. WU AGREED TO CONSIDER JOINT REGISTRATION OF THE AGREEMENT IN THE U N. WU SAID THAT OUR PROPOSED FORMULA ON THE FUTURE NATIONALITY STATUS OF BDTCS WAS UNACCEPTABLE. THE SECRETARY OF STATE RAISED CLAIMS AND AIR SERVICES. WU SAID THAT PEOPLE WERE WORRYING UNNECESSARILY ABOUT CONSCRIPTION QIN HONG KONG.

DETAIL

2. THE SECRETARY OF STATE HAD A SEPARATE MEETING WITH FOREIGN MINISTER WU AFTER THE BANQUET THIS EVENING IN ORDER TO DISCUSS A NUMBER OF OUTSTANDING POINTS FROM THE NEGOTIATIONS.

BASIC LAW

3. THE SECRETARY OF STATE RECALLED THE PRIME MINISTER'S REMARKS AT HER MEETING WITH ZHAO THIS MORNING. HE STRESSED THAT, WHILE THE DRAFTING OF THE BASIC LAW WAS A MATTER FOR THE CHINESE GOVERNMENT, IT WAS PARTICULARLY IMPORTANT TO GET IT RIGHT. THE WORDING HAD TO BE SUITABLE FOR A CAPITALIST SYSTEM, AND FOR APPLICATION IN THE HONG KONG COURTS. THE BASIC LAW WOULD BE SCRUTINISED WITH THE SAME INTENSITY AS THE JOINT DECLARATION HAD BEEN. WE WOULD BE HAPPY TO OFFER ALL THE HELP WE COULD, SUCH AS THROUGH JOINT CONSULTATIONS, ON PRACTICAL MATTERS.

CONFIDENTIAL

/4. WU SAID.....

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4. WU SAID THAT THE BASIC LAW WOULD REFLECT THE JOINT DECLARATION AS AGREED. AS PREMIER ZHAO HAD SAID, THE CHINESE WOULD SOLICIT OPINION IN HONG KONG ON A WIDE BASIS. THESE WOULD INCLUDE PEOPLE EXPERT IN LEGAL PROCEDURES AS WELL AS OTHER ASPECTS OF THE CAPITALIST SYSTEM. ZHAO NAN INTERVENED AT THE END OF THE DISCUSSION TO EMPHASISE THAT WHEN WU HAD SPOKEN OF SOLICITING OPINIONS HE MEANT ONLY THE OPINIONS OF THE PEOPLE IN HONG KONG, ALTHOUGH REGARDLESS OF NATIONALITY. THE IMPLICATION OF THIS REMARK WAS THAT THIS WAS NO ROLE FOR THE BRITISH GOVERNMENT AS SUCH, ALTHOUGH THIS WAS NOT STATED EXPLICITLY. THE SECRETARY OF STATE REPEATED OUR OFFER OF HELP AND ADVICE. THIS WAS NOTED.

JOINT LIAISON GROUP

5. THE SECRETARY OF STATE SAID THAT THERE WAS PRESSURE IN THE PARLIAMENT AND IN HONG KONG FOR THE HONG KONG PEOPLE TO BE REPRESENTED ON THE JOINT LIAISON GROUP. OUR INTENTION WAS TO HAVE ONLY OFFICIALS TAKING PART. THESE WOULD INCLUDE OFFICIALS FROM THE HONG KONG GOVERNMENT. OVER TIME SUCH OFFICIALS WOULD INCREASINGLY BE LOCAL PEOPLE FROM HONG KONG AND NOT EXPATRIATES SINCE THESE WERE BEING PHASED OUT IN THE HONG KONG GOVERNMENT.

6. WU SAID THAT THE JOINT LIAISON GROUP HAD TO BE CONFINED TO REPRESENTATIVES OF THE BRITISH AND CHINESE GOVERNMENTS. THE HONG KONG GOVERNMENT AS SUCH COULD NOT BE REPRESENTED. (THE SECRETARY OF STATE REASSURED HIM THAT THIS WAS NOT OUR INTENTION: OFFICIALS FROM THE HONG KONG GOVERNMENT WOULD BE INCLUDED AS MEMBERS OF THE BRITISH DELEGATION.) WU WENT ON TO SAY THAT CHINESE NATIONALS COULD NOT BE MEMBERS OF THE BRITISH SIDE. AFTER FURTHER DISCUSSION HE SAID THAT IF THERE WAS A NEED TO CONSULT CHINESE NATIONALS BECAUSE OF THEIR LOCAL KNOWLEDGE THEY COULD BE MEMBERS OF AN EXPERT SUB-GROUP. THE SECRETARY OF STATE EMPHASISED THAT THE IMPORTANT POINT WAS TO CHOOSE PEOPLE WHO COULD DO THE WORK EFFECTIVELY. THE AGREEMENT WAS THAT EACH SIDE WOULD APPOINT ITS OWN MEMBERS. HE SUGGESTED THAT THIS PROBLEM COULD BE SOLVED AS WE WENT ALONG. WU AGREED.

REGISTRATION AT THE U N

/7. THE SECRETARY....

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7. THE SECRETARY OF STATE POINTED OUT THAT IT WAS OUR INVARIABLE PRACTICE TO REGISTER INTERNATIONAL AGREEMENTS AT THE U N UNDER ARTICLE 102 OF THE U N CHARTER. HE THOUGHT IT WOULD BE APPROPRIATE, IF HE AND WU WERE BOTH AT THE UNGA SESSION NEXT YEAR, FOR THEM TO REGISTER THE AGREEMENT JOINTLY. WU SAID THAT THE CHINESE HAD NOT REGISTERED THEIR AGREEMENTS IN THE PAST BUT HE WAS PREPARED TO CONSIDER THE IDEA.

NATIONALITY

8. THE SECRETARY OF STATE EXPLAINED THAT WE WOULD SHORTLY NEED TO PRESENT THE BILL BEFORE PARLIAMENT FOR RATIFICATION OF THE AGREEMENT. THIS BILL WOULD NEED TO DEFINE A NATIONALITY STATUS FOR CURRENT BDTCS IN HONG KONG. THERE WERE TWO REQUIREMENTS. THE FORMULA USED MUST MAKE CLEAR THAT THE NEW STATUS WAS A FORM OF BRITISH NATIONALITY, AND THAT THE NEW STATUS WAS UNIQUE TO FORMER BDTCS CONNECTED WITH HONG KONG. AFTER A GREAT DEAL OF DELIBERATION WE HAD CONCLUDED THAT THE ONLY FORMULA WHICH PROPERLY MET THESE TWO REQUIREMENTS WAS "BRITISH NATIONALITY: HONG KONG". THIS WOULD NOT IMPLY ANY ACCEPTANCE BY CHINA OF DUAL NATIONALITY. NOR WOULD THERE BE ANY REFERENCE TO CHINESE NATIONALITY IN THE BRITISH LAW.

9. WU INSTANTLY REPLIED THAT THIS WOULD BE VERY DIFFICULT FOR THE CHINESE. IT WOULD CARRY AN IMPLICATION OF CONTINUING SOVEREIGNTY OVER HONG KONG AFTER 1997. HE ASKED THE SECRETARY OF STATE TO RECONSIDER THIS. THE SECRETARY OF STATE RETURNED TO THE CHARGE, SAYING THAT THIS FORMULA HAD BEEN CHOSEN AFTER VERY CONSIDERABLE THOUGHT. WU THEN SAID THAT HE WANTED TO MAKE ABSOLUTELY CLEAR THAT THE FORMULA WAS UNACCEPTABLE TO THE CHINESE GOVERNMENT AND THAT THE BRITISH GOVERNMENT WOULD HAVE TO GIVE FURTHER THOUGHT TO FINDING ANOTHER FORMULA.

CLAIMS

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/10. THE SECRETARY....

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10. THE SECRETARY OF STATE REMINDED WU THAT WE HAD HANDED IN A LOST OF CLAIMS SOME TIME AGO. THE CHINESE GOVERNMENT HAD SPOKEN OF PREPARING COUNTER-CLAIMS BUT WE HAD HEARD NOTHING FROM THEM SINCE. HE THOUGHT IT IMPORTANT THAT THIS QUESTION SHOULD BE EXPEDITED. WU TOOK NOTE AND SAID THAT THIS SHOULD BE DISCUSSED FURTHER THROUGH DIPLOMATIC CHANNELS.

AIR SERVICES

UA11. THE SECRETARY OF STATE SAID THAT THE JOINT DECLARATION HAD CREATED GOOD CONDITIONS FOR CATHAY PACIFIC. BUT WE WOULD WANT TO SEEK A GREATER ROLE FOR CATHAY PACIFIC ON HONG KONG/CHINA ROUTES, AND A FURTHER EXTENSION OF THE PRESENT ARRANGEMENTS GOVERNING THE BRITISH AIRWAYS HONG KONG/PEKING SERVICE. THESE QUESTIONS COULD ALSO BE PUSUED THROUGH DIPLOMATIC CHANNELS. WU AGAIN TOOK NOTICE AND AGREED THAT THIS COULD BE PURSUED BETWEEN OFFICIALS.

CONSCRIPTION

12. THE SECRETARY OF STATE MENTIONS THIS AT LUNCH TO WO WHO WAS NON-COMMITTAL. THIS EVENING WU TOOK THE INITIATIVE TO HAVE A WORD PRIVATELY WITH THE SECRETARY OF STATE. HE SAID THAT PEOPLE WERE WORRYING UNNECESSARILY OVER THIS PROBLEM. WITH ONE BILLION PEOPLE CHINA COULD FIND PLENTLY OF RECRUITS. THE SECRETARY OF STATE POINTED OUT THE GOOD EFFECT WHICH A PUBLIC STATEMENT OF REASSURANCE BY THE CHINESE GOVERNMENT WOULD HAVE. WU TOOK NOTE AND SAID HE WOULD REFLECT ON IT.

A: S(GD)(5)
D: HE, CI, CBZ, PS, AG(2), PA(2), DFA, PS/GH, AD(C)
dw

CONFIDENTIAL

GRS 826

SECRET

DESKBY 192300Z

FM FCO 191703Z DEC 84

TO IMMEDIATE PEKING

TELEGRAM NUMBER 1615 OF 19 DECEMBER

FOLLOWING FOR PRIVATE SECRETARY FROM PRIVATE OFFICE

MIPT: BMD/ASATS: MESSAGE TO MR SHULTZ

Pitney

*CC Mr Butler
Mr Powell
Duty Clerk
Mr Widdowson
Mr Rickards
Miss Beckman*

1. I KNOW THE PRIME MINISTER IS GREATLY LOOKING FORWARD TO THE OPPORTUNITY OF DISCUSSING WITH YOU AND THE PRESIDENT THE RANGE OF KEY ARMS CONTROL ISSUES WHICH WILL FORM THE BASIS FOR YOUR OWN TALKS NEXT MONTH WITH GROMYKO. AMONG THESE WE ATTACH MUCH IMPORTANCE TO OUTER SPACE, AND YOU MAY HAVE HEARD ALREADY FROM CAP WEINBERGER AN OUTLINE OF THE PRIME MINISTER'S VIEWS. I THOUGHT HOWEVER THAT IT MIGHT BE USEFUL TO SET OUT FOR YOU AT THIS STAGE THE MAIN LINES OF OUR OWN THINKING ON ARMS CONTROL IN SPACE. THE NEED FOR BREVITY AND COMPRESSION MAY PRODUCE A STARKER SUMMARY THAN I WOULD IDEALLY WISH, AND I WOULD BE HAPPY TO ELABORATE ON THE DETAILS WHEN WE MEET.

2. IN SHORT, THE PRIME MINISTER AND I RECOGNISE AND HAVE STUDIED WITH CARE THE RANGE OF ARGUMENTS IN FAVOUR OF THE DEVELOPMENT AND EVENTUAL DEPLOYMENT OF A FULL-SCALE BALLISTIC MISSILE DEFENCE (BMD) SYSTEM. NONETHELESS, WE REMAIN UNCONVINCED THAT THIS IS A DESIRABLE OBJECTIVE. RATHER, WE BELIEVE FOR THE FOLLOWING REASONS THAT CONSTRAINTS ON BMD DEVELOPMENT ARE MORE DESIRABLE.

3. BMD WILL NOT CONJURE AWAY THE NUCLEAR THREAT, WHICH WILL PERSIST INDEFINITELY FROM OTHER NON-BALLISTIC MISSILE SYSTEMS. ANY ATTEMPT TO CREATE A PERFECT DEFENCE SYSTEM IS OPEN TO VAST TECHNICAL UNCERTAINTIES. COUNTER-MEASURES ARE PROBABLY CHEAPER AND EASIER. THE ENORMOUS COSTS OF BMD WILL HAVE DAMAGING EFFECTS ON OTHER DEFENCE PROGRAMMES. THE TRANSITION PERIOD WILL BE HIGHLY UNSTABLE. EFFORTS TO DEVELOP BMD WILL LEAD TO A PROLIFERATION RATHER THAN REDUCTION IN OFFENSIVE FORCES. THE COHESION OF THE WESTERN ALLIANCE WILL BE DAMAGED. A NEW SPIRAL IN THE ARMS RACE WILL LEAVE BOTH SIDES LESS SECURE THAN BEFORE.

4. IN ADDITION, BMD DEVELOPMENT WILL HAVE SIGNIFICANT EFFECT UPON PRESENT ARMS CONTROL ARRANGEMENTS, AND MORE WIDELY ON THE WHOLE STRUCTURE OF EAST/WEST RELATIONS. IF SOVIET EFFORTS TO DEVELOP BMD ARE THE MAIN RATIONALE FOR US COUNTER-MOVES THERE IS A PRIMA FACIE ARGUMENT TO CONSTRAIN BOTH BY NEGOTIATED AGREEMENT.

5. MUCH THE SAME ARGUMENTS APPLY IN OUR MIND TO THE DEVELOPMENT OF LESS-THAN-PERFECT OR, AT THE LOWEST LEVEL, POINT/LIMITED AREA DEFENCES. THE ARGUMENT THAT OFFENSIVE FORCES AND OTHER COUNTER-MEASURES WILL PROLIFERATE IS EVEN MORE VALID, AND WE NOTE THE TERRIBLE RESULTS THAT WOULD OCCUR FROM EVEN A SMALL LEAK IN DEFENCES. POINT DEFENCE WILL BE SIMPLER AND CHEAPER THAN FULL-SCALE BMD BUT PROVIDE NO PROTECTION TO CIVILIAN POPULATIONS, NOR AGAINST NON-BALLISTIC MISSILES. IT WILL HAVE A SIGNIFICANT EFFECT UPON THE ABM TREATY. THE PROTECTION IT DOES OFFER CAN BE ACHIEVED IN OTHER WAYS SUCH AS MOBILITY, AND MAY PROVE THEREFORE TO BE BOTH EXPENSIVE AND REDUNDANT.

6. THERE ARE EVIDENT LINKAGES BETWEEN OFFENSIVE AND DEFENSIVE FORCES. UNCONSTRAINED BMD DEVELOPMENT COULD WELL LEAD TO THE PROLIFERATION OF OFFENSIVE FORCES TO OVERWHELM SUBSEQUENT GENERATIONS OF DEFENSIVE SYSTEMS. CONVERSELY, LIMITS ON OFFENSIVE NUCLEAR FORCES WOULD BE NECESSARY FOR ANY BMD, ESPECIALLY IN A LIMITED FORM, TO BE EFFECTIVE. THE RUSSIANS NOW SEEM TO HAVE ACCEPTED THESE INTRINSIC LINKAGES BETWEEN OFFENSIVE FORCES AND FUTURE DEFENSIVE SYSTEMS. IN ADDITION, THEIR CONCERNS ABOUT MILITARY DEVELOPMENTS IN OUTER SPACE PROVIDE IMPORTANT LEVERAGE FOR ELICITING FROM THEM CONCESSIONS OVER THE REDUCTION OF OFFENSIVE SYSTEMS. AS A RECENT STATEMENT FROM THE WHITE HOUSE PUT IT, BMD RESEARCH SHOULD CONTINUE TO COMPLEMENT ARMS REDUCTION EFFORTS.

7. IF I MAY ADD A WORD ON ANTI-SATELLITE SYSTEMS, WE RECOGNISE THE NEED FOR YOU TO BALANCE THE CURRENT SOVIET CAPABILITY. WE ARE ALSO IMPRESSED BY THE ARGUMENTS IN FAVOUR OF SOME DEGREE OF CONSTRAINTS ON FURTHER ASAT DEVELOPMENT. WE FIND PARTICULAR FORCE IN THE RELATIVELY GREATER DEPENDENCE BY THE WEST ON SATELLITE ASSETS FOR OUR OWN SECURITY, IN THE POTENTIAL INSTABILITY ACROSS THE STRATEGIC SPECTRUM WHICH THE THREAT OF UNCONSTRAINED ASAT DEVELOPMENT WOULD PRESENT, AND IN THE FINANCIAL AND TECHNICAL RESOURCES WHICH WOULD HAVE TO BE DIVERTED TO THIS AREA FROM OTHER, POTENTIALLY MORE USEFUL FIELDS.

8. IN CONCLUSION, THE PRIME MINISTER AND I TAKE THE VIEW THAT A FRUDENT HEDGE AGAINST SOVIET BMD RESEARCH IS SENSIBLE. BUT IT SEEMS DESIRABLE THAT YOU SHOULD ENGAGE THE RUSSIANS IN EXPLORING POSSIBLE CONSTRAINTS ON FURTHER DEVELOPMENT, IN ORDER TO AVOID A COSTLY AND IN THE END INEFFECTIVE SPIRAL IN THE ARMS RACE, TO HELP SECURE REDUCTIONS IN OFFENSIVE FORCES, AND TO AVOID NEW DANGERS OF INSTABILITY AND THREATS TO ALLIANCE COHESION. THE ABM TREATY WILL BE A KEY FACTOR IN SUCH AN EXPLORATION. IT IS ALSO CLEAR TO US THAT YOU SHOULD BALANCE THE CURRENT SOVIET ASAT CAPABILITY. BUT WESTERN INTERESTS WOULD BE SERVED BY SOME MEASURE OF CONTROLS, SUCH AS RESTRICTIONS ON LOW-ORBIT ASATS AND A BAN ON REL SYSTEMS, INCLUDING HIGH-ORBIT ASATS: CONFIDENCE-BUILDING MEASURES COULD SUPPLEMENT THIS REGIME.

HOWE

NNKFSS

DD PEKING 182230Z

CONFIDENTIAL

18/17

GPS 110

Mr Butler -
Mr Powell
Mr Ingham / Mr Murray
Duty Clerks

UNCLASSIFIED

DESKBY 182230Z

FM FCO 181907Z DEC 84

TO IMMEDIATE PEKING

TELEGRAM NUMBER 1592 OF 18 DECEMBER

FOLLOWING FOR PRINCIPAL PRIVATE SECRETARY (PRIME MINISTER'S PARTY FROM BARCLAY)

1. FOLLOWING IS THE INFORMATION REQUESTED ON BAE 146

ORDERS AND OPTIONS:

	Orders	Options
US AIRLINES:		
AIR WISCONSIN	7	4
AIR PAC	1	-
PACIFIC SW	20	25
ASPEN	2	-
OTHERS:		
DAN AIR	3	1
RAF		
GOVT OF MALI	1	-
TABA (BRAZIL)	2	-
ANSETT (AUSTRALIAN)	2	6
TOTAL:	41	36

NOTES: (1) TOTAL OF 41 ORDERS IS CORRECT. SUPERSEDES FIGURE OF 42 IN BRIEF NO. 7.

(2) ALL THIS INFORMATION CAN BE USED.

HOWE

NNNN

2134/18

NAPM

COP

17/Jan

PRIME MINISTER

I have seen Geoffrey Howe's minute to you of 14 December and support his suggestion that an inter-Governmental nuclear co-operation agreement be negotiated with China. I also think there would be merit in your raising this subject with Zhao Ziyang during your visit to Peking.

with COP?

Secretary of State for Energy
17 December 1984



177 DEC-1984

6 11 21 22
8 7 6 5 4

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[Faint, illegible printed text]



MINISTRY OF DEFENCE
 MAIN BUILDING WHITEHALL LONDON SW1
 Telephone 01-~~8300822~~ 218 2111/3

10 DOWNING STREET

NBPM

17 December 1984

MO 14/2

17th December 1984

INVITATION TO BE THE GUEST TO VISIT

Thank you for your letter of 14 December.

Dear Sir,

PRIME MINISTER'S VISIT TO THE UNITED STATES

Charles Powell copied to me his letters of 10th and 14th December about the Prime Minister's visit to the United States.

I should record that, when Sir Oliver Wright called on the Defence Secretary last week, he said that he very much hoped that Mr Heseltine would pay a visit in the near future to the United States. We needed to take every opportunity we could to put across both to the Administration and to Congress the extent of the European contribution to NATO in order to deal with Nunn-type resolutions. Moreover, there had been significant changes in those responsible for defence in the Congress and it would be helpful if Mr Heseltine were to meet the new leadership. The Defence Secretary said that he would be happy to make such a visit. He strongly supported the Prime Minister's proposed visit and the suggested seminar. He hoped that he might participate in that trip and carry out calls on the hill when the Prime Minister was otherwise engaged. Sir Oliver Wright very much welcomed this proposal.

No doubt you will bear this in mind when drawing up advice for the Prime Minister on her visit to the United States.

I am copying this letter to Charles Powell (No 10) and to Richard Hatfield (Cabinet Office)

Yours etc,

Richard Mottram

(R C MOTTRAM)



JR
bc PC

10 DOWNING STREET

From the Private Secretary

17 December 1984

INVITATION TO HM THE QUEEN TO VISIT CHINA

Thank you for your letter of 14 December.

I agree that the Governor should inform EXCO in strict confidence on 18 December of the line which the Prime Minister will be taking with the Chinese Government on The Queen's visit to China.

(C.D. POWELL)

Len Appleyard, Esq.,
Foreign and Commonwealth Office.



Foreign and Commonwealth Office

London SW1A 2AH

14 December 1984

Dear Charles,

Prime Minister's Visit to Peking

Thank you for your letter of 12 December requesting supplementary briefing for the Prime Minister. I enclose further material (in nine sets, except for item viii) covering additional points, as follows:

- (i) a note prepared by DTI on recent British industrial successes (your point a);
- (ii) a list of recent successful industrial visits by senior Chinese visitors (your point b);
- (iii) an expanded list, also prepared by DTI, of selected British firms pursuing business in China. (Some are already mentioned in Annex 3 to Brief No 7. This covers your point c.)
These three items could be attached as further Annexes to Brief No 7 on trade;
- (iv) the text of a recent telegram from our Embassy in Peking with key points underlined, summarising and putting in perspective recent political and economic developments in China. This adds details to the briefing already included on China Internal (Brief No 9) and could be attached behind it;
- (v) the current version of the programme in Peking, to replace Annex A of the Steering Brief;
- (vi) a note on arrangements for the Joint Declaration signature ceremony;
- (vii) a Personality Note on the Chinese Ambassador in London HE Mr Chen Zhaoyuan who will be in the welcoming party at Peking airport;
- (viii) a copy of Liu Shaoqi's book "How to be a Good Communist". I understand that the Prime Minister has asked to see this.

You have received material from the Department of Energy direct.

CONFIDENTIAL



The invitation to Hu Yaobang is covered in paragraph
2 of Brief No 4.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

14 December 1984

Dear Peter,

PRIME MINISTER'S MEETING WITH PRESIDENT REAGAN:
NORTHERN IRELAND

I have seen a copy of Washington telegram no. 3725 about the handling and public presentation of discussion on Northern Ireland by the Prime Minister and President Reagan.

I have discussed this with Bernard Ingham. We both think that it is dangerous and unrealistic to try to dodge the issue in the way suggested by the State Department. There is no doubt that the fact of a discussion would leak in Washington and suspicions would be created if we seemed to have connived at hushing it up.

It would surely be much better for us to be able to say that the Prime Minister, at her initiative, briefed President Reagan on the Anglo-Irish Summit and thanked him for what the United States was doing to clamp down on support for terrorists. She also expressed the hope that he could help even more in counteracting NORAID. This would, of course, be said only after the meeting. I agree with the Embassy in Washington that we should decline to comment on individual subjects to be discussed at Camp David in advance of the meeting.

Yours sincerely
C.D. Powell

(C.D. Powell)

P.F. Ricketts, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

14 December 1984

Spoken to Mr.
 Appleyard - Garsed
 with in letter
 CD.

Dear Charles,

Prime Minister's Visit to Washington: Public Reference
to possible discussion of Northern Ireland

Washington telno 3725 seeks guidance on how to react to the news that Congressman Biaggi will petition the President to raise Northern Ireland with the Prime Minister.

It would clearly be unfortunate if it subsequently looked as though Northern Ireland was discussed primarily at the instigation of Congressman Biaggi. The Embassy suggest that the best way to avoid this outcome would be for both sides to confirm that the subject was discussed and to say that the Prime Minister had wished to brief the President on her meeting in November with Dr Fitzgerald. The Prime Minister is of course being briefed to speak to the President on Northern Ireland. This seems to us better than the alternative State Department suggestion that they should try to fudge the issue.

There is a subsidiary question relating to whether anything should be said in advance. In our view we should follow normal practice and say nothing. If we advertise the the Prime Minister is going to raise Northern Ireland with the President it will put a quite different and undesirable complexion on the matter.

I enclose a draft telegram of reply to Washington which if you agree with the above, we shall despatch as soon as possible.

John Cox
Lee Appleyard
 (L V Appleyard)
Private Secretary

C D Powell Esq
 10 Downing Street

OUT TELEGRAM

Classification and Caveats
CONFIDENTIAL

Precedence/Deskby
IMMEDIATE

ZCZC 1 ZCZC
 GRS 2 GRS
 CLASS 3 **CONFIDENTIAL**
 CAVEATS 4
 DESKBY 5
 FM FCO 6 **FM FCO 131300Z DEC 84**
 PRE/ADD 7 **TO IMMEDIATE WASHINGTON**
 TEL NO 8 **TELEGRAM NUMBER**
 9 **INFO BIS NEW YORK, DUBLIN**
 10 **YOUR TELNO 3725: PRIME MINISTER'S MEETING WITH THE PRESIDENT,**
 11 **22 DECEMBER: NORTHERN IRELAND**
 12 1. We agree that the line you propose in your para 7 seems
 13 much more likely to achieve our objectives than the State
 14 Department suggestion in para 4. Please seek their agreement
 15 to your proposal.
 16 2. As implied by your para 8 we should certainly not wish you
 17 to say in advance what individual subjects will be discussed at
 18 Camp David. The hypothetical advantages of pre-empting Biaggi
 19 seem to us to be minimal.
 20
 21 **HOWE**
 22 **NNNN**
 23
 24
 25

NNNN ends telegram	BLANK		Catchword
File number	Dept	Distribution	
	RID	NI LIMITED NAD, MAED, SCU, RID PROTOCOL PS PS/LADY YOUNG PS/MR RENTON PS/PUS SIR W HARDING MR DAVID THOMAS	
Drafted by (Block capitals)			
G E CLARK			
Telephone number			
233 3994			
Authorised for despatch			
Comcen reference	Time of despatch	CC: PS/No 10 Downing St Mr Cartledge, Cabinet Office	

CONFIDENTIAL

CONFIDENTIAL
 FM WASHINGTON 122318Z DECEMBER 84
 TO IMMEDIATE FCO
 TELEGRAM NUMBER 3725 OF 12 DEC
 INFO BIS NEW YORK, DUBLIN

MY TELNO 3710 (NOT TO ALL): PRIME MINISTER'S MEETING WITH
 THE PRESIDENT, 22 DECEMBER : NORTHERN IRELAND

1. CONGRESSMAN BIAGGI IS SEEKING SIGNATURES FROM COLLEAGUES TO A DRAFT LETTER PRESSING THE PRESIDENT TO INCLUDE NORTHERN IRELAND IN THE AGENDA FOR HIS MEETING WITH THE PRIME MINISTER OF 22 DECEMBER.
 2. THE LETTER REFERS TO THE QUOTE LARGELY UNSUCCESSFUL MEETING UNQUOTE BETWEEN THE PRIME MINISTER AND DR FITZGERALD AND REFERS TO THE PRIME MINISTER'S QUOTE REFUSAL UNQUOTE TO CONSIDER ANY OF THE FORUM RECOMMENDATIONS. IT ASKS THE PRESIDENT TO ENCOURAGE THE PRIME MINISTER TO RECONSIDER THE BRITISH POSITION. WHILE RECOGNISING THE NEED FOR THE UNITED STATES NOT TO APPEAR TO ADVOCATE OR IMPOSE PARTICULAR SOLUTIONS, THE LETTER SAYS THAT QUOTE WE CAN PLAY A POSITIVE AND CONSTRUCTIVE ROLE UNQUOTE. IT CONCLUDES BY URGING QUOTE SOME QUIET DIPLOMACY UNQUOTE WITH THE PRIME MINISTER AND REFERS TO THE NEED QUOTE TO HAVE ALL FORMS OF VIOLENCE IN NORTHERN IRELAND CEASE UNQUOTE.
 3. ON PAST FORM, BIAGGI WOULD GET 10-20 CO-SIGNATURES. BUT ON THIS OCCASION HE COULD CONCEIVABLY GET MORE, GIVEN THAT HE HAS USED, BY HIS STANDARDS, TEMPERATE LANGUAGE.
 4. WE HAVE ALERTED THE STATE DEPARTMENT WHO IMMEDIATELY TOOK THE POINT THAT, IF THE PRESIDENT WERE TO RAISE NORTHERN IRELAND AT CAMP DAVID, IT WOULD BE IMPORTANT NOT TO GIVE THE IMPRESSION THAT HE HAD DONE SO BECAUSE OF PRESSURE FROM BIAGGI OR OTHER EXTREMISTS. THE STATE DEPARTMENT'S SUGGESTION IS THAT, THOUGH BOTH SIDES WOULD SUBSEQUENTLY REFER IN PUBLIC TO THE PRINCIPAL SUBJECTS DISCUSSED (EAST/WEST, INTERNATIONAL ECONOMY, MIDDLE EAST ETC), THEY MIGHT DECLINE TO SAY WHETHER NORTHERN IRELAND HAD BEEN RAISED. IF IT WERE NEVERTHELESS TO LEAK OUT THAT THE PRESIDENT HAD RAISED NORTHERN IRELAND, THE US SIDE WOULD FIND A WAY OF MAKING CLEAR THAT THIS WAS IN NO WAY BECAUSE OF BIAGGI'S LETTER.
- COMMENT
5. BIAGGI HAS GIVEN A DEADLINE OF 14 DECEMBER FOR CO-SIGNATURES, SO HIS LETTER WILL NOT BE RELEASED UNTIL THEN. WHEN IT IS, HE IS LIKELY TO SEEK THE MAXIMUM PUBLICITY. IN THE PAST HIS ACTIVITIES HAVE MADE LITTLE IMPACT HERE, EXCEPT IN THE IRISH ETHNIC PRESS. BUT THERE HAS USUALLY BEEN COVERAGE IN THE IRISH AND NORTHERN IRELAND PRESS.

CONFIDENTIAL

6. THIS IS NOT THE FIRST TIME THAT BIAGGI HAS URGED THE PRESIDENT TO RAISE NORTHERN IRELAND AT MEETINGS WITH THE PRIME MINISTER. HE DID SO BEFORE WILLIAMSBURG IN 1983. THE DIFFERENCE THIS TIME IS THAT THE ADMINISTRATION HAS ALREADY, INDEPENDENTLY, DECIDED TO BRIEF THE PRESIDENT TO RAISE THE SUBJECT. WE THEREFORE DOUBT WHETHER IT WOULD BE SAFE TO RELY ON THE STATE DEPARTMENT'S PROPOSED WAY OF HANDLING PRESS ENQUIRIES LASTING THE COURSE. THE US SIDE MAY FIND IT DIFFICULT TO AVOID GIVING A DIRECT ANSWER TO THE DIRECT QUESTIONS THEY CAN EXPECT TO RECEIVE FROM BIAGGI OR OTHERS.

7. AGAINST THIS BACKGROUND, AND ASSUMING -AS WE DO - THAT OUR SEEKING ACTIVELY TO AVOID THE SITUATION IN NORTHERN IRELAND BEING RAISED AT CAMP DAVID, WOULD HAVE MORE CHANCES OF MAKING THE SITUATION WORSE THAN OF SUCCEEDING, AN ALTERNATIVE WAY OF HANDLING PRESS QUESTIONS WOULD BE FOR BOTH SIDES TO CONFIRM THAT THE SUBJECT WAS DISCUSSED AND TO SAY THAT THE PRIME MINISTER, HAD WISHED TO BRIEF THE PRESIDENT ON HER RECENT MEETING WITH DR FITZGERLAND. WE COULD RECALL THAT NORTHERN IRELAND AND TERRORISM HAD ALSO BEEN TOUCHED ON DURING THE PRIME MINISTER'S BILATERAL MEETING WITH THE PRESIDENT BEFORE THE LONDON ECONOMIC SUMMIT.

8. IF QUESTIONED BETWEEN NOW AND 22 DECEMBER, WE ASSUME BOTH SIDES WILL DECLINE TO SAY WHICH INDIVIDUAL SUBJECTS WILL BE DISCUSSED AT CAMP DAVID: THAT CERTAINLY IS THE US INTENTION. THEY AND WE COULD ADD THAT THERE WILL BE NO FIXED AGENDA FOR AN INFORMAL MEETING OF THIS KIND. BUT THERE WOULD OF COURSE BE NO OBJECTION IN US TERMS IF OUR SIDE WERE TO INDICATE THAT THE PRIME MINISTER INTENDS TO SAY SOMETHING ABOUT TERRORISM, AND ABOUT NORTHERN IRELAND.

9. WE COULD, IF YOU WISH, LEAVE MATTERS AS THEY NOW STAND (PARA 4 ABOVE). BUT IT WOULD BE HELPFUL IF YOU COULD LET US KNOW (A) WHETHER YOU WOULD LIKE US TO EXPLORE WITH STATE DEPARTMENT AND NSC THE ALTERNATIVE APPROACH, DISCUSSED IN PARA 7 ABOVE, AND (B) WHETHER YOU WOULD WISH US ALSO TO SUGGEST THAT IT BE BROUGHT FORWARD, TO PRE-EMPT BIAGGI, AS IN PARA 8 ABOVE.

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PS/PS
SIR W. HARDING
MR DAVID THOMAS

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MR CARTLEDGE CABINET OFFICE



10 DOWNING STREET

To Power

I think it is quite - and dangerous - unrealistic to dodge the issue. In any case it will leak in Washington and suspicions will be created if we have remained at hush up the fact of a discussion of Northern Ireland. I think the State Department on this evidence is either mad or Machiavellian.

I would like to be able to say that the PM, at the initiative, briefed President Reagan on the Irish bilateral (in the course of which I would draw attention to the positive points about the Jews in the community) and that the President for what USA was doing to clamp down on terrorism and hoped for more help in countering Nord. 14/12

CONFIDENTIAL

Bernard Ingham

CONFIDENTIAL

FM WASHINGTON 122310Z DECEMBER 84
 TO IMMEDIATE FCO
 TELEGRAM NUMBER 3725 OF 12 DEC
 INFO BIS NEW YORK, DUBLIN

*What do you think?**CIP*

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16.

CONFIDENTIAL

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THE MINISTER OF STATE

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLEBANK
LONDON SW1P 4QJ

Direct Line 01-211 3290
Switchboard 01-211 3000

14. December 1984

Charles Powell Esq
Private Secretary
Prime Minister's Office
10 Downing Street
LONDON SW1

Dear Charles.

PRIME MINISTER'S VISIT TO PEKING

In response to your letter of 12 December to Peter Ricketts, and requests made directly to the Minister of State at Wednesday's briefing meeting, I attach some additional briefing on energy matters.

I am sending copies to Callum McCarthy (Department of Trade and Industry) and to Peter Ricketts (FCO).

Yours Sincerely.

Sue Killen.

SUE KILLEN
Private Secretary

ADDITIONAL ENERGY BRIEFING

Oil and Gas

Offshore:

1. Recognition by Chinese that UK as a result of N Sea experience has most advanced offshore technologies.
2. Exploration: UK companies in China
BP
Shell (in participation with Esso)
Tricentrol
Cluff Oil
3. UK service companies active in exploration
Star Offshore Services Ltd (supply boats)
Houlder Offshore Ltd (drilling)
Racal-Decca Survey Ltd (communications)
BA Helicopters
Bristow Helicopters
Expo Technical Services Ltd
Cable and Wireless (communications)
Jardine Matheson
International Drilling Fluids Ltd
4. A highly successful well attended UK offshore oil seminar has just been held in Peking, Canton and Shanghai. UK Companies participating:
Atlantic Drilling Company Ltd (drilling)
BP Exploration Ltd
Matthew Hall plc (engineering design)
Humphreys and Glasgow Ltd (engineering design)
John Brown Engineers and Constructors ltd (engineering design)
Rolls Royce Ltd
Cleveland Redpath Offshore Ltd (fabrication)
Balfour Kilpatrick Ltd
British Underwater Engineering Ltd

Seminar opened in Peking by Minister of State for Energy who also participated in Canton.
5. The only commercial offshore discovery is of gas (by ARCO, US company) near Hainan Island. Chinese uncertain how to utilise this but considering pipeline to Canton.

British expertise in the design, safety and efficient construction of this and other pipelines second to none. Elsewhere in China British Gas are finalising a contract for the design of a 390km gas pipeline. We must make a real pitch for the Hainan gas work.



Onshore

Possible participation of UK companies suggested to Minister of State during his visit. This a new development worth following. BP very interested - but need to be offered acreage with good prospects.

Coal

1. UK mining equipment operating successfully in China:

Anderson Strathclyde
Gullick Dobson

UK Longwall mining equipment a world leader.
2. Shell Coal International to carry out a £20m full feasibility study into a £200m project to develop the Jining ("Jeening") coal mine in Shangdong Province.
3. NCB undertaking study to improve production at the Tangshan Mine in Kailuan. Strong indication that work on this mine would also be extended to whole field: deserves vigorous support.

Coal Gasifications

1. British Gas have developed a new technology at Westfield in Fife. This had been visited by a number of Chinese, including Minister for Coal in April 1984.
2. British Gas currently carrying out tests at Westfield on Chinese coal.
3. Rolls Royce and British Gas following up enquiry for integrated gasification combined cycle plant for electricity generation.

Power Generation

1. Success of UK equipment at Castle Peak, Hong Kong, GEC and Balfour Beatty (transmission).
2. GEC participation in Guangdong project. Interest also of firms like Balfour Beatty in transmission etc.
3. UK experienced in conventional electricity generation. Drax B - the largest coal fired power station in W Europe (2,000mw) currently under construction, main contractors NEI, supported by GEC and Babcocks.

Energy Efficiency

1. Visit to UK by Vice Chairman of State Planning Commission in September.
2. UK team from Energy Efficiency Office of Department of Energy to visit China early in 1985.
3. Strong interest expressed by Chinese during Minister of State for Energy's visit.



List of Energy Visits to UK

September 1983 Tang Ke, Minister of Petroleum

December 1983 You Dehau, Vice President of China National Offshore Oil Corporation

April 1984 Gao Yangwen, Minister of Coal

September 1984 Zhang Shou, Vice Chairman, State Planning Commission (to study energy conservation)



Foreign and Commonwealth Office

London SW1A 2AH

14 December, 1984

Dear Robin,

Prime Minister's Visit to China: Invitation to HM The Queen

In his letter to you of 7 December Antony Acland sought agreement to the line to be taken with the Chinese about the possibility of The Queen visiting China, the line to be taken by the Prime Minister with EXCO in Hong Kong on the same subject, and the line to be taken at the press conference. You agreed in your letter of 11 December.

The Governor of Hong Kong has now asked for authority to tell the Executive Council in Hong Kong in advance the line which is going to be taken about the possibility of visits to China and Hong Kong. I enclose a copy of his telegram. We think he is right about this: apart from anything else the Prime Minister might need to use the line with the press when she sees British correspondents in Peking, before she even meets EXCO. This could cause offence to the Executive Council.

If you agree, we would propose to instruct the Governor as in the attached draft telegram, which would need to be despatched from here on Monday 17 December.

THIS IS A COPY THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT

TEMPORARILY RETAINED. S Gray 22/12/84

Yours ever,

Le Appleyard

(L V Appleyard)
Private Secretary

Robin Butler Esq
10 Downing Street

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IMMEDIATE

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CONFIDENTIAL

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FM HONG KONG 130745Z DEC 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 3776 OF 13 DECEMBER

FOLLOWING FOR PS/PUS AND GALSWORDY, HONG KONG DEPARTMENT FROM GOVERNOR.

PRIME MINISTER'S VISIT TO CHINA: INVITATION TO HER MAJESTY THE QUEEN.

1. I RAISED WHEN I WAS IN LONDON THE NEED TO KEEP THE EXECUTIVE COUNCIL INFORMED IN ADVANCE OF ANYTHING WHICH WILL BE SAID TO THE CHINESE OR PUBLICLY DURING THE PRIME MINISTER'S VISIT TO CHINA ABOUT THE ACCEPTANCE OF THE INVITATION TO HER MAJESTY THE QUEEN, PARTICULARLY SINCE A VISIT TO HONG KONG WILL PRESUMABLY BE INVOLVED.

2. THIS SHOULD BE DONE NO LATER THAN THE EXECUTIVE COUNCIL MEETING ON TUESDAY, 18 DECEMBER AT WHICH TIME THE COUNCIL WILL NEED TO BE TOLD:

- (A) WHAT RESPONSE WILL BE GIVEN TO THE INVITATION;
- (B) THE PLANS FOR A PARALLEL VISIT TO HONG KONG; AND
- (C) WHAT WILL BE SAID PUBLICLY ABOUT VISITS TO BOTH PLACES.

YOUDE

NNNN

OUT TELEGRAM

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CAVEATS
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TEL NO

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2 GRS
3 CONFIDENTIAL
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5 182330Z
6 FM FCO 131815Z DECEMBER 84
7 TO IMMEDIATE HONG KONG
8 TELEGRAM NUMBER
9 **PRIME MINISTER'S VISIT TO CHINA: INVITATION TO HER MAJESTY**
10 **THE QUEEN: YOUR TEL NO 3776**
11 1. You may tell the Executive Council in strict confidence on
12 18 December that the Prime Minister is likely to tell the Chinese
13 that while the Queen has welcomed the invitation to visit China,
14 it would not be possible for the visit to take place before 1986,
15 and in practice not until the second half of the year. You
16 should say that the Queen expects to be able to pay a visit to
17 Hong Kong in association with Her visit to China.
18 2. You should also say that if the Prime Minister needs to
19 speak to the press about this, she will confirm that an
20 invitation has been received from the Chinese, and if necessary
21 that the subject was discussed during her visit to Peking. She
22 would say that she knows that the Queen much appreciates this
23 invitation, that the Queen's diary is full for 1985, but that she
24 hopes to be able to accept the invitation thereafter; and add
25 that no dates have yet been arranged. If asked, she would add

NNNN ends telegram		BLANK	Catchword that
File number	Dept HKD	Distribution Limited	
Drafted by (Block capitals) A C GALSWORTHY		PS/PUS Dr Wilson HD/HKD	
Telephone number 233 3184		HD/FED 42/PROTOCOL DEPT	
Authorised for despatch			
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OUT TELEGRAM (CONT)

Classification and Caveats

CONFIDENTIAL

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3	given to a visit to Hong Kong.
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Foreign Policy: PM's visit to China etc

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10 DOWNING STREET

From the Private Secretary

14 December, 1984

Prime Minister's Visit to the United States

In my letter of 10 December, I said that the Prime Minister would reach a final decision whether to go through with her proposed visit to the United States in February only when she had discussed the matter with President Reagan on 22 December.

At the end of Mr. Volcker's call on the Prime Minister yesterday evening, the American Ambassador said that he knew for sure that the President was keen for the Prime Minister to go. The Prime Minister's response will certainly have led the Ambassador to conclude that the matter is settled and he will no doubt be reporting to Washington in that sense. You will wish to inform our Embassy. I am sure that the Prime Minister will still, none the less, have a word with the President about it.

This means that the work on speeches and the preparation of the seminar proposed in my earlier letter should now be pursued with all speed.

I am copying this letter to Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office).

C. D. POWELL

Len Appleyard, Esq.
Foreign and Commonwealth Office



THE MINISTER OF STATE

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ

Direct Line 01-211 3290

Switchboard 01-211 3000

Charles Powell Esq
Private Secretary
Prime Minister's Office
10 Downing Street
LONDON SW1

CDP
14/Ki

14. December 1984

Dear Charles.

PRIME MINISTER'S VISIT TO PEKING

In response to your letter of 12 December to Peter Ricketts, and requests made directly to the Minister of State at Wednesday's briefing meeting, I attach some additional briefing on energy matters.

I am sending copies to Callum McCarthy (Department of Trade and Industry) and to Peter Ricketts (FCO).

Yours Sincerely.

Sue Killen.

SUE KILLEN
Private Secretary



c.c.k.

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422
TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

13 December 1984

NBM.

C D Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

EDD

14/xii

Dear Charles,

PRIME MINISTER'S MEETING WITH PRESIDENT REAGAN

We agree that the topics mentioned in your letter of 24 November to Len Appleyard should be the main ones on the Prime Minister's agenda when she meets the President.

2 We think, however, that the Prime Minister may also need to refer to the recent US restrictions on imports of steel pipes and tubes from the Community, which we understand was discussed at Dublin on Chancellor Kohl's initiative. And it may also be necessary to mention the Laker antitrust case, when the Prime Minister might confirm the warm welcome she has already given to the President's decision to close the grand jury investigation of British Airways, while stressing the need also to deal with the problem of private antitrust suits in the aviation field.

3 Finally, we understand from our Embassy in Washington that it would be appreciated if the Prime Minister were to welcome the resumption of low key contacts between the United States and the USSR on bilateral trade issues. We would endorse this suggestion.

4 I am copying this letter to David Peretz (Treasury), Len Appleyard (FCO), Richard Mottram (Ministry of Defence), Hugh Taylor (Home Office) and Richard Hatfield (Cabinet Office).

Yours ever,
Ruth

RUTH THOMPSON
Private Secretary

JH1BRA

For. Pol : Viet & China etc 11/84



RECEIVED THE SECRETARY OF STATE
DEPARTMENT OF STATE
WASHINGTON, D.C.
17 DEC 1984
0 11 R 1 2 3 4
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UNCLASSIFIED CONFIDENTIAL

17 DEC 1984
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1. The United States is committed to a policy of peaceful relations with all nations, and to the principle of self-determination for all peoples. The United States is committed to the principle of non-interference in the internal affairs of other nations, and to the principle of equal rights and self-determination for all peoples. The United States is committed to the principle of peaceful settlement of international disputes, and to the principle of mutual respect for the sovereignty and territorial integrity of all nations. The United States is committed to the principle of mutual cooperation and friendship between all nations, and to the principle of equality and mutual benefit in international relations. The United States is committed to the principle of peace, justice, and freedom for all peoples, and to the principle of a just and lasting peace in the Middle East. The United States is committed to the principle of a just and lasting peace in the Middle East, and to the principle of a just and lasting peace in the Middle East.

For one
[Signature]

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10 DOWNING STREET

From the Private Secretary

12 December, 1984

Dear Peter,

PRIME MINISTER'S VISIT TO PEKING

A number of points requiring follow-up action emerged at this afternoon's briefing meeting.

For discussion of commercial relations between Britain and China, the Prime Minister requires:

- a. half-a-dozen examples to quote of real success stories by British firms both in and outside China.
- b. a note on successful visits to industrial sites and companies by senior Chinese visitors to the UK, say over the past year.
- c. a list of the principal firms currently pursuing business in China, with the projects in which they have an interest. This should cover firms with solid reputations seeking business for which they are well qualified and have reasonable prospects of securing.

The lists should be prepared by the DTI and Department of Energy and annexed to the briefing being prepared on commercial relations.

It is also important that the brief should deal fully with a number of matters mentioned by Mr. Buchanan-Smith at the briefing. These include Balfour Beatty's interest in power transmission, the activities of Cable and Wireless and Standard Telephones, and possible on-shore exploration by British oil companies.

I assume that the briefing will also include a summary of all the latest information which we can assemble on developments in China, in case the Prime Minister wishes to refer to these in her talks.

It was suggested at the briefing that the Prime Minister might invite Hu Yaobang to visit the United Kingdom.

I am copying this letter to Callum McCarthy (Department of Trade and Industry) and to Michael Reidy (Department of Energy).

Yours sincerely

(C.D. Powell)

P.F. Ricketts, Esq.,
Foreign and Commonwealth Office.

FILE

67



cc: PC

10 DOWNING STREET

From the Private Secretary

12 December, 1984

PRIME MINISTER'S VISIT TO WASHINGTON

At this afternoon's briefing meeting, the Prime Minister commissioned further work on arms control issues. She wants in particular to have a clear idea of which of the various possible formats for negotiation on arms control which might emerge from the US/Soviet meeting in Geneva in January would best serve our interests. She would intend to draw on this in speaking to President Reagan.

Mr. Cartledge has kindly undertaken to provide this further material, in consultation with the FCO and MOD.

I am sending a copy of this letter to Richard Mottram (Ministry of Defence) and to Bryan Cartledge (Cabinet Office).

(C.D. Powell)

P. Ricketts, Esq.,
Foreign and Commonwealth Office

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Ref. A084/5333

MR POWELL

Prime Minister's Briefing Meeting: Hong Kong/Peking and
United States: House of Commons, 4.00 pm
Wednesday 12 December

The revised list of those attending is now as follows:

Percy - Benji Law
4.00 pm

Hong Kong/Peking

Foreign and Commonwealth Secretary

Minister of State, Department of Energy,
Mr Buchanan-Smith

Minister of State, Department of Trade
and Industry, Mr Channon

Sir Percy Cradock

Mr David Wilson, Foreign and Commonwealth Office

Mr Christopher Benjamin, Department of Trade
and Industry

Mr Bryan Cartledge, Cabinet Office

4.45 pm

United States

Secretary of State for Defence

Chancellor of the Exchequer

Minister of State, Department of Trade and
Industry, Mr Channon

Sir Oliver Wright

Sir Percy Cradock

Mr Bryan Cartledge, Cabinet Office

Rosalind Mulligan
ROSALIND MULLIGAN

12 December 1984

PRIME MINISTER

Briefing Meeting for your Visits to Peking, Hong Kong and
Washington

This is tomorrow afternoon, the only time when we can assemble all those required. We have allowed 45 minutes for Peking/Hong Kong and 45 minutes for Washington. A list of those attending is attached. Geoffrey Howe has to leave at 5 p.m.

Briefs are attached without background at this stage. I suggest that you read the steering briefs only. You will of course have more time to study the others in detail on the journey.

Peking [Brief I]

Signature of the agreement is the substance. The talks are the icing on the cake. But some useful points might be made on trade - though the public presentation will need to be watched carefully.

You will want at the briefing meeting to identify the main objectives and decide how to pursue them at each of your three meetings with

- Deng Xiaoping —
- Hu Yaobang —
- Zhao Ziyang —

You might ask the Foreign Secretary to set out a general strategy for the visit, and then ask Mr. Channon and Mr. Buchanan-Smith (both of whom have recently visited China) to suggest how general trade objectives and the scope for co-operation on energy matters can most effectively be advanced.

Hong Kong [Brief 5]

Here the public aspect is all important: your televised address to the joint meeting of UMELCO and EXCO, your press conference and your district visit. There are no talks as such, except for a brief session with Lord Kadoorie on Guangdong.

Washington [Briefing 6]

The main subjects are:

- East/West and Arms Control.

The Americans will be interested in what you say on Gorbachev. You will want to decide (nearer the time) whether to hand over our shortened paper on BMD and ASATS.

- US economy
- Middle East
- Central America
- Terrorism

You may also need to raise Laker and Ireland.

You might invite the Foreign Secretary (who has to leave) to give a brief survey of what you can expect based

on his talks with Shultz. You could then ask the Defence Secretary to summarise the line it is suggested you should take on arms control; and the Chancellor to advise the best means of tackling the points we want to get across on US economic policy. Mr. Luce could be invited to deal with Middle East and Terrorism and Mr. Channon with any trade points.

C.D.P.

11 December 1984

CONFIDENTIAL

Attendance

1600-1645 Peking/Hong Kong

Foreign Secretary
Mr. Channon
Mr. Buchanan-Smith
Sir P Cradock
Mr. Cartledge
Mr. Wilson (FCO)
Mr. Benjamin (DTI)

1645-1730 Washington

Foreign Secretary (Mr. Luce as reserve)
Chancellor
Defence Secretary
Mr. Channon
Sir Oliver Wright
Sir Percy Cradock
Mr. Cartledge
Mr. Corley (DTI)



Foreign and Commonwealth Office

London SW1A 2AH

11 December 1984

Dear Charles,

Prime Minister's Visit to China, Hong Kong and Washington

In advance of the Prime Minister's briefing meeting on 12 December I enclose:

- (i) the steering brief for China;
- (ii) points to make at the formal talks with Premier Zhao Ziyang;
- (iii) points to make at the call on Chairman Deng Xiaoping;
- (iv) points to make at the call on General Secretary Hu Yaobang;
- (v) the steering brief for Hong Kong;
- (vi) the steering brief for Washington

The points in the briefing about a visit to China by HM The Queen are subject to the Prime Minister's agreement with the line proposed by Sir Antony Acland (after consulting the Palace) in his letter of 7 December to Robin Butler.

We shall let you have the full briefing in the course of Thursday, 13 December.

I am copying this letter with a full set of enclosures to Mr Wicklen (Mr Channon's office, DTI); with the Far East briefs only to Miss Killen (Mr Buchanan Smith's office, Energy); and with the Washington brief only to David Peretz (HM Treasury) and Richard Mottram (MOD).

P F Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL



70 Whitehall, London SW1A 2AS Telephone 01-233 8319

Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A084/3351

13 December 1984

My dear Anthony,

China: Possible Visit by Her Majesty
The Queen

You sent me a copy of your letter of 7 December to Robin Butler. Like Robin, I should be content with the line recommended in your letter, and I should be happy to see that incorporated into the briefs for the China and Hong Kong visits.

I am sending a copy of this letter to Robin Butler.

Yours ever
Robert

Sir Antony Acland KCMG KCVO

CONFIDENTIAL

For. Rt : PM visit of China etc. 11/89.



file Ko

10 DOWNING STREET

From the Principal Private Secretary

13 December 1984

Many thanks for your letter of 10 December. I am glad to hear that you are doing some work in the Beijing Hotel. It indicates a great refinement of taste on the part of the Chinese!

Would that I could have the opportunity of staying there. As you will understand, we are entirely in the hands of the Chinese who will put us in one of their guest houses. In fact, we are moving so quickly that there will be scarcely an opportunity to lay our heads anywhere.

RLB

Dennis Lennon, Esq., C.B.E., M.C.

[Handwritten signature]



file
ccPCV

10 DOWNING STREET

From the Principal Private Secretary

11 December 1984

China: Possible Visit by Her Majesty
The Queen

Thank you for your letter of 7 December. I know that the Prime Minister would be content with the line recommended in your letter and, subject to Sir Robert Armstrong's views, I should be content if it were incorporated into the briefs for the China and Hong Kong visits.

I am copying this letter to Sir Robert Armstrong and Sir Philip Moore.

E. E. R. BUTLER

Sir Antony Acland, KCMG, KCVO

DEPARTMENT/SERIES <i>REM 19</i> PIECE/ITEM <i>1502</i> (one piece/item number)	Date and sign
Extract/Item details: <i>Letter to Adand dated 11 December 1984</i>	
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NUMBER NOT USED	

Ref. A084/3309

MR POWELL

cc Mr Cartledge
Mr Colvin
Mr Robertson

Prime Minister's Briefing Meeting: Hong Kong/Peking and United States
House of Commons: 4.00 pm Wednesday 12 December

The list of those attending these meetings is as follows:

- 4.00 pm Peking/Hong Kong
Foreign and Commonwealth Secretary (Until about 4.45 pm)
Minister of State, Department of Trade and Industry, Mr Channon
Sir Percy Cradock
Mr Brian Cartledge
Mr David Wilson, Foreign and Commonwealth Office
Mr Peter Crawley, Department of Trade and Industry
[Mr Christopher Benjamin, Department of Trade and Industry]
? Mr David Morphet, Department of Energy
- 4.45 pm United States
Secretary of State for Defence
Chancellor of the Exchequer
Minister of State, Department of Trade and Industry, Mr Channon
Sir Oliver Wright
Sir Percy Cradock
Sir William Harding
Mr David Nicholls, Ministry of Defence
Mr Peter Crawley, Department of Trade and Industry
? Mr Brian Unwin, Treasury
Mr Brian Cartledge



2. I understand that the Foreign and Commonwealth Secretary does not see a need for Mr Luce to attend, but has suggested that Sir Oliver Wright should be present. Sir William Harding has also been suggested by the Foreign and Commonwealth Office as a substitute for Mr Derek Thomas who will be abroad. The Department of Energy have also suggested that Mr Alick Buchanan-Smith, Minister of State, Department of Energy, might also attend as he has just returned from a visit to China.

3. Mr Brian Unwin, Treasury, would probably attend in the place of Mr Littler, who will be in Brussels, although we are unable to confirm this at the moment. The Department of Trade and Industry have asked if they may send two officials: Mr Crawley to cover Hong Kong and Mr Benjamin to cover Guangdong. Mr David Morphet's attendance has not yet been confirmed.

ROSALIND MULLIGAN

11 December 1984

DENNIS LENNON & PARTNERS

CHARTERED ARCHITECTS & DESIGNERS

3 Fitzhardinge Street, London, W1H 9PN 01-935 1181-2-3, 2596-7

JDL/DJP/BH 1.1

10 December 1984

F. E. Butler Esq.
10 Downing Street
London SW1P 3AG

Dear Robin,

I thought you might be interested to know that I have recently been asked to do some work in Peking in the Beijing Hotel which is one of the largest in China with 1100 rooms. We have sent out a complete sample bedroom which is being fitted out now, and should be ready for Christmas. It is very luxurious and all made here. If your going perhaps you could ask to stay there! It is quite suitable for the Prime Minister!

With king regards.

Yours sincerely,



Dennis Lennon

13 DEC 1984





10 DOWNING STREET

From the Private Secretary

10 December 1984

PRIME MINISTER'S VISIT TO PEKING:
MEETING WITH THE BRITISH PRESS

I have seen Peking telegram No. 2919 about the arrangements for briefing the British and Hong Kong correspondents in Peking.

I have consulted Bernard Ingham. His view is that the best way to proceed is for the Prime Minister to see British correspondents (both resident and visiting) at the Residence while he and Christopher Meyer brief the Hong Kong press in the Amenities Hall. This latter briefing might have to be earlier in the day. He feels that to admit 70 Hong Kong journalists to a briefing by the Prime Minister would entirely change its character. Nor is he attracted by the idea of a pool for Hong Kong journalists.

Mr. Ingham envisages the Prime Minister briefing on-the-record and not unattributably.

I have no doubt that the Prime Minister will accept Mr. Ingham's advice on this matter.

(C.D. POWELL)

P.F. Ricketts, Esq.,
Foreign and Commonwealth Office.

JKRAPB

Se.

MB

c: Mr Murray

MR POWELL

UNELCO

MEETING WITH BRITISH PRESS IN PEKING

I can well understand Hong Kong's concern to get Hong Kong journalists into a press conference in Peking, but the Prime Minister's chief concern is to get a good press in the UK. And she is to give an open press conference in Hong Kong on December 21.

I think the best way of proceeding is for the Prime Minister to see British correspondents (resident and visiting) at the residence and for Chris Meyer and I to brief the Hong Kong press separately in the Amenities Hall. Given different time schedules, it will however be necessary to brief the Hong Kong media earlier in the day.

I would envisage the Prime Minister briefing on the record and not unattributably so the question of Hong Kong observance of rules would not arise.

But to admit 70 Hong Kong journalists to a briefing by the Prime Minister would entirely change its character.

I am not attracted to the idea of a pool for Hong Kong journalists in Peking. I think that would create a worse situation.



BERNARD INGHAM
10 December 1984

UMELCO

Office of Unofficial Members of Executive and Legislative Councils
行政立法兩局非官守議員辦事處

7th December, 1984

The Rt. Hon. Margret Thatcher, MP,
10, Downing Street,
London SW1A 0AA.

Dear Prime Minister,

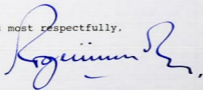
Subject: The Future of Hong Kong

On behalf of UMELCO I would like to thank you for meeting our Delegation last Wednesday. It was most helpful to have the opportunity to discuss with you the latest wishes of the people of Hong Kong on their future and to exchange views with you on this important subject.

Sir S.Y. Chung left today because he has to lead a Hong Kong trade mission to Japan, but on his behalf I would like to thank you most warmly for your continued interest in and unfailing support for Hong Kong.

We are glad that you would be going to Peking to sign the very important Agreement regarding our future and we look forward to seeing you in Hong Kong.

Yours most respectfully,



R.H. Lobo
Senior Unofficial Member
Legislative Council

CONFIDENTIAL

CCPS



Sir Antony Acland KCMG KCVO
Permanent Under-Secretary of State

Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

Would you be content to deal with the question of a visit by The Queen to China on these lines, during your visit to China and Hong Kong?

7 December 1984

Robin Butler Esq
10 Downing Street

Is this suggestion
OK - suitable to
The Queen? I should
welcome it -
mb.

Dear Robin, FRS

FRS

CHINA: POSSIBLE VISIT BY HER MAJESTY THE QUEEN

10.12

Thank you for your letter of 21 November.

The Chinese invitation to The Queen is of relatively long standing, and was expressly renewed by Deng Xiaoping during Sir Geoffrey Howe's visit to Peking in July. It is almost certain that the Chinese will make some reference to the invitation during the Prime Minister's forthcoming visit. Even if they do not we have it in mind to brief the Prime Minister to make some mention herself of the invitation.

I think that there is likely to be general agreement that we should recommend that The Queen should plan for a State Visit to China in 1986. At my own recent preparatory meeting, held to consider the agenda for the Royal Visits Committee, we reached agreement that I should argue for a recommendation in this sense on the understanding that the Chinese Prime Minister would have visited the UK during 1985, and that 1985 would in any event be too early to arrange for a State Visit to China. There is however one small bureaucratic problem of timing. The Royal Visits Committee is now not due to meet until January. We shall not therefore be able to submit the recommendations of the Committee formally before the Prime Minister's departure.

In these circumstances, I suggest that we should agree between ourselves that the Prime Minister should say to the Chinese when she visits Peking that The Queen had welcomed the invitation to visit China; she was pleased to accept in principle; but it would not be possible for the visit to take place before 1986 (in practice it could not be until the second half of the year, but that need not be specified now).

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The Prime Minister may also be asked while in Hong Kong about The Queen's plans for a visit to the territory. I suggest that if the matter comes up at her meeting with EXCO she should similarly express The Queen's expectation of being able to pay a visit in association with her visit to China, but not before 1986.

At her press conference I think that the Prime Minister could confirm that an invitation has been received from the Chinese (and if necessary that the subject was discussed during the Prime Minister's own visit to Peking); say that she knows The Queen much appreciates this invitation; that The Queen's diary is full for 1985 but that she hopes to be able to accept the invitation thereafter; and add that no dates have yet been arranged. If asked, the Prime Minister could add that when a visit to China is arranged, consideration will also be given to a visit to Hong Kong.

A handwritten signature in blue ink, which appears to read 'Antony Acland'. The signature is written in a cursive style and is positioned above the printed name.

Antony Acland

cc:

Sir R Armstrong GCB CVO
Cabinet Office

CONFIDENTIAL

CONFIDENTIAL

Revised
You will have
views on this.
(will pass them
on.)
C

GRS 280

CONFIDENTIAL
FROM PEKING 070852Z DEC 84
TO PRIORITY FCO
TELNO 2919 OF 7/12/84
INFO PRIORITY HONG KONG

YOUR TELNO 1438; PARAGRAPH 4; PRIME MINISTER'S VISIT;
MEETING WITH BRITISH PRESS

1. THE PRIME MINISTER'S MEETING WITH BRITISH CORRESPONDENTS IN PEKING (PRESUMABLY BOTH RESIDENT AND VISITING) WILL ALMOST CERTAINLY HAVE TO TAKE PLACE ON THE EVENING OF 19 DECEMBER AFTER THE WELCOMING BANQUET (THOUGH THIS MIGHT WELL COINCIDE WITH YOUR INFORMAL MEETING WITH WU XUEQIAN). THE TWO POSSIBLE VENUES ARE THE PRIME MINISTER'S GUEST HOUSE AT THE DIMOYUTAN AND THE RESIDENCE. THEY ARE EQUALLY CONVENIENT FOR THE PRESS. SINCE THE PRIME MINISTER MAY WISH TO MEET THE PRESS ON 'BRITISH TERRITORY' AND MAY IN ANY CASE INTEND TO HOLD CONFIDENTIAL DISCUSSIONS IN THE CHANCERY LATER ON, THE RESIDENCE WOULD SEEM TO BE THE BETTER CHOICE.

2. WE MUST NOT FORGET HONG KONG CORRESPONDENTS IN MAKING PRESS ARRANGEMENTS. THEY WOULD PROBABLY RESENT BEING EXCLUDED FROM THE PRIME MINISTER'S MEETING AND THIS COULD GET THE VISIT TO HONG KONG NEXT DAY OFF TO A BAD START. BUT GIVEN THE NUMBER INVOLVED (AROUND 70), IT WOULD BE DIFFICULT TO INCLUDE THEM ALL, EVEN IF THIS WERE THOUGHT TO BE DESIRABLE.

3. TWO POSSIBLE WAYS OF BRIEFING THE HONG KONG CORRESPONDENTS ARE:-

(A) IF THEY CAN BE PERSUADED TO ORGANISE A POOL FOR THE VISIT, TO INVITE POOL MEMBERS TO THE MEETING WITH THE PRIME MINISTER,

(B) TO ORGANISE A SEPARATE BRIEFING FOR THE HONG KONG PRESS IN THE EMBASSY AMENITIES HALL, GIVEN BY THE HEAD OF NEWS DEPARTMENT.

IF THE PRIME MINISTER'S PURPOSE IN MEETING THE PRESS IS PRIMARILY PRESENTATIONAL, OPTION (A) WOULD BE FEASIBLE. IF, HOWEVER, SHE PLANS TO GIVE A SUBSTANTIVE UNATTRIBUTABLE BRIEFING, WE SEE MERIT

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IN OPTION (B); WE HAVE DOUBT ABOUT THE ABILITY OF THE HONG KONG PRESS TO ABIDE BY THE RULES OF SUCH AN EXERCISE.

4. THE GOVERNOR WILL NO DOUBT WISH TO COMMENT.

THIS TELEGRAM
WAS NOT
ADVANCED

EVA

FUTURE OF HONG KONG

LIMITED
HD/NEWS D
HD/HKD
HD/FED
HD/PLANNING STAFF
HD/PUSD
DEP HD/PUSD
RESEARCH D (MR WALKER)
PS
PS/LADY YOUNG
PS/MR LUCE
PS/PUS
MR DEREK THOMAS
SIR W HARDING
MR GOODALL
MR WILSON
SIR J FREELAND

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MR FIPOOT LEGAL ADVISERS
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MR POWELL NO 10 DOWNING ST.
MR INGHAM NO 10 DOWNING ST.
MR MARTIN ASST STAFF CABINET OFFICE
MR CARTLEDGE CABINET OFFICE
MR COLVIN CABINET OFFICE
PS/S OF S FOR DEFENCE
PS/ATTORNEY GENERAL
SIR P CRADOCK ROOM K195
SIR P CRADOCK NO 10 DOWNING ST.
MR KELLY TREASURY

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HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT



6 December 1984

Dear Charles,

NB 17
CDP
6/12.

PRIME MINISTER'S MEETING WITH PRESIDENT REAGAN

Thank you for sending me a copy of your letter of 28 November to Len Appleyard.

We would be very much in favour of the inclusion of terrorism as a subject for the Prime Minister to cover at her meeting with President Reagan. The meetings on technical and other co-operation which the President offered at the last meeting have now taken place, and both the police and officials here found them useful. The Prime Minister may like to thank the President for that initiative and to express the hope that this co-operation should continue in future. We would certainly see considerable profit in this.

More generally, this item would provide an occasion to underline the importance of international co-operation against international terrorism, which we have been fostering with EC members through TREVI and diplomatic contacts. All information, particularly about the Irish threat, is helpful, and the FCO may also wish to use the occasion for further pressure on NORAIID, in the light of the successful interception of arms by the Garda recently.

I am sending copies of this reply to the other recipients of your letter.

Yours sincerely
H H Taylor

H H TAYLOR

C D Powell, Esq.

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Foreign Policy : MI visit to China etc
11/84

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-6 DEC 1984



rc.
bc PC

10 DOWNING STREET

From the Private Secretary

MISS MULLIGAN
CABINET OFFICE

Prime Minister's Briefing Meeting on
China and the United States

Thank you for your minute of 29 November.

For the Peking/Hong Kong meeting I suggest that you add Mr. David Wilson from the Foreign and Commonwealth Office and the appropriate Deputy Secretary from the Department of Trade and Industry. There should also be a senior official from the Department of Energy.

For the United States visit meeting, please add one senior official (Deputy Secretary or above) from each of the departments represented by Ministers.

CAP

5 December 1984

Foreign and Commonwealth Office

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10 DOWNING STREET

From the Private Secretary

5 December, 1984

Charles Powell Esq.
10 Downing Street
LONDON SW1

Visit by the Prime Minister to Peking and Hong Kong

Thank you for your letter of 29 November conveying more detailed proposals on the briefing to be provided both for the Prime Minister's talks with Chinese leaders and for her visit to Hong Kong.

I believe that these will be acceptable to the Prime Minister and should be grateful if the necessary briefing could be prepared by departments concerned. It is very important that the deadlines for the draft speeches should be maintained; indeed, if it were possible to bring them forward to the evening of 7 December, it would be very helpful.

I am copying this letter to Callum McCarthy (Department of Trade and Industry), Michael Reidy (Department of Energy) and Richard Hatfield (Cabinet Office).

C. D. POWELL

P. F. Ricketts, Esq.,
Foreign and Commonwealth Office



ccpk

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

Pt. bring forward on 12 Dec 1984
DM
5/12/84

4 December 1984

Charles Powell Esq
10 Downing Street
LONDON SW1

Dear Charles

PRIME MINISTER'S VISIT TO CHINA

The Master of the Mint would be grateful if the following could be included in the brief for the Prime Minister's visit to China.

"The Royal Mint.

The Royal Mint is currently negotiating with the China Mint Company, (a subsidiary of the People's Bank of China) to advise on the construction of a new Mint and for the supply of plated coin blanks or plating technology. The Deputy Master visited China in 1982 to initiate discussions and there is hope of their coming to fruition when the Commercial Director (Mr Gravenor) visits Beijing in January.

Mr Yin Yi is Director of the China Mint Company and of its banknote counterpart.

An indication that the Prime Minister is aware of and interested in this project could only be helpful."

I am copying this letter to Len Appleyard (FCO) and the Deputy Master of the Mint.

Yours ever
David

D L C PERETZ
Principal Private Secretary

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DD 041200Z

FROM PEKING 041010Z DEC 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 2886 OF 4/12/84

INFO BTCHONG KONG AND HONG KONG

PRIME MINISTER'S VISIT: MR BUCHANAN-SMITH'S MEETING
WITH VICE-PREMIER LI PENG

1. MR BUCHANAN-SMITH CALLED ON VICE-PREMIER LI PENG ON 4 DECEMBER. AFTER THE NORMAL COURTESIES LI RAISED THREE SUBJECTS: THE PRIME MINISTER'S VISIT, THE GUANGDONG NUCLEAR PROJECT AND THE UTILISATION OF OFFSHORE GAS OFF HAINAN ISLAND (CONVERSATION ON THE LAST OF THESE REPORTED SEARATELY).
2. ON THE PRIME MINISTER'S VISIT, LI SAID THAT SINCE I WAS PRESENT HE WISHED TO MAKE SOME REMARKS. HE HAD HEARD VARIOUS BRITISH PEOPLE SAY THAT SINO-BRITISH TRADE AND ECONOMIC RELATIONS WERE LAGGIN BEHIND THE EXCELLENT POLITICAL RELATIONS FOLLOWING THE AGREEMENT ON HONG KONG. HE SHARED THIS VIEW. WITH SUCH EXCELLENT POLITICAL RELATIONS, ECONOMIC RELATIONS SHOULD BE FURTHER DEVELOPED. SUBJECT TO MR BUCHANAN-SMITH'S VIEWS, HE THEREFORE PROPOSED TO SUGGEST TO PRMIER ZHAO THAT THE TALKS WITH MRS THATCHER SHOULD COVER ECONOMIC ISSUES. THE VISIT WOULD BE VERY SHORT AND IT WOULD NOT BE POSSIBLE TO REACH ANY SPECIFIC AGREEMENTS, BUT THE TALKS COULD LAY A SOLID FOUNDATION FOR TRADE DEVELOPMENT. DURING THE VISIT OF PRESIDENT MITTERAID AND CHANCELLOR KOHL, ECONOMIC SUBJECTS HAD BEEN DISCUSSED AND THERE HAD BEEN SATISFACTORY RESULTS. DURING MRS THATCHER'S VISIT A START COULD BE MADE. THINGS COULD BE TAKEN FURTHER FORWARD DURING PREMIER ZHAO'S VISIT TO THE UK. AS WAS WELL-KNOWN, THE CHINESE GOVERNMENT ATTACHED GREAT IMPORTANCE TO FRIENDLY RELATIONS WITH WESTERN EUROPE BECAUSE THIS ACCORDED WITH CHINA'S FOREIGN POLICY IN FAVOUR OF PEACE AND NON-ATTACHMENT TO EITHER SUPER-POWER. A POWERFUL WESTERN EUROPE WAS REGARDED AS A MAJOR CONTRIBUTOR TO PEACE AND THE UK AS AN IMPORTANT COUNTRY IN WESTERN EUROPE.
3. TURNING TO THE GUANGDONG NUCLEAR PROJECT, LI SAID THAT THERE HAD BEEN GREAT PROGRESS RECENTLY. THROUGH THE EFFORTS OF BOTH SIDES, AGREEMENT HAD BEEN REACHED ON MOST CLAUSES IN THE JOINT VENTURE AGREEMENT. IT WAS NOW A QUESTION OF WHEN THIS COULD BE SIGNED. THIS WAS OF COURSE A COMMERCIAL MATTER

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/ BETWEEN .

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BETWEEN THE TWO PARTNERS, GNIC AND HKNIC. NEVERTHELESS IF MR BUCHANAN-SMITH OR I THOUGHT THAT IT WOULD BE POSSIBLE TO FINALISE THE AGREEMENT DURING MRS THATCHER'S VISIT, AS A MEANS OF PROMOTING BILATERAL RELATIONS, THE CHINESE SIDE WAS VERY READY TO COOPERATE. THE PROBLEM WAS THAT CLP WERE SAYING THAT THERE WAS DIFFICULTY IN OBTAINING THE APPROVAL OF THE HONG KONG AUTHORITIES WITHIN THIS SHORT PERIOD. SO FAR AS HE KNEW THERE WERE NO TECHNICAL DIFFICULTIES: SO THIS WAS A PROCEDURAL DIFFICULTY. HE WISHED, HOWEVER, TO MAKE CLEAR THAT THE TIMING OF THE SIGNATURE WOULD NOT AFFECT THE SUBSTANCE OF THE AGREEMENT. IF IT WERE IMPOSSIBLE TO SIGN DURING THE VISIT ITSELF, THIS WOULD MAKE NO DIFFERENCE. NEVERTHELESS, CHINESE WILLINGNESS TO SIGN THEN COULD BE REGARDED AS A SIGN OF FRIENDSHIP.

5. MR BUCHANAN-SMITH SAID THAT HE HAD SEEN THE PRIME MINISTER SHORTLY BEFORE HIS VISIT. HE AGREED THAT WE SHOULD USE THE OPPORTUNITY OF HER VISIT TO IMPROVE OUR ECONOMIC AND INDUSTRIAL RELATIONS. BRITISH GOVERNMENT MINISTERS LIKE HIMSELF WERE BEING ENCOURAGED BY MRS THATCHER TO VISIT CHINA. THE GOVERNMENT HAD FOLLOWED PROGRESS ON THE GUANGDONG PROJECT CLOSELY. WE WERE AWARE THERE HAD BEEN DIFFICULTIES AND THAT THE AMBASSADOR HAD DISCUSSED THESE WITH THE VICE-PREMIER. THESE HAD BEEN PRINCIPALLY A MATTER FOR THE COMPANIES. NEVERTHELESS THE DIFFICULTIES NOW SEEMED TO MAINLY OVER. AS TO THE TIMING OF SIGNATURE, WE WOULD CERTAINLY LOOK AT THE VICE-PREMIER'S SUGGESTION. HE WAS GLAD TO NOTE THAT THE VICE-PREMIER HAD DESCRIBED THE SUBSTANCE AS MORE IMPORTANT THAN THE TIMING. WE HOPED THAT THE PROJECT WOULD LEAD ON TO OTHER PROJECTS FOR UK COMPANIES.

6. ASKED FOR MY VIEW, I TOLD LI THAT I HAD SPOKE TO ZHOU NAN ABOUT THE VISIT. I HAD PROPOSED THREE CATEGORIES OF SUBJECT FOR DISCUSSION: HONG KONG, INTERNATIONAL ISSUES, AND BILATERAL ISSUES, INCLUDING ECONOMIC AND COMMERCIAL RELATIONS. I UNDERTOOK TO REPORT LI'S COMMENTS ABOUT GUANGDONG. I CONFIRMED THAT THE AGREEMENT DID REQUIRE APPROVAL BY THE HONG KONG GOVERNMENT

EVANS

LIMITED

FED
MKD.
TEED.
ERD.
NED.
PUSD (MR. CROWLEY)
SIR. W. HARDING.
MR. WILSON
MR. WESTON.

ADDITIONAL DIST.
GUANGDONG NUCLEAR.

COPIES TO.
SIR. P. CRADDOCK.
PS/ No. 10 D. ST.
SIR. E. YOUDE (K195)

*ccpc*

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

3 December 1984

C D Powell Esq
10 Downing Street
LONDON
SW1

*Mr Powell**CD 3/12**Dear Charles*

PRIME MINISTER'S MEETING WITH PRESIDENT REAGAN

Thank you for copying to me your letter of 25 November to Len Appleyard.

We would not wish to add any specific suggestions to your agenda at the moment. But it would be worth noting that the item 'US economy: interest rates' could in practice cover other issues (eg the run up to the Bonn summit and international debt issues) and some time may need to be kept in reserve for any economic developments that are current. We will provide any necessary briefing nearer the time.

I am copying this letter to Len Appleyard and the other recipients of yours.

*Yours ever
David*

D L C PERETZ
Principal Private Secretary

Foreign Post

NOV 84

msbt to Hongkong China USA

-- 4 DEC 1984



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CCPC



Foreign and Commonwealth Office

London SW1A 2AH

29 November, 1984

Mr Powell of

Dear Charles,

Visit by the Prime Minister to Peking and Hong KongBriefing

I promised in paragraph 6 of my letter of 14 November to submit more detailed proposals on the briefing to be provided for the Prime Minister for her talks with Chinese leaders. For convenience this letter also covers briefing for the Hong Kong visit.

The Visit to Peking

The centrepiece of the Peking visit will be the signature of the Hong Kong agreement. We would also expect Hong Kong to occupy a prominent position in the formal talks. There are a number of general points which the Prime Minister will no doubt wish to make. These will include our determination to carry out scrupulously our side of the agreement (and our expectation that the Chinese are committed to doing the same); our wish to co-operate closely within the Joint Liaison Group over the implementation of the agreement; and our perception of concerns in Hong Kong. However, we do not think it will be desirable or necessary to go into detail, and there will be many non-Hong Kong issues to be covered in the short time available.

The second aspect of the visit will of course be Anglo-Chinese relations, and in particular trade. It will be important, within the constraints of a short visit with the agreement at centre stage, for the Prime Minister to give positive signals. Against this, it will be presentationally important, especially for Hong Kong consumption, not to give commentators any opportunity to claim that we have been influenced in our conduct of the Hong Kong negotiations by hopes of commercial gain. This precludes a high public profile for commercial matters during the visit; but at the same time trade can be promoted strongly in private talks.

Against this background, we see the main non-Hong Kong objectives of the talks with Premier Zhao as:



- (i) to develop the good personal rapport with the Premier (bearing in mind also his visit to Britain planned for 1985);
- (ii) to demonstrate our active interest in adding substance to our bilateral relations; and in particular
- (iii) to lay the foundation for a marked increase in Britain's market share of Chinese imports (presented in terms of our stake in Chinese modernisation); and
- (iv) to underline the strategic importance we attach to an outward-looking and economically reformist China.

To these ends, if the Prime Minister agrees, we propose to provide in addition to a steering brief concise subject briefs on the following:

- (a) Hong Kong issues; to be prepared by the FCO;
- (b) Bilateral political issues (which will cover the Chinese invitation to The Queen to visit China); to be prepared by the FCO;
- (c) Trade issues, as a basis for discussion of how to increase British exports to China, covering specific projects and sectors, to be prepared by the DTI in consultation with the FCO (including ODA) and the Department of Energy; and including a proposal for a delegation of senior businessmen perhaps led by a Minister; and
- (d) International issues, agreed with the Chinese (East/West, Sino/Soviet, South Asia and Korea); to be prepared by the FCO

We shall provide separate briefing for the call on Chairman Deng Xiaoping. We envisage a single brief, to include a large element on Hong Kong and distilling the general lines of the briefing of non-Hong Kong subjects prepared for the talks with Premier Zhao. We shall also provide separate briefing for a call on General Secretary Hu Yaobang if this is arranged.

The Prime Minister has agreed to make two speeches in Peking, at the signature ceremony and the banquet. We shall provide drafts by 10 December, as you have asked.

The Visit to Hong Kong

The aims of the visit to Hong Kong will be to



demonstrate the personal concern of the Prime Minister for the future of the territory and the smooth implementation of the Sino-British agreement; to convey to the international community a sense of Britain's confidence in Hong Kong's continued role as a business and financial centre; and to encourage Hong Kong people to work to build their own future.

We envisage that our briefing, apart from the steering brief, will need to comprise:

- (i) a brief on the future, covering
 - (a) points to make in informal conversation (eg at the UMELCO lunch, the reception and the Government House dinner), including defensive briefing on aspects of the agreement that have aroused most concern in Hong Kong;
 - (b) background, which will in part be a duplication of 6(ii), but will go into more detail about Hong Kong concerns.
- (ii) a background brief covering other items on the programme.

We are already working on the speech which the Prime Minister will deliver to the joint meeting of EXCO and LEGCO, and shall let you have a draft in good time.

I am sending copies of this letter to Callum McCarthy (DTI) and Michael Reidy (DOE) and to Richard Hatfield (Cabinet Office).

Yours ever
Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

AM TOURS Oct 84
Visit to Kenya

3 DEC 1984



Ref. A084/3184

MR POWELL *o/r*

cc Mr Cartledge
Mr Colvin
Mr Robertson

Prime Minister's Briefing Meeting on China and United States visits,
at 4.00 pm on Wednesday 12 December

Following our telephone conversation today, you asked me to send you a list of the possible invitees to the Prime Minister's briefing meeting.

2. On the basis that the meeting might be divided into two parts: Peking/Hong Kong first for about 45 minutes followed by United States (2 hours in all have been set aside), the list might look as follows:

Peking/Hong Kong

Foreign and Commonwealth Secretary
Minister of State, Foreign and Commonwealth Office, Mr Luce
Minister of State, Department of Trade and Industry, Mr Channon

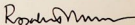
Sir Percy Cradock
Mr Cartledge

United States

Foreign and Commonwealth Secretary
Secretary of State for Defence
Chancellor of the Exchequer
Minister of State, Department of Trade and Industry, Mr Channon

Sir Percy Cradock
Mr Cartledge

3. I wonder whether we will get away with such a relatively small group: might not Ministers wish to be accompanied by their Permanent Secretaries, or if not, at least one official from their Departments?


ROSALIND MULLIGAN

29 November 1984



10 DOWNING STREET

From the Private Secretary

25 November, 1984

Prime Minister's Meeting with President Reagan

You will no doubt be giving thought to the subjects which the Prime Minister should cover at her meeting with President Reagan. The main ones seem to me:

East/West Relations and Arms Control;

US Economy: Interest Rates;

Middle East;

Central America;

Terrorism.

Others will no doubt have subjects to suggest but I hope that the list can be kept manageable so as to allow a good discussion of the main issues, rather than having to peck at a lot.

I am sending copies of this letter to David Peretz (Treasury), Richard Mottram (Ministry of Defence), Callum McCarthy (Department of Trade and Industry), Hugh Taylor (Home Office) and Richard Hatfield (Cabinet Office).

C. D. POWELL

Len Appleyard, Esq.,
Foreign and Commonwealth Office

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10 DOWNING STREET

Prime Minister

The telegram is
Oliver Wright arguing
for a February visit.

I know your mind
is moving the other
day.

Agree to postpone a
decision until you
can discuss with him on
11 December? Yes
CDP no

FM WASHINGTON 240336Z NOV 84

TO PRIORITY FCO

TELEGRAM NUMBER 3904 OF 23 NOVEMBER

INFO SAYING LOS ANGELES, HOUSTON

YOUR TELNO 2010: PRIME MINISTER'S VISITS TO THE USA

1. ACTION TAKEN. THE NSC SEE NO DIFFICULTY ABOUT THE PLAN FOR ANNOUNCEMENTS IN LONDON AND WASHINGTON ON 29 NOVEMBER, AND WILL TELEGRAPH THEIR PROPOSED TEXT TO LONDON FOR DISCUSSION WITH HOID ON 26 NOVEMBER. THEY NOW WANT PROCEEDINGS AT CAMP DAVID TO START AT 1030 REPEAT 1030.
2. NOW THAT THE DECEMBER PLANS ARE FIRM, AND WHILE THE PRIME MINISTER IS STILL REFLECTING ON THE POSSIBILITY OF A MORE SUBSTANTIVE VISIT IN LATE FEBRUARY, IT MAY BE USEFUL IF I SPELL OUT WHAT I SEE AS THE PURPOSES OF THE TWO OCCASIONS.
3. THE AMBIANCE AT CAMP DAVID ON 22 DECEMBER WILL BE INFORMAL, AND PARTICIPATION VERY RESTRICTED. THE MEETING WILL FULFILL A DUAL PURPOSE, IN PRIVATE, TO RENEW THE PERSONAL LINKS AND TAKE STOCK ON THE CENTRAL ISSUES OF CONCERN TO BOTH SIDES, AND IN PUBLIC, TO DEMONSTRATE AND REAFFIRM THE STRENGTH AND DEPTH OF ANGLO-AMERICAN CONSULTATIONS AND FRIENDSHIP. I SEE THIS AS THE RIGHT TIME FOR THE PRIME MINISTER TO ENCOURAGE THE PRESIDENT IN PRIVATE TO BE AS FIRM AS IS POLITICALLY FEASIBLE ON DEFICIT-REDUCTION, AND AS FLEXIBLE AS HIS WISE IN THE SUPERPOWER RELATIONSHIP, IN ALL OUR INTERESTS. BY FEBRUARY, HE WILL HAVE GONE PUBLIC WITH HIS INITIAL BUDGETARY PROPOSALS FOR FY1986 AND SHULTZ WILL HAVE HAD HIS GENEVA MEETING WITH GROMYKO.
4. THE PURPOSE OF THE FEBRUARY VISIT GOES VERY MUCH WIDER. FEBRUARY WOULD BE THE RIGHT TIME FOR THE PROPOSED "SEMINAR" ON EAST/WEST RELATIONS AND ARMS CONTROL (SHULTZ TOO WILL NOT BE PRESENT AT CAMP DAVID NEXT MONTH). IT WOULD ALSO BE THE RIGHT TIME TO TRY TO INFLUENCE PUBLIC DEBATE HERE, BOTH ON ARMS CONTROL AND ON THE DEFICIT, EG BY A SPEECH TO A JOINT SESSION OF BOTH HOUSES OF CONGRESS. IF WE ARE ABLE TO ELICIT AN INVITATION, WHICH MAY BE DIFFICULT, REALISTICALLY, IT IS ON THE HILL THAT THE FATE OF THE DEFICIT-REDUCTION QUESTION WILL BE SETTLED. HOPEFULLY, THE SENATE WILL HAVE A DIFFERENT PATTERN OF LEADERSHIP, OF THE SENATE ITSELF, AND OF THE FOREIGN RELATIONS AND ARMED SERVICES COMMITTEES. IT WILL BE GOOD FOR THE PRIME MINISTER TO MEET THE NEW LEADERSHIP AND TAKE ITS MEASURE. IT IS THE SENATE WHICH HAS THE CONSTITUTIONAL RIGHT AND DUTY TO ADVISE ON AND CONSENT TO ANY ARMS CONTROL TREATY. THIRDLY, WORKING MEETINGS WITH THE VICE-PRESIDENT, AND WITH SHULTZ AND/OR REGAN AND VOLCKER COULD BE VALUABLE, AND THE TRADITIONAL WHITE HOUSE CEREMONIES AND LUNCH, WHICH HAVE CONSIDERABLE IMPACT ON US PUBLIC OPINION, MIGHT ON THIS OCCASION BE COUPLED WITH SOME PUBLIC RECOGNITION OF THE 200TH ANNIVERSARY OF US/UK DIPLOMATIC RELATIONS WHICH FALLS IN 1985.

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5. AS YOU KNOW, I STRONGLY BELIEVE THAT IT WOULD BE OF CONSIDERABLE VALUE TO THE NATIONAL INTEREST AND OF ABSORBING INTEREST TO THE PRIME MINISTER IF SHE COULD IN FEBRUARY SEE A LITTLE OF THE AMERICA OF TOMORROW - IE TEXAS AND CALIFORNIA. THIS COULD BE DONE IF NECESSARY WITHOUT USING THE FULL SIX DAYS PROVISIONALLY ALLOTTED FOR THE VISIT. IF THE PRIME MINISTER LEFT LONDON PM ON 19 FEBRUARY, SHE COULD COMPLETE HER WASHINGTON PROGRAMME ON 20 FEBRUARY, VISIT AUSTIN AND DALLAS ON 21/22 FEBRUARY, AND BE BACK IN LONDON EARLY ON 23 FEBRUARY. IDEALLY I SHOULD LIKE HER TO VISIT LOS ANGELES ALSO ON 22/23 FEBRUARY, AND RETURN TO LONDON OVERNIGHT ON 23/24 FEBRUARY, BUT I WOULD SETTLE FOR ONLY WASHINGTON AND TEXAS IF TIME IS THE CONSTRAINT.

6. IN AUSTIN I WOULD ENVISAGE LUNCH WITH THE GOVERNOR AND A VISIT TO THE LEGISLATURE, A VISIT TO THE IMPRESSIVE UNIVERSITY OF TEXAS WHICH IS NOW IN ASSOCIATION WITH MCC, DIRECTED BY ADMIRAL INMAN A CONSORTIUM OF 19 HIGH TECH CORPORATIONS WORKING AT THE FRONTIERS OF KNOWLEDGE IN THE ARTIFICIAL INTELLIGENCE AND OTHER SIMILAR COMPUTER AND ELECTRONIC FIELDS. IT IS THE AMERICAN EQUIVALENT OF ALVY AND WELL WORTH A VISIT. THE UNIVERSITY OF TEXAS WOULD ALSO PROVIDE AN AUDIENCE OF SOME 3000 IN THE MAGNIFICENT NEW PERFORMING ARTS CENTRE FOR A MAYOR SPEECH. IN DALLAS THE PROGRAMME WOULD INCLUDE A DINNER WITH LEADERS OF THE TEXAS BUSINESS COMMUNITY, MANY OF WHOM WOULD COME FROM HOUSTON AND OTHER CENTRES. THE MORNING OF 22 FEBRUARY WOULD INCLUDE A VISIT TO REDIFUSION, A BRITISH COMPANY WHICH IS A WORLD LEADER IN FLIGHT SIMULATION AND TO INFOMART, A TRADE CENTRE FOR HIGH TECHNOLOGY, ARCHITECTURALLY BASED ON THE OLD CRYSTAL PALACE AND WHICH WOULD HAVE BEEN OPENED A MONTH PREVIOUSLY. THE VISIT WOULD CONCLUDE WITH LUNCH WITH THE MAYOR AND A CROSS SECTION OF THE DALLAS BUSINESS AND CIVIC COMMUNITY. GIVEN THE EXTRA DAY, I WOULD ENVISAGE DISCUSSIONS IN LOS ANGELES ON UNITARY TAXATION, A VISIT TO HODDONWELL DOUGLAS (TO SEE THE HAWK AIRCRAFT PROGRAMME) AND A SPEECH TO ARMAND HAMMER'S WORLD AFFAIRS COUNCIL.

7. A VISIT OF THIS KIND WOULD MAKE ALL THE HEADLINES HERE, AND DO THE NATIONAL INTEREST A POWER OF GOOD. SPEECH THEMES MIGHT BE: FIRST, POLITICO-SECURITY, THE TRANSATLANTIC RELATIONSHIP, EAST/WEST RELATIONS AND THE ALLIANCE; AND SECONDLY, ECONOMICS, WITH EMPHASIS ON THE BRITISH ECONOMY AND THE THREATS TO WORLD RECOVERY OF DEFICIT-INDUCED PROTECTIONISM AND HIGH INTEREST RATES. IN LOS ANGELES, IT WOULD BE GOOD ALSO TO STRIKE A BLOW AGAINST UNITARY TAXATION.

8. I RECOGNISE THE MANY DEMANDS ON THE PRIME MINISTER'S TIME, BUT I DO NOT THINK THAT THE BRIEF DECEMBER VISIT, OR EVEN A POSSIBLE SEPTEMBER 1985 VISIT, COULD BE AN EFFECTIVE SUBSTITUTE FOR SUCH A FEBRUARY PROGRAMME. THE TIME TO INFLUENCE POLICY IN THE SECOND REAGAN TERM IS EARLY ON. WE KNOW THAT THE PRESIDENT WOULD WELCOME IT IF WE COULD SO FIRM FOR THE FEBRUARY SLOT WHICH THE ADMINISTRATION ARE RESERVING FOR US (NOT WITHOUT DIFFICULTY, GIVEN THE QUEUE OF OTHER WORLD LEADERS NOW FORMING AT THEIR DOOR). I HOPE THAT YOU WILL BE ABLE SOON TO INSTRUCT ME TO WORK OUT FIRM PLANS FOR FEBRUARY. IN ANY CASE I WOULD HOPE TO DISCUSS BOTH VISITS IF, AS I ASSUME, I SHOULD BE IN LONDON FOR SHULTZ'S VISIT.

ME DAVID THOMAS

WRIGHT
LIMITED
NAB
PEACOCK
PLANNING STAFF

PS LADY Young
PL LIA KEMFON
PL PUS
SIA IN MAKING
ME DEEEN THOMAS

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u. PM TOURS - Possible visit to USA in Feb 1984.

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10 DOWNING STREET

From the Private Secretary

19 November 1984

Dear Sir,

PRIME MINISTER'S VISITS TO WASHINGTON

At the conclusion of the Prime Minister's meeting with Under-Secretary Wallis at Chequers yesterday morning, the US Ambassador said that he had some instructions to fulfil about the Prime Minister's visits to the United States. He was conscious that some confusion had entered the discussions about this for which he might be responsible. But he had now once again spoken directly to the President and could say that he and Mrs. Reagan would be extremely pleased if the Prime Minister would visit them at Camp David on 22 December. They had blocked out 1000-1200 for talks followed by lunch, with the meeting concluding at 1330. It had originally been the intention to make this an alternative to a visit by the Prime Minister in February. But he was now authorised to say that a December visit would not impact on the visit which the Prime Minister had proposed for 18-25 February. The President thought it very important that the Prime Minister should be among the first people he saw after his re-election. A meeting at Camp David would provide a relaxed setting at which both of them could share their views on priorities before the President set plans for his new Administration.

The Prime Minister said that she was immensely grateful for the invitation which she accepted with pleasure. She would like to see the President as soon as possible. The Prime Minister confirmed that she would reflect further on a visit in February. In principle she would like to stick to that. On the other hand, if the President was coming to Europe for the Economic Summit, perhaps they could meet then and she could postpone her visit to the United States until September. Since this would be during the Recess, she would have more time to see the United States outside Washington. She hoped to visit Texas and California. She would like to think further about this and would be in touch. But Ambassador Price could tell the President that she would be delighted to come on 22 December. Ambassador Price undertook to do this and to make clear that a final decision on February was still open.

/ I warned

I warned Ambassador Price shortly after the meeting that we would have to look at timings. I thought it was highly unlikely that the Prime Minister could get to Washington as early as 1000 on 22 December given her commitments in Peking and Hong Kong. I would look into this as quickly as possible. Meanwhile he should be cautious in his report to Washington, making it clear that the Prime Minister had accepted the President's invitation for a visit on her way back from the Far East, but not committing herself on precise timings. I have also spoken in the same sense to John Kerr in Washington.

What we now need urgently is some alternative for getting the Prime Minister from Hong Kong to Washington. While obviously it would be desirable to get the Prime Minister to Washington by 0930 on 22 December, I rather doubt that it is possible and we may have to ask the Americans to consider a meeting later on 22 December or even early on 23 December.

I am sending a copy of this letter to Richard Hatfield (Cabinet Office).

Yes, sincerely
Charles Powell

Charles Powell

Pending a decision on that, the Prime Minister is in general contact with the proposals in your letter for Peking. Given how much has to be crammed into a short time, the two speeches in Peking must both be kept short. We must also leave plenty of time for preparation of them. It would be helpful to have drafts up later than 30 December.

In regard to Hong Kong, so much depends on the time available that it is not possible to reach a considered view on the programme there until we know what time the Prime Minister has

Len Appleyard, Esq.,
Foreign and Commonwealth Office.



10 DOWNING STREET

From the Private Secretary

19 November 1984

Dear Peter,

VISIT OF THE PRIME MINISTER TO PEKING AND HONG KONG

Thank you for your letter of 14 November about the Prime Minister's visit to Peking and Hong Kong.

Before dealing with the specific points in it, we need to consider timings. As you will be aware from separate correspondence, the Prime Minister has agreed to visit Washington to meet President Reagan on her way back from Peking and Hong Kong. I have asked you to look urgently at the possible timings. At the least this is bound to have implications for the programme in Hong Kong, in particular the idea of holding a press conference on 22 December.

Pending a decision on that, the Prime Minister is in general content with the proposals in your letter for Peking. Given how much has to be crammed into a short time, the two speeches in Peking must both be kept short. We must also leave plenty of time for preparation of them. It would be helpful to have drafts no later than 10 December.

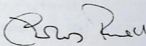
As regards Hong Kong, so much depends on the time available that it is not possible to reach a considered view on the programme there until we know what time the Prime Minister has to leave.

/ In the

In the meantime, the Prime Minister agrees in principle that the announcement of the visits to Peking and Hong Kong can be made in the week beginning 26 November. We shall need to consider separately the announcement of a visit to Washington.

This letter should be treated as for information only until we have cleared up the question of how the Washington visit fits into the rest of the programme.

Yours sincerely,



Charles Powell

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.



Foreign and Commonwealth Office

London SW1A 2AH

19 November 1984

Dear Charles,

Prime Minister's Visit to Far East and United States:
Timings - attached

In your letter of today's date to Len Appleyard, you asked us to look at options for reconciling the Prime Minister's present programme in Peking and Hong Kong with President Reagan's proposal for talks and lunch at Camp David on the morning of Saturday 22 December.

There are in practice three options:

- (i) moving the whole Peking/Hong Kong visit forward by 24 hours.

Advantage: The Prime Minister would be able to arrive in Washington on the evening of Friday 21 December and get a night's sleep before seeing the President as suggested on the morning of 22 December.

Disadvantage: The Prime Minister would have to miss PM's Questions on 18 December, and any engagements she may have on the morning of that day.

We would also have to ask the Chinese to move the signature ceremony forward a day. Without having consulted them, we do not believe that this should cause major difficulties. In confirming that the Chinese could accept the Prime Minister's visit on the dates we proposed, Zhou Nan said that the dates "fell within Premier Zhao's preferred period for the visit" which suggests that they have some flexibility on either side. We can see no reason why moving the visit to Hong Kong forward a day should cause the Governor in Hong Kong any problem. Dates have not been announced.

- (ii) Leaving the dates for Peking/Hong Kong as they are, but moving the proposed press conference in Hong Kong to the early evening of Friday 21 December, and leaving Hong Kong immediately after the Governor's dinner late on 21 December (departure at 2230 would give an arrival of 0935 at Andrews Air Force Base, Washington).

/Advantage



Advantage: No dislocation of existing arrangements: the Prime Minister could do PM's Questions.

Disadvantage: The programme would be even tighter. In particular, the Prime Minister would not get a proper night's sleep before her talks with President Reagan on 22 December. In addition, the Prime Minister's visit to Hong Kong would be extremely short, and there would be a real risk of giving the impression that Hong Kong's interests were being subordinated to other matters.

- (iii) Asking the President to amend his invitation to the Prime Minister, preferably to an offer of dinner at Camp David on the evening of 22 December.

Advantage: Again, no dislocation. The Prime Minister would have a night's sleep in Hong Kong before the long flight to Washington.

Disadvantage: The President would have to be asked to change his invitation: he may have some other engagement that evening.

I have spoken to Sir Percy Cradock, who sees no overriding difficulty in going back to the Chinese to seek a change in the date for the signature ceremony in Peking, to enable us to take up option (i) above, if that is what the Prime Minister wishes.

Yes
aw,
Pete Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street



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File



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b/c

10 DOWNING STREET

From the Private Secretary

18 November 1984

From the Private Secretary

18 November 1984

Dear Peter,

PRIME MINISTER'S VISIT TO PEKING

Dear Peter,

Prime Minister

Thank you for your letter of 16 November explaining the reasons why the Foreign Secretary felt that it would not be appropriate for the Prime Minister to take a party of businessmen with her to Peking at the end of the year.

The Prime Minister accepts the Foreign Secretary's advice.

I wrote to Len [unclear] a copy of a message from [unclear] saying that he would not be [unclear] (the Prime Minister [unclear])

I subsequently spoke, on the Prime Minister's instructions, to the United States Ambassador and explained that the Prime Minister's aircraft was in [unclear] through Washington. It would therefore be convenient for her to meet briefly with the President. Ambassador Price rang back that he had spoken to the President who had said the fact that the Prime Minister would [unclear] elsewhere than California and would [unclear] He then rang back once again this evening [unclear] consideration was being given in Washington to making the 22 December meeting [unclear] on the lines of a [unclear] in February. The President might then visit London briefly in May on his way to or from Bonn. Ambassador Price also mentioned a State Visit later in the year. I did not respond at all to this last point.

Yours sincerely
Charles Powell

Charles Powell

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

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I discussed all this with the Prime Minister and she decided that clearly 22 December was not an ideal time for the President. Nor would she wish to have an extended meeting then since there would not be adequate opportunity to prepare fully for it. Moreover, her programme for Peking and Hong Kong was now clearly going to be extremely heavy. I see Peter Ricketts's letter of 14 November in this light and I would prefer not to pursue the case of a meeting with the President in December but to concentrate on the proposed February meeting. Our aim should be to agree and approve dates for this as soon as possible.

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bc/PC



10 DOWNING STREET

From the Private Secretary

16 November 1984

Dear Colin,

Prime Minister's Visit to the United States

I wrote to Len Appleyard on 14 November enclosing a copy of a message from President Reagan in which he pointed out that he would not be in California on 22 December when the Prime Minister planned to be passing through.

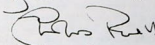
I subsequently spoke, on the Prime Minister's instructions, to the United States Ambassador and explained that the Prime Minister's aircraft was in any case routed through Washington. It would therefore be equally convenient for her to meet briefly there if that suited the President. Ambassador Price rang back the next day to say that he had spoken to the President who had not taken aboard the fact that the Prime Minister could manage a meeting elsewhere than California and would look at the idea again. He then rang back once again this morning to say that consideration was being given in Washington to making the 22 December meeting at Camp David a more substantial one, on the lines of a seminar, replacing the need for a visit in February. The President might then visit London briefly in May on his way to or from Bonn. Ambassador Price also mentioned a State Visit later in the year. I did not respond at all to this last point.

I discussed all this with the Prime Minister. She drew the conclusion that clearly 22 December was not an ideal time for the President. Nor would she wish to have an extended meeting then since there would not be adequate opportunity to prepare fully for it. Moreover, her programme for Peking and Hong Kong was now clearly going to be extremely heavy (see Peter Rickett's letter of 14 November to me). In the light of this she would prefer not to pursue the idea of a meeting with the President in December but to concentrate on the proposed February meeting. Our aim should be to agree and announce dates for this as soon as possible.

JL

I have subsequently conveyed the Prime Minister's views to Ambassador Price and to David Hannay in Washington.

There is also the question of the story in today's Times about a possible meeting between the President and the Prime Minister. We intend to take the line that naturally the Prime Minister hopes to see the President reasonably soon but no dates have yet been fixed. We shall add unattributably that the most likely time is early next year. Although a possibility would be a brief meeting on the Prime Minister's return journey from China this would not in practice be very convenient.

Yours sincerely,

Charles Powell

Colin Budd, Esq.,
Foreign and Commonwealth Office.

EPC
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Foreign and Commonwealth Office

London SW1A 2AH

16 November, 1984

Dear Charles,

Yes

Prime Minister
Agreed not to
take a party of
businessmen to
Peking? C.D.

Prime Minister's Visit to Peking

As you know, the Foreign Secretary discussed briefly with the Prime Minister on 14 November the possibility that she might take some businessmen, and in particular businessmen from GEC, with her on the visit to China to sign the Hong Kong agreement. The Foreign Secretary was then inclined to see some merit in the idea but only if it was plain that it was not likely to get in the way of the central purpose of the journey. He agreed to give this subject further consideration.

mt

We have consulted the Governor further: I enclose a copy of his telegram. The Foreign Secretary is now disposed to accept this advice. The general problem is that the overriding reason for the Prime Minister's visit to Peking is to sign the Hong Kong agreement and thereby give significance to it. It will be important from a presentational point of view in Hong Kong that this be kept at the centre of the stage. If the Prime Minister were to go with a party of businessmen, this would be highlighted in the Hong Kong press, and there would be suggestions, which many in Hong Kong would be only too willing to believe, that we were now getting our prize for having sold out Hong Kong to the Chinese. Accusations of this kind might be extremely damaging, and could cast a cloud over the Prime Minister's visit to Hong Kong after the signature ceremony in Peking.

The Foreign Secretary agrees entirely with the Prime Minister that we should be ready to move fast to take commercial opportunities in China that may be opened up by the Agreement. But previous experience of businessmen accompanying Ministers on visits to Peking suggest that this is not the most effective way of promoting our commercial interests in China. The most productive approach seems to be for companies to pursue individual contacts and wait until much of the ground work has been done before having the Chairman out to conclude the deal. To take senior businessmen out without the necessary preparation having been done leads to frustration. A case in point was the visit of Mr Varley, then Secretary of State for Trade and Industry, in early 1979: I understand that the businessmen accompanying him landed no contracts, and that there was a good deal of internal bickering on our side afterwards.



The biggest outstanding project is the Guangdong Nuclear Project, which is GEC's main interest. There are particular Hong Kong reasons for not pressing this to a conclusion during the Prime Minister's visit. The project is not a very popular one in Hong Kong, where the population are worried about possible nuclear pollution, and also suspect that the Hong Kong consumer may eventually be asked to pay more for his electricity than he would have to pay if it came from a conventional source. There is some tendency to believe that the Hong Kong consumer is being sacrificed in order to provide contracts for British industry.

The position in the negotiations is as follows. The Joint Venture Company (JVC) between the Chinese and the China Light and Power Company in Hong Kong has not yet been set up. Commercial negotiations could start informally before the JVC is set up. But contracts can only be signed after the JVC is formed, and after the financial negotiations between the UK and French Governments and the Bank of China are completed. The JVC cannot be formed until China Light and Power have put the draft agreement to the Hong Kong Government and EXCO have approved it. The earliest date on which EXCO could consider the matter is 18 December. Moreover, as the Governor points out, it is quite probable that more than one meeting will be needed before EXCO can reach a decision. The financial negotiations relating to the Guangdong contract cannot be concluded until the Bank of China carry out a thorough evaluation of the project's viability, which can only realistically be done after the JVC is set up.

It would of course be possible to try to speed up this process. But it is most unlikely that negotiations could be concluded in time for anything to be signed during the Prime Minister's visit. And to accelerate the negotiations would involve trying to rush EXCO into taking decisions earlier than they had planned and before they are ready to do so. This would almost certainly fail, and might very well lead to EXCO taking a decision against the project. This would be disastrous. In all the circumstances the Foreign Secretary concludes that it would be most unwise to try to push this whole matter ahead faster than is at present scheduled.

The Foreign Secretary believes that the Prime Minister's visit will provide important opportunities to promote our commercial interests, including the Guangdong Nuclear Project during her talks with Chinese leaders. The content of these talks will not be public, and thus there would not be the same presentational risks vis-a-vis Hong Kong. These talks could identify the main areas of opportunity for British exports to China and could be followed up by appropriate business visits. There will be further opportunities during the visit of Premier Zhao to this country during 1985. There will therefore be no lack of



activity.

In the Foreign Secretary's view, the nature of this particular visit is such that we should need to be particularly convinced by other evidence before deciding to disregard the plain advice of the Governor, who has borne so much of the heat of battle on this front.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

ADVANCE COPIES

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IMMEDIATE

HONG KONG AGREEMENT

PS (1)

PS/MR LUCE

PS/FUS

DR WILSON SIR W HARDING.

HD/ HKD (3)

HD/ FED

SIR P CRADOCK

MR BURROWS, LEGAL ADVISERS

MR ROBERTS, NEWS DEPT

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TO IMMEDIATE F C O

TELEGRAM NUMBER 3500 OF 16 NOVEMBER

INFO PRIORITY PEKING

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IMMEDIATE

HONG KONG AGREEMENT

1. I UNDERSTAND THAT CONSIDERATION IS BEING GIVEN IN LONDON TO WHETHER A PARTY OF BUSINESSMEN, AND IN PARTICULAR FROM GEC, SHOULD ACCOMPANY THE PRIME MINISTER ON HER VISIT TO SIGN THE HONG KONG AGREEMENT.

2. AS I HAVE EXPLAINED IN EARLIER TELEGRAMS I CAN WELL UNDERSTAND THAT THE PRIME MINISTER WILL WISH TO TAKE THE OPPORTUNITY OF HER DISCUSSIONS IN PEKING TO PROMOTE SINO/BRITISH RELATIONS GENERALLY AND SINO/BRITISH TRADE IN PARTICULAR. BUT AGAINST THAT HAS TO BE BALANCED THE NEED TO AVOID CREATING THE IMPRESSION HERE THAT THE PROMOTION OF UK COMMERCIAL AND ECONOMIC INTERESTS WAS AN IMPORTANT FACTOR LYING BEHIND HMG'S DETERMINATION TO REACH AN AGREEMENT WITH THE CHINESE ON THE FUTURE OF HONG KONG. TO TAKE A PARTY OF SENIOR UK BUSINESSMEN, WHO WOULD INEVITABLY FEATURE PROMINENTLY IN THE MEDIA COVERAGE RELAYED BACK TO HONG KONG, WOULD IN MY VIEW RUN A SERIOUS RISK OF CREATING THE VERY IMPRESSION WHICH WE HAVE BEEN SUCCESSFUL IN AVOIDING SO FAR.

3. I UNDERSTAND THAT THERE IS ALSO A SUGGESTION THAT THE VISIT SHOULD BE USED TO BRING TO A CONCLUSION OR SIGNATURE SOME ASPECTS OF THE GUANGDONG NUCLEAR PROJECT, EG THE FORMATION OF THE JOINT VENTURE COMPANY. I WOULD RECOMMEND STRONGLY AGAINST PLANNING ON THIS BASIS. IT WOULD INEVITABLY BE INTERPRETED AS USING THE HONG KONG AGREEMENT AS A LEVER TO GAIN THE CONTRACT FOR GEC. AGAIN AS

THIS BASIS. IT WOULD INEVITABLY BE INTERPRETED AS USING THE HONG KONG AGREEMENT AS A LEVER TO GAIN THE CONTRACT FOR GEC. AGAIN AS I HAVE SAID IN EARLIER TELEGRAMS THERE IS LITTLE ENTHUSIASM FOR THE PROJECT HERE: E.G. THERE IS ANXIETY ABOUT THE SAFETY ASPECTS: CONCERN THAT THE HONG KONG CONSUMER WILL EVENTUALLY HAVE TO PAY TOO HIGH A PRICE FOR THE ELECTRICITY PRODUCED: AND FEARS ABOUT DELAYS AND COST OVER-RUNS.

4. SECONDLY, IT WOULD BE VERY RISKY TO ASSUME THAT SUFFICIENT PROGRESS ON THE OUTSTANDING ISSUES CAN BE MADE IN ORDER TO BE CERTAIN THAT THE DOCUMENTS COULD BE SIGNED. THE EARLIEST (AND AS YET UNCONFIRMABLE) DATE ON WHICH THE EXECUTIVE COUNCIL CAN CONSIDER THE DRAFT CONTRACTS, WHICH WILL BE ESSENTIAL TO THE AGREEMENT ON OFF-TAKE AND THE FORMATION OF THE JOINT VENTURE COMPANY, WILL BE DECEMBER 18. GIVEN THE COMPLEXITY OF THE DOCUMENTATION, AND THE IMPORTANCE OF THE ISSUES INVOLVED IT IS AT LEAST POSSIBLE THAT THE EXECUTIVE COUNCIL WILL REQUIRE MORE THAN ONE BITE AT THE CHERRY BEFORE THEY REACH A CONCLUSION: AND THAT IN CONSEQUENCE THE ISSUES WILL NEED TO BE CONSIDERED FURTHER AT A MEETING EARLY IN THE NEW YEAR. THERE WOULD BE STRONG RESENTMENT AMONG EXCO MEMBERS IF IT APPEARED THAT THEY WERE BEING PRESSURED INTO A QUICK DECISION ON MATTERS OF SUCH MAGNITUDE. SUCH PRESSURE WOULD BE COUNTER-PRODUCTIVE: WITHOUT IT I AM OPTIMISTIC THAT EXCO WILL ACCEPT THE PROPOSITIONS. IN ANY CASE, EVEN IF THEY DID REACH A DECISION ON DECEMBER 18TH THERE COULD BE NO PROSPECT OF FORMING THE JOINT VENTURE COMPANY SUFFICIENTLY QUICKLY TO ENABLE LETTERS OF INTENT TO BE ISSUED OR OTHER DOCUMENTS TO BE SIGNED ON THE 20TH.

5. THERE IS NO DOUBT THAT HONG KONG WILL BE LOOKING TO THE VISIT FOR A DEMONSTRATION OF COMMITMENT ON THE PART OF THE UNITED KINGDOM GOVERNMENT AND THE CHINESE GOVERNMENT TO THE AGREEMENT ON THE FUTURE OF HONG KONG. TO ELEVATE THE PROMOTION OF SINO/BRITISH TRADE TO A POSITION OF ANY PROMINENCE DURING THE VISIT COULD ONLY DETRACT FROM THE IMPACT OF THAT DEMONSTRATION.

YOUDE

NNNN



Foreign and Commonwealth Office

London SW1A 2AH

14 November 1984

Dear Charles,

Visit of the Prime Minister to Peking and Hong Kong

We have now received a reply from the Chinese to our proposals about the visit by the Prime Minister and Foreign Secretary to Peking, and have also received the Governor's proposals for the Hong Kong leg. The Ambassador in Peking has been told that Premier Zhao Ziyang would warmly welcome the Prime Minister on the dates which we have proposed (although he would have preferred a longer visit). The purpose of this letter is to seek the Prime Minister's views on the arrangements for the two visits.

Programme for Peking

The Prime Minister will arrive in Peking late on 19 December. Following our exchanges with the Chinese it is now possible to envisage a programme for the day of 20 December on the following lines:

Early morning	<u>Welcoming ceremony and review of honour guard in Tiananmen Square.</u> Thereafter <u>signature ceremony.</u> Prime Minister and Zhao Ziyang to <u>sign agreement</u> (possibly attended by President Li Xiannian).
Late morning?	<u>Call on Chairman Deng Xiaoping.</u>
Middle of day	<u>Possible lunch given by President Li Xiannian.</u>
* Afternoon	Talks with Premier Zhao Ziyang.
Evening	<u>Banquet given by Zhao Ziyang.</u>

The Ambassador advises that even if there is a lunch given by President Li Xiannian we should accept that the banquet in the evening should also be given by the Chinese side. In view of the very short duration of the Prime Minister's visit, we do not think that any difficulty would be caused by the fact that the Prime Minister did not offer a meal.

/The



The Chinese envisage that substantive speeches, covering the whole range of bilateral relations, will be made by the two Prime Ministers at the banquet. In addition we consider it important that at the signature ceremony, which will be covered by the international media, short speeches should be made on the significance of the Hong Kong agreement. The Governor attaches particular weight to this, which would in his view have a positive impact in Hong Kong. He believes that the absence of any speeches would make the occasion appear flat. The Chinese are also ready to agree. In these circumstances we very much hope that the Prime Minister can agree to make two speeches: neither need be long.

You wrote to me about a meeting for the Prime Minister with British correspondents in Peking. We shall ensure that arrangements are made for this (perhaps after the banquet).

Participation in the Signature Ceremony

Participation at the signature ceremony will involve three categories of person:

- (i) Officials: In addition to the London party we propose that the Governor and his Political Adviser should be part of the UK delegation. The Governor has also argued strongly for the participation in the official delegation at the signature ceremony of certain Hong Kong officials, including those who took part in the negotiations at working level in Peking. He expects that the Chinese will arrange for all those officials who took part on their side to be present, and that it would be appropriate for their Hong Kong counterparts to be there. We hope that the Prime Minister can agree to what the Governor proposes: it would of course be on the understanding that these other Hong Kong participants would play no part in the Prime Minister's official talks, although they would probably be invited to the banquets.
- (ii) Unofficial Members of EXCO and LEGCO: The Governor has reported that the unofficials attach importance to being represented at the signature ceremony. We believe this would be entirely appropriate. The Chinese would be likely to resist any attempt on our part to make the unofficials part of the Prime Minister's delegation, and this would not be our intention: but we believe the Chinese would be ready to allow the unofficials to witness the ceremony, to identify them as such and to give them a status there appropriate to their position in Hong Kong. In view of the Prime Minister's views recorded in your letter to me of November, we have set this in hand.

/(iii)



- (iii) Other Hong Kong Figures: It appears to be the Chinese intention to invite a number of other prominent Hong Kong figures, no doubt including Hong Kong members of the National People's Congress and the Chinese People's Political Consultative Conference. You will recall that Sir Y K Pao is hoping to be present.

If the Prime Minister sees no objection, we would aim in our discussions with the Chinese to arrive at arrangements for participation in the signature ceremony which would permit the attendance of Hong Kong officials and the unofficials on the basis set out above. We would agree that a group of Hong Kong people should be present as observers; insist that the group should be properly representative; and make it clear that we would expect to be consulted on the list of those to be invited. Our aim would be to ensure balanced representation and an appropriate status for the unofficials.

The Talks in Peking

The Chinese have asked what topics we would propose for the formal talks with Premier Zhao Ziyang. These talks will be relatively short, and we think it would be sufficient at this stage to indicate the main subject areas which we would propose to cover, as follows:

- (i) Hong Kong.
- (ii) Bilateral relations, including trade.
- (iii) International affairs, including:
 - (a) East/West relations and arms control
 - (b) Sino/Soviet relations
 - (c) South Asia
 - (d) Korea.

The talks with Deng are likely to cover Hong Kong as well as broad strategic international issues. We shall in due course submit to you more detailed proposals on the subjects to be covered in the talks, and on the briefing to be provided for the Prime Minister. Once the Prime Minister has been able to consider these, we could if necessary give the Chinese a more precise indication of the topics which we intend to raise nearer the time of the visit.

Timing and Content of the Announcement

The Chinese have asked about our intentions for the announcement of the visit. They have proposed that an

/announcement



announcement should be made simultaneously in London and Peking, in similar or identical terms. We do not in fact think that our announcement could be used verbatim by the Chinese side, as it will need to include a reference to the forthcoming Parliamentary Debate, and also to the Prime Minister's visit to Hong Kong. We propose that we should inform the Chinese that unless they see objection we will announce the visit in the following terms:

"At the invitation of Premier Zhao Ziyang the Prime Minister will visit Peking between 19 and 21 December. She will be accompanied by the Foreign Secretary. The main purpose of the visit, subject to the outcome of the debate in Parliament, will be to sign the agreement between the British and Chinese Governments on the future of Hong Kong. Mrs Thatcher will also hold talks with Chinese leaders.

The Prime Minister and the Foreign Secretary will then visit Hong Kong on 21 and 22 December. She will hold discussions with the Governor and will meet representatives of the Hong Kong community."

On timing, neither the Governor nor Sir R Evans would have any objection to an announcement in the fairly near future. The Governor points out that the Prime Minister's visit is already the subject of speculation in Hong Kong. However we think that it might be prudent to avoid any risk of criticism that we are disregarding the views of the Hong Kong people, and hence to delay the announcement until the outcome of the test of acceptability has been formally communicated to the Government. This would suggest that the announcement might be made in the week beginning 26 November. If the Prime Minister is content, we shall propose this timing to the Chinese. This would also allow time for the contacts which are envisaged with South East Asian leaders about the Prime Minister's visit there.

Programme in Hong Kong

Finally, we have discussed with the Governor the Prime Minister's programme in Hong Kong, which might be as follows:

Friday 21 December

Late morning	Arrive from Peking.
Lunch	With UMELCO at UMELCO Offices.
Early afternoon	Visit to a District Board.
Late afternoon	Reception at Government House for about 500 community and business representatives.

/7.00 pm



7.00 pm

Address, to be televised live, to joint meeting of the Executive and Legislative Councillors.

Dinner

At Government House for leading members of the community (about 40).

Saturday 22 December

Early morning

Press conference.

Leave Hong Kong.

Given the short duration of the visit and its context, the Governor has recommended that it should be focussed entirely on Hong Kong topics. Hence the proposal for a visit to a District Board, which would be particularly appropriate since the Boards will provide the electoral college for elections to the Legislative Council under the new proposals. We envisage that the Prime Minister's televised address would take the form of a major speech on Hong Kong's future and its prospects as a business and financial centre. The Governor considers that such a speech would be the best possible way of launching Hong Kong towards 1997 and boosting domestic and international confidence in its future. To have maximum impact the speech would need to precede the Prime Minister's press conference, and for this reason we hope that the Prime Minister can agree to hold the conference early on 22 December before her departure. It could be held as early as 8.30 and the Prime Minister's aircraft could leave half an hour after it ended.

Composition of the Delegation

As agreed, the Foreign Secretary is looking again at the question of taking industrialists in the Prime Minister's party: we shall let you have further advice on this subject.

I should be most grateful if you could seek the Prime Minister's views on the above points.

Yours ever,
P F Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

FERB
thinks this
is too much
on top of
the speeches
in Hong
Kong.
PC & the
Governor
regard
it as
very
important.
CDD.

JWRALY
bc PC



10 DOWNING STREET

From the Private Secretary

14 November 1984

PRIME MINISTER'S VISIT TO PEKING

This came up briefly during the Prime Minister's bilateral with the Foreign Secretary this morning. The Prime Minister and the Foreign Secretary agreed that it would be far better if Sir Y.K. Pao were not to attend the signature, but expected him to find a way to get there. What must be clear was that he was not part of "our side". We should insist that the Hong Kong Government be allowed to nominate Hong Kong representatives.

The Prime Minister and the Foreign Secretary also agreed that the question of taking industrialists to Peking should be looked at again. There ought to be ways to handle this without giving offence to Hong Kong. The Foreign Secretary promised to consult the Governor again and let the Prime Minister have a recommendation.

(C.D. POWELL)

L.V. Appleyard, Esq.,
Foreign and Commonwealth Office.

TMS

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BM

SIR PERCY CRADOCK

PRIME MINISTER'S VISIT TO PEKING

The Prime Minister has noted your minute of 9 November recommending she should not take a party of businessmen with her to Peking next month. My understanding is that she intends to follow your advice.

C.D. Powell
11 November 1984

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 FROM PEKING 090405Z NOV 84
 TO IMMEDIATE FCO
 TELNO 2727 OF 9/11/84
 INFO IMMEDIATE HONG KONG

MY TELNO S 2723 AND 2724 : FUTURE OF HONG KONG: PRIME MINISTER'S
 VISIT TO PEKING AND HONG KONG

1. THE FOLLOWING RECOMMENDATIONS ON SUBJECTS WHICH MIGHT BE COVERED DURING THE PRIME MINISTER'S TALKS WITH CHINESE LEADERS ARE MADE IN RESPONSE TO BOYD'S TELELETTER OF 1 NOVEMBER, AS WELL AS IN RESPONSE TO YOUR TELNO 1385.

HONG KONG AIMS

2. WE ARE AGREED THAT THE MAIN PURPOSE OF THE VISIT WILL BE TO SIGN THE AGREEMENT AND THAT, IN HERE TALKS WITH CHINESE LEADERS, THE PRIME MINISTER WILL WANT TO EXPRESS THE GOVERNMENT'S DETERMINATION TO DO EVERYTHING POSSIBLE TO MAKE THE AGREEMENT WORK. AS THE GOVERNOR HAS POINTED OUT (HIS TELELETTER TO CRADOCK OF 19 OCTOBER), WE SHALL NEED TO THINK CAREFULLY ABOUT WHAT SHE MIGHT SAY ABOUT THE BASIC LAW. THIS WILL DEPEND TO SOME EXTENT ON THE OUTCOME OF THOMSON'S AND MCLAREN'S DISCUSSION WITH LU PING NEXT WEEK. (I AM COMMENTING SEPARATELY ON HONG KONG TELNO 3405). WE SHALL ALSO NEED A DEFENSIVE LINE ON OUR PLANS FOR REPRESENTATIVE GOVERNMENT IN HONG KONG. MY OWN MEETING NEXT WEEK WITH ZHOU NAN AND MCLAREN'S WITH LU PING SHOULD AGAIN HELP IN THE DETERMINATION OF WHAT THIS SHOULD BE.

3. BOYD ASKED WHAT CHINESE AIMS ON HONG KONG WERE LIKELY TO BE. I BELIEVE THAT THEY WILL BE SIMILAR TO OUR OWN. WE KNOW AT PRESENT OF NO PARTICULAR ITEMS WHICH THE LEADERSHIP WILL WISH TO RAISE WITH THE PRIME MINISTER. BUT WE MUST EXPECT DENG TO REPEAT THE ADMONITIONS WHICH HE ADDRESSED TO YOU IN JULY (EG. ON BRITISH INVESTMENT IN HONG KONG AND ON HONG KONG GOVERNMENT EXPENDITURE) AND CAREFUL DEFENSIVE BRIEFING WILL BE NEEDED ON ALL FIVE OF THESE.

BILATERAL AIMS

(H) VISITS

4. I AGREE WITH BOYD THAT THE PRIME MINISTER SHOULD ASK ZHAO TO GO GO FIRM ON A TIME FOR A VISIT AS SOON AS POSSIBLE, MAKING IT CLEAR THAT HE WOULD BE WELCOME EVEN BEFORE RATIFICATION. I THINK THAT THE PRIME MINISTER SHOULD VOLUNTEER SOMETHING IN RESPONSE TO DENG'S INVITATION TO THE QUEEN, EVEN IF THIS CAN ONLY BE ACCEPTANCE IN PRINCIPLE AT THIS STAGE. IT WOULD LOOK ODD IF SHE WAITED TO BE ASKED (AS SHE WOULD BE) FIVE MONTHS AFTER THE INVITATION WAS ISSUED.

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5. I DO NOT THINK THAT INVITATIONS SHOULD BE ISSUED TO DENG XIAOPING AND HU YAOBANG TO VISIT THE UK. DENG IS NOW GENERALLY THOUGHT TO BE TOO OLD TO TRAVEL ABROAD AND (AS I HAVE SAID WHEN ADVISING ON WHETHER OR NOT WE SHOULD CONSIDER INVITING HIM TO HONG KONG) HE IS UNPREDICTABLE. HU YAOBANG HAS INVITATIONS OUTSTANDING TO HIM TO VISIT THE FRG AND ITALY. BUT NEITHER IS FROM THE GOVERNMENT. THE GERMAN INVITATION COMES FROM HERR BRANDT AND THE ITALIAN INVITATION FROM THE ITALIAN COMMUNIST PARTY. HU'S LACK OF GOVERNMENT STATUS APART, HE TOO IS HIGHLY UNPREDICTABLE. THERE WOULD ALSO BE TIMING PROBLEMS IN INVITING EITHER DENG OR HU. THE MAIN VISIT TO THE UK NEXT YEAR MUST BE THAT OF ZHAO. IF THE QUEEN WERE TO VISIT CHINA IN 1986, IT WOULD NOT NECESSARILY BE APPROPRIATE TO HAVE A TOP LEVEL VISIT IN THE OPPOSITE DIRECTION IN THAT YEAR. AFTER THAT, THE LOGICAL MOVE WOULD BE A STATE VISIT BY THE CHINESE PRESIDENT (NOT NECESSARILY LI XIANNIAN FOR MUCH LONGER).

6. I SEE NO PARTICULAR NEED TO PRESS FOR TIAN JIYUN TO VISIT THE UK NEXT YEAR (ALTHOUGH, IF THE CHINESE MENTION IT, THE PRIME MINISTER SHOULD OF COURSE CONFIRM THE INVITATION). MY OWN VIEW IS THAT A VISIT BY LI PENG WOULD BE MORE VALUABLE THAN A VISIT BY TIAN. BUT WE COULD HARDLY INVITE THE FORMER WITHOUT CONFIRMING THE INVITATION TO THE LATTER: AND THAT WOULD OVERLOAD THE CIRCUIT.

(iii) TRADE

7. I AGREE WITH BOYD THAT THE PRIME MINISTER SHOULD PRESS FOR GREATER EXPORT AND INVESTMENT OPPORTUNITIES FOR BRITISH INDUSTRY, UNDER THE SIGNBOARD OF GREATER PARTICIPATION IN CHINA'S MODERNISATION. IT WILL BE IMPORTANT HOWEVER TO HANDLE THIS IN PUBLIC IN SUCH A WAY THAT HONG KONG OPINION DOES NOT SEE OUR MOVES TO DEVELOP TRADE AS EXPLOITATION OF THE HONG KONG AGREEMENT. WE SHOULD THEREFORE EMPHASISE:

- (A) OUR DISAPPOINTMENT AT THE SMALL UK SHARE OF THE MARKET, AND
- (B) THE CHINESE DESIRE, AS PROCLAIMED BY ZHAO ZIYANG IN EUROPE LAST JUNE, TO DEVELOP CHINA'S COMMERCIAL RELATIONS WITH WESTERN EUROPE.

8. CLEARLY THE MAJOR PROJECT IS GUANGDONG NUCLEAR AND THE LATEST NEWS FROM HONG KONG (BTC TELNO INDUS 273 AND 275) SUGGESTS THAT THE IMPASSE OVER OFFTAKE MAY AT LAST BE RESOLVING ITSELF. WHAT THE PRIME MINISTER WILL BE ABLE TO SAY, HOWEVER, WILL MUCH DEPEND ON INTERVENING DEVELOPMENTS. THE GOVERNOR'S POINTS (HONG KONG TELNO 3401) ARE ALSO EXTREMELY RELEVANT.

9. OTHER PROJECTS AND MAJOR CONTRACTS WHICH MAY BY THE TIME OF THE VISIT BE EITHER READY FOR SIGNATURE OR SUPPORT AT PRIME MINISTERIAL LEVEL INCLUDE:

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(A) BRITISH AEROSPACE 146 AIRCRAFT. A BAE NEGOTIATING TEAM WILL BE IN PEKING THIS WEEK AND IT IS CONCEIVABLE THAT CAAC WILL WISH TO PURCHASE A NUMBER OF THESE AIRCRAFT. IF SO IT IS ALSO POSSIBLE THAT SOMETHING COULD BE SIGNED BEFORE THE END OF THE YEAR.

(B) AVELING BARFORD. THIS COMPANY HAS ALREADY SIGNED (BUT DELIBERATELY NOT ANNOUNCED IN CASE THE PRIME MINISTER WOULD WISH TO) A CONTRACT FOR A 10 MILLION U S DOLLAR SALE OF 92 DUMP TRUCKS TO THE MINISTRY OF RAILWAYS AND IS CURRENTLY NEGOTIATING A MUCH LARGER TRANSFER OF TECHNOLOGY DEAL WITH OTHER CHINESE ORGANISATIONS. THIS INVOLVES BETWEEN 700 AND 1200 DUMP TRUCK UNITS, VALUED AT BETWEEN U S 60 AND 100 MILLION.

(C) PINGGUO ALUMINIUM. SIGNATURE OF AN AGREEMENT FOR A FEASIBILITY STUDY BY WIMPEY COULD BE ACHIEVED BY THE END OF THE YEAR.

(D) TANGSHAN COALMINE. FOLLOWING THE NCB FEASIBILITY STUDY, OPPORTUNITIES FOR UK EQUIPMENT SUPPLIERS MAY REQUIRE MINISTERIAL SUPPORT.

10. I SEE NO ADVANTAGE IN BRIEFING THE PRIME MINISTER TO SEEK A CHINESE VIEW ABOUT A JOINT COMMISSION. THE CHINESE WOULD ALMOST CERTAINLY REPLY THAT THEY ARE READY FOR A JOINT COMMISSION AND THAT IT IS FOR US TO DECIDE WHETHER WE WANT ONE. A RELEVANT POINT HERE IS THAT, WITH THE DEVOLUTION OF DECISION-MAKING IN CHINA, THE ABILITY OF CHINESE MINISTRIES POLITICALLY TO DIRECT PROCUREMENT DECISIONS IS BEING UNDERMINED; ONE ARGUMENT IN FAVOUR OF JOINT COMMISSIONS MAY THEREFORE BE LOSING SOME WEIGHT.

11. DEFENSIVE BRIEFING WILL BE NEEDED ON COCOM AND THE GATT.

(HW) CLAIMS

12. I THINK THAT THE PRIME MINISTER SHOULD PRESS THE CHINESE TO SPEED UP THEIR EXAMINATION OF OUR LIST OF CLAIMS. SHE COULD SAY THAT, NOW THAT THE HONG KONG NEGOTIATION HAS BEEN SUCCESSFULLY CONCLUDED, WE SHOULD LIKE TO SEE AN EARLY SETTLEMENT OF THIS OTHER BILATERAL ISSUE LEFT OVER FROM HISTORY.

(HW) CIVIL AVIATION

13. TIME PERMITTING, I RECOMMEND THAT THE PRIME MINISTER SHOULD PRESS FOR A ONE YEAR EXTENSION FROM 16 JANUARY, 1985, OF BA RIGHTS ON THE PEKING ROUTE AND FOR CPA TO BE GIVEN ONE THIRD OF THE TRAFFIC ON THE HONG KONG-SHANGHAI ROUTE AS PROVIDED FOR IN THE 1979 CONFIDENTIAL MEMORANDUM OF UNDERSTANDING ON REGIONAL ROUTES.

(V) SHANGHAI CONSULATE-GENERAL

14. THIS MAY BE A SUBJECT TO RAISE, BUT MUCH WILL DEPEND ON PROGRESS BETWEEN NOW AND THE TIME OF THE VISIT.

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(VI) TECHNICAL CONSULTANCIES, CAPITAL AID AND MIXED CREDIT.

15. I HOPE THAT THE PRIME MINISTER WILL BE ABLE TO SAY THAT ODA WILL BE INCREASING THE AMOUNT OF MONEY ALLOCATED TO CHINA FOR TECHNICAL CONSULTANCIES (SEE ODA'S EXPENDITURE FORECAST FOR THE PRC AT 30 SEPTEMBER 1984). I AM NOT INCLINED TO RECOMMEND THAT SHE SHOULD OFFER CAPITAL AID TO CHINA (THOUGH I HOPE THAT THIS POSSIBILITY CAN NOW BE RE-EXAMINED ON A LONGER TIME-SCALE). THE CHINESE MAY, HOWEVER, ASK ABOUT LOW-INTEREST LOANS. ON THIS, I SUGGEST THAT THE PRIME MINISTER SHOULD BE READY TO SAY THAT CHINA IS NOW ELIGIBLE TO RECEIVE MIXED CREDIT FOR PARTICULAR PROJECTS.

(VII) CULTURE

16. I CAN THINK OF NO PARTICULAR POINTS FOR THE PRIME MINISTER TO MAKE, OTHER THAN TO NOTE THAT OUR EXCHANGES ARE DEVELOPING WELL.

(VIII) AGREEMENTS

17. DEPENDING ON HOW FAR CONSIDERATION HAS GONE ON THIS SUBJECT IN LONDON, I RECOMMEND THAT THE NEGOTIATION OF A NUCLEAR COOPERATION AGREEMENT SHOULD BE PROPOSED. THERE MAY ALSO BE SOMETHING TO SAY ON THE NEGOTIATION OF THE SINO-BRITISH IPPA IN THE LIGHT OF PROGRESS IN THE DISCUSSIONS IN PEKING THIS MONTH, AND ON A SPACE MEMORANDUM OF UNDERSTANDING WHICH WE ARE PUTTING TO THE CHINESE THIS WEEK.

MULTILATERAL AIMS

18. I AGREE WITH BOYD THAT WE SHOULD PROPOSE THE FOLLOWING:

(A) EAST-WEST AND ARMS CONTROL. THE IMPORTANCE OF MILITARY LIAISON AND MILITARY WISHS COULD BE MENTIONED UNDER THIS SUBJECT.

(B) SINO-SOVIET RELATIONS. HINDO-CHINA AND AFGHANISTAN COULD BE COVERED UNDER THIS HEADING.

(C) SOUTH ASIA. THE SINO-INDIAN BORDER TALKS AND RELATIONS WITH PAKISTAN ARE OBVIOUS TOPICS.

(D) KOREA.

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19. I DO NOT SEE ANY ADVANTAGE IN THE DISCUSSION OF DEVELOPMENT ISSUES.

20. THE CHINESE MAY WISH TO RAISE EC MATTERS AND WE SHOULD BE READY TO RESPOND, BUT I SEE NO REASON FOR THE PRIME MINISTER TO RAISE THIS SUBJECT HERSELF.

21. I HAVE ASSUMED IN MAKING THESE RECOMMENDATIONS THAT THERE WILL NOT BE TIME FOR A SEPARATE MEETING BETWEEN YOURSELF AND WU XUEQIAN.

EVANS

FUTURE OF HONG KONG
LIMITED

HD/HKD
HD/FED
HD/PLANNING STAFF
HD/FUSD
DEP HD/FUSD
RESEARCH D (MR WALKER)
PS
PS/LADY YOUNG
PS/MR LUCE
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MR DEREK THOMAS
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SIR P CRADOCK ROOM K195
SIR P CRADOCK NO 10 DOWNING ST.
MR KELLY TREASURY

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bcPC

10 DOWNING STREET

From the Private Secretary

9 November 1984

SIGNATURE OF THE HONG KONG AGREEMENT:
SIR Y.K. PAO

Thank you for your letter of 7 November conveying the Foreign Secretary's advice that we should seek to discourage Sir Y.K. Pao from trying to get himself invited to the signature ceremony of the Hong Kong Agreement.

The Prime Minister has commented that she does not think we shall succeed in keeping Sir Y.K. Pao away. It would therefore be better to concentrate on ensuring that he is only one of a number invited, in the hope that he will be lost in the crowd. You will wish to consider this.

(C.D. POWELL)

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

dlr

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Prime Minister
CDP
9/12

MR POWELL

9 November 1984

PRIME MINISTER'S VISIT TO PEKING

1. I understand Lord Young has suggested to the Prime Minister that she might take a party of businessmen with her to Peking next month. I would strongly advise against this on the following grounds.

- a. The reason for the Prime Minister's visit is the signature of the Hong Kong Agreement. It will be most important to keep that at the centre of things and avoid giving colour to the view that we have neglected Hong Kong interests for the sake of UK commercial interests in China. The fact that we have an excellent agreement and a good response from Hong Kong will not necessarily preserve us from this charge, and the Governor has recently warned of the danger in connection with publicity over the Guandong nuclear project.
- b. Taking businessmen with the Prime Minister will not cause contracts to materialise where they do not already exist. In other countries the situation may well be different, but my experience in Peking has always been that the way to do business is for each firm to pursue its contracts individually, and only when the time is right, (usually after many visits by juniors), send out its Chairman to conclude the deal. This enables the Embassy to concentrate its services on one important visitor at a time; it also helps the Chinese, who are bad at fixing up separate interviews for a number of business leaders at the

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same time. To send out a group of high level industrialists without careful preparation is a recipe for frustration; the visit by Eric Varley as Secretary of State for Industry in early 1979 accompanied by just such a group is a good illustration; it landed no contracts and led to much internal bickering.

- . This does not, of course, mean that we should not exploit the opportunities now offered us, or the Prime Minister should not press the case for individual British firms and a generally higher level of Sino/British trade in private discussions with Chinese leaders, to be followed up by individual firms, and later when Premier Zhao comes here next year. But we need to be careful about the focus and presentation of the December visit.



PERCY CRADOCK

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OUT OUT TELEGRAM

	Classification and Caveats CONFIDENTIAL	Precedence/Deskby IMMEDIATE
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2	GRS
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6	FM FCO 071030Z NOVEMBER 84
7	TO IMMEDIATE PEKING (PERSONAL FOR AMBASSADOR)
8	TELEGRAM NUMBER
9	INFO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR)
10	HONG KONG TELNO 3361: SIGNATURE OF THE HONG KONG AGREEMENT:
11	SIR Y K PAO
12	1. I do not believe that it would be appropriate for
13	Sir Y K Pao to attend the signature ceremony of the Hong Kong
14	agreement.
15	2. If you are approached by the Chinese you should seek to
16	discourage them from the idea. You should say that Sir Y K,
17	although a distinguished resident of Hong Kong, plays no direct
18	part in the administration of the territory. It would not be
19	understood if he was present at the signature ceremony.
20	3. If Sir Y K Pao raises this matter with the Prime Minister or
21	myself while he is in London, he will be told that we see
22	difficulty in the idea, and that in our view participation in the
23	ceremony should be confined to those more directly associated
24	with the negotiations.
25	

N>NNN ends telegram	BLANK	Catchword
File number	Dept HKD	Distribution Future of Hong Kong
Drafted by (Block capitals) J N POWELL		
Telephone number 233 3722		
Authorised for despatch		
Comcen reference	Time of despatch	

OUT TELEGRAM (CONT)

Classification and Caveats
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 HOWE .
 NNNN

[Faint, illegible teletype text follows, appearing to be a message from the Chinese government regarding the situation in Hong Kong.]

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No written reply.
Sir PC discussed
with PM + CDP.

file

SIR PERCY CRADOCK

Possible visit by the Prime Minister to Peking

What should we recommend to the Prime Minister about going to Peking to sign the Hong Kong Agreement? Her own view is that, if it matters to the people of Hong Kong and to the Chinese Government that she should sign, she is ready to go to Peking to do so. I think that it would be helpful to her to have your personal assessment of two points:-

- (i) To what extent will confidence in Hong Kong in the Agreement be boosted by her going to Peking to sign it? I imagine that, to have an effect on confidence, her intention to go to Peking would have to be announced while the test of acceptability was being conducted. But there is of course an element of risk in this if the test of acceptability were to turn out wrong. There may be only a small chance of this. But there is also the consideration that the Prime Minister may be reluctant to decide to go to Peking, let alone to announce it publicly, until the present industrial problems in the UK are resolved.
- (ii) Whether the Chinese Government are likely to regard a visit by the Prime Minister to Peking to sign as appropriate and desirable? Also to what extent it might gain us extra credit with the Chinese or be turned to diplomatic and commercial advantage in some way.

We should also need to say something on the question of timing. As I have already mentioned to you, it would be difficult for the Prime Minister to go before Christmas though she could do so immediately afterwards.

We shall need to look separately at the question of reinstating the South East Asia tour, probably in shortened form, after the visit to Peking.

This is addressed to you in your foreign policy adviser role, and not at this stage for consultation with the Foreign Office.

CP

12 September, 1984.

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