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PART 4

SECRET

CONFIDENTIAL FILING


Sino - British Relations, including
Defence Sales

CHINA

PT1: MAY 1979

PT4: JUNE 1986

In attached folders ① Brochure on China/Europe Trade Centre
② Briefing for Prime Ministers meeting with Mr Hu Yaobang
Incorporated into file.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
9.6.86							
13.6.86							
15.6.86							
12.6.86							
13.6.86							
18.8.86							
19.8.86							
22.9.86							
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3.10.86							
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14.6.87							
19.6.87							
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PART ENDS							

PART 4 ends:-

CDP TO FCO 19.6.V7

PART 5 begins:-

DTI TO CDP 28.V.V7

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SUBJECT CCMABSR

File DCABZK



c/c

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 June 1987

FAREWELL CALL BY THE CHINESE AMBASSADOR

The Chinese Ambassador paid a farewell call on the Prime Minister this afternoon.

The Prime Minister congratulated the Ambassador on his work in London. It had been an exceptionally active time in our relations which he had managed with great skill and energy. We were also very grateful to his wife for the part she had played in the success of his mission. The Ambassador clearly had an unrivalled knowledge of the United Kingdom spanning more than thirty years. The Ambassador said that he had very much enjoyed his time in London. He had noticed and reported very far reaching changes in Britain, particularly in the last few years. He was also glad that relations between Britain and China were now on such an excellent footing.

The ensuing conversation covered a wide range of international issues. The Prime Minister referred to Vietnamese occupation of Cambodia, to the situation in the Middle East, to Afghanistan and to the difficulties confronting Mr. Gorbachev in introducing change in the Soviet Union. The Ambassador commented that there had been some improvement in Sino-Soviet relations in the trade and economic sphere, but there had been no thaw in political relations. The three obstacles still remained. The Prime Minister commented that they were very wise criteria.

The Prime Minister referred to the appointment of a new Governor in Hong Kong and commented that the work of the Joint Liaison Group appeared to be going well. She noted that the arrangements made for Hong Kong had been the pattern for similar arrangements subsequently for Macau. The Ambassador equally expressed satisfaction with progress in Hong Kong.

The Ambassador volunteered that Hu Yaobang's resignation had not meant any change in policy in China. The same policies were simply being carried out in a more effective manner. Hu Yaobang was still a member of the Politburo. The Prime Minister said that she had always found him a most congenial interlocutor. She sent her best wishes to Chairman Deng Xiaoping and to Zhao Ziyang as well as to Hu Yaobang. The Ambassador mentioned the good working relationship

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established between the Foreign Secretary and Mr. Wu.

The Ambassador said that trade between Britain and China was increasing satisfactorily. He understood that Lord Young would be leading a further delegation of businessmen to China later this year. The Prime Minister said that we had been very grateful to the Chinese Government for placing an order for container ships in the United Kingdom. She understood that negotiations were in progress over the Yueyang Power Station for which we were offering finance under our soft loan agreement. Unfortunately there appeared to be difficulties on the Chinese side. It was very important to bring the negotiations to a successful conclusion as evidence that our co-operation was flourishing. The Ambassador confined himself to saying that he knew negotiations were in progress.

The Prime Minister said that we were all concerned with the situation in the Gulf. It had been one of the main subjects of discussion at the Venice Economic Summit. We were in touch with the Chinese Permanent Representative at the United Nations about efforts to find a possible solution to the Iran/Iraq conflict. We were particularly concerned at Iran's deployment of Silk-worm missiles and hoped that no more of these missiles would be sold to Iran. The Ambassador said that the Iranian Foreign Minister had recently visited China. The Chinese leaders had appealed to Iran to find a peaceful solution to the conflict. China was neutral and did not sell arms to either side. Despite what was said in the press, the Silk-worm missiles in Iran had not come from China. The Prime Minister expressed polite disbelief. The Ambassador was unmovable. If there were Silk-worm missiles in Iran they had not come from China.

The Ambassador said that his successor, who was an old colleague from the Chinese Embassy in Washington, would arrive in late August. The Prime Minister said that he could be assured of a warm welcome.

I am copying this letter to Timothy Walker (Department of Trade and Industry) and to Ian Andrews (Ministry of Defence).

(C.D. POWELL)

R.N. Culshaw, Esq., M.V.O.,
Foreign and Commonwealth Office.

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Foreign and Commonwealth Office

London SW1A 2AH

18 June 1987

Dear Charles

Farewell Call by the Chinese Ambassador

I enclose points for the Prime Minister to make during the farewell call by the Chinese Ambassador at 1430 hours on 19 June. The Foreign Secretary would be grateful if the Prime Minister would raise the Iranian Silkworm point with the Chinese Ambassador, as a further reminder of the seriousness with which HMG views the suspected supply of Silkworm missiles to Iran by China.

I enclose a personality note on Hu Dingyi. He is planning to retire but may be appointed to a foreign policy advisory role. He has spent more than ten years in the UK in the course of his three postings to London. This final posting (1985-87), as the speaking notes indicate, has coincided with a rapid growth in bilateral contacts, following the 1984 Joint Declaration on Hong Kong. Hu and his wife (who has sponsored UK/China town-twinning arrangements) have been active and successful in building up contacts, and in promoting an attractive picture of China's current developments.

Yours ever

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street

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CHINESE AMBASSADOR'S CALL ON THE PRIME MINISTER,
19 JUNE 1987

Points to Make

- Grateful for all you have done to promote bilateral relations during your three postings to London, in particular for your part in making the Queen's State Visit to China such a success, and in bringing Premier Zhao to the UK in 1985, and Hu Yaobang in 1986.
- Concluded an agreement on co-operation in the peaceful uses of nuclear energy shortly after your arrival in 1985, and have now concluded the property claims agreement shortly before your departure.
- In the interval, we have concluded other agreements including an investment promotion and protection agreement, and we look forward to building on this with your successor.
- Desire of all concerned in UK to assist in China's modernisation programmes. Pleased that two-way trade relations are expanding steadily. Two-way trade almost £900 m in 1986, over 20% up on 1985.
- [Reference to Yueyang]
- As a result of additional HMG funding including through the Sino-British Friendship Scholarship Scheme, we look forward to a doubling of the number of Chinese students in the UK supported by HMG.

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- Implementation of Joint Declaration on Hong Kong proceeding well. Both sides fully committed to making it work, and acting prudently and cautiously to this end. Certain that good progress already achieved in Joint Liaison Group will be continued at next month's meeting.

Iran/Iraq

- UK and China also share important international responsibilities as members of the UN Security Council. Concerned by increased tension in the Gulf. Installation of Iranian Silkworm missiles a negative development. Hope no more missiles will be supplied to Iran.

- Our policy is well-known and strictly impartial - we will not sell any defence-related equipment to Iran or Iraq which could significantly enhance either side's capability to prolong or exacerbate the conflict.

Defensive - Representative government in Hong Kong

- Proceeding cautiously and prudently in our review of government system in Hong Kong. As part of review Hong Kong government has published Green paper late May (Chinese Government received advance copy). We have no preconceived views on outcome of review. Look forward to continuing our exchange of views with Chinese Government as review progresses.



HU DINGYI

Chinese Ambassador to the United Kingdom.

1. Born 24 December 1921 in Sichuan (the first Ambassador to Britain not from Guangdong. He champions the interests of his home city, Chongqing, the province's largest industrial centre, on the Yangtse, where many classmates have senior positions. University graduate. His diplomatic career began in 1950 as Third Secretary in New Delhi.
2. He has had three postings to London : 1954-58 as Third, subsequently Second, Secretary; 1972-79 as First Secretary, subsequently Cultural and Press Counsellor, and since May 1985 as Ambassador.
3. He has also spent six years in Accra. In 1966 the Ghanaian government declared him and two other Chinese diplomats "undesirable" and asked them to leave. He served in the United States as Consul-General in San Francisco 1973-83 and as Minister in the Embassy in Washington 1983-84.
4. His wife, Madame Xie Heng, was Second Secretary in the Embassy during Hu's last posting to London. They are both unusually open-minded for Chinese diplomats and share an interest in the theatre. She has taken a close

personal interest in town-twinning between Britain and China. Both speak excellent English. During the summer ~~they were~~ given a tour of Balmoral Castle and HMY Britannia.

5. They have two children : a son studying business management in Canada, and a daughter, a Portuguese specialist in the Ministry of Foreign Affairs, presently posted to the Chinese Embassy in Lisbon.

APPROXIMATE PRONUNCIATION

Hu : pronounce hoo to rhyme with blue

Ding: pronounce ding to rhyme with fling

Yi : pronounce ee to rhyme with tree

PRIME MINISTER

MEETING WITH THE CHINESE AMBASSADOR

The Chinese Ambassador is to pay a farewell call on you tomorrow. He is leaving London on retirement but may still play a role in Peking. He is bringing his Chargé d'affaires.

The Ambassador has been some 10 years in the United Kingdom all told, spread over three postings. He has been an active and successful Ambassador. You might start by congratulating him on all he has done to promote bilateral relations, in particular his part in making The Queen's State Visit to China such a success, and in bringing Zhao Ziyang and Hu Yaobang to Britain. His wife has also been very active and you might make a special mention of her.

You will want to register with the Ambassador that the joint declaration on Hong Kong is proceeding well and that the British and Chinese sides are working well together in the Joint Liaison Group. The Hong Kong Government has recently published a Green Paper on Representative Government in Hong Kong as part of our review of the government system there. We have no preconceived views on the outcome but are proceeding cautiously and prudently.

It would be helpful if you were to take the opportunity to give him a rocket (pardon the pun) on the Chinese supply of Silkworm missiles to Iran. This has contributed to increased tension in the Gulf and we very much hope that no more missiles will be supplied.

There is also a commercial point to mention. We have offered the Chinese a soft loan to support the bid by Balfour Beatty for the Yueyang coal-fired power station. But progress in completing the contract is very slow and the Chinese are trying to get us to provide an ATP grant instead of a soft loan. We are very reluctant to do this since if we give mixed

B. R.
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- 2 -

credit for one project we shall be under pressure to do it for others. You might say to the Ambassador that progress on Yueyang and other soft loan projects is important to the future of our mutual co-operation.

Finally, you might ask the Ambassador to convey your warmest regards to Deng Xiaoping and Zhao Ziyang.

C.D.P.

C. D. POWELL

18 June 1987

SLHAJI

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

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Secretary of State for Trade and Industry

PS/

18 June 1987

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

CPK

Dear Charles

PRIME MINISTER'S MEETING WITH CHINESE AMBASSADOR, 19 JUNE 1987

... I understand the Chinese Ambassador is making a farewell call on the Prime Minister tomorrow. I attach a brief which the Prime Minister may wish to use on the subject of the soft loan treaty and the Yueyang power station. The line to take has been endorsed by Lord Young, Mr Patten, and the Embassy in Peking.

I am copying this letter and attachments to Lyn Parker in the Foreign Secretary's office.

Yours

Paul

PAUL STEEPLES
Private Secretary

Encl

JF4AWQ



Objective

To impress upon Ambassador the importance we attach to the soft loan treaty and to early signature on Yueyang and other projects under that treaty.

Line to Take

- (1) HMG has always regarded the soft loan treaty as a major step forward in co-operation between our countries and pleased that a contract for the supply of container ships has been signed under it. But concerned that no other contracts yet signed.
- (2) Understand that there have been suggestions that terms of payment should be changed on Yueyang. Changes can only be accommodated if they are within the terms of the treaty, to which UK attaches importance. Surely Chinese government take the same view of this?
- (3) On Yueyang, competitive prices been put forward by Balfour Beatty/NEI consortium. Hope Ambassador will recognise we view progress on this and other soft loan projects as important to future of mutual co-operation.



Background

Balfour Beatty/NEI are bidding for Yueyang, a 2 x 350 MW coal-fired power station in China. This is the largest of the five projects nominated under the £300 million soft loan arrangement with the PRC. Under the terms of the soft loan, the project, worth up to £200 million, is reserved to the UK.

The Chinese negotiators (HIPDC) insist that the UK price is too high. Price levels are being negotiated in Peking but indications are that the UK prices are internationally competitive. They have pressed for HMG to provide an ATP grant of 25.1% rather than the soft loan terms (5% interest for 20 years with a 5 years grace period). This would make the price seem lower and is therefore presentationally very important to the Chinese. We have resisted any such change, strongly backed by the Post for the reasons described below.

BB's bankers have proposed a way of converting soft loan terms commercially to produce a mixture of grant and loan. But this is inefficient, complicated and costly and despite the high concessionality of the soft loan produces only 17% grant rather than the 25.1% of a formal mixed credit. This is now being negotiated in Beijing.

Reasons for preferring soft loan to mixed credit:

- (1) Political: the Soft Loan arrangement has the status of an international treaty, and was signed by the Foreign Secretary and Zhang Tuo Bin, Minister for Foreign Economic Relations and Trade. It was intended to facilitate Sino-British trade relations.
- (2) Practical: Yueyang is by far the largest of the 5 projects nominated under the soft loan; only one has been signed (COSCO ships) and none have become effective. ECGD are currently in Beijing negotiating the standard loan documentation. If Yueyang went down the mixed credit route, the negotiations on the other projects would be undermined.
- (3) Budgetary: although the PRC gets a better deal with the soft loan, in the short term a mixed credit grant would be very difficult to accommodate within the ATP budget and would mean we could not offer ATP on any other projects for some time to come.

At Annex A is a summary of the position on the other soft loan projects.

BBLABS



CURRENT POSITION ON CHINA SOFT LOAN PROJECTS OTHER THAN YUEYANG

1. Luoyang Tractor Factory Re equipment

UK Company : Lucas CAV UK export value : £12.1 million

Technical agreement reached and negotiations continuing to reduce price/scope of machine tool component from £8.9 to £8 million. Lucas hopeful this possible and that a contract can be signed within a few weeks to allow the first part of the project - technology transfer - to take place. This will, however, depend on assurances from the Chinese, satisfactory both to Lucas and HMG, on their willingness to undertake the subsequent machine tool purchases. It is not yet clear that the Chinese are willing to give this assurance.

2. Provision of Seamless Tube Plant at Daye Steelworks

UK Company : Davy McKee (Poole) Ltd UK export value : £45-55 million

Davy recently presented their latest proposals to the Chinese and await a considered reaction. However, we know that the Chinese remain unhappy over price. Their original budgetary estimate for this project was £23 million which, Davy contend, is totally unrealistic. The UK company consider that the enhanced scope of the project being sought by the Chinese will result in a price of perhaps £55-65 million. Assuming these differences can be solved, we would not expect contract signature much before end-1987.

3. Provision of Digital Transmission and Optical Devices manufacturing facility for Shanghai Telecommunications Factory 519.



UK Company : STC (transmission) and STC or Plessey (optical devices)
UK export value : £25 million

Despite lengthy negotiations on the transmission part of the project, the Chinese recently (end April) announced that they wished drastically to reduce its scope. We are awaiting feedback from STC's latest visit to China on the current position and until we have this, it is impossible to say whether what remains is viable for soft loan support. Although support for the optical devices component of this project has been agreed in principle, we await confirmation of the precise scope, and detailed (competitive) negotiations have still to take place between STC and Plessey respectively, and the Chinese customer. STC are still hoping that it might be possible to sign a contract for the transmission element sometime this year.

4. Provision of three shallow draught container ships

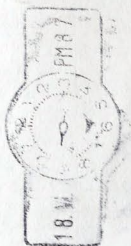
UK Company : British Shipbuilders UK export value : £44-66 million *

Contract signed 12 April for supply of two ships with an option for a third exercisable at same unit price by Chinese within 180 days. Signature of Loan Agreement to make contract effective is scheduled for 12 August. Negotiations on Loan Agreement continuing and on schedule.

* price to Chinese and, therefore, soft loan value.
 Shipbuilding Intervention Fund contribution of £22-33 million excluded.

PEP3

17 June 1987





file Ho
a & K

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

16 June 1987

BF

The Prime Minister has agreed to see the Chinese Ambassador for a brief farewell call on Friday, 19 June at 1430 hours. I should be grateful for a short brief on points which the Prime Minister should raise.

CHARLES POWELL

R. N. Culshaw, Esq., M.V.O.,
Foreign and Commonwealth office.

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

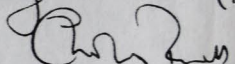
27 May 1987

Dear Paul,

YUEYANG POWER STATION: CHINA

The Prime Minister has noted without comment your Secretary of State's minute of 22 May proposing that the Government should now give sole support to the Balfour Beatty/NEI bid for the Yueyang Power Station.

I am sending a copy of this letter to Alex Allan (H M Treasury), Robert Culshaw (Foreign and Commonwealth Office), Mike Eland (Lord President's Office), Martin Dinham (Overseas Development Administration) and Trevor Woolley (Cabinet Office).

Yours sincerely,

C D POWELL —

Paul Steeples, Esq.,
Department of Trade and Industry

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PRIME MINISTER

YUEYANG POWER STATION : CHINA

Negotiations have reached a critical stage on this project which is the largest nominated for financing under our £300 million soft loan for China. I thought you and colleagues should be aware of where things now stand and of the stance I have decided to adopt towards the UK companies involved.

2 At the insistence of the Chinese, Ministers agreed last year (my minute to you of 11 August 1986 and your Private Secretary's reply of 18 August 1986) that either of two British bids for this coal-fired power station should be eligible for support under the soft loan arrangements, one from GEC and one from Balfour Beatty/NEI: up until then we had only been supporting BB/NEI.

3 Bids were submitted to the Chinese in November 1986. Negotiations continued with both bidders until 16 May. Then the Chinese suspended negotiations with GEC and asked BB/NEI to submit an improved offer by 26 May.

4 The GEC team came home immediately. The company has since told us they believe there is still a chance they may be recalled to the negotiating table and they have formally asked us to maintain our even-handed approach. The advice from the Embassy however is that HMG should now commit itself unequivocally and solely to support of BB/NEI. This advice is based in particular on their understanding that negotiations with GEC have been stopped rather than simply suspended; on the large gap between GEC's price and the customer's target; and on the fact that the even-handed approach was disadvantageous to the competitive bidders.

010
cc/cr ①
Prime Minister
You will want to be aware that Mr. Channon intends to switch to exclusive support of the Balfour Beatty bid, dropping GEC.
EOP 26/5

DW4CFP



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5 Our own assessment is that the time is now right to move to sole support of BB/NEI and I have decided to tell the companies that this is to be the line we will adopt.

6 Colleagues should also be aware it is by no means certain that even with out undivided support in our dealings with the Chinese BB/NEI will necessarily win the contract. It is, however, clear that if we continue to support both contenders, neither will win. The Chinese client - though not necessarily their foreign aid department - are also pressing for a complex change in the aid arrangements. If BB/NEI are unable to make a sufficiently reduced offer by 26 May the Chinese may move to international competitive bidding. Against this one must bear in mind that the Chinese are operating under tight time constraints and are conscious of the value of the soft loan terms. Whilst the issue is finely balanced the Post are not unhopeful that BB/NEI will be kept in the race. One cannot, however, rule out the possibility of bad news at a domestically sensitive juncture.

7 I am sending copies of this to Nigel Lawson, Geoffrey Howe, David Young, Chris Patten and Sir Robert Armstrong.

Paul Steeles

pp PAUL CHANNON

Approved by the Secretary of State and signed in his absence

22 May 1987



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But one assessment is that the case is not right to move
to this report of REVUE and it has been decided to allow the
assessment that this is in order. It will be done.

Collaborators should also be aware it is in order
to obtain that even with our official approval in our
order the Chinese should will be available with the documents
it is, however, clear that it is desirable to support this
objective, rather than the Chinese side - though
not necessarily their foreign aid department - and also
to provide for a similar change in the aid arrangements.
REVUE and similar to have a sufficiently reduced effect on
the Chinese side with an international perspective.
Further, it is clear that the Chinese
the operation under this line cooperation and the possibility
of the value of the relations with - rather than
likely to be the case. The Chinese, however, believe the
possibility of not only a short-term, sensitive

I am sending copies of this to Nigel Lawson, Jeffrey
Lowe, David Young, Chris Patten and the other members.

18/4/84

Approved by the Secretary of State and signed in his absence

22 May 1984

PERSONAL



FILE
DA
(62)

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

20 January 1987

Thank you for your letter of 16 January enclosing the note about the Anglo-Chinese film production "The Last Emperor". The Prime Minister has read this with interest. She would, I am sure, wish us to consider how the launching of the film could be exploited to promote wider British interests in China.

I am sending copies of this letter to Lyn Parker (Foreign and Commonwealth Office), John Turner (Department of Employment) and Mike Gilbertson (Department of Trade and Industry).

(Charles Powell)

Miss Jill Rutter,
Chief Secretary's Office.

16

Personal

Prime Minister



You have in fact already
brushed against this film, &
helped its team get access
to the Throne Room in the
Forbidden City.

Treasury Chambers, Parliament Street, SW1P 3AG

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

You may like to read
the attached Synopsis, which
is fascinating.

Handwritten mark resembling a stylized 'M' or 'W' with a downward-pointing arrow.

16 January 1987

Dear Charles,

Agreed that I should
say that you hope the
FCO/DTI will consider how
the launching of the film can
be exploited to promote wider
British interests
in
China?
CDP
19/1

The Chief Secretary was approached by Mr Brian Quick of Hill Samuel who have been involved in financing an Anglo-Chinese film production called "The Last Emperor". They have had full co-operation with the Chinese Government, and apart from the commercial angle, also see potential for exploiting this for the benefit of Anglo-Chinese relations. The Chief Secretary has already alerted the Foreign Secretary to these possibilities - see his letter attached to Sir Geoffrey Howe - and has sent Sir Geoffrey the synopsis and background note prepared by Hill Samuel.

The Chief Secretary was approached in his personal capacity as a former colleague of Mr Quick. He has asked me to draw this to your attention, in case the Prime Minister might be interested in the project, which looks to the Chief Secretary to be a particularly interesting one with potential for both benefits for the film industry and other commercial spin-offs, but also for promoting Anglo-Chinese relations.

I am copying this letter to Lyn Parker (FCO), John Turner (DE) and Mike Gilbertson (DTI).

Yours sincerely,

Handwritten signature of Jill Rutter.

JILL RUTTER
Private Secretary

PERSONAL



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and Commonwealth Affairs
King Charles Street
London
SW1A 2AL

10^{AM} January 1987*Dear Sir,*

I mentioned to you, and the others to whom I am copying this letter, in the margins of Cabinet yesterday the "The Last Emperor" film project. As I told you Brian Quick, a former colleague from Hill Samuel, approached me to alert the Government to the significance of this Anglo-Chinese project. I attach a note he has prepared giving a synopsis of the film's plot and the background to its preparation.

As I told you this seems to me to be a potentially extremely valuable project to capitalise on both from the film industry and Anglo-Chinese relations view points.

I would like to get back to Brian Quick to let him know what HMG's attitude to the project is. Perhaps your office and those of Paul Channon and David Young to whom I am copying this letter, could get in touch with mine so that I can feed back your initial reactions.

Yours etc,
jl

JOHN MacGREGOR

THE LAST EMPEROR

In 1967 a 62 year old Peking gardener died of cancer; his name was Henry Pu-Yi. Sixty years previously, Pu Yi had been taken from his parents' home on the orders of his notorious aunt, the Empress-Dowager Tzu-Hsi, and placed on the Dragon Throne as Emperor, Lord of Ten Thousand years, the undisputed monarch of all China.

In elevating the infant son of Duke Aisin-Giuro, the Empress had sought to prolong her despotic sway over the country but in 1912 revolutionary forces proclaimed the first Chinese Republic, Dr. Sun Yat Sen was made President, and Pu-Yi was forced to abdicate.

The 267 year rule of the Manchus had ended but behind the gates of the Royal Palace imperial tradition continued almost as though nothing had changed. Under the terms of the abdication, favourable treatment was guaranteed to the Imperial House. Pu-Yi was confined within the boundaries of the vast 1,000 year old palace, the Forbidden City, but he was allowed to retain all the trappings of a great ruler of the Qing Dynasty including more than a thousand eunuch servants.

In 1919, a Scottish tutor, Reginald Johnston was appointed to the Emperor's household and he was exposed for the first time to Western influence. 'RJ', a scholarly official of the Colonial Office, became the Emperor's friend, slowly breaking through the bonds of protocol and ceremonial that had been the dominant force in his life.

This friendship was abruptly terminated when in 1924 the warlord, Feng Yuxiang, expelled Pu-Yi and his followers from the Forbidden City. By now married with two wives - one the Empress, the other a concubine - Pu-Yi found refuge for himself and a large entourage in the Japanese Concession in Tientsin. For years the Japanese allowed the ex-Emperor to enjoy a way of life which combined imperial privilege with the indulgences of a Western playboy.

When they invaded Manchuria in 1931 the Japanese installed Pu-Yi as 'Emperor' of the new state now called Manchukuo. Protected by the soldiers of the conquering army, Pu-Yi was once more playing the part of ruler, however nominally, until in 1945 the Russians parachuted into Changchun, arresting him and his court.

Pu-Yi was held captive in Siberia until Mao Tse Tung's freshly constituted People's Republic of China asked for his return in 1949. Contrary to their expectations, the Emperor and his followers were not executed. Instead, they found themselves in a prison for war criminals required to undergo "re-education". Ten years later Pu-Yi had made the transition from Emperor to citizen. He was released and allowed to live the life of an ordinary man.

After two years' preparation, this extraordinary story is now being filmed. A European team led by Jeremy Thomas, a British film producer and Bernardo Bertolucci, the renowned Italian director, working with the official China Film CoProduction Corporation, have recently completed four months of filming in China.

With the assistance of the Ministry of Culture, the production obtained access to all the necessary locations including the throne room in the Forbidden City. The Emperor's brother is still living and is Vice Chairman of the Standing Committee of the National People's Congress, and he agreed to act as historic adviser to the production. The Peoples Liberation Army helped by supplying 1,000 men to assist as extras where their special skills were required in scenes involving troops. The Chinese approved the screenplay without difficulty and gave permission for the use of English-speaking Chinese-American actors. The title role is taken by John Lone who received considerable critical acclaim for his part in Michael Cimino's recent film "Year of the Dragon". The tutor, "R.J." is played by Peter O'Toole and Joan Chen, who took a leading role in the Dino De Laurentiis production "Taipan", plays the Empress.

The scale of this production may be judged from the size of the budget which at \$23m makes this the most expensive independently financed film ever attempted and ensures that full advantage can be taken of the unique opportunity presented by the subject matter.

The film will be finished in London for delivery in September/October and Hill Samuel, having arranged the finance, is able to organise a spectacular premiere in Peking. This would present a wonderful opportunity, unlikely to be repeated in the foreseeable future, for British commercial interests, encouraged by the Government, to make a significant gesture of friendship towards China by sponsoring such an event.

BQ/JML
8.1.1987

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Ms S/S

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OF 231000Z OCTOBER 86

15

DEATH OF MARSHAL YE JIANYING
PLEASE PASS THE FOLLOWING MESSAGE OF CONDOLENCE FROM THE
PRIME MINISTER TO PREMIER ZHAO:
BEGINS : I HAVE HEARD WITH SADNESS OF THE DEATH OF HIS
EXCELLENCY MARSHAL YE JIANYING. MARSHAL YE'S SUSTAINED
AND IMPORTANT CONTRIBUTION TO THE ESTABLISHMENT OF MODERN
CHINA DESERVES THE RESPECT AND ADMIRATION OF PEOPLE INSIDE
AND OUTSIDE CHINA. - PLEASE CONVEY TO HIS FAMILY AND COLLEAGUES
THE SINCERE CONDOLENCES OF THE BRITISH GOVERNMENT AND
PEOPLE. ENDS.

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22 October 1986

From the Private Secretary

CHINA: DEATH OF MARSHAL YE JIANYING

OP //

Thank you for your letter of 22 October about the death of Marshal Ye Jianying. I am sure that the Prime Minister would be happy to send a message in the terms which you propose.

(Charles Powell)

R.N. Culshaw, Esq.,
Foreign and Commonwealth Office.

Lb



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

Prime Minister

I thought
that you
might enjoy
this!

CDP
'/xi

Maggie is Number 1 in China

THE foreign leader Chinese youth admires most is Maggie Thatcher.

In a poll conducted by the Communist Party newspaper *The People's Daily*, she came top with 40 per cent.

China's own Deng Xiaoping was voted the best world leader by 71 per cent of the 8,000-strong sample.

The paper didn't name other politicians figuring in the poll, or say why Mrs Thatcher was so popular. But China watchers believe official polls often reflect government thinking.

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Foreign and Commonwealth Office

London SW1A 2AH

22 October 1986

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Dear Charles

China: Death of Marshal Ye Jianying

Marshal Ye Jianying died earlier this morning (22 October). He came to prominence in the war of resistance against the Japanese in the 1930s, and has stayed near the centre of Chinese political life ever since. As Chairman of the Standing Committee of the National People's Congress during 1978-82 (immediately after the fall of the Gang of Four) he was effectively Head of State (there was no post as such).

[REDACTED]

the Department recommends that the Prime Minister should similarly send a message to Premier Zhao, on the following lines:

"I have heard with sadness of the death of His Excellency Marshal Ye Jianying. Marshal Ye's sustained and important contribution to the establishment of modern China deserves the respect and admiration of people inside and outside China. Please convey to his family and colleagues the sincere condolences of the British government and people."

If the Prime Minister agrees we shall despatch this message by telegram to Peking.

Yours ever

(R N Culshaw)
Private Secretary

C D Powell Esq
No 10 Downing St

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FROM PRIVATE SECRETARY

SECRETARY OF STATE'S MEETING WITH FOREIGN MINISTER WU XUEQIAN: 14 OCTOBER

SUMMARY

1. SECRETARY OF STATE INTRODUCED THE FOUR PAPERS. WU ARGUED FOR DEFERRAL OF DECISION ABOUT DIRECT ELECTIONS UNTIL 1990. SECRETARY OF STATE POINTED TO NEED FOR DEBATE ON ISSUE FREE OF OUTSIDE INFLUENCE. RESTATED NEED FOR GENUINE REVIEW IN 1987.

DETAIL

2. THE SECRETARY OF STATE HAD A 70 MINUTE WORKING BREAKFAST WITH FOREIGN MINISTER WU ON 14 OCTOBER.

3. THE SECRETARY OF STATE SAID HE WOULD LIKE TO FOLLOW UP THEIR NEW YORK DISCUSSIONS. HE REFERRED TO THE JLG AND LAND COMMISSION ACHIEVEMENTS. HE NOTED THAT THE JLG SHOULD CONTINUE TO BE SEEN AS A LIAISON BODY NOT AN ORGAN OF POWER. THIS WOULD BE PARTICULARLY IMPORTANT AFTER 1988.

4. THE SECRETARY OF STATE STRESSED THE IMPORTANCE OF THE DIALOGUE AT FOREIGN MINISTER LEVEL. THE EXCHANGES WITH THE GOVERNOR WERE ALSO VERY USEFUL.

5. THE SECRETARY OF STATE THEN INTRODUCED AND HANDED OVER THE 4 PAPERS. ON PAPER 1, HE DREW ATTENTION TO THE ADVANTAGES OF FLEXIBILITY OVER THE PROPORTION OF OFFICIALS AND INDIRECTLY ELECTED MEMBERS. ON PAPER 2, HE EXPLAINED THE ARGUMENTS IN FAVOUR OF MAINTAINING A CROSS-MEMBERSHIP AND RECALLED DENG XIAOPING'S 1984 REMARK TO HIM ABOUT THE US HAVING 3 GOVERNMENTS. ON PAPER 3, HE DREW ATTENTION TO OUR VIEW OF THE IMPORTANCE OF MAINTAINING AN APPOINTED ELEMENT. ON PAPER 4, HE SAID HE THOUGHT IT WOULD BE USEFUL IF LEGAL EXPERTS COULD DISCUSS ISSUES RAISED. HE SUGGESTED THAT MATTERS RAISED IN THE PAPERS COULD BE DISCUSSED WITH THE GOVERNOR IN DECEMBER.

6. WU SAID THAT THE PAPERS WOULD BE CAREFULLY STUDIED. HE WELCOMED THE SUBMISSION OF OUR IDEAS. AN EXCHANGE OF VIEWS ON SPECIFIC ISSUES WOULD THEN BE POSSIBLE, EG WITH THE GOVERNOR.

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17

7. WU SAID THAT THE BLDC WAS WORKING TO PRODUCE SOME FIRST DRAFTS IN 1987, FOR INSTANCE ON POLITICAL REFORM. THESE WOULD BE PUBLISHED IN 1988. WU RECALLED THAT HE AND SIR GEOFFREY HAD EXCHANGED VIEWS IN NEW YORK ON POLITICAL REFORM. ALL AGREED THIS WAS A VERY IMPORTANT ISSUE. HE HOPED THAT FURTHER EXCHANGES OF VIEWS ON THE QUESTION WOULD TAKE PLACE. HE ALSO RECALLED HIS COMMENTS TO THE SECRETARY OF STATE IN JUNE 1985: POLITICAL REFORM INVOLVED MAJOR CHANGE: HE HOPED HMC AND HKG WOULD ADOPT A VERY PRUDENT ATTITUDE.

8. WU CONTINUED THAT THE BLDC SUB-GROUP MEETING IN XIAMEN HAD SHOWN THAT VIEWS AMONGST BLDC DELEGATES FROM HONG KONG DIFFERED STRONGLY ABOUT THE INTRODUCTION OF DIRECT ELECTIONS IN THE TRANSITIONAL PERIOD. SOME HONG KONG DELEGATES EVEN DOUBTED IF DIRECT ELECTIONS SHOULD BE INTRODUCED AFTER THE TRANSFER OF GOVERNMENT.

9. WU REFERRED TO THE SECRETARY OF STATE'S EXCHANGES WITH ZHAO ZIYANG ON 13 OCTOBER (SEE MY SEPARATE TELEGRAM). HE SAID THAT THE CHINESE POSITION REMAINED THAT POLITICAL REFORM WAS A BIG QUESTION TOWARDS WHICH A PRUDENT ATTITUDE MUST BE ADOPTED. HE THEREFORE HOPED THAT DIRECT ELECTIONS WOULD NOT BE MENTIONED AT ALL IN THE REVIEW. IF, HOWEVER, WE HAD ALREADY PROMISED TO DEAL WITH THE SUBJECT IN THE REVIEW HE HOPED THIS WOULD OBJECTIVELY REFLECT THE DIFFERING HONG KONG OPINIONS ON THE SUBJECT AND GIVE THE IMPRESSION THAT WE WOULD CONTINUE TO STUDY THESE DIFFERENT OPINIONS. HE UNDERSTOOD THAT THERE WOULD BE A REVIEW EVERY THREE YEARS. BY THE 1990 REVIEW THE BASIC LAW WOULD HAVE BEEN PROMULGATED. ANY STATEMENT OF INTENT ON DIRECT ELECTIONS WOULD BE MORE EASILY ACCEPTED BY THE MAJORITY OF HONG KONG PEOPLE IN THE 1990 REVIEW AFTER FULL DISCUSSION AND CONSIDERATION OF THE SUBJECT. IF WAS NOT THAT THE CHINESE GOVERNMENT DID NOT WANT TO CONSIDER DIRECT ELECTIONS AT ALL.

10. THE SECRETARY OF STATE SAID THAT IT WAS IMPORTANT THAT THIS ISSUE BE HANDLED WITHOUT GIVING THE IMPRESSION OF CONFLICT BETWEEN THE TWO SIDES AND THAT BOTH SIDES SHOULD NOT DISTURB THEIR RESPECTIVE AREAS OF RESPONSIBILITY. THE BL WAS A QUESTION FOR THE CHINESE SIDE: WE WOULD MAKE NO PUBLIC STATEMENT ABOUT THE PAPERS HE HAD HANDED OVER. HOWEVER THE ADMINISTRATION OF HONG KONG UP TO 1997 WAS A BRITISH RESPONSIBILITY AND THE REVIEW MUST BE CONDUCTED IN SUCH A WAY AS TO AVOID DIMINISHING THAT RESPONSIBILITY. THAT DID NOT, HOWEVER, MEAN THAT WE WOULD PROCEED WITHOUT REFERENCE TO THE CHINESE SIDE. WE HAD ALREADY UNDERTAKEN TO INCLUDE THE QUESTION OF DIRECT ELECTIONS IN THE 1987 REVIEW. THERE WAS MUCH DISCUSSION OF THE SUBJECT IN HONG KONG. THE ISSUE MUST BE INCLUDED.

11. THE SECRETARY OF STATE POINTED OUT THAT OF THOSE PRESSING FOR DIRECT ELECTIONS THE VAST MAJORITY SUGGESTED THAT ONLY A SMALL PROPORTION OF SEATS SHOULD BE FILLED THROUGH DIRECT ELECTIONS. THE ISSUE WOULD HAVE A SMALL IMPACT ON CONSTITUTIONAL ARRANGEMENTS BUT COULD HAVE SYMBOLIC. COULD BECOME MORE IMPORTANT THAN IT DESERVED

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/TO

TO IF IT BECAME A SYMBOLIC ISSUE OF CONFIDENCE. WE WOULD BE FRUDENT IN CONDUCTING THE REVIEW. THE GREEN PAPER WOULD BE NEUTRAL; THERE WAS NO QUESTION OF POINTING OPINION IN ANY PARTICULAR DIRECTION. WE HAD NO PRECONCEIVED IDEAS ABOUT THE REVIEW'S OUTCOME.

12. THE SECRETARY OF STATE DREW ATTENTION TO THE IMPORTANCE OF NEITHER THE CHINESE NOR BRITISH SIDES BEING SEEN TO SEEK TO PREDETERMINE THE OUTCOME OF THE REVIEW; THIS COULD INFLUENCE HONG KONG OPINION IN THE OPPOSITE DIRECTION TO THAT DESIRED. HONG KONG OPINION MIGHT WELL REMAIN DIVIDED, OR EVEN BECOME NEGATIVE. BUT IF ITS WITHOUT OUTSIDE PRESSURE, IT CAME OUT CLEARLY IN FAVOUR OF DIRECT ELECTIONS, WE WOULD BE UNABLE TO DENY THE POSSIBILITY OF CHANGE IN THAT DIRECTION. IT WOULD BE DAMAGING TO BOTH SIDES IF THE REVIEW WAS SEEN TO HAVE TAKEN PLACE ON A FALSE PREMISE. WE WOULD BE SEEN TO HAVE BEEN INFLUENCED BY CHINESE PRESSURE. THIS WOULD CALL INTO QUESTION OUR RESPONSIBILITY FOR HONG KONG'S ADMINISTRATION UP TO 1997. IT WAS THUS MOST IMPORTANT THAT NEITHER SIDE SHOULD SEEK TO INFLUENCE HONG KONG OPINION IN EITHER DIRECTION.

13. THE SECRETARY OF STATE REFERRED TO THE PRESS LEAK OF THE GOVERNOR'S DISCUSSIONS WITH ZHOU NAN; THIS HAD CAUSED HIM SOME PROBLEMS IN HONG KONG. HE WANTED TO SAY TO HONG KONG PEOPLE THAT THE REVIEW WOULD GO AHEAD. IT WOULD BE GENUINE. WE HAD NO PRECONCEIVED IDEAS. IT WOULD BE DESIGNED TO SEEK HONG KONG VIEWS. THE OUTCOME WAS NOT PREDETERMINED ON THE BASIS THAT NOR PRESS REPORTS SUBSEQUENTLY EMERGED SUGGESTING THAT THE CHINESE SIDE TOOK A DIFFERENT VIEW, HE BELIEVED THAT THIS LINE COULD HELP THE SITUATION. IT WOULD REASSURE. THE PUBLIC DEBATE ABOUT DIRECT ELECTIONS COULD CONTINUE ON THE MERITS OF THE CASE.

14. WILSON SAID THAT THERE WERE SOME IN HONG KONG WHO WISHED TO SHOW THAT THE HKG HAD BEEN WEAKENED BY THE JD. SUCH PEOPLE WOULD SAY THAT THE CHINESE HAD DECIDED THAT THE REVIEW COULD NOT CONTAIN DISCUSSION OF DIRECT ELECTIONS. THIS WOULD WEAKEN HKG'S AUTHORITY AND WOULD BE DANGEROUS FOR CONFIDENCE.

15. WU SAID THAT HKG'S AUTHORITY WOULD NOT BE WEAKENED IF THE REVIEW OBJECTIVELY DESCRIBED THE DIVISION OF OPINION ON DIRECT ELECTIONS AND SAID THAT THE ISSUE WAS STILL BEING STUDIED. THERE SHOULD BE FULL CONSULTATION ON THE MATTER BETWEEN HMG, HKG AND PRCG. HOWEVER, IF SUGGESTIONS WERE PUT FORWARD WITHOUT FULL CONSULTATION THE IMPRESSION COULD BE CREATED THAT HKG AND HMG CONSIDERED THAT DIRECT ELECTIONS FOR SOME LEGCO SEATS SHOULD BE INTRODUCED; THIS WOULD NOT BE WELCOMED BY THE OPPONENTS OF DIRECT ELECTIONS. IF THE REVIEW OBJECTIVELY REFLECTED THE DIVISION OF OPINION AND STATED THAT THE MATTER WAS STILL UNDER CONSIDERATION BY HMG, HKG AND THE PRCG, HONG KONG OPINION WOULD REALISE THAT THE ISSUE REMAINED UNRESOLVED. HKG'S AUTHORITY WOULD NOT BE AFFECTED.

16. WU CONTINUED THAT IT WAS NOT THE CHINESE POSITION THAT THEY OPPOSED DIRECT ELECTIONS. THEY WOULD FULLY CONSIDER OPINIONS FROM VARIOUS HONG KONG CIRCLES AND TRY TO MAINTAIN STABILITY AND PROSPERITY. THE ISSUE SHOULD NOT BE CONSIDERED HASTILY. HE HOPED WE WOULD CONSIDER THE MATTER CAREFULLY.

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17. WU CONTINUED THAT HE HAD OVERHEARD ZHAO ZIYANG TELL THE SECRETARY OF STATE ON 13 OCTOBER THAT THE ISSUE COULD BE HANDLED THROUGH THE JLG OR IF NECESSARY AT A HIGHER LEVEL, EVEN AT PRIME MINISTERIAL LEVEL. WE MUST BELIEVE THAT THE CHINESE SIDE WOULD NOT IGNORE HONG KONG OPINION. THEY WOULD NOT LISTEN TO JUST ONE SIDE AND WOULD FULLY CONSIDER HMC'S VIEWS. HE HOPED BOTH SIDES WOULD FULLY CONSIDER THE VIEWS OF THE OTHER. A CLASH WITH THE BASIC LAW WOULD NOT BE BENEFICIAL.

18. THE SECRETARY OF STATE SAID THAT OUR POSITIONS WERE CLOSE. HE THOUGHT THIS SUBJECT LESS ONE FOR THE JLG THAN FOR CONTACTS SUCH AS HIS WITH WU.

19. CHIEF EXECUTIVE

THE SECRETARY OF STATE SAID THAT WE WERE GIVING THIS THOUGHT (WU WELCOMED THIS). WE SHOULD AVOID A CHIEF EXECUTIVE DESIGNATE WAITING IN THE WINGS. WE WERE NOT YET ABLE TO PROVIDE OUR THOUGHTS BUT WOULD BE DOING SO.

20. JLG

THE SECRETARY OF STATE REFERED TO THE EARLIER DIFFICULTIES OVER HO'S NATIONALITY STATUS. HE SAID THAT HO WOULD SHORTLY NEED TO BE REPLACED. WE HAD LIAO IN MIND: HE WAS A BDTC. THE SECRETARY OF STATE REFERRED TO ZHOU NAN'S COMMENTS PRIOR TO THE JLG'S FORMAL ESTABLISHMENT THAT ANY FUTURE CHANGE IN CITIZENSHIP WOULD NOT NECESSARILY BE REQUIRED. THE SECRETARY OF STATE SAID THAT THE PROBLEM WOULD BE LIKELY TO RECUR, AND IT WOULD BE BETTER IF A NATIONALIST STATUS CHANGE COULD BE AVOIDED. WU SAID THAT THEY COULD THINK ABOUT THIS AND LET US HAVE AN ANSWER.

21. SEE PEKING TELNO 1990 TO FCO FOR DISCUSSION OF BILATERAL AND INTERNATIONAL ISSUES.

22. IN RESPONSE TO PRESS ENQUIRIES IT WAS AGREED THAT BOTH SIDES WOULD SAY THAT A RANGE OF INTERNATIONAL AND BILATERAL ISSUES HAVE BEEN COVERED. BILATERAL ISSUES OF COURSE INCLUDED HONG KONG.

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STATE VISIT: CONVERSATION WITH ZHAO ZIYANG DURING STATE BANQUET

1. THE SECRETARY OF STATE HAD SOME DISCUSSION AT THE STATE BANQUET WITH ZHAO ZIYANG.

CHINESE ECONOMY

2. ZHAO GAVE A LENGTHY DESCRIPTION OF THE SUCCESSES IN THE CHINESE ECONOMY. THE SECRETARY OF STATE WAS STRUCK BY THE EXTENT TO WHICH HE PAID TRIBUTE TO PRIVATISATION AND CONTRACTING OUT. ZHAO SUGGESTED THAT MOST COUNTRIES, WHETHER THEY HAD CAPITALIST OR SOCIALIST IDEOLOGIES, WERE CURRENTLY THINKING ON THESE LINES. HE SAID THAT THE CHINESE GOVERNMENT HAD FOUND THEY WERE ABLE TO SELL OFF SMALL ENTERPRISES, SUCH AS SHOPS, FOR AS MUCH AS TWICE THE PRICE THEY HAD THOUGHT THEY MIGHT GET FOR THEM. THEY WERE NOW CONSIDERING MOVING TO SHARE OWNERSHIP OF LARGER SCALE ENTERPRISES - THOUGH IN THIS CASE SHARES WOULD BE SPREAD, INITIALLY AT LEAST, NOT TO INDIVIDUALS BUT TO OTHER PUBLIC BODIES SUCH AS LOCAL GOVERNMENT. ZHAO DESCRIBED SOME OF THE DEFICIENCIES OF THE YUGOSLAV ECONOMY WHICH HE HAD RECENTLY SEEN AT FIRST HAND. THE PROBLEM WAS GETTING ANYONE TO TAKE MANAGERIAL RESPONSIBILITY. HE EXPLAINED THAT IN CHINA THE ABILITY TO SACK INCOMPETENT MANAGERS HAD BEEN AN IMPORTANT CHANGE AND AGREED THAT THE INTRODUCTION OF THE BANKRUPTCY LAW WAS ANOTHER. THE YUGOSLAVS NEEDED LESS FRAGMENTED POLITICAL AUTHORITY IF THEY WERE TO MAKE THE NECESSARY ECONOMIC CHANGES. BUT HE HAD SOME CONFIDENCE IN THEIR NEW PRIME MINISTER.

REYKJAVIK SUMMIT

3. ZHAO SAID THAT HE THOUGHT THAT GORBACHEV HAD OVER-REACHED HIMSELF IN PROPOSING THE SUMMIT AND WOULD HAVE DONE HIMSELF SUBSTANTIAL DAMAGE AT HOME. HE THOUGHT THAT GORBACHEV HAD BARGAINED ON BEING ABLE TO PERSUADE THE US TO DROP SDI AS THE RUSSIANS HAD PROPOSED. CHINA WAS HOSTILE TO THE SDI BUT ZHAO HAD THOUGHT A DEAL HERE COULD HAVE BEEN IN THE MAKING. HE THOUGHT IT EXTREMELY ODD THAT THE TALKS HAD BEEN BROKEN OFF IF BOTH SIDES HAD BEEN, AS THEY CLAIMED, WITHIN AN ACE OF REACHING AN HISTORIC AGREEMENT. HE SAID CHINA MUCH REGRETTED THIS, AND HOPED THEY WOULD BE READY TO RESUME NEGOTIATIONS. ZHAO SAID THAT HE WAS VERY STRUCK BY THE SIMILARITY OF BRITISH AND CHINESE PERCEPTIONS OF MANY OF THE ISSUES UNDER DISCUSSION. THE SECRETARY OF STATE AGREED THAT AS INDEPENDENT NUCLEAR POWERS AND MEMBERS OF THE SECURITY COUNCIL WE HAD MANY COMMON INTERESTS. WE SHOULD CONTINUE TO HOLD EXPERT TALKS ON THESE SUBJECTS. ZHAO AGREED.

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/HONG KONG

HONG KONG

4. ZHAO SAID THAT HE THOUGHT THE HONG KONG AGREEMENT WAS RUNNING WELL. THE SECRETARY OF STATE AGREED, BUT SAID THAT IT WAS VERY IMPORTANT THAT NO IMPRESSION SHOULD BE GIVEN THAT CHINESE INFLUENCE WAS OVERSHADOWING OUR RESPONSIBILITY FOR THE ADMINISTRATION OF HONG KONG UNTIL 1997. THE PERCEIVED UK CONTROL IN HONG KONG MUCH BE MAINTAINED. ZHAO SAID THAT IT WAS VERY IMPORTANT NOT TO DESTABILISE HONG KONG. THE SECRETARY OF STATE SAID THAT WE AGREED WITH THIS, BUT IT WAS EQUALLY IMPORTANT NOT TO DESTABILISE IT BY GIVING THE IMPRESSION OF WEAKENING BRITISH AUTHORITY.

5. ZHAO SAID THAT ISSUES THAT AROSE BETWEEN US COULD BE RESOLVED BY KEEPING IN CLOSE TOUCH IN THE JOINT LIAISON GROUP. THE SECRETARY OF STATE SAID THAT THIS MIGHT NOT ALWAYS BE THE BEST CHANNEL, BUT THAT WE SHOULD CERTAINLY SEEK TO UNDERSTAND EACH OTHER, AND SHOULD NOT GIVE HONG KONG THE IMPRESSION THAT IT WAS BEING PUSHED TOWARDS ANY PARTICULAR CONCLUSION IN THE 1987 REVIEW.

6. IN CONCLUSION ZHAO SAID THAT THERE WERE THREE KEY POINTS:

(I) NO-ONE SHOULD PROMOTE DESTABILISATION

(II) THERE SHOULD BE NO CHALLENGE TO BRITISH AUTHORITY

(III) WE SHOULD FIND EFFECTIVE METHODS, WHETHER IN THE JLG OR THROUGH DIRECT CONTACTS AT VARIOUS LEVELS, INCLUDING IF NECESSARY HIS OWN, TO ENSURE THAT WE UNDERSTOOD EACH OTHER'S POSITION CLEARLY AND TO AVOID GIVING HONG KONG THE IMPRESSION THAT WE DISAGREED.

EVANS

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mt.

10 DOWNING STREET

Prime Minister

You should be aware that the principal male dancer with the Chinese ballet, who are on a visit here, has turned up at Notting Hill Police station and asked for asylum.

This will be tricky, particularly so shortly before the Queen's visit.

COP 3/x

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SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

C R Budd Esq
Private Secretary to
The Foreign & Commonwealth Secretary
Foreign & Commonwealth Office
Downing Street
LONDON
SW1A 2AL

26 September 1986

New Colon,

SECRETARY OF STATE FOR ENERGY'S MEETING WITH CHINESE MINISTER FOR
THE NUCLEAR INDUSTRY

My Secretary of State had a short meeting with Jiang Xin Xiong in Vienna on the morning of 24 September, prior to the opening of the IAEA Special Session. Mr Jiang was accompanied by Peng Zhao Sheng, Director of Bureau of Foreign Affairs of Ministry of Nuclear Industry; Ms Wu Baslu, First Secretary, Ministry of Foreign Affairs, Jin Tong Chao, Deputy Chief of Division, Department of International Co-operation, State Science and Technology Commission, Xiu Nai Cheng, Second Secretary, Chinese Mission and Li Donghui, Third Secretary, Chinese Mission. Mr Walker was accompanied by the PUSS, Mr Goodlad, and by Mr Morphet, Mr Granatt and myself from the Department of Energy.

Mr Walker said that the two countries shared a common view of the importance of high safety standards in the nuclear industry, and of the benefits of international collaboration in this area. The UK Government was grateful to the People's Republic for the efforts which had been made to explain to the people of Hong Kong the care which had been taken over the safety of the nuclear power station at Daya Bay.

Mr Jiang agreed on the importance of continuing co-operation, and commented that collaboration between the two countries on nuclear matters had so far proved very successful. The Chinese Government was committed to doing all it could to reassure the people of Hong Kong about its commitment to high standards of safety in the nuclear industry in general, and in relation to the Daya Bay station in particular. If there was anything further that they could do in this area, they would be glad to consider any suggestions which the UK might have.

In reply to a question from Mr Jian, Mr Walker made it clear that the United Kingdom Government supported the Conventions on Early Warning and Mutual Assistance before the Special Session, and would be signing them subject to ratification. The UK would also be making a voluntary declaration under Article 3 of the Early Warning Convention

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about its application to military facilities. Mr Jiang said that China favoured the principle of voluntary notification for military accidents, but did not state explicitly whether China would make a declaration at the Special Session.

Mr Jiang confirmed that China remained committed to the expansion of nuclear power, and that these plans had been unaffected by the Chernobyl accident. The Chinese energy plan was based around the availability of electricity generated from hydropower, coal and nuclear. Coal had the main role, but it was planned to expand nuclear capacity to about 10,000 megawatts over the next 10 years. By 1990 installed capacity would reach 3,300 megawatts (of which 1,800 megawatts would be accounted for by Daya Bay).

The Secretary of State said that the Chernobyl accident had not altered the UK Government's view of the crucial importance of expanding nuclear power if the pace of world economic development was to be maintained. The Soviets and the largest EC countries took the same view. Strenuous efforts needed to be made, both nationally and internationally, to ensure the safety of nuclear facilities, and he would be urging in his speech to the Special Session that the IAEA should expand its role as a repository for and disseminator of best practice. The UK's standards were of course already very high; the UK industry had criticised the design of the Chernobyl reactor in the mid-1970's, and a similar reactor would not have been permitted in the UK under our regulatory system.

Finally the Secretary of State said that the UK looked forward to the forthcoming visit by a Chinese team to study nuclear safety matters. If there was anything further which the UK could do to assist in this area, he would be glad to consider it.

I am copying this to Charles Powell (No. 10) and Timothy Walker (DTI).

Yours,
(Keoff)

G S DART
Principal Private Secretary

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ccf



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-930 7022

MO 11/14L

25th September 1986

New China,

UK-CHINA MEMORANDUM OF UNDERSTANDING ON PROCUREMENT ISSUES

At Mr Zhang Aiping's farewell call on the Secretary of State this morning, he and Mr Younger signed the Memorandum of Understanding on defence procurement to which the final touches had been put during his visit. A copy is enclosed for your information. The original does not bear a classification marking, as we do not share a system with the Chinese; but they will be treating their copies as confidential Government documents, and all copies made on our side should be treated as Restricted.

I am sending a copy of this letter to Robert Culshaw (Foreign and Commonwealth Office), Catherine Bradley (Department of Trade and Industry), Michael Stark (Cabinet Office) and to HM Ambassador Peking.

*Yours,
David Ball*

(D C J BALL)
Private Secretary

Charles Powell Esq
10 Downing Street

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MEMORANDUM OF UNDERSTANDING
BETWEEN
THE GOVERNMENT OF THE PEOPLE'S
REPUBLIC OF CHINA
AND
THE GOVERNMENT OF THE UNITED
KINGDOM OF GREAT BRITAIN AND
NORTHERN IRELAND
ON
DEFENCE EQUIPMENT CO-OPERATION

At the invitation of Mr George Younger, Secretary of State for Defence of the United Kingdom of Great Britain and Northern Ireland, Mr Zhang Aiping, Minister of the Ministry of National Defence of the People's Republic of China, visited the United Kingdom of Great Britain and Northern Ireland from 18th to 25th September 1986. During the visit, Defence Minister Zhang Aiping and Secretary of State George Younger held serious and friendly talks on defence technology and procurement co-operation between the two countries.

The two sides expressed their intention to co-operate in defence technology and defence procurement on an equitable and mutually beneficial case by case basis. Both sides expressed great interest in exploring the scope for the joint upgrading of existing equipment and the co-production of new military equipment for export to third countries acceptable to both sides.

The two sides stated that they would, to the best of their ability, support and provide the necessary assistance for those companies in each country wishing to hold discussions on specific projects.

The Governments of the People's Republic of China and of the United Kingdom of Great Britain and Northern Ireland expressed their willingness to create the conditions to assist either country to procure from the other defence equipment and to co-operate in defence technology on a case by case basis. Both sides have accordingly decided that discussions should be held between their officials to develop this Memorandum of Understanding into a series of more specific Memoranda of Understanding and Arrangements. The fields to be covered could include the exchange of related technical personnel and material information, the quality of equipment, collaborative projects, the measures that must be taken

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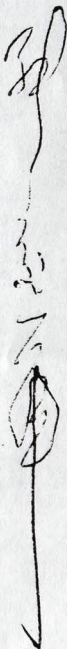
to protect information and the limitations on the use to which such information may be put, and the exchange of information about training methods and training aids.

This Memorandum of Understanding is signed in duplicate in London on 25th September 1986 written in the Chinese and English languages, each party to retain one copy.

George Younger

Minister of National Defence
for the People's Republic of China

Secretary of State for Defence
for the United Kingdom of Great
Britain and Northern Ireland



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中国和联合王国
关于防务装备合作的谅解备忘录

中华人民共和国国防部部长张爱萍，应大不列颠及北爱尔兰联合王国国防大臣乔治·扬格的邀请，于一九八六年九月十八日至二十五日访问了大不列颠及北爱尔兰联合王国。访问期间，张爱萍部长和乔治·扬格大臣就两国防务技术和采购合作问题举行了认真友好的会谈。

双方表示了在平等互利和一事一议的基础上开展防务技术和采购合作的意向。双方对探讨共同改进现有装备和合作生产新的军事装备向双方可以接受的第三国家出口的领域表示了很大的兴趣。

双方表示将尽力支持各自国家的有关公司就具体项目进行商谈，并给予必要的协助。

中华人民共和国政府和大不列颠及北爱尔兰联合王国政府表示愿意在一事一议的基础上为两国互相采购防务装备和进行防务技术合作创造条件。为此，双方决定两国的官员应该进行协商，以便将本备忘录发展成一系列更为具体的备忘录和协定，其涉及范围应包括有关技术人员和资料信息的交流，装备的质量，合作项目，保护信息和限制信息使用范围的必要措施，以及训练方法和训练器材的信息交流。

RESTRICTED

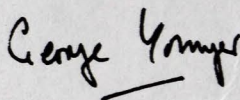
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本谅解备忘录于一九八六年九月二十五日在伦敦
签字，一式二份，用中文和英文写成，双方各持一份。

中华人民共和国
国防部部长

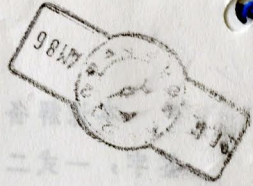


大不列颠及北爱尔兰
联合王国国防大臣



RESTRICTED

RESTRICTED



一九六八年六月二十二日
第一科各文及... 第二夫一...

送外... 大... 王... 令...

... 人... 中... 分... 部...

Confidential

SUBJECT
cc master

CONFIDENTIAL



file DG2BJZ

bc PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

22 September 1986

Dear John

PRIME MINISTER'S MEETING WITH THE CHINESE MINISTER OF
NATIONAL DEFENCE

The Prime Minister saw the Chinese Minister of National Defence for a talk this afternoon. Mr. Zhang Aiping was accompanied by the Chinese Ambassador and by someone who was either Wu Shaozu or He Qizong.

The Prime Minister made a number of complimentary references to China and asked Zhang Aiping to convey her greetings to Deng Xiaoping, Hu Yaobang and Zhao Ziyang. Zhang Aiping replied in kind. He was honoured to meet such a wise lady Prime Minister who was worshipped by the Chinese people (the interpreter's version, not mine). China was lagging behind the West in science and technology and had a lot to learn from the United Kingdom.

The Prime Minister asked about the situation on the Sino-Vietnamese border. She understood that China had large numbers of troops there as a warning to Vietnam. This was a significant constraint on Vietnam's ambitions and we were grateful for China's role in this respect. Zhang Aiping confirmed that China maintained considerable forces on the border where there continued to be occasional skirmishes. Their basic purpose was to defend against Vietnamese aggression. But they also served as a wider warning to the Vietnamese Government not to press its territorial ambitions in South East Asia. Vietnamese actions were part of a broader Soviet strategy to bring South East Asia under its influence. After Cambodia, the next step in this strategy would be an attack on Thailand.

The Prime Minister said that we shared China's concern about the Soviet Union's expansionist aims. This was one reason why, in arms control negotiations, we were insistent that any reduction in intermediate nuclear weapons should be a global reduction. It was not enough just to insist that the Soviet Union should reduce its SS20 missiles targeted on Europe. There must be reductions in the Far East as well. Zhang Aiping expressed appreciation.

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The Prime Minister asked whether it would be possible to sign a Memorandum of Understanding on defence collaboration in the course of Zhang Aiping's visit. Following a certain amount of discussion within the Chinese delegation, Zhang Aiping confirmed that all outstanding points had been settled and that it was hoped to sign the Memorandum of Understanding on 25 September. Such an agreement should benefit both sides. The MOU would bring an intergovernmental dimension to contacts between Britain and China in the field of science and technology which had hitherto been handled by companies. The Prime Minister welcomed the fact that agreement had been reached. This was good for both Britain and China, an excellent augury for The Queen's forthcoming visit and would also be an added reassurance to the people of Hong Kong.

The Prime Minister asked what China's priority areas for co-operation under the MOU would be. Zhang Aiping identified collaboration in electronics and naval projects as having priority.

The Prime Minister spoke of Britain's out of area defence activities in over thirty countries around the world. Zhang Aiping observed that China was having to concentrate on its own economic development and this had necessitated reductions in the defence budget.

I am copying this letter to Colin Budd (Foreign and Commonwealth Office) and Michael Stark (Cabinet Office).

*you mark,
Charles Powell*

Charles Powell

John Howe, Esq.,
Ministry of Defence.



BM2AVG
bc PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

22 September 1986

PRIME MINISTER'S MEETING WITH THE CHINESE DEFENCE MINISTER

I should record that Mrs. Zhang was present at the beginning of the Prime Minister's meeting with Zhang Aiping. She and her husband presented the Prime Minister with a scroll on which Zhang Aiping had painted in Chinese characters a poem which he attributed to Mrs. Thatcher.

"It is easy enough to begin a job
It is harder to see it through."

It also transpired that Zhang Aiping had been so moved by the powerful sentiments that he had composed a complementary poem. As rendered by the interpreter this read:

"Good resolutions are hard to implement.
Who says that God controls everything
When man can reach out to touch the moon?"

Some might think that this was a more cosmic effort: others might detect the hand of a Chinese EE Strokes. But it led to great good humour all round.

I am copying this on a personal basis to Colin Budd (Foreign and Commonwealth Office).

(C.D. POWELL)

John Howe, Esq.,
Ministry of Defence



CDP
23/9

MO 11/14E

RECORD OF A CALL ON THE DEFENCE SECRETARY BY THE CHINESE MINISTER
OF NATIONAL DEFENCE AT THE MINISTRY OF DEFENCE
ON 18TH SEPTEMBER 1986 AT 1400 HOURS

Those present:

The Rt Hon George Younger MP
Secretary of State for Defence

His Excellency Mr Zhang
Aiping, Minister of
National Defence for
the People's Republic
of China

Mr W R Davies
Head of Sec(O)(C)

General He Qizong
Deputy Chief of the
General Staff

Mr D Bowen
Head of RMD 3

General Wu Shaozu
Vice Minister of
Commission of Science,
Technology and Industry
for National Defence

Colonel Bill Clements
British Defence Attache
Peking

General Yu Jianzhong
Deputy Head of Foreign
Affairs Bureau

Mr J S Wright
Assistant Private Secretary
to the Secretary of State

HE Mr Hu Dingyi, Chinese
Ambassador, London

Mr D C J Ball
Assistant Private Secretary
to the Secretary of State

accompanied by a number
of staff and officials

1. This call formed part of the Chinese Defence Minister's week-long visit.

Anglo-Chinese Relations

2. After the opening courtesies, the Defence Secretary referred to the satisfactory conclusion of the agreement on the future arrangements for Hong Kong. China could be assured that HM Government would abide scrupulously by the terms of the agreement, and he looked forward to working together with the Chinese over the coming years. The Chinese Defence Minister said that the settlement of the Hong Kong issue had strengthened the traditionally friendly relations between the two countries. It would also benefit the defence of world peace.



3. He was pleased to have this opportunity to discuss co-operation both in military technology and in other fields. He would be interested to hear the Defence Secretary's views on this. The Defence Secretary referred first to his own contacts so far with other members of the Chinese Government; he himself had welcomed Premier Zhao to Scotland last year. He noted that the staffs of both countries had been discussing ways of increasing contacts at official level, especially regarding the procurement of defence equipment. He hoped that this would lead to further mutually helpful agreements, and he would be pleased to instruct senior staff to have further detailed discussions. The Minister noted that when Mr Lamont had visited China, they had agreed that a Memorandum of Understanding on defence equipment procurement should be prepared. His own Vice Minister would discuss progress with the new Minister of State for Defence Procurement. If agreement were reached, it could be signed by himself and the Defence Secretary at their closing meeting. He did not foresee problems in reaching agreement in time for this.

4. The Defence Secretary expressed gratitude for the hospitality shown by the Chinese Government to the many visitors to China from the United Kingdom. Her Majesty The Queen was greatly looking forward to her visit. Recent Royal Navy ship visits and the lectures given to the Chinese Naval Academy by an officer of the Royal Navy had also been most successful. It was his hope that full facilities would be extended to British Defence Attaches for visits and contact in China to reciprocate those that were available here. The Minister said that, in his personal view, there could be useful military and academic exchanges at all levels of the armed forces, if the situation required it. Such visits were not only a symbol of the two countries' friendship but also provided opportunities to exchange experiences. His staff would welcome suggestions for future contacts. The Defence Secretary said that he would ask his officials to make contact so that arrangements could be set in hand. The Minister added that extensive preparations were being made for the visit of HM The Queen to which both the Chinese Government and people were eagerly looking forward.

Regional Issues

5. Turning to the security of China's borders, the Defence Secretary asked whether the Chinese Government believed that there had been an improvement. The Minister said that the position was as it was in Europe. Superficially there had been some changes, for instance the speech by Mr Gorbachev in Vladivostok. But this had been no more than empty words. He went on to make specific reference to the situation on the Chinese/Indian border. Historically the Chinese had insisted on peaceful relations, even agreeing to maintain the border along the McMahon line. They had in the 1960s withdrawn troops to the original line and had returned all previously captured Indian equipment. The Indians had mounted



incursions over the line; he did not believe that these incidents posed any military threat, but were perhaps intended as bargaining chips in political negotiations. He stressed that it was not their wish to take an inch of Indian land; but neither did they wish the Indians to have an inch of China. He had talked at this length about this subject because India was a Commonwealth country, and he wished to keep us informed. He hoped that the opportunity might arise for us to impress upon India the importance of maintaining an amicable posture. Causing difficulties would do no good either to India itself or to world peace. The Defence Secretary replied that it was valuable to hear his views. Certainly he would bear in mind all the points that he had made when he was next in contact with colleagues in India.

6. On Campuchea, the Minister said that the Chinese position was also unchanged. Vietnam should withdraw all its forces, and the Soviet Union should not give support to Vietnam, so that the Cambodian (sic) people could be left to settle their own problems. He referred to Vietnamese offensives in border areas of Cambodia. A number of Cambodian refugee camps had been occupied. But Vietnamese and Soviet propaganda, suggesting that the problem was almost settled, had concealed the truth. Although camps had been occupied, the main opposition forces remained intact, especially in the northern part of the country. Indeed, several new bases had been established in that area. Meanwhile, more Vietnamese troops were surrendering to the Cambodians, while others had been deserting in large numbers. It was clear that without Soviet support, Vietnam would not easily be able to remain there. The Soviet Union had shown, by its behaviour in Asia as in Europe, that it was led by criminals. He noted that there had been no mention of Vietnam in Mr Gorbachev's speech in Vladivostok. The Defence Secretary said that he found the Ambassador's comments most interesting. It was particularly valuable to talk directly with a national leader from the area.

7. The meeting ended at 1450 hours.

MS

Ministry of Defence
22nd September 1986



Distribution

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 AUS(DES Admin)
 DG Mktg
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 Hd of DESS
 Hd of RMD 3

PS/Prime Minister ✓
 PS/Foreign and
 Commonwealth Secretary
 PS/Trade and Industry
 Secretary
 PS/Sir Robert Armstrong
 HM Ambassador Peking



PRIME MINISTER

MEETING WITH THE CHINESE DEFENCE MINISTER

The Chinese Defence Minister is to call on you on Monday, together with the Deputy Chief of Staff of the People's Liberation Army. The Minister wants to bring his wife to meet you and for a photograph. She will then peel off. We have a small gift for you to present.

Zhiang Aiping is pretty elderly (76) although the Deputy Chief of Staff is the youngest senior officer in the Chinese forces (42).

The purpose of the call is mostly Goodwill. While we would like to sell the Chinese more defence equipment, they don't want to buy. And the Defence Minister is personally responsible for the policy of meeting China's defence equipment needs from indigenous production. However, we hope to sign a MOU on defence collaboration. Particular projects for which we are in the market are the F8 fighter avionics modernisation, anti-submarine equipment for helicopters and in-flight refuelling equipment.

The Chinese have a lot of contacts with our defence establishments but we have virtually no access in China. You will want to make the point that cooperation is a two way street.

You might ask about the military situation on the Vietnam border and on the Sino/Soviet frontier.

You might also make the point that we are pressing hard for a reduction in Soviet SS20s in Asia as part of an INF agreement.

CDP

(C.D. POWELL)

19 September 1986

CONFIDENTIAL

copy
BUP.



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~930 7022~~ 218 2111/3

MO 11/14E

19th September 1986

Prime Minister
CDP
19/9.

Dear Charles,

CALL ON THE PRIME MINISTER BY MR ZHANG AIPING, CHINESE MINISTER OF NATIONAL DEFENCE

I attach a short brief for the Prime Minister for the call on Monday by Mr Zhang Aiping, together with personality notes.

As the brief below makes clear, discussions are continuing on a possible defence equipment co-operation Memorandum of Understanding, with a view to signature^{at the end of Mr Zhang's visit} at the end of Mr Zhang's visit. If there is progress on this before Monday's meeting, I shall, of course, let you know.

I am sending a copy of this letter to Robert Culshaw (Foreign and Commonwealth Office).

Yours sincerely,
Jeremy Wright

(J S WRIGHT)

Charles Powell Esq
No 10 Downing Street

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PRIME MINISTER'S MEETING WITH MR ZHANG AIPING, CHINESE MINISTER FOR
NATIONAL DEFENCE

Our Objectives

- a. to achieve closer defence relations with China with a view to improving our general defence sales prospects; to this end to
- b. encourage invitations for UK military advisory visits and attachments to influential military establishments in China; and
- c. to sign a defence equipment cooperation memorandum of understanding if officials can agree wording during course of visit.

Arguments

- a. defence contacts already expanding (recent RN ship visits to Shanghai, frequent Chinese military delegation visits to UK training establishments) and we wish to build on this firm base; willing to provide more military advisory attachments to China to achieve this;
- b. UK defence industry willing to sell a wide range of equipment to Chinese armed forces; and also to engage in cooperative joint ventures.

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Their Objectives

- a. to achieve closer defence links with the UK with the aim of securing technology transfer in the defence equipment field; to this end to
- b. sustain the momentum of visits by Chinese military delegations to UK training establishments;
- c. agree a memorandum of understanding with the emphasis on defence equipment collaboration rather than procurement.

Your Response

- a. to support closer defence links, but emphasise need for reciprocity;
- b. to support UK/China defence equipment cooperation, but emphasise that we see increased UK defence sales to China as important factor in the relationship.

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PRIME MINISTER'S MEETING WITH MR ZHANG AIPING, CHINESE MINISTER
FOR NATIONAL DEFENCE

BACKGROUND

1. Visit is one of a number of recent high level Chinese visits to UK (Premier Zhao Ziyang 1985, Party General Secretary Hu Yaobang June 1986).
2. HMS MANCHESTER and HMS AMAZON from RN Global 86 deployment visited Shanghai in June following acceptable agreement (in effect to differ) over Chinese sensitivities towards nuclear capable ship visits and our 'neither confirm nor deny' policy on the carriage of nuclear weapons.
3. Frequent Chinese military visits to UK at all levels, but access to Chinese military establishments, including for our DA, very limited.
4. Defence sales prospects include contract for F8(Mig 21) fighter avionics update (in competition with US), anti submarine warfare equipment for Dauphin helicopters (competition with French and US) and in flight refuelling equipment.
5. Chinese seek a memorandum of understanding which makes no reference to procurement of equipment from UK, only to cooperation with emphasis on technology exchange and collaboration. It is hoped officials will resolve differences on wording during course of Zhang Aiping's visit to permit signature.

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ZHANG AIPING

A State Councillor. Minister of National Defence. A Deputy Secretary-General of the CCP Central Committee Military Commission. A member of the State Central Military Commission. Member of the CCP Central Committee.

- 1910 Born in Daxian Country, Sichuan province.
- 1928 Joined CCP.
- 1925-29 Student activist.
- 1934-35 Long March.
- 1937-45 Divisional Commander in the New Fourth Army, operating in northern Jiangsu.
- 1948-54 Chief of Staff of the 3rd Field Army and of East China Military Area.
- 1949-51 Commander and Political Commissar of the Navy under the East China Military Area.
- 1955-67 Deputy Chief of the PLA General Staff Department.
- 1958-67 Alternate member of the CCP Central Committee.
- 1960-67 Deputy Director of the National Defence Scientific and Technological Commission.
- 1973 Rehabilitated.
- 1975-82 Director of the National Defence Scientific and Technological Commission.
- 1977-85 Member of the CCP Central Committee.
- 1977-82 Deputy Chief of the PLA General Staff Department.
- 1980-82 Vice-Premier.
- 1981-82 Member of the Standing Committee of the CCP Central Committee Military Commission.
- 1981-82 First Vice-Minister of the State Scientific and Technological Commission.
- 1982- Deputy Secretary-General of the CCP Central Committee Military Commission.
- 1982- State Councillor.
- 1982- Minister of National Defence.
- 1982- Member of the State Central Military Commission.

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By the time Zhang took over as Vice-Premier in charge of defence industries in 1980 he had had long experience in the development of defence technology. It was this factor, together with his record of support for Deng Xiaoping, which was crucial to his appointment in 1982 as Minister of Defence and Deputy Secretary-General of the Military Commission, the key military policy making body. Zhang wrote a seminal article in Red Flag in 1983 which stated that China's defence modernisation would basically rely on indigenous resources. This, coming shortly after the decision to cancel the provisional agreement made with British companies to refit Chinese destroyers, suggested that Zhang played a leading part in this decision. Speculation that embarrassment caused by the cancellation might result in his removal from office proved unfounded.

However he is now long past the age at which Ministers normally retire and it seems unlikely that he will continue to hold the post of Minister of Defence for much longer. He retired from the Party Central Committee in 1985 along with other veterans.

He visited the United States in 1984 and Pakistan in 1985. He met the Minister of State for the Armed Forces, John Stanley, in Peking in 1984.

Approximate Pronunciation

Zhang: pronounce djang to rhyme with bang

Ai: pronounce eye to rhyme with sigh

Ping: pronounce ping to rhyme with fling

YE QIZONG

Deputy Chief of General Staff, People's Liberation Army (PLA)

1943 Born in Yingshan County, Sichuan province
1961 Enrolled in the army while at Chengdu Secondary
Technical School
1962 Bodyguard for divisional commander on Sino-Indian
border
1978-79 Deputy regimental commander and chief of staff on
Sino-Vietnamese border.
1980-82 Studied at Chinese PLA Military Academy
1982-84 Divisional Chief of Staff and divisional Commander
of South Western army units
1984-85 Deputy Army Commander and Army Commander
1985- Deputy Chief of General Staff

Ye took part in Chinese counterattacks on the Sino-Indian border in 1962. He returned to the front in 1978, when he participated in Chinese counterattacks against Vietnam. In April 1984 he commanded counterattacks against Vietnam in Zheyun Shan.

As one of the four Deputy Chiefs of General Staff, he is in charge of the arrangements for the reduction in army numbers. He is the youngest senior commander in the Chinese army.

In November 1985, he led a military delegation on a goodwill visit to Gabon and Zaire. He attended a reception for the US Navy at which Vice President Bush was present in Peking in 1985, and attended a banquet for Norman Lamont in April 1986.

He enjoys reading military books and magazines, especially the memoirs written by PLA soldiers and famous foreign generals.

Approximate pronunciation

He: pronounced her to rhyme with fur

Qi: pronounce chea (p) to rhyme with tree

Zong: pronounce dzong to rhyme with song

WU SHAOZU

Vice-Minister of the State Commission for Science, Technology and Industry for National Defence (COSTIND). Member of the Chinese Communist Party (CCP) Central Committee.

- 1931 Born in Shanxi province
- 1965 Chairman of the All-China Students Federation
- 1966-79 Made no public appearances.
- 1979 Reappeared as Vice President of the All-China Youth Federation
- 1983- Vice-Minister of State Commission for Science, Technology and Industry for National Defence.
- 1985- Member of the CCP Central Committee

Wu is also currently Political Commissar of COSTIND, and Director of its Foreign Affairs Bureau.

In 1965 he led a student delegation to Czechoslovakia.

Approximate Pronunciation

Wu: pronounce woo to rhyme with blue

Shao: pronounce show(er) to rhyme with cow

Zu: pronounce dzoo to rhyme with blue

WU SHANG

Vice-Minister of the State Commission for Science, Technology and Industry for National Defense (COSTIND). Member of the Chinese Communist Party (CCP) Central Committee.

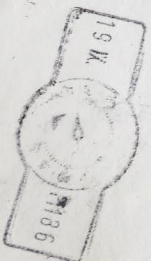
- 1951 Born in Shanghai province
- 1952 Chairman of the All-China Students Federation
- 1956-79 Made no public appearances.
- 1972 Reappointed as Vice President of the All-China Youth Federation
- 1981 Vice-Minister of State Commission for Science, Technology and Industry for National Defense.
- 1982 Member of the CCP Central Committee

He is also currently Political Commissar of COSTIND, and Director of the Foreign Affairs Bureau.

In 1985 he led a student delegation to Czechoslovakia.

Approximate Pronunciation

Wu: pronounce woo to rhyme with blue
 shang: pronounce shang to rhyme with cow
 chu: pronounce choo to rhyme with blue



CCB/JP



JU384
Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215 5422
GTN 215)
(Switchboard) 01-215 7877

19 September 1986

Andy Bearpark Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Andy,

... Rolls-Royce have asked us to forward the attached brief in connection with a meeting between the Prime Minister and the Chinese Defence Minister Mr Zhang Aiping on Monday 22 September.

Although it is understood the meeting will not address particular industrial interests - and for which reason we have not provided briefing on other companies with defence interests - since Rolls-Royce are hosting a dinner for Mr Aiping next Monday evening, we thought it right you should see the briefing.

Yours sincerely

Bradley

CATHERINE BRADLEY
Private Secretary

17
19 **86**
BOARD OF TRADE
BICENTENARY



DEPARTMENT OF TRADE AND INDUSTRY
1-12 VICTORIA STREET
LONDON SW1H 0ET
Telephone (from London) 2425
Cable: 201
Telegrams: 201

1954
The Secretary of State for Trade and Industry

17 September 1954

Andy Baskerville Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Mr. Baskerville has asked us to forward the attached prior to
connection with a meeting between the Prime Minister and the
Chinese Defence Minister in London taking place on Monday 22 September.
Although it is understood the meeting will not address particular
industrial interests - and for which reason we have not provided
briefing on other companies with defence interests - also
Mr. Baskerville are hosting a dinner for Mr. Liang next Monday
evening, we thought it right you should see the briefing.



CATHERINE BRADLEY
Private Secretary

1954
BOARD OF TRADE
CIRCULARS

Brief for
The Rt. Hon. Margaret Thatcher, MP
Prime Minister

THE PEOPLE'S REPUBLIC OF CHINA

September 1986



Brief for

The Rt. Hon. Margaret Thatcher, MP
Prime Minister

THE PEOPLE'S REPUBLIC OF CHINA

September 1986

This brief is subject to continuous change
and should not be retained for future reference

Rolls-Royce plc
65 Buckingham Gate
London SW1E 6AT

FE-CH-BRFB09

ROLLS-ROYCE PRIVATE DATA

September/86

ROLLS-ROYCE PRIVATE DATA

THE PEOPLE'S REPUBLIC OF CHINA

RB 199 COMBAT ENGINE - has been proposed for re-engining the large J7 (MiG 21) fleet. Export approval would be needed by the Governments of the United Kingdom, Germany and Italy.

RTM 322 HELICOPTER ENGINE - has been proposed for additional Blackhawk aircraft to give substantially greater power. If selected, Rolls-Royce will make an attractive proposal to retrofit the aircraft already delivered.

RTM 322 TURBOPROP ENGINE - is ideally suited for the new 40 seat commuter airliner being built in China. Discussions on the possibility of joint development are well advanced and the commonality of this engine with the helicopter engine is an additional advantage in minimising foreign exchange expenditure.



CCPC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19.8.86

**VISIT OF ZHANG AIPING
CHINESE MINISTER OF NATIONAL DEFENCE**

Thank you for your letter of 13 August.

BF |
The Prime Minister has agreed to see Mr. Zhang at 1530 hours for half an hour on Monday, 22 September. I should be most grateful for briefing by Friday, 19 September.

(Mrs. Caroline Ryder)

Miss Carolyn Whitehouse,
Ministry of Defence.

RESTRICTED



JA
SP

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

18 August 1986

The Prime Minister has seen your Secretary of State's minute of 11 August about China power station projects. She has noted the approach suggested by your Secretary of State with which she entirely agrees.

I am sending a copy of this letter to Colin Budd (Foreign and Commonwealth Office), Tony Kuczys (HM Treasury), John Turner (Department of Employment) and Michael Stark (Cabinet Office).

(Timothy Flesher)

Michael Gilbertson, Esq.,
Department of Trade and Industry.

JG

PRIME MINISTER

VISIT OF ZHIANG AIPING, CHINESE MINISTER OF NATIONAL DEFENCE

The Chinese Minister of National Defence will be here between 18th and 24th September and the MOD have asked whether you will receive him.

Tim rang Charles in Italy to seek his advice and Charles emphatically said that you should not receive him. It is in fact a very bad week in any event so I hope that you will agree to accept Charles's advice.

Content?

CR.

CAROLINE RYDER
14 August 1986

I fear it will
be taken over
if I refuse. I had
better see him
not

cf. | meeting on 22/9/86
1530.



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-930 7022

MO 11/14E

13th August 1986

Dear Caroline

VISIT OF ZHANG AIPING, CHINESE MINISTER OF NATIONAL DEFENCE

You will already be aware that, following the recent successful visit of Hu Yaobang, the Secretary of the Chinese Communist Party, His Excellency Zhang Aiping, the Chinese Minister of National Defence, has chosen to accept an outstanding MOD invitation to visit the UK. He will be in the country between 18th and 24th September this year. He will also be visiting Italy.

Our aim in entertaining Mr Zhang is naturally to further the increasingly good relations that have formed between the UK and China in the wake of the Hong Kong settlement. While the Ministry of Defence has a particular interest in encouraging links that may lead to extensive defence sales to China, a successful visit would also promote HMG's broader concerns of ensuring the smooth implementation of the Hong Kong settlement and the maintenance of China's currently very encouraging international posture. Mr Zhang's visit will be the highest-level Chinese military delegation ever to come to the UK, and therefore provides an exceptional opportunity to improve our Defence Relations.

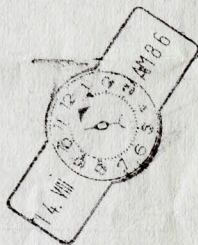
In view of the importance of this occasion Mr Younger would be most grateful if the Prime Minister were to consider receiving a brief call by Mr Zhang on 22nd September. We appreciate that the notice we have been given is relatively short but we are sure you would agree that everything possible must be done to further the success of so major a visit.

Yours sincerely

(CAROLYN WHITEHOUSE)
Private Secretary

Caroline Ryder
10 Downing Street

MINISTRY OF DEFENCE
WAR BUILDING WHITEHALL LONDON SW1
TELEPHONE 01-910 3083





CONFIDENTIAL

JU239

PRIME MINISTER

CHINA POWER STATION PROJECTS

CCPC

Yes

*Rue Munster
Contact with
two lines?
12/8*

at Map PT3

1 I minuted you on 25 February about arrangements under which I was prepared to support a bid by Northern Engineering Industries (NEI) and Balfour Beatty (BB) for a soft loan funded power station project in China. Subsequently we agreed a power project with the Chinese as a priority candidate for funding under the £300m soft loan facility. We understood the Chinese wished to negotiate this with NEI and BB.

~

2 There have been two recent developments. First, NEI and BB have decided that BB should be the lead contractor, with NEI as sub-contractor to them, but taking a proportion of overall project risk. This is a more acceptable structure to the customer, and it gives the more successful and experienced negotiator full responsibility, a position I have wished them to adopt. Second, the Chinese are now insisting on competing British bids for this project, and they have approached GEC. Having discussed this with the Chinese, GEC believe they must respond seriously to this request in order to maintain their credibility as contenders in the valuable Chinese market place. The possibility of playing off competing UK bids will strengthen the Chinese hand in what would always have been very difficult negotiations. However, I see no justification for withholding our support from GEC.



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3 I therefore propose to tell both GEC and BB that they will have equal access to our support on this project. Translating this into practical effect at the negotiating table is, however, difficult if we are to avoid future accusations of favouritism, similar to those which have characterised companies in this sector in the past. I shall therefore impose common conditions for our support over Yue Yang. These will start from the policy set out in paragraph 8 of my earlier minute, namely that both bids should be drawn up in a way which is demonstrably fair to the rest of UK industry, whilst rewarding adequately the contractors taking project risk.

4 I am sending a copy of this minute to Geoffrey Howe, Nigel Lawson, David Young and Sir Robert Armstrong.

A large, stylized handwritten signature in blue ink, consisting of a large 'P' and a smaller 'C'.

PAUL CHANNON

// August 1986

Department of Trade & Industry



Foreign and Commonwealth Office

London SW1A 2AH

13 June 1986

Prime Minister

*CDP
13/6*

mt

Dear Charles,

Visit of General Secretary Hu Yaobang

We have been asked to forward the enclosed message of thanks to the Prime Minister from Mr Hu Yaobang on his departure from Heathrow on 12 June.

Mr Hu Yaobang himself made a point of saying twice to Mr Renton, who was at the airport for the departure, that he wished the Prime Minister to know how much he had enjoyed his visit and how very grateful he was to the Prime Minister.

It is particularly heartening to have these expressions of evident pleasure in view of the two mishaps at Heathrow involving the Chinese aircraft. The first, involving a service vehicle, only amounted to a minor scratch. The second, the unauthorised entering of the aircraft in order to facilitate its preparation for a test flight, was a mistake made in good faith to try to speed things along for the Chinese. Apologies are being sent to the Chinese, who seem to have been pleased with the way in which the Metropolitan Police carried out the search of the aircraft which the Chinese had requested.

Yours ever

R N Culshaw

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

(Translation)

The Rt. Hon. Margaret Thatcher,

Prime Minister of the United Kingdom of Great Britain
and Northern Ireland

On the occasion of leaving your country, I wish to express once again my sincere thanks to you and the British Government for the warm welcome and generous hospitality you have accorded me and my colleagues.

The Sino-British friendly relations and cooperation have entered into a new historical period. I am confident that the meetings and exchanges of views between us will further enhance and consolidate the Sino-British relations.

Please accept my best wishes and the assurances of my highest consideration!

Hu Yaobang
General Secretary of the Central
Committee of the Communist Party of China

On board the plane, 12 June 1986

胡耀邦总书记致撒切尔首相 的感谢电

大不列颠及北爱尔兰联合王国首相玛格丽特·撒切尔夫人：

在行将离开贵国之际，我再次衷心感谢首相阁下和贵国政府给予我和我的同事们的热烈欢迎与盛情款待。

中英两国的友好合作关系已进入一个新的历史时期。我深信，我们之间的会晤和交换意见有助于使中英关系更加充实和更加巩固。

请接受我最良好的祝愿和最崇高的敬意。

中国共产党中央委员会总书记

胡耀邦

一九八六年六月十二日

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CCD



OFFICE OF ARTS AND LIBRARIES
Great George Street
London SW1P 3AL
Telephone 01-233 8610

From the Minister for the Arts

COP 12/6.

Charles Powell Esq
Private Secretary
10 Downing Street

12 June 1986

Dear Charles,

VISIT OF GENERAL SECRETARY HU YAOBANG

WITH COP?

Further to my letter of yesterday's date I understand that Mr Hu also discussed Tibet with my Minister. It may be worth my recording the gist of that conversation also.

It appears that the demonstration about Tibet outside Downing Street on Monday may have made quite an impression on Mr Hu, because on Tuesday he deliberately raised the subject of Tibet with Mr Luce. He sought to defend Chinese policy on Tibet, commenting unfavourably about the Dalai Lama (whom he accused of having extravagant tastes and living in luxury in exile). He suggested that the demonstrators had probably never been anywhere near Tibet.

Copies of this letter go, as before, to Tony Galsworthy, Peter Westmacott and Ian Orr at FCO.

Yours

Paul Thomas

PAUL THOMAS
Private Secretary

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DEPARTMENT OF ARTS AND ARCHITECTURE
Crest Tower, London W1P 2LS
Telephone 01-221 5414



CD 5/1/10

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Crest Tower, London W1P 2LS
Telephone 01-221 5414

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MJ



bc PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

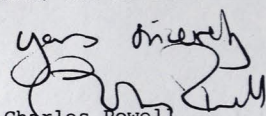
11 June 1986

Dear Robert,

PRIME MINISTER'S MEETING WITH
HU YAOBANG

I fear there is another misprint in the record of the Prime Minister's meeting with Hu Yaobang on 9 June. At the foot of page 6, the Prime Minister's expectation was that relations between China and the United States would continue to improve.

I am copying this letter to Rachel Lomax (HM Treasury), John Mogg (Department of Trade and Industry), John Howe (Ministry of Defence), Geoff Dart (Department of Energy), Andrew Lansley (Chancellor of the Duchy of Lancaster's office) and Michael Stark (Cabinet Office).

Yours sincerely

Charles Powell

Robert Culshaw, Esq.,
Foreign and Commonwealth office.

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BM



10 DOWNING STREET

cop

Meeting with Hu Yaobang:

Please see highlighted
phrase at * . FCO

think it should ~~see~~ say

China & United States.

Which is correct ?

Yes - China & US

Margo 11/6



Foreign and Commonwealth Office

London SW1A 2AH

11 June 1986

CDP
11/6

Dear Mr. Hu

Visit of General Secretary Hu Yaobang

The Prime Minister will wish to be informed about an incident at Heathrow earlier today involving the Chinese aircraft. Briefly, the Chinese wished to take the special plane being used by Hu Yaobang and his party for a test flight prior to tomorrow's early morning departure. Arrangements had been made that the aircraft, which is parked at Heathrow and being guarded by a security firm on behalf of HMG, should be opened up in the presence of Chinese airline personnel, British Airways' representatives and the security guards. Apparently, however, the aircraft was opened by British Airways fifteen minutes before the Chinese arrived.

This may well have been a technical breach of diplomatic immunity, and the Chinese Ambassador has called at the Foreign Office this afternoon to ask for a full report. He has also requested a security search of the aircraft to make sure that it has not been tampered with. These requests are being attended to urgently.

Apparently, the British Airways' senior engineer who boarded the aircraft acted with good intent but an excess of zeal in order to try to prepare the aircraft so that it could be towed to the area for refuelling and attention before the test flight. The Superintendent of the Metropolitan Police at Heathrow has assured us that there is no possibility of anything untoward having occurred on the aircraft, which was guarded throughout. The police have however offered to search the aircraft with sniffer dogs if that is the Chinese wish.

We are passing these assurances on to the Chinese. The Prime Minister will however wish to be aware of the concern that this unfortunate incident has occasioned among the Chinese delegation. If the subject is raised she may like to reassure the Chinese that their requests are being met as quickly as possible.

Yours ever
Robert Curshaw

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street

T. R.

You quoted one of our great poets, Robert Burns, in
your toast.

Let me reply by taking some words from one
of China's most famous Tang Dynasty poets,
Doo Foo:

"SHER SHANG YEE BOO ZWAY"

or

*Wm
L
M
M
M*

"Ten glasses and I'm not quite tipsy".

The poet goes on

"... But filled with a sense of old
acquaintance;

For tomorrow the hills divide usⁿ

~~Both out of sight in the world's affairs"~~



Foreign and Commonwealth Office

London SW1A 2AH

11 June 1986

000

Dear Charles

Visit of General Secretary Hu Yaobang:
Dinner at the Chinese Embassy, 11 June

Although the Chinese Embassy had assured us that there would be no speeches at tonight's return banquet for Mrs Thatcher, they telephoned this afternoon to say that Mr Hu Yaobang will make what they term a "Chinese toast". They have given over the telephone the text of the sort of remarks that he will make. I enclose a copy.

The Chinese do not expect the Prime Minister to say more than a few impromptu remarks in response, in proposing a toast to the President of the People's Republic of China. I enclose a thought from our Sinologists which the Prime Minister might include, if she so wished.

Yours ever

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street



Mr Hu quotes Burns in his toast: it might be appropriate in reply to take some words from one of China's most famous Tang dynasty poets Du Fu (pron Doo Foo). The line "Ten glasses and I'm not quite tipsy," said on its own, would be quite sufficient to suggest the lines which follow and end a famous poem of friendship:

"...But filled with a sense of old acquaintance;
For tomorrow the hills divide us,
Both out of sight in the world's affairs!"

The lines, ~~are~~ from "To Wei Pa, In Retirement", are made more appropriate by a remark Mr Hu made at his press conference this afternoon. Asked about the future leadership, he said that starting from next year he and Premier Zhao Ziyang would start to disengage themselves and hand over to new leaders in their 50s.

If the Prime Minister wished to say the line in Chinese, it is pronounced:

SHI (as in <u>SHIRK</u>)	= ten
SHANG (rhymes with TANG)	= cups
YI (as in <u>EE</u> by gum)	= still
BU (as in <u>BOO</u> to a goose)	= not
ZUI (DZ + WAY)	= drunk



W. R.

PRIME MINISTER

CHINESE DINNER TONIGHT: SEATING PLAN

You will be sitting on a circular table
with **Hu Yaobang** on your left and
Lord Young on your right.

Also on the table with you will be:

Mr. Renton
Interpreter
Earl of Stockton

CR.

Caroline Ryder

11 June 1986

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cc PC



OFFICE OF ARTS AND LIBRARIES
Great George Street
London SW1P 3AL
Telephone 01-233 8610

From the Minister for the Arts

Charles Powell Esq
Private Secretary
10 Downing Street

11 June 1986

Dear Charles,

VISIT OF GENERAL SECRETARY HU YAOBANG

This is to confirm and amplify our telephone conversation this morning in which I discussed with you my Minister's account of his various conversations yesterday with Mr Hu Yaobang and Mr Li Peng in the course of their visits to Stratford and Oxford.

Mr Hu

Mr Luce found him a jolly, personable character, good with people (he was impressively quick to spot the media potential of sitting impromptu with some children in Stratford) and with a lively sense of humour. Though he showed signs of tiredness in the afternoon and evening, Mr Hu appeared genuinely to enjoy the day and seemed particularly impressed by and appreciative of the warmth with which he was received by the general public in Stratford and Oxford.

Mr Luce found it difficult to assess the depth of Mr Hu, who generally failed to respond to attempts to draw him on international, economic or industrial issues and either by deliberate choice or natural inclination tended to restrict the conversation to lighter topics. Mr Luce was, however, struck by Mr Hu's interest in world statesmen. It emerged that he is an avid reader of the biographies of world leaders and, moreover, has read the biographies of all post-war British Prime Ministers. Mr Luce feels it could be worth building upon this interest. Mr Hu appeared to be very keen to develop Sino-British contacts in all spheres.

Mr Hu made a good speech at the Balliol dinner in response to Lord Stockton, including an amusing admission that the Chinese had lapsed in recent years from their tradition of treating their

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elders with respect and deference (presumably a reference to the Cultural Revolution and his and Deng's sufferings). In conversation with Lord Stockton he sought Lord Stockton's views on what China's priority should be. He said that he agreed completely with Lord Stockton's response that the priority should be to feed the population and that capital investment should not be at the expense of this.

Mr Li

Mr Luce spent less time with Mr Li but found him a tough, hard-headed, cagey, and rather humourless figure, possibly unsympathetic to the West. Mr Luce feels we need to take a lot of trouble to win him over.

They discussed two substantive issues:

- i. On Sino-British trade Mr Li did not think British businessmen lacked persistence. He did, however, suggest they were insufficiently "flexible" - possibly a reference to credits.
- ii. On Chinese economic development Mr Li impressed Mr Luce with his far-sighted appreciation of the need to stem the drift from the country into the cities by developing light industry and crafts in rural areas.

I am copying this letter to Tony Galsworthy, Peter Westmacott, and Ian Orr in the FCO.

Yours
Paul Thomas

PAUL THOMAS
Private Secretary

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...with respect and deference (presumably a reference to the
Colonial Revolution and his own country's suffering). In
discussing the world situation he sought to show that the
of the United States should be. He said that the
of the United States should be. He said that the
of the United States should be. He said that the

11

Mr. Luce spent less time with Mr. Li but found him a tough,
hard-headed, cagey, and rather humorless figure, possibly
unsympathetic to the West. Mr. Luce feels we need to take a lot
of trouble to win him over.

They discussed the substantive matters:

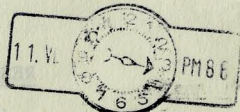
On Sino-Soviet trade Mr. Li did not think British
businessmen lacked experience. He did, however,
suggest they were inherently "flexible".

On Chinese economic development Mr. Li expressed
Mr. Luce with his far-sighted appreciation of the
need to stem the drain of the country into the
circle by developing light industry and trade in
rural areas.

I am copying this letter to Tony Calverley, Peter Westcott,
and Ian Orr in the FOO.

Paul Thomas

PAUL THOMAS
FINANCIAL SECRETARY



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safe

Σ



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

PS/

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10 June 1986

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

ms

Dave R...
You will want to see
paragraph 9 of the
attached record

Dear Charles,

CDP 11/6.

... I attach a note of the meeting between my Secretary of State and
Vice-Premier Li Peng on Monday, 9 June.

I am copying this letter and attachment to Colin Budd (FCO), Geoff
Dart (Energy), and Steven Ratcliffe (Employment).

Yours ever,

Michael

MICHAEL GILBERTSON
Private Secretary

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

Encl

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MR CHANNON'S MEETING WITH VICE PREMIER LI PENG, 11.45am 9 JUNE 1986

1 Mr Channon was accompanied by Sir Richard Evans, Mr Hutton OT2, Dr Dobbie SEE3 and Mr Cruickshank OT2. Vice Premier Li Peng was accompanied by Madam Yang Danhua, Deputy Director, Third Bureau, MOFERT, Huang Renquan (Chinese Commercial Counsellor) and others.

Courtesies

2 Vice Premier Li Peng recalled that he had been invited to visit Britain in 1985 when visiting Paris, but had been unable. He was glad to be visiting London now.

3 Mr Channon welcomed the visit and said how much HMG had appreciated the visit in May of Mr Zheng Tuobin. Li Peng expressed gratitude for the hospitality Zheng had received.

Guangdong Nuclear

4 Mr Channon said that his predecessor had promised that HMG would take a continuing interest in the work of the UK contractors. He handed Li Peng a letter setting out HMG's proposals, which officials could discuss later.

5 Li Peng said the project was of great interest; he hoped that after 5 years' negotiations agreement on the remaining issues would soon be reached and a contract signed. He did not want China's nuclear energy programme to be disrupted by Chernobyl. But many people in Hong Kong were concerned about safety and wanted the Guangdong project to be cancelled or reconsidered. Hong Kong had 25% of the total share capital, and more than 70 per cent of the power would be supplied to Hong Kong. He considered it imperative that HMG should join the Chinese Government in mounting joint efforts to allay concern about safety.

6 Mr Channon said that Britain would be glad to co-operate, as provided for under the UK-China nuclear co-operation agreement, and would be happy to consider any specific proposals.

Coal-fired power stations

7 Mr Channon expressed interest in the Yueyang project. Li Peng said that China support this project, which was in Hunan Province on the Yangtze River, with good access for coal suppliers either by rail or water. China was ready to use part of the £300 million development loans for this project, but commercial negotiations had to be completed satisfactorily.

8 In response to a question, Mr Channon said that NEI and Balfour Beatty were the UK companies involved; GEC were working on proposals for other coal-fired power stations. Li Peng said he knew both NEI and GEC.

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

10 Mr Channon welcomed this news, which he would convey to the Prime Minister.

Telecommunications

11 Mr Channon said that several UK companies were discussing fibre optics projects with China; he hoped that it would soon be possible to implement these. Li Peng agreed and mentioned a project in Shanghai (presumably a reference to the STC project).

UK imports from China

12 Li Peng then referred to the question of UK imports from China and said that how much China could import from Britain depended on how much Britain imported from China. He wondered what products Britain might be interested in importing more of eg low-ash, low sulphur, high calorific value coal - though he recognised that Britain is itself a coal producer.

13 Mr Channon replied that HMG recognised China's need to export; the figures showed that the UK had a modest trade surplus with China but nothing like as great as eg the deficit many countries had with Japan. The question of coal imports should best be discussed with Mr Peter Walker, whom Li Peng was to meet at lunch; as for other products, these could be discussed between the Chinese Embassy and the DTI.

Soft Loans

14 Li Peng said that the development loan facility was helpful in promoting UK exports and suggested that the amount should be increased. Mr Channon replied that the development loans had only just been introduced; he agreed that they were a major development of benefit to both sides and the amount allocated could be continually kept under review, but HMG thought that most business must still be on commercial terms.

OT2/3

10 June 1986

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CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

ape
②

Chancellor of the Duchy of Lancaster

Tel No: 233 3299
7471

10 June 1986

Colin Budd Esq
Private Secretary to the
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

Prime Minister
CDP 11/6

mb

James Colin

VISIT OF GENERAL SECRETARY HU YAOBANG

On the afternoon of 9 June, the Chancellor of the Duchy called upon General Secretary Hu Yaobang. They had a discussion lasting some twenty-five minutes. Also present were the Chinese Ambassador and Mr Bijian.

Following opening courtesies, the General Secretary asked the Chancellor what steps he would advocate to improve Sino-British relations. The Chancellor replied that they were many, but he would mention three: to increase mutual visits and exchanges; where problems were encountered, to find solutions, eg as in Hong Kong; and to seek common positions on world issues. Towards the end of their discussion, the General Secretary reiterated these points, slightly re-interpreting the second and third points, so that they should refer to developing trade, and seeking common ground respectively. In turn, the General Secretary said that the Chinese Communist Party, Government and people would keep good faith on the question of Hong Kong. They would not interfere with the constitutional and economic principles established for Hong Kong within 50 years after 1997. They would respect the UK's interests in Hong Kong after 1997. It was important to enhance mutual trust. The Chancellor agreed, saying that HMG's belief in the good faith of the Chinese government had meant that an agreement could be found on Hong Kong.

In further discussion, the following points were raised:

- i. the General Secretary commented that current Sino-British relations showed that one can transcend ideological differences, and become good friends. The Chancellor agreed, noting that what is the best system in China may not be in the UK. The systems could develop in different ways.

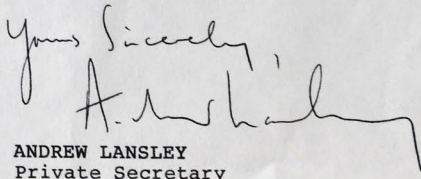
ii. The Chancellor raised the question of potential difficulties over achieving decentralisation of economic management, while maintaining central control to avoid disintegration. Mr Yaobang agreed that this was a problem which they were far from solving. They would set out a macro-economic strategy, with consequential sets of policies and codification these policies to provide regulations and laws to support them. This process would be supported by efforts to improve Party democracy to promote discussion of the strategy. Within this strategy, they would seek to leave room for local initiatives. But, Mr Yaobang added, they also have a central fund for allocations to backward regions. He acknowledged the difficulty of this; and of possible resentment in richer regions. But he stressed the importance of national cooperation. He did not regard the regional problem as an acute one.

iii. Referring to relative Chinese economic performance, the General Secretary was very clear that China's current output was still very low by comparison with the major industrialised nations (of which he placed the European Community first), and that, while output had been doubled between 1980 and 1988 (ie two years faster than the 10-year plan), this was from a very low base. He saw continued economic growth in three phases; from the present to the end of the century; the first two decades of the next century; and the subsequent three decades. If all went without mistakes, they would hope to approach the level of the most advanced industrial nations towards the conclusion of this third phase.

iv. On trade issues, the General Secretary said that he anticipated bilateral trade increasing in volume, although from a very low base. The Chancellor agreed, saying that, as with Hong Kong, apparently difficult problems could be solved with good faith on both sides. The General Secretary said Vice-Premier Li Peng would raise points with his interlocutors concerning Daya Bay (Guangdong) and container ships.

In conclusion, the Chancellor conveyed the Prime Minister's greetings and her anticipation of their meeting. The General Secretary and the Ambassador enquired after Mrs Tebbit's health and wished their regards to be conveyed to her. The meeting concluded with Mr Yaobang's wish that Mr Tebbit should visit Peking, whereupon they could enjoy a longer conversation.

I am sending a copy of this letter to Charles Powell (No 10), Geoff Dart (DEnergy), John Mogg (DTI) and to Paul Thomas (OAL).

Yours Sincerely,

ANDREW LANSLEY
Private Secretary

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10 DOWNING STREET

From the Private Secretary

10 June 1986

Dear Robert,

PRIME MINISTER'S MEETING WITH HU YAOBANG

My letter of yesterday enclosed a record of the Prime Minister's talks with General Secretary Hu Yaobang. A correction is needed on page 6 of the record to a point which I misunderstood. In the paragraph dealing with Taiwan, it was not a question of China asking four things of the United States, but rather of China summarising the United States' position as covering four points. The second sentence of the second main paragraph on page 6 should therefore read:

"China understood the United States' position on Taiwan to cover four points:"

I am copying this letter to Rachel Lomax (HM Treasury), John Mogg (Department of Trade and Industry), John Howe (Ministry of Defence), Geoff Dart (Department of Energy), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Caroline Slocock (Department of Employment) and Michael Stark (Cabinet Office).

Yours sincerely
Charles Powell

Charles Powell

OA

Robert Culshaw, Esq.,
Foreign and Commonwealth Office.

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CONFIDENTIAL



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SUBJECT

* cc also to D/Emp.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

9 June 1986

Dear Robert,

PRIME MINISTER'S MEETING WITH HU YAOBANG

I enclose a record of the Prime Minister's talks with General Secretary Hu Yaobang this afternoon. As with all accounts of the Prime Minister's conversations with foreign leaders, the information in it should be handled with particular discretion.

I am copying this letter and enclosure to Rachel Lomax (HM Treasury), John Mogg (Department of Trade and Industry), John Howe (Ministry of Defence), Geoff Dart (Department of Energy), Andrew Lansley (Chancellor of the Duchy of Lancaster's office) and Michael Stark (Cabinet Office). *

Yours sincerely
C.D. Powell

(C.D. Powell)

Robert Culshaw, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE GENERAL SECRETARY OF THE CENTRAL COMMITTEE OF THE CHINESE COMMUNIST PARTY, MR. HU YAOBANG, AT NO.10 DOWNING STREET ON MONDAY 9 JUNE AT 1600

* * * * *

Prime Minister	Hu Yaobang (General Secretary)
Foreign and Commonwealth Secretary	Li Peng (Vice-Premier)
H.M. Ambassador, Peking	Zhou Nan (Vice-Minister)
Sir Percy Cradock	Hu Dingyi (Ambassador)
Dr. David Wilson	Mei Zhaorong (Head of West European Department, MFA)
Mr. Charles Powell	Zhang Zouyun (Chinese Embassy)

The Prime Minister welcomed Hu Yaobang and asked him to convey her greetings to Deng Xiaoping and Zhao Ziyang. She was pleased to see a number of familiar faces in the Chinese delegation, notably Zhou Nan. She recalled well her own visits to China and how greatly she had enjoyed them. Hu Yaobang said that he was very glad to be able to visit Britain. He looked forward to an exchange of views with the Prime Minister.

Hong Kong

The Prime Minister suggested that the discussion might begin with Hong Kong. Both the United Kingdom and China were anxious to ensure Hong Kong's continued prosperity. We were pleased that the Joint Liaison Group had made such a good start. It was important to work to maintain confidence in Hong Kong's future. She knew that people in Hong Kong were reassured by the growing legal framework in China to protect individual rights. We were aware of the need for prudence in the development of the structure of government in Hong Kong, particularly in the context of the review of Government on the systems in 1987. In general we took the view that the Joint

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Declaration was working well. Both sides should do their best to keep it that way.

Hu Yaobang said that there were two important questions as regards Hong Kong. The first was the Basic Law which was now being drafted. He was confident that both Hong Kong and the United Kingdom would be satisfied with it. The second was the handover in 1997. If a good job was done on working out the Basic Law, this would guarantee a smooth handover.

The Prime Minister noted that both sides were satisfied with progress on Hong Kong and agreed on the need to maintain confidence.

East/West Relations

The Prime Minister suggested a general exchange on East/West relations and the prospects for a further United State/Soviet summit, as well as on China's relations with the Soviet Union. Hu Yaobang commented that, as far as the summit was concerned the United Kingdom knew more about it than China. The Soviet side had never given China any information about the last summit. The Chinese Government had only learned about it from others.

The Prime Minister said that we were convinced that both the United States and the Soviet Union wanted a further summit. But it had to produce practical results and not be simply a goodwill session like the Geneva summit. In particular there would need to be agreements on arms control. The most promising areas for such agreements were chemical weapons and INF. On the former, the West had in practice observed a moratorium for a long time while the Soviet Union had produced a large stockpile of chemical weapons. On INF, we sought a global solution. There would be no point in simply allowing the Soviet Union to move weapons from Europe to Asia. We did not wish to export our security problems to Asia or increase the threat to China from the Soviet Union. Talks on strategic nuclear weapons, on the other hand, were

not making much progress. There were also problems over whether the Soviet Union was complying with the Salt II agreement and the ABM Treaty. We believed that agreements should be kept meticulously by both sides.

The Prime Minister continued that she believed there was time to make enough progress on arms control issues to enable a summit to be held at the turn of the year. Public opinion would be disappointed if there was no summit given the high expectations aroused by the previous one. But to be a success, a summit must be a success for both sides.

Hu Yaobang said that China had a number of indications of current Soviet attitudes. For instance, at the recent conference of Soviet Ambassadors in Moscow, Gorbachev had adopted a critical attitude to the Soviet Foreign Ministry's diplomacy over the past years, which he had characterised as too rigid. He had also spoken in terms of sufficiency of nuclear weapons, a remark which appeared to be aimed at the Soviet military. He had added that it was not advisable to seek military supremacy in every field. The Soviet Union had to be selective. More generally the Soviet Union wanted to develop its economy but this would be a slow business. There were major obstacles, both in the conservative mentality of officials and the bad habits of many decades. The greatest dilemma facing the Soviet Union was how both to develop the national economy and maintain military parity with the United States. The Soviet Union wanted the best of both worlds. In Confucius' words: "to have the fish and the bear's paw". But in practice if they were to succeed in boosting the national economy, they must reduce military expenditure. The Prime Minister observed that there was no sign of such a reduction.

Chernobyl

The Prime Minister said that the area of damage as a result of the nuclear accident at Chernobyl was clearly wider than had been admitted. There were reports of damage as far

afield as Byleorussia. The United Kingdom, in common with other Western European countries, had put restrictions on imports from the Soviet Union and Eastern Europe. At the same time we had taken steps to reassure people that our own nuclear power stations were safe. It was important to rebuild confidence in civil nuclear power. This applied equally to opinion in Hong Kong in relation to the Guangdong nuclear power station.

Li Peng said that, in the wake of Chernobyl, people had doubts and apprehensions about civil nuclear power and some wanted to cancel or suspend the Guangdong project. The China Light and Power Company faced many difficulties. He hoped that both Governments, Britain and China, would help the company overcome this difficult period so that the project would not be suspended. The Prime Minister agreed that it was important to reassure people's fears in Hong Kong. Hu Yaobang said that China for its part would do what it could in the way of persuasion and explanation.

Sino-Soviet relations

Hu Yaobang said that he would like to volunteer some information on the development of Sino-Soviet relations. Economic exchanges between the two countries were going relatively smoothly. The volume of bilateral trade in the first five months of 1986 was higher than planned. Recently the Soviet Union had come forward with new proposals for providing soft loans to China and setting up joint ventures. It seemed possible therefore that over the next five years the volume of trade would surpass the US \$14 billion which had been set as a target.

So far as political relations were concerned, however, there was not the slightest sign of any improvement. The Soviet Union proposed summit meetings and signature of hollow documents such as military non-aggression pacts and codes of relations but did not seem to be interested in tackling practical questions. China's position remained that three

obstacles had to be removed if relations were to be normalised: Vietnamese withdrawal from Cambodia, Soviet withdrawal from Afghanistan and a reduction of Soviet forces on the Chinese border. The Soviet Union continued to have a rigid position on Cambodia and showed no sign of changing its policy on Afghanistan. In addition there had been a steady increase in Soviet intelligence-gathering flights along China's coastline. For its part, China was sincere in wanting to improve relations so that the two countries could at least be good neighbours. But the Soviet Union only indulged in empty talk and unfriendly actions. To enter into an alliance with the Soviet Union was simply out of the question. Deng Xiaoping had said that a summit meeting might be considered if the Soviet Union were to relax its position on Cambodia but this condition was not fulfilled. If there were to be any sign of improvement in Sino-Soviet relations, the Chinese Government would take steps to brief HMG.

Cambodia

The Prime Minister said that it was a tragedy that Vietnam was still occupying Cambodia. Hu Yaobang said that China's position on Cambodia was clear cut. China supported a coalition government combining the various resistance factions and Vietnamese withdrawal. The coalition should be led by Prince Sihanouk and Cambodia should be a neutral and non-aligned country. It did not have to be socialist. China would never accept Vietnam's invasion of Cambodia. It was a principle of Chinese policy that the affairs of a country must be managed by the people of that country. The Prime Minister observed that the prospects for establishing a coalition government were not very good. Hu Yaobang admitted that it might take time.

Afghanistan

Hu Yaobang said that the Soviet Union had on at least three occasions asked China to mediate on Afghanistan. The Chinese Government had replied that there was nothing to

mediate about. The Soviet Union should withdraw. The Foreign Secretary referred to the installation of a new hard-line régime in Afghanistan. He wondered whether there was any prospect of a change in the Soviet position. Hu Yaobang said that the Soviet Union appeared more anxious to act on Afghanistan than on Cambodia. He believed that the families of Soviet troops in Afghanistan were complaining openly.

Relations with the United States

Hu Yaobang said that Chinese relations with the United States were developing steadily. China was satisfied with them. The United States did not like it when China treated them and the Soviet Union on a par, by describing super power rivalry as the main cause of international tension. He had two complaints about the United States. First, China did not agree with United States policies on some international issues. Were they to do so, they would be isolated in the Third World and among other socialist countries. So on these issues China was forced to make its position clear, although it was not their intention to criticise the United States very often. China hoped for co-ordination among friends. If there was good co-ordination, there would be less criticism.

Secondly, there continued to be problems over Taiwan. ^{understood the United States' position on Taiwan to cover four points:} China ~~asked four things of the United States on Taiwan:~~ no mediation, but no obstruction of a solution; determination to make new friends, but no desertion of old friends. China would like the United States to urge Taiwan to agree to exchanges with China in the fields of postal services, trade, air links and shipping. If the United States could exert some influence on these issues, no harm would be done to Taiwan and the United States would earn even more profound friendship among the people of China.

The Prime Minister said that she was sure that relations between China and the ^{United States} ~~Soviet Union~~ would continue to improve. It was important that they should be good. Hu Yaobang said that China wanted long term friendship with the United States.

He referred to the size of United States investment in China which had now reached some \$2.1 billion, making it the second largest foreign investor after Hong Kong.

Southern Africa

The Prime Minister said that she was concerned about the situation in Southern Africa. Apartheid must be ended. But we did not want South Africa to fall under Soviet influence, given its strategic importance and new monopoly of vital raw materials. We wanted to see peaceful negotiations between all racial groups. Hu Yaobang said that if the United States and Europe acted more decisively to bring about an end to apartheid, there would be no danger of South Africa falling into the hands of the Soviet Union. He wondered whether Bishop Tutu could not be given a greater role in bringing about negotiations. The Prime Minister said that there were many different leaders who had to be involved. We would continue to work for a negotiated solution, although it was not proving easy to persuade President Botha of the need for this.

United Kingdom - China Economic Relations

Li Peng welcomed the decision to grant China some £300 million of development loans. These had already been earmarked for a number of projects, including two nuclear power stations and an optical fibre plant. He was aware of the Prime Minister's hope that part of the loan would be used to purchase ships from Sunderland. He shared the Prime Minister's interest in this.

Li Peng continued that there had been a great development in economic relations over the past few years with which China was satisfied. These relations should be expanded further. But this would require Britain to import more goods from China as well as provide more development loans and set up more joint ventures. The Prime Minister said that Zhao Ziyang had stressed the importance of development loans during his visit

last year. The United Kingdom had responded positively. We were also taking a lead in securing relaxation of COCOM rules in China's favour. We had some reason to believe that our efforts would be successful. We shared the Chinese wish to see an expansion of bilateral trade.

The Prime Minister continued that she hoped that a solution could be found soon to outstanding governmental claims. A settlement of these would give China access to the London bond market. Hu Yaobang said that talks were going on. He did not see the problem as being very difficult to solve.

The Prime Minister referred to difficulties over British Airways' application to carry traffic on the Hong Kong - Peking sector of their London/Peking service. We hoped that a solution could be found. Li Peng said that talks were in progress.

The meeting ended at 1800 hours.

C.D.P.

C.D. POWELL

9 June 1986

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SPEAKING NOTE ON
BILATERAL RELATIONS

- Importance of continuing signs of cooperation and goodwill between Britain and China.

Looking forward to Queen's State Visit to China.

Welcome agreement on scholarships and successful conclusions of negotiations on Guangdong power station.

- UK anxious to cooperate further with China and help with economic modernisation.

Believe we have much to offer, particularly in

highest priority sectors: power generation and transmission, coal mining, telecommunications, transport.

- Welcome agreement on development loans amounting to some £300 million.

Also investment promotion and protection agreement.

UK taking lead in securing relaxation of COCOM rules to benefit China.

- Few bilateral problems.

Do not want to go into these in detail.

Hope they can be discussed between officials.

Would like to see a further round of

negotiations on claims soon.

- Hope problems over resumption of British Airways services between Hong Kong and Peking can be settled.

- Have to say I have not yet finished reading the Encyclopaedia Britannica in Chinese which you gave me in Peking!



(Translation)

Speech by General Secretary Hu Yaobang
at Welcoming Banquet Hosted by
Prime Minister Margaret Thatcher

9 June 1986

Respected Prime Minister,
Ladies and Gentlemen,

In December 1984, Prime Minister, you made a special trip to China and together with Premier Zhao Ziyang signed the Sino-British Joint Declaration on the Question of Hong Kong. It was on that historic occasion that I had the honour of making your acquaintance. At the time you kindly invited me to visit Britain. I said that I would certainly do so after Premier Zhao Ziyang's visit to your country. The purposes of my trip are: First, to pay tribute to the great British people and secondly, to contribute my share in promoting the enduring friendly relations and cooperation between China and Britain. The moment I set foot on your land, I have been accorded a very warm and ceremonious reception, and today I have had most cordial and amicable talks with you. All this has convinced me that my current visit will achieve all its purposes.

Respected Prime Minister, you have made two visits to China, which, short as they were, led to a major accomplishment: An agreement was reached between China and Britain on the settlement of the Hong Kong question left over from the past. This, of course, owes primarily to the political courage and foresight displayed by you and Chairman Deng Xiaoping. This agreement fully meets the fundamental interests of our two peoples. What is more, as you pointed out, it sets a good example of peacefully settling international disputes through negotiations, thus winning honour for our two countries. We find it gratifying that our two sides have, in a spirit of friendship and cooperation, continued the fruitful efforts in implementing the Declaration since its entry into force. It can very well be predicted that in the years to come, our two countries will continue to keep good faith and thus set a good example of strictly observing agreements for other countries in the world.

This is my first visit to Britain and also the first to Western Europe. Being the cradle of the industrial revolution in the modern world, Britain and Europe as a whole made important contributions to human civilization and remain today one of the world's most advanced regions in the fields of

economy, culture and science and technology. On the other hand, Europe was unfortunately the place where the two world wars broke out, which brought untold calamities to the people. Today, Europe is still pregnant with conflicts of a global scale. This dual historical feature of Europe has placed it in a position of special importance in contemporary international affairs and on matters relating to peace and development which bear upon the destiny and future of mankind.

An eminent British statesman said to the effect that no great nation would leave the question of its own survival at the mercy of others. This was well said. We fully respect the domestic and foreign policies made by Britain and other European countries in the light of their actual conditions. We are glad to note that European countries and people ardently call for peace and do not want to see the scourge of war befall Europe again. We are convinced that Europe, as an important force in the world that has taken its destiny into its own hands and strongly desires peace, will not only bring benefit to the European people but also contribute to world peace and stability.

The President of the United States has also signed an agreement on the provision of soft loans to China.

There is no conflict of fundamental interests between China and Western Europe. Rather, we share major common interests. We both need peace and seek development in peace. We share the strong desire to increase our cooperation on the basis of mutual respect, equality and mutual benefit. China wishes to see a strong and united Western Europe. Likewise, Western Europe wishes to see a strong and prosperous China. We hope and believe that China and Western Europe will live in amity and enjoy close cooperation not only in the rest of this century, but in the next century as well. I am making this trip to Western Europe in the very hope of making some contributions in this respect.

Prime Minister, you have just referred to Marx and Adam Smith. Indeed, Britain has produced a galaxy of outstanding thinkers, economists, scientists and writers. Adam Smith was one of them. The Wealth of Nations written by him was one of the important Western classic works first translated into Chinese in modern China. In it he highly appraised the important role of labour in creating value and made a penetrating analysis of economic behaviour of modern society, thus enabling the classic political economy of Britain, together with the classical philosophy of Germany and socialist theory of France, to become an important source of Marxism. The Communist Party of China holds that in order to develop itself, Marxism needs to constantly draw upon and absorb the latest achievements in the development of contemporary human civilization. An advanced philosophy should not be taken as dogma. Rather, it should be an ideological source

which spurs people to constantly explore and create and enriches itself in the course of social development. What we in China are doing now is to integrate the basic theory of Marxism with China's modernization endeavours and build socialism with Chinese characteristics. Proceeding from such belief, I am sure that our two countries can and should, transcending difference in ideology and social system, work actively to further enhance the friendly relations of cooperation existing between us.

Respected Prime Minister, when signing the Joint Declaration, both the Chinese and British Governments expressed the conviction that the satisfactory settlement of the Hong Kong question would bring Sino-British relations to a new historical stage. Since then, gratifying progress has been made in respect of our bilateral political consultations and economic and technological cooperation. The volume of two-way trade in 1985 increased 20% over the previous year. Recently our two sides signed an agreement on the provision of soft loan to China by the

British Government. This loan, which is no small assistance to China, is an expression of valuable friendship, for which I wish to express our appreciation here. Our two Governments have also signed the Agreement Concerning the Promotion and Reciprocal Protection of Investments, thus creating even more favourable conditions for Sino-British economic cooperation. Over the past year there have been growing exchanges in the educational, scientific and cultural fields between our two countries. The number of students exchanged is steadily increasing. Among the Chinese youth there has emerged an unprecedented fervour for learning the English language. The recently-held China Shakespeare Drama Festival aroused a strong interest among the Chinese audience. Respected Prime Minister, just as you wrote with a touch of humor in your message of congratulation to the Festival, "the presentations in local idiom would have given Shakespeare himself the greatest pleasure, had he been able to take part in your festival." In short, the rapid and all-round growth of our bilateral relations stands as an eloquent testimony to the beginning of a new stage in Sino-British relations which are full of bright prospects.

Nineteen eighty-six will go down as no ordinary year in the annals of Sino-British relations. We eagerly look forward to the first visit to China by Her Majesty Queen Elizabeth II in October this year. We are confident that Her Majesty the Queen will be accorded a grand and warm welcome by the Chinese people. Her Majesty's visit will mark a new milestone in Sino-British friendly relations.

Respected Prime Minister, I deeply cherish the friendship established between us. On your last two trips to China, you were unable to visit more places because of your busy schedule. China and Britain are far apart geographically, but as a British saying goes, "although the road is long, the further one goes, the closer one gets". I sincerely hope that the Prime Minister and Mr. Denis Thatcher will visit China again in the near future, stay longer, see more places and experience more the Chinese people's friendship for the British people. Likewise, we welcome your cabinet colleagues to go and see more of China.

I would like to invite you all to raise your glasses for a toast

to the continued growth of the friendly relations and cooperation between China and Britain,

to the prosperity of the United Kingdom and the well-being of its people,

to the health of Her Majesty Queen Elizabeth II,

to the health of Prime Minister Margaret Thatcher and Mr. Denis Thatcher, and

to the health of all ladies and gentlemen present!

SPEECH BY THE PRIME MINISTER

AT

DINNER

IN HONOUR OF

GENERAL SECRETARY HU YAOBANG

ON

MONDAY 9 JUNE

Mr. General Secretary, Mr. Vice-Premier, Your Excellencies, My Lords, Ladies and Gentlemen,

In 1984 I went to Peking to sign the Joint Declaration on Hong Kong. It was a memorable and historic visit. It also enabled me to invite you and Premier Zhao Ziyang to visit Britain.

Almost exactly one year ago, Premier Zhao was sitting here at this table. Since then we have been keeping the seat warm for you.

Our pleasure now is something which you and your distinguished delegation will recognise. For one of the first remarks in the "Analects" of Confucius is:

"Is it not a delight that friends should visit from afar"?

We wish you and all your delegation a very warm welcome to No. 10 Downing Street and to Britain.

Mr. General Secretary, when I first invited you to pay this visit, I remember that you said that you could not possibly come because your face was too red. Well, I saw nothing to worry about in that. After all, red and blue go well together in our national flag, the Union Jack, so I was sure you would fit in well.

We are delighted that you have chosen to begin your European tour here with this, your first visit to our country. With you we welcome Vice-Premier Li Peng back to Britain as an old and valued friend. His enormous contribution to building up our economic co-operation over the years, most recently with the Daya Bay power generating project, is much appreciated.

We also warmly welcome back Professor Fei Xiaotong, who has lived amongst us and knows us well. We were all delighted when he was awarded the Huxley Memorial Medal in 1981.

Indeed, all the guests here tonight prove the vitality of our relations. The range of those relations is impressive.

To take but a few examples: in space, our technologists are co-operating on solar power for satellites.

A little lower down, Chinese, British and Pakistani scientists joined together in 1980 in the International Karakoram Project, a pioneering survey of the roof of the world.

At ground level, we saw this year the reintroduction from Britain to China of the rare Pere David's deer; and the establishment of a London double-decker bus route from Central Peking to the Summer Palace.

And deep beneath the ground we are working together to exploit oil deposits formed before the dawn of human history.

In all these projects we are investing together in the future. I am therefore particularly pleased that this afternoon Vice-Premier Li Peng signed with Sir Y. K. Pao and Geoffrey Howe a Memorandum of Understanding establishing a major new scheme to bring many more Chinese students to Britain.

This scheme arose from the imagination and characteristic generosity of Sir Y. K. We thank him warmly. As a scientist myself, I am particularly pleased that many of the scholarships will be in science and technology.

The scheme is also innovative: ingeniously pooling the efforts of two governments and the private sector. Imagination brings practical results.

The most striking achievement of creative policy is our agreement on Hong Kong. The continued stability and prosperity of Hong Kong is a vital commitment for both our governments. We are delighted that implementation of the Joint Declaration is going smoothly. We are confident that it will continue to do so.

It is important that we should remain in the closest contact up to and beyond 1997, in the Joint Liaison Group and elsewhere. There is also what the people of Hong Kong want and expect.

Mr. General Secretary, we need in our relations commitment, imagination and determination. We must harness the forces of change, not be buffeted by them. Indeed, we must go out and positively seek change if our countries are to remain at the leading edge of new technology. We must not be like the old man in the Chinese proverb, who sat under a tree waiting for rabbits.

Before you have to leave on Thursday, I want you to see for yourself that Britain is a society on the move: inventive and flexible. We have had some success in the past at winning Nobel Prizes – now we are turning pioneering ideas into prosperity – and a prosperity that can be shared. Your joint venture with Pilkingtons at Shanghai, which will bring to China the benefits of their float glass technology, is one of many examples.

I have been lucky enough to visit China three times. I have seen those qualities there too. I know that historic changes are taking place in your country. I was not surprised to learn that Chinese inventions won six gold medals at a recent International Exhibition of New Technology in Geneva. And the achievements of your space programme, including the successful launch last year of a geosynchronous communications satellite, speak for themselves. Indeed I understand that you will now be launching some of the Americans' satellites for them.

On Wednesday, Mr. General Secretary, you will visit the British Museum where an influential 19th century thinker – Karl Marx – spent so much of his time. Had your visit been longer I would have suggested that you also visit Kirkcaldy, the birthplace of Adam Smith. Marx often complained that he was no marxist. And likewise, there is no direct reference to capitalism in "The Wealth of Nations" – Adam Smith's analysis of economic behaviour which Marx too regarded as a classic.

There is, I believe, a moral here: we must use ideology to articulate our ideals, but not to stifle practical ideas. Walter Bagehot, the English constitutional writer, knew this. He said that "of all nations in the world, the English are perhaps the least a nation of pure philosophers."

We both derive inspiration from the past — there is a shared sense of respect for history in both our cultures. But both nations also look to the future and to the young for inspiration.

You, Mr. General Secretary, Vice-Premier Li and Professor Fei, have all taken forward the great Chinese tradition of teaching and concern for the moral and material welfare of young people. I hope that those in Britain and China who administer the new educational scheme set up today will remember the words of Chairman Deng Xiaoping.

"The youth represent our future. It is they who will carry on our undertakings".

Mr. General Secretary, this is an exceptional year for Britain and China. First your visit to us. Then the historic occasion this October when Her Majesty The Queen makes her State Visit to the People's Republic of China. I ask you all to raise your glasses and drink the Toast, to Chairman Deng, to General Secretary Hu, to the success of his visit and to the future friendship of Britain and China.

**Visit of Mr. Hu Yaobang
General Secretary
of the C.C.P.
8 - 12 June 1986**

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LIST OF BRIEFS

Programme

Main Brief

- Background Briefs:
- I) UK/China Relations
 - II) Hong Kong
 - III) Chinese Internal Situation
 - IV) International Issues
 - V) Personality Notes
 - Hu Yaobang
 - Li Peng
 - Fei Xiaotong
 - Hu Dingyi
 - VI) Guidance on Pronunciation and Designation

VISIT OF HIS EXCELLENCY MR HU YAOBANG GENERAL SECRETARY OF THE CENTRAL
COMMITTEE OF THE COMMUNIST PARTY OF CHINA, 8-12 JUNE 1986

PROGRAMME

Sunday 8 June

1630 Arrive London Heathrow. Met by Lord Young.

Monday 9 June

1000 Guard of Honour ceremony in FCO quadrangle.
1010 Received by Prime Minister at No 10 Downing Street.
1045 Meeting with the British-Chinese Parliamentary Group.
1145 Call by David Owen.
1120 and 1145 Calls by Mr Peter Walker and by Mr Paul Channon on Vice
Premier Li Peng).
1225 Call by Mr Neil Kinnock.
1230 Lunch for Vice Premier Li Peng hosted by Mr Peter Walker,
followed by meeting with representatives of British
Industry held with Sino-British Trade Council.
1300 (Mr Hu will have a private luncheon).
(Mr Fei Xiaotong will lunch at LSE and give a lecture).
1500 Call by Mr Norman Tebbit.
1600-1800 Talks at No 10 Downing Street.
1830 Call by Mr Heath.
1945 Dinner at No 10 Downing Street hosted by Prime Minister.

Tuesday 10 June

From 0900 Visits to: British Library
Stratford Upon Avon
Oxford (to include Oxford Instruments, Oxford
University Press, and Department of
Metallurgy and Science Materials).
2000 Dinner at Balliol College, Oxford, hosted by the
Chancellor of Oxford University, Lord Stockton. Followed
by recitation by members of Royal Shakespeare Company.

Wednesday 11 June

0900 Visit Tower of London. River trip.
1120 Lecture at Royal Institute of International Affairs.
1300 Lunch given by HM The Queen at Buckingham Palace.
1545 Call by Mr David Steel.
1700 Press Conference.
1900 Meet members of the Chinese community.
1945 Dinner given by the General Secretary at the Chinese
Embassy.
2230 Call by Communist Party of Great Britain.

Thursday 12 June

0645 Depart hotel for Heathrow for flight to Bonn.
0740 Mr Renton will bid farewell. Lord Maclehoze will
also be present.



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VISIT BY GENERAL SECRETARY HU YAOBANG: TALKS WITH THE PRIME MINISTER, 9 JUNE 1986

OUR OBJECTIVES

(a) To re-assure the Chinese that

(i) Britain, as an influential member of the EC, NATO and the Commonwealth, is still an important power, whose views the Chinese should listen to; and

(ii) British society and the British economy are vigorous, innovative and well-equipped to contribute technology and practical advice to China's modernisation.

(b) To convince Hu Yaobang (in charge of ideology) and Li Peng (Soviet trained) that the West is fully committed to the success of China's modernisation and opening to the world, with Britain making a large practical contribution.

(c) (i) To emphasise the need for continued joint efforts to maintain confidence in Hong Kong; and

(ii) to use the success of Sino-British cooperation in this area to establish equally close cooperation in commercial, scientific and education fields.

(d) To enlist support for the early and satisfactory resolution of the outstanding bilateral problems of governmental claims and air services, and to build on the success exemplified by the student scholarship scheme to be signed during the visit by British and Chinese Ministers together with its originator, Sir Y K Pao.

ARGUMENTS

(a) (i) Synopsis of world political scene: post Tokyo Economic summit; Chernobyl; terrorism; prospects for a Reagan/Gorbachev summit; arms control.

(ii) Concern about protectionist threat; Japanese trade surpluses; must use falls in oil prices, interest rates, value of dollar and inflation to boost world trade and economic growth; new GATT round.

(iii) British economy in good shape, technologically in first rank, coping with lower prices for North Sea oil, successful in competitive world markets, especially Europe.

(b) Anxious to cooperate further with Chinese and believe we have much to offer. Since last met have signed agreement on development loans, investment promotion and protection and (now) student scholarships. All designed to help China modernise and expand economically. Relaxation of COCOM rules, defence sales.

(c)(i) Hong Kong, most obvious area of us working together successfully. Much achieved in first year: UK firmly committed to making success of Joint Declaration. Joint Liaison Group (JLG) has made good start. Success important for the confidence necessary to maintain stability and prosperity. But confidence fragile; must work hard together to sustain.

(ii) Importance of continuing signs of cooperation and goodwill. The Queen's State Visit to China followed by visit to Hong Kong. Y K Pao's idea for scholarships. Daya Bay/Guangdong power generation project. Reassurance to public on safety standards (important post-Chernobyl). £300m development loans.

(d)(i) Need to resolve last outstanding bilateral problems. Hope next round of claims negotiations in London can be very soon. Issue that should be ripe for settlement. Have solved harder problems. A minor barrier to development of fullest economic and commercial relations.

(ii) BA keen to resume carriage of traffic between Hong Kong and Peking.



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TACTICAL ARGUMENTS

(a) (i) Chernobyl no reason for panic measures on nuclear generating plans: but reassurance on safety important for public eg in Hong Kong. Glad Chinese have confirmed intention to go ahead, including Daya Bay project.

(ii) SDI, SALT II, Global INF.

(iii) How do you see your relations developing with the Soviet Union? Level of political contacts? Party-Party links? How far can economic cooperation develop without political progress?

(b) (i) Britain can contribute much to China's modernisation. But need help in Chinese framework. Less stop/go in allocations of foreign exchange, and less volatility in relationship between state and local authorities. Great expense of establishing offices in China, and physical difficulties over communications (telephone, air travel, hotel bookings, etc).

(ii) Can offer particular help in some of your highest priority sectors: energy (power generation and transmission; coal mining), telecommunications, transport (ships, aircraft), materials (steel, aluminium), agriculture and food processing.

(d) (i) Claims settlement would make possible Chinese access to London bond market and strengthen China's international financial reputation.

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CHINESE OBJECTIVES

(a) (i) To emphasise that modern China remains committed to economic reform and open to the outside world, despite a difficult year in 1985.

(ii) Against this background to encourage increased assistance to, and cooperation with, China particularly over economic development, scientific exchanges and education.

(iii) To increase exports so as to generate the foreign exchange needed for investment in development projects.

(b) Reassurance that Western Europe will remain strong, united and an effective political counterbalance to the Soviet Union and (to some extent) to the United States.

(c) To promote closer bilateral relations, partly as a consequence of the Hong Kong agreement and partly to reinforce it.

(d) (i) To seek reassurance - yet again - that we have no surprises in store on Hong Kong, especially over constitutional development; and, perhaps

(ii) to explain Chinese thinking on Taiwan (and implications for Sino-US relations) and Macau (in the context of their thinking on Hong Kong).

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OUR RESPONSE

(a) (i) Recognise constraints on Chinese trade of foreign exchange pressures, risk of overheating economy and wish to have better balanced trade with West and, especially Japan. Increase in world trade and world GNP is best solution. Recent developments will help. Quotas decided by EC.

(ii) In visit to Oxford will see UK in forefront of science and technology. We can apply it commercially, eg Oxford Instruments. UK's worldwide reputation for quality. Willing to transfer technology. Strong programme of government-supported research and technology cooperation.

(b) (i) Successful NATO meeting in Halifax. Tokyo Summit declaration showed determination of West to tackle issues such as terrorism. People in Western Europe will support firm lines, eg success of Mr Lubbers in Netherlands elections.

(ii) British society is tackling racial and social problems: eg housing, education, the effects of industrial change. We are innovative in design, management, production, marketing: in basic science, in the arts and in social reforms.

(c) (i) More Ministerial visits from China needed. On UK side, Lord Young hopes to go again, perhaps in November, Mr Peter Walker in December. Mr Timothy Raison next month, Sir Geoffrey Howe with The Queen. Mr Paul Channon, too, perhaps later this year.

(ii) Such contacts should be practical. Need to live up to expectations created. Bilateral trade still lower than it should be. Lord Young will take industrialists to look at particular sectors in depth. Opening of consulates in Shanghai (1985) and Manchester (1986) will help boost trade and other relations.

(d) (i) Assure you we will proceed with caution, taking into account provisions of Joint Declaration. But must be responsive to public opinion in Hong Kong. Hong Kong a living political organism.

(ii) Also interested to know how you see the Taiwan question progressing. Glad aircraft incident resolved speedily and satisfactorily. Glad Hong Kong able to play helpful role. Continued prosperity and stability of Hong Kong up to and beyond 1997 can only help solution of Taiwan problem.



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PRESS LINE

The Prime Minister received the General Secretary of the Central Committee of the Communist Party of China, Mr Hu Yaobang, and Vice Premier Li Peng at No 10 Downing Street for two hours of talks. Later she gave dinner for them and their party.

The Prime Minister and the General Secretary had a useful and wide ranging exchange of views on current international issues, including East-West relations, terrorism and the implications of the Chernobyl disaster. The Prime Minister gave an account of the Tokyo Economic Summit.

The General Secretary and the Prime Minister noted with satisfaction the progress made in implementing the Joint Declaration on the question of Hong Kong. They welcomed the rapid expansion in recent years of bilateral contacts in all fields and expressed their commitment to continuing this process, particularly in the economic sphere. They discussed a range of bilateral political and economic issues and looked forward to The Queen's State Visit to China in October.



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VISIT BY GENERAL SECRETARY HU YAOBANG: TALKS WITH THE
PRIME MINISTER, 9 JUNE 1986

SUPPLEMENTARY BRIEF: ARMS CONTROL

ARGUMENT

Geneva Negotiations

1. UK attaches highest priority to reduction in superpower arsenals. US proposals of November 1985 and February 1986 provide adequate basis for agreement. On US proposals for global zero-zero solution on INF, UK remains committed to real zero-zero outcome: no question of exporting existing security problem from Europe to Asia.

2. Latest Soviet proposals may be sign that Soviet Union prepared to negotiate seriously. If so, welcome, particularly if responding to US strategic proposals of November.

3. UK wants to see ABM Treaty clarified, strengthened.
SALT II/SOVIET COMPLIANCE

4. Salt II important component in arms control. Do not want to see process unravelled. Need for strict observance of obligation by all parties to arms control. Have raised issue with Russians eg my latest message to Gorbachev.

5. Welcome decision to scrap Poseidons. Door left open for Soviet Union to respond. Hope they will do so and Americans able to review within SALT constraints. Would regret if provisional US decision to exceed SALT limits had to be implemented.

NUCLEAR TESTING

6. Not appropriate to resume negotiations on a Comprehensive Test Ban Treaty (CTBT) until progress made on resolving verification difficulties.

7. Chinese attitude to 1963 Partial Test Ban Treaty? (China not a signatory).

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ANNEX I: SALT II CONSTRAINTS

1. The Government has frequently made clear its belief in the importance of the strict observance of arms control agreements by all parties. We have drawn to the attention of the Soviet Union on a number of occasions the need to comply strictly with SALT agreement and to be seen to do so. We have done this most recently in the message from the Prime Minister to Mr Gorbachev.
2. The Government welcomes President Reagan's decision to continue to respect for the time being the constraints of the unratified Salt Agreement by dismantling two Poseidon Submarines.
3. The President's statement on 27 May makes it clear that if the Soviet Union takes constructive steps between now and the end of the year to alter the current situation, the President will take this into account in reviewing whether the US should itself exceed Salt II limits. Thus the door has been left open, and there is a clear opportunity for the Soviet Union to respond positively.
4. We trust therefore that it will be possible for the US itself to avoid exceeding the Salt II limits at the end of this year. This would leave the way open for real progress to be made in arms control, as envisaged by both leaders at Geneva last year. We would much regret it if the provisional decision by the President to exceed the limits had to be implemented.



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BACKGROUND

Geneva Negotiations

1. On 29 May the Russians tabled at the Geneva Nuclear and Space Talks a new proposal under which US and Soviet reductions in nuclear systems could begin, provided that steps were taken simultaneously to strengthen and clarify the ABM Treaty. The US Secretary of State briefed the NATO Ministers on this at Halifax on 30 May. The Americans clearly wish to pursue this Russian initiative in private in the negotiations even though Administration spokesmen confirmed on 2 June that it had taken place.

2. On the ABM Treaty the Russians proposed strengthening it by agreement on a no withdrawal commitment for 15-20 years; and clarifying it by removing ambiguities in some of the Treaty's terms. The corollary would be agreement on 50% reductions in offensive systems. This proposal might thus represent a shift away from their earlier insistence on a ban on "space-strike weapons" or a condition of reductions in strategic systems. Even so Mr Shultz was clear that the Soviet objective was still to obtain some constraints on SDI (although precisely how, given the restrictive interpretation of the ABM Treaty, is unclear at this stage). The Soviet proposal is potentially significant if it represents a real Soviet willingness to move away from their earlier negative approach.

3. It is striking that the US have regularly consulted the Chinese on the INF negotiations, in parallel with the Japanese. The Chinese have frequently sought assurance that the scope of any eventual agreement would specifically include Soviet missiles in Asia. They have not however expressed in detail their preferred outcome.

SALT II/SOVIET COMPLIANCE

4. The UK line on President Reagan's decision on SALT II is at Annex I.

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cc: Mr. Taylor
Duty Clerk ✓

CUSTODY GUARDS

DPG NO.10

VISIT OF THE CHINESE PARTY SECRETARY: MONDAY 9 JUNE

In respect of the above, the following will accompany the principal members of the party:

a: 1000 - Courtesy Call

Mr. Lu Tainxin
Mr. Li Hanping
Mr. Wang Huagen
Mr. Li Ning

b: 1600 - Talks

Mr. Lu Tainxin)
Mr. Li Hanping)
Mr. Wang Huagen)
Mr. Chen Seng)

Waiting Room - No.10

c: 1945 - Dinner

Mr. Lu Tainxin)
Mr. Li Hanping)
Mr. Wang Huagen)
Mr. Wu Xun)

Our Mess

Charles Fountain

Charles Fountain

30 May 1986

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MR CHANNON'S MEETING WITH CHINESE VICE PREMIER LI PENG, 9 JUNE 1986
NUCLEAR SAFETY

Points to Make

a) Guangdong Nuclear Project

1. Glad project will not be affected by Chernobyl: no reason for panic measures on nuclear power. But considerable concern in Hong Kong about safety. Must take very seriously. Need to reassure. Well-published practical cooperation with French, eg on safety training, would help.
2. Glad to offer our safety, monitoring and other technical experience for China's civil nuclear programme, under our nuclear cooperation agreement.
3. (If asked). Satisfied with French safety standards. Believe they are taking safety aspects of Daya Bay very seriously. Important that Chinese should show that they are too.
4. GEC and HMG still strongly committed to construction of power station at Daya Bay.

b) British Nuclear Policy (if asked)

5. Important to maintain public confidence. Nuclear power is and should be major component of world energy supply. (20% of UK electricity now; 25% when plants under construction commissioned).
6. Safety paramount. Potential of nuclear power will only be realised if it remains publicly acceptable. No Chernobyl-type reactor in UK. But will apply any lessons we can learn from accident.
7. Chernobyl has had significant impact on public attitudes to nuclear power in UK. Fear of unknown increases concern. Important USSR provides full information as promised.
8. Too early to judge long term impact. May be fairly short-lived. Important for government to continue to underline merits.

c) International Aspects (if asked)

9. Tokyo Summit agreed that properly managed, nuclear power would continue to be increasingly widely used energy source.
10. IAEA right focus for action. Will continue to work within it for international cooperation on nuclear safety. Important to establish quickly international convention on early notification of nuclear accidents with transboundary effects; followed by convention on coordinated emergency response and mutual assistance.

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British Nuclear Policy

5. Nuclear power currently provides around 6% of energy in the non-communist world. 18 nuclear stations operate in Britain, with two under construction. Total capacity when they are commissioned will be 10GW. In recent opinion polls, 7% of respondents felt that nuclear power was the most important problem facing the government (cf unemployment, 72%). After Chernobyl, those in favour of nuclear power in Britain fell from 48% to 36%, those against rose from 37% to 53%.

French Reaction

6. French are taking safety aspects of the Daya Bay plant extremely seriously. The French originally offered the Chinese a joint Sino-French monitoring arrangement during the construction phase, but the Chinese balked at the cost of FF30m (about £3m). The French therefore proposed an alternative, rather less rigorous programme, costing FF15m over the 6-7 year construction period. The Chinese eventually accepted, provided the French paid 80%. The French response to that was that the French could agree to cover 80%, but only if the Chinese agreed to the full FF30m programme.

7. The director of the nuclear safety administration (NFA) is currently in Paris discussing this and other aspects of a proposed nuclear safety-cooperation agreement. The French will be impressing on the Chinese the need to regard safety as paramount and to devote all the necessary resources to this.

International Aspects

8. The International Atomic Energy Agency (IAEA) is, with our support, taking the lead in coordinating the international response to Chernobyl (although there may be a role for other bodies, such as WHO in due course). China has a seat on the IAEA board. The Chinese have reiterated their desire to learn from international experience in building and operating nuclear power stations, and to exchange safety and other technical information.

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BACKGROUND

Guangdong Nuclear Project

1. Following protracted negotiations, GEC were awarded a letter of intent for the turbine generator for this project in March 1986. The French Company Framatome have a letter of intent for the nuclear island. Construction is now under way. Contracts are expected to be awarded this summer. The nuclear reactor will be a PWR with an output of 2 x 950 MW. The station is about 50 kms from Hong Kong and most of its power will be sold to Hong Kong.
2. Following the Chernobyl accident, the Chinese have publicly emphasised that the project will go ahead. Vice Premier Li Peng visited the site (Daya Bay) on 20 May and stressed that safety and quality would be the primary features of the project, and would take priority over rapid progress in construction. The plant would meet French and IAEA safety standards. Li Peng has subsequently told our Ambassador in Peking that China's civil nuclear programme would not be affected by Chernobyl, but that he was concerned about anxiety in Hong Kong. He wished to discuss Hong Kong and UK public opinion with Ministers while in Britain.
3. There is substantial disquiet in Hong Kong. Fears have grown that the Chinese, through inexperience with nuclear power, do not realise the extent of their safety commitment. The Governor considers that public pressure against the project will be containable (provided there is no major accident at a French reactor); but that reassurance will be needed, including discussions between HMG (on Hong Kong's behalf) and the Chinese on detailed safety aspects.
4. The UK/China nuclear cooperation agreement (signed in June 1985) would provide a vehicle for these. But we need to avoid cutting across the measures taken by the French, who are directly responsible for the nuclear component, and are themselves currently discussing a nuclear safety cooperation agreement with the Chinese. Our Nuclear Installations Inspectorate has never assessed the French reactor (which is based on the Westinghouse design) in detail. But they consider that it would be almost certainly be licensable in Britain.

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VISIT BY GENERAL SECRETARY MR HU YAOBANG: TALKS WITH THE PRIME
MINISTER, 9 JUNE 1986
SUPPLEMENTARY BRIEF
HUMAN RIGHTS IN CHINA
OUR OBJECTIVES

- (a) Delicately to remind the Chinese that their record in providing a legal framework for individual rights is watched in the West; and to some extent affects the depth of fruitful cooperation; and that it is a particular concern in Hong Kong, where it could affect long-term stability and prosperity.
- (b) To be able to give constructive replies to MPs and human rights organisations who take a critical interest in China.
- (c) To encourage Mr Hu to make privately - and perhaps even publicly (eg in his talk at Chatham House or in his departure press conference) - points which will be reassuring in Hong Kong.

ARGUMENTS

(a) Impressed by achievements of China's programme of economic and social reforms. Particular interest in the way extensive legislation being developed for commercial, civil and criminal codes. that in future such pejorative terms as 'rightist' and 'anti-socialist element' would not be used. Very reassuring to those used to the legal protection of individual rights (including the system in Hong Kong based on English Common Law) that Mr Hu said in May 1985 (in an interview for the Hong Kong magazine 'Pai Hsing' - extracts at Annex) that people who violate the criminal law will be dealt with according to the law, without use of political labels.

TACTICAL ARGUMENTS

(a) Also fair to warn you that press here as elsewhere in Western Europe take keen interest in human rights worldwide. Of course Soviet record - even with the obligations of Helsinki - is poor. Even UK itself sometimes criticized, although we can give a good account of our record. But not for me to tell Mr Hu how to handle the press - he is adept and sure what he says will add to China's reputation.



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CHINESE OBJECTIVES

(a) To avoid unfavourable publicity on China's human rights record (especially over Tibet) and public expressions of concern in the Hong Kong context.

(b) To deny (if pressed) that anyone has the right to lecture China on the subject. (Confucius: "He who holds no rank in a State does not discuss its policies").

(c) To impress the need for China to find her own solutions to questions of public order and security.

(d) Perhaps to point out that liberal western attitudes cause (or fail to control) major social ills such as drugs, prostitution, violence and homosexuality. Traditional Chinese values demand firm measures (eg many people in Hong Kong would like to see the death penalty used).

OUR RESPONSE

(a) Human rights concerns cannot be swept under the carpet. Important to show that we have goals and standards and are working towards them.

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restrictions. You may not be aware of strong reaction abroad. . . There were unanimous objections. . .

[Hu] Ha Ha. . . When in Australia, a friend asked me the same question. I asked him in reply whether he had read my speech carefully (this denotes Hu's speech entitled "On the Party's journalistic work"). . .

Have you been to provincial areas? . . .

[Lu] . . . I will go to Shanghai on the 13th and will also go to Wuhan and Xiangtan.

[Hu] Why are you not going to visit Suzhou and Wuxi? Shanghai is not necessarily. . . [pluristops as published] Shanghai's progress is not necessarily -

[Lu, interrupting] Yes, I know. Shanghai has made great contributions, shouldered heavy tasks and undergone very little change, and the features of the city are backward.

[Hu] Your evaluation of Shanghai is fair. I suggest that you go to visit Suzhou and Wuxi. . .

[Lu] I was in Shunyi today. . . I personally went to see some young people doing a good job building houses. . . I could tell at a glance that they were doing a good job. But some things are still rather backward. The houses are well built, but there are no toilets in them. How can that be? . . .

[Hu] If toilets are built, it involves the installation of flush toilets. They don't even have running water there, do they?

[Lu] No, they haven't. Moreover, the water-supply line is not connected, nor does the sewer lead anywhere. The first problem to be solved in house-building abroad is the supply of water and power. . .

['Pai Hsing' note] (Here, Mr Wang Fuqing of the China News Agency said that . . . [a brigade] had built many new houses . . . and used brigade money to buy every household a washing machine . . . but there was no running water. . .)

[Hu] Therefore, they have still gone in for some superficial things. . . That's why we should rely on people who seek truth from facts to handle affairs. We need people who seek truth from facts from outside the country to help overcome the shortcomings in our work. We have plenty of such mistakes in our practical work. . .

Wang Ruoshui and Wang Ruohuo

[Lu] . . . Will there be a chance for me to see Mr Wang Ruoshui before I leave?

[Hu] Sure, what's the problem? . . . you can even see Wang Ruohuo if you want! . . .

We have made the decision that the expression so-called "anti-party, anti-socialist element" will no longer be in use from now on. . . This is a political concept. When someone violates the criminal law, he is to be dealt with according to the law. . . Is there really any need to put specific political labels on him. . . In the future we will cease to use such terms as Rightist.

[Lu] As I told you, before my coming here, some friends warned me that Hu Yaobang was most opposed to the discussion of human rights. They told me that everything could be discussed with you except human rights. . . People overseas are still very concerned about the case of Wei Jingsheng. Why? Because when receiving foreigners, His Excellency Mr Deng said . . . that it was necessary to punish Wei Jingsheng but that

the term of 15 years' imprisonment seemed to be a bit too harsh. . . It is said that person is now in Qinghai. He is, after all, a young man. I hope his case will be handled leniently. With regard to such people as Huang Hsien who came from the United States, I also discussed his case with minister Ling Yun. He said: As long as he behaves well, an early release is very likely.

[Hu] Did Comrade Ling Yun not tell you about the new decision on Huang Hsien? . . . Huang Hsien has now been released on probation [FE/7952/A3/5] . . .

Many of our friends abroad have kept us informed of their concern over these cases. . .

[Lu] Luo Fu was also released on probation. He is a friend of mine. . . But people overseas are very concerned about your handling of Wei Jingsheng's case.

[Hu] I did not know about Comrade Xiaoping's statement that Wei Jingsheng's punishment was a bit too harsh, but it is necessary to punish him. . . These are what were rumoured abroad as political prisoner cases, right? From now on, we shall not engage in this sort of practice. As for the question of human rights, it is our intention to protect effectively the constitutional rights of the law-abiding citizens who comprise 99.9% of the national population. No encroachment of their rights is allowed. We have often criticised some comrades in political and legal departments for their lack of understanding of this matter. Yesterday (9th May) we held a meeting to discuss the work of the Ministry of Public Security. Finally, I made four proposals. First, I said that during the initial post-liberation period, we stressed that political and legal departments were an instrument of dictatorship. Was the assertion correct? Yes, it was correct. This is because at that time we were still confronted with a powerful hostile class, namely, the landlords, rich peasants, counter-revolutionaries, and bad elements. Now the political and legal departments are still an instrument of dictatorship. We must not negate that totally. However, one thing must be added to the functions of the political and legal as well as public security departments, namely, protection of the people. We must stress this function.

As far as the people are concerned, what should be protected? The safety of the life and property of the people and their democratic rights should be protected. Why was this concept advanced last year? This was because the political and legal departments did not enjoy high prestige among the people. Working personnel in the political and legal departments were not treating you all with affection. Therefore, we must stress protecting the rights of the people. On the question of human rights, we hold views different from people in the West. What they are advertising is abstract human rights. Two days ago celebrations were held to commemorate the 40th anniversary of victory in the anti-fascist war. The human rights of some fascists really cannot be protected. Since they have killed so many people and violated others' human rights, should they still be protected? . . .

Is there any possibility of a Hongkong visit?

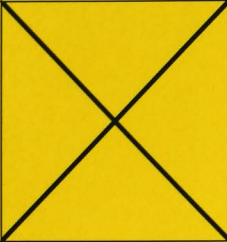
[Lu] I am afraid I've taken up much of your time, and it's time for me to say goodbye. In passing, is there any possibility of your visiting Hongkong?

[Hu] Well, - I haven't thought about the question so far. I shouldn't say there is no such possibility. . . I wonder what the British will think? Will they say yes?

[Lu] So you wouldn't put the British in an awkward position, because Hongkong is in the transitional period, and is still under their control.

[Hu] We can think about it only when they say yes. . .

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VISIT BY GENERAL SECRETARY HU YAOBANG: TALKS WITH THE
PRIME MINISTER, 9 JUNE 1986

BACKGROUND BRIEF II) HONG KONG

1. Hu Yaobang has not previously been directly involved in Hong Kong matters, although he will certainly be aware of the major issues.

Implementation of the Joint Declaration

2. The Joint Declaration has been in force for just over a year. Good progress has been made in its implementation in both the Sino-British Joint Liaison Group (JLG) and the Sino-British Land Commission. The single most important achievement was agreement in the JLG on Hong Kong's participation as a contracting party in the GATT. Public opinion in Hong Kong has welcomed the practical progress made in these two bodies. But there is still a great deal of nervousness about the future.

Structure of Government

3. The Chinese have consistently made it plain that they consider we should adopt a "prudent" approach towards any development of the structure of Government in Hong Kong, particularly in respect of the review of Government systems to be held there in 1987. They are especially concerned by the fact that this exercise coincides with their drafting of the Basic Law for post-1997 Hong Kong. They have expressed the hope that we would consult them in advance if we felt we had to make significant changes (eg the introduction of some directly elected members of the Legislative Council). These views were repeated most recently by the Chinese Foreign Minister at his meeting with Sir Geoffrey Howe in Brussels on 23 May. We have assured the Chinese that we will indeed approach the 1987 review prudently; but that it is something to which we are committed (a point the Chinese now accept) and that we must be seen in the course of it to be responsive to public opinion. Otherwise the authority of the British and Hong Kong Governments would suffer, with a consequent loss in confidence.

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VISIT BY GENERAL SECRETARY HU YAOBANG: TALKS WITH PRIME MINISTER,
9 JUNE 1986

BACKGROUND BRIEF III) CHINA: INTERNAL SITUATION

1. The last year has been difficult for China's economic reform programme, with problems in several areas. These could have weakened the grip of the leadership. But with considerable political skill, and by adapting their policies to meet some criticisms, the leaders have limited the damage and have managed to remain politically strong without diluting their commitment to reform.
2. A new 5-year plan (the 7th: 1986-90) was adopted at the 4th session of the Sixth National People's Congress (March-April 1986). This was very much in the reformist mould. It projects moderate growth (7.5% pa) to facilitate steady reform and balanced development. Although 1986 is to be a year of consolidation (with no major steps to be taken in the key area of price reform), some important moves are planned, notably the development of "horizontal" relations between economic units. This challenges the inefficient Soviet style structure, (in which units respond "vertically" to pressures from above and below, but have little contact with those at the same level), upon which China's economic and political administration has been based for the past thirty years. This is likely to prove highly contentious and a test of the leadership's ability to overcome bureaucratic resistance. Another focus of current interest is housing, which up to now has been provided publicly at very low rents: experiments are now beginning with home ownership.
3. Potentially the most damaging political problem at present is corruption, made highly sensitive by its obvious connection with China's opening to the outside world and with the commercial bias of many internal policies. A particularly emotive aspect is nepotism and the shady commercial activities of relatives of some senior leaders (including, it is rumoured Hu Yaobang and Zhao Ziyang). The leadership has taken several steps since the beginning of the year

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to assert control. Some high, but no top-ranking, officials or their children have been punished with considerable publicity. As a result the leadership may feel that they have done enough to defuse the immediate issue but this cannot reduce the economic and social damage corruption causes or help the credibility of the campaign against it. A high level victim is probably needed if the campaign is to be taken really seriously by the nation. In any case, corruption is likely to be a recurring problem so long as the current economic strategy endures.

4. Control over the economy (which overheated seriously in 1985) is now being regained and last year's very high nominal growth rate brought under restraint. Taking account of inflation, which was admitted to have reached 20% in some areas, real growth was probably no more than 7%). But this has been achieved by unsophisticated administrative methods and there are indications of undesired side-effects. An acute shortage of investment funds, and an increase in production costs (squeezing enterprise profits), have resulted in an industrial growth rate in the first quarter significantly lower than that planned for 1986. There is a prospect of further decline if controls are not eased, and some areas have already recorded negative growth. China has yet to develop sophisticated differential methods of economic management which are needed if it is to avoid falling into a "stop/go" growth pattern.

5. Foreign trade is another problem area. A huge leap in imports in 1984 (+54.2%) together with an only moderate growth in exports (+4.7%) produced a large trade deficit (either US\$8 or 14bn, according to different Chinese figures) and a sharp reduction in foreign exchange reserves (US\$11bn on 1 March 1986). The fall in oil prices has damaged one of China's principal sources of foreign exchange. Figures for first quarter show a large reduction in imports, but no improvement in exports. Foreign businessmen are repeatedly being told by potential Chinese customers of difficulties in obtaining foreign exchange.

6. Even in agriculture - one of the reformers' great areas of success - there have been difficulties. Chen Yun was among the

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first to express concern over the 1985 grain harvest (15% below the 1984 record). This was far from a disaster. But it was a public relations setback for the reformers, especially as 1985 had been the start of the second stage of agricultural reform. They have since taken measures to improve production, but there were signs of anxiety over the spring sowing and another poor harvest might reopen the issue.

7. For all this, the grip of the reformers on political power does not seem to have been weakened. Deng Xiaoping, after an absence from view, has reappeared and seems as fit as ever and remains paramount. There are no indications that the positions of his chosen successors, Hu Yaobang (Head of the Party) and Zhao Ziyang (Head of Government), have been undermined. The following generation of future leaders (including Vice-Premier Li Peng), young, technically-minded and committed to Deng's policies, is increasing in experience and confidence.

8. Three groups remain critical of Deng Xiaoping and the current economic strategy. These are: unreconstructed Maoists; those who have lost, or who might lose, their jobs because their levels of education and technical competence are too low; and those who share Deng's ambition to make China rich and strong as quickly as possible, but who believe that some of the methods he has encouraged are un- or even anti-communist. Of these, the first two groups are now weak and largely discredited. The last group, whose criticisms are issue - rather than programme-related, is more formidable. But the leadership has done much to defuse these criticisms by modifying policy to take account of them. Debate will continue about the optimism extent of foreign contacts and domestic market economies. But, while Deng remains, major policy change will be most unlikely. Deng's eventual departure will pose a more serious test for the reformists. But even then, the threat will be stagnation rather than reversal.

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ANNEX: MAJOR FEATURES OF CHINA'S ECONOMIC REFORMS

1. The Chinese embarked on their economic reforms in the late 1970s. The economic system then was basically that introduced from the Soviet Union in the 1950s. It suffered from low efficiency and a low rate of technological innovation resulting in a gradual decline in growth and the prospect of further falling behind the advanced economies. The cause was diagnosed as rigid bureaucratic control over economic units which resulted in little incentive to improve performance or meet the real economic needs. The reform strategy has been to relax controls over the economic units and give them more freedom and material incentive to improve economic performance and respond to market forces.

2. Agriculture was the first sector to undergo large-scale reform. The rural economy had been organised on the basis of large productive units which gave little incentive to individuals to perform well. The reforms have resulted not only in an impressive increase in production but also in an all-round development of the rural economy. The major elements are:

a) introduction of the 'household responsibility system': land collectively owned by People's Communes was contracted out to small units, usually households, which organised their own activities to meet State production quotas. Anything produced in excess of the quota was at the disposal of the household;

b) peasants were encouraged to diversify their activities into 'sideline' operations eg animal husbandry, fish farming, handicrafts, services and even light industrial production. Rural industry, mostly run by collectives but also by individuals, has grown quickly, and around a third of the rural labour force is now engaged in non-agricultural occupations;

c) restrictions on private trade were lifted. Produce at the disposal of peasants after fulfilling State quotas and from their private plots (which were increased in size) can be marketed locally or transported to towns;

d) State mandatory purchase quotas for a number of crops including grain have been replaced by a more flexible system of contracts between peasants and state purchasing agencies. This is aimed at restructuring agricultural production so that it meets market demand better and rationalises crop patterns.

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3. Attempts at industrial reform have been made over the same period but this has proved more difficult and progress has not been so smooth. The reform strategy was set out more programmatically and authoritatively than ever before at a Party plenum in October 1984 and despite problems which arose in 1985, the leadership remains committed to reform. Among measures which have been or are scheduled to be implemented are:

a) the scope and rigidity of State plans which bind industrial enterprises have been reduced and the freedom of enterprises to respond to market forces increased. Only the most important products (which nonetheless account for a large proportion of output value) will be governed by mandatory plans. Other products will be subject to guidance plans which use economic levers rather than administrative commands to direct enterprise operations. Large enterprises will be able to market output in excess of planned quotas at reasonably flexible prices. Only small enterprises are likely to be solely subject to market regulation;

b) since enterprise production is to be influenced much more by market forces, prices will need to be determined by supply and demand. At present this is far from the case so prices are no guide to the relative scarcity of products. Some price readjustments have already been made but the bulk of this crucial task remains to be tackled;

c) enterprises are to be given greater incentive to be profitable. They are to become independent accounting units free from economic interference by administrative bodies. Losses are no longer simply met by the State and profits handed over to it. Enterprises now pay taxes on profits and can retain the remainder for their own use;

d) enterprises are to have more control over their internal organisation. Enterprise directors will have more authority in deciding bonus payments, the size of the work force and appointments and dismissals. The role of the Party committee is to be curtailed;

e) wages and bonus payments are to be based more on the need to provide material incentives than on egalitarianism. Expertise, length of service and degree of responsibility as well as productivity are also to be rewarded.

4. An 'open door' policy aimed at increasing foreign trade, importing advanced technology and encouraging foreign investment has been pursued alongside this 'enlivening' of /the

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the internal economy. The most striking aspects have been:

a) joint ventures between Chinese and foreign enterprises;

b) the establishment of Special Economic Zones on the coast offering especially favourable conditions for foreign investors.

c) decentralisation of foreign trade management and the use of foreign exchange. Enterprises are to have more direct links with foreign concerns, rather than having to work through State foreign trade bureaus. Progress on this aspect was seriously reversed by the need to counter the 1985 import surge.

5. Other notable features are:

a) the development of a body of economic law;

b) emphasis on expertise rather than, ideology;

c) development of banking and commerce;

d) renewed attention to statistical work, auditing and accounting;

e) willingness to accept foreign loans and participate in international economic financial organisations;

f) increasing the priority of agriculture and light industry at the expense of heavy industry; and


g) development of small towns as rural industrial centres to relieve pressure on large industrial cities.

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VISIT BY GENERAL SECRETARY HU YAOBANG: TALKS WITH THE PRIME MINISTER, 9 JUNE 1986

BACKGROUND BRIEF IV) INTERNATIONAL ISSUES

1. China's foreign policy reflects her domestic pre-occupation with modernisation. To develop rapidly, she needs a stable regional and international environment; and also productive economic and technological exchanges with the West and, to a lesser extent, with the Soviet Union and more advanced Eastern European countries. China's other major concern is with the security of its own borders. The Chinese believe that Soviet expansionism constitutes a serious threat to global stability and to China's own security. Soviet actions in Afghanistan and support of the Vietnamese occupation of Cambodia have increased Chinese concern.
2. A main theme of Chinese foreign policy is the avoidance of strategic alliances. The Chinese have stated frequently that they will not follow or become dependent on either superpower, whose rivalry China considers the main threat to world peace. (For China's bilateral relations see Annex I).
3. China is giving increasing attention to major international issues. On East-West relations, the Chinese welcomed the Geneva Summit, but claimed that both sides had exaggerated the results. On arms control, they consider that the superpowers must take the lead in nuclear disarmament: once they have substantially reduced their nuclear arsenals, China will participate in a global disarmament conference. On SDI, the Chinese oppose "the extension of the arms race to outer space", and criticize both sides for pursuing space weapons research. In March 1986 Premier Zhao announced China's decision to discontinue atmospheric nuclear tests.
4. China has responded rapidly to recent international events. They were clearly concerned by the Chernobyl disaster and have underlined repeatedly that paramount attention is given to safety in the Chinese nuclear programme (which has, for economic reasons, recently been scaled down). The Chinese are likely to attend a forthcoming major conference on nuclear safety convened by Chancellor Kohl. Vice Premier Li Peng told our Ambassador in Peking on 28 May that China's civil nuclear programme (including the



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Guangdong power project) would not be affected. He nevertheless asked for our assessment, while in London of anti-nuclear sentiment in Britain and Hong Kong (this will be covered in his meeting with Mr Walker on 9 June).

5. China has frequently reiterated its opposition to all forms of terrorism, and claims no longer to provide material support for communist insurgent groups in S E Asia. Nevertheless, China condemned the US raid on Libya (and blames Middle Eastern terrorism on US and Israeli policies). Hu Yaobang admitted to Canadian Prime Minister Mulroney last month that China's position reflected the need not to offend Arab countries. He told our Ambassador in Peking that the roots of terrorism lay in social conditions, and police methods alone would never eliminate them.

6. Premier Zhao has recently described the present period as China's best in foreign policy since the founding of the PRC in 1949. There are plans for Hu Yaobang, Zhao Ziyang and Wu Xueqian to visit a total of at least eighteen Western and Eastern European countries within three months this summer. The Chinese continue to see Western and Eastern Europe as a political counterweight to the superpowers. They want closer relations between them.

Hu Yaobang and Foreign Policy

7. Hu Yaobang's profile on international questions has during the last three years been rising rapidly. He has visited North Korea, Australia, New Zealand and a number of South Pacific countries. On these and other occasions he has increasingly made important statements about Chinese foreign policy. These have however occasionally backfired through his tendency to speak off the cuff to the press: a remark at a press conference last year led to the abandonment of plans for a US naval visit to China.

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ANNEX I: CHINA'S BILATERAL RELATIONS

1. China remains a good deal closer to the United States than to the Soviet Union. According to US statistics, in 1985 Sino-US trade increased by 27% to a total value of US\$7.7 billion; and contracts in many other fields are flourishing. China has 14,000 students in the USA. However there remain difficulties in the Sino-US relationship. The most important is Taiwan (see below), particularly regarding continued US arms sales. Others are Chinese concern at protectionist pressures in the US, particularly on textiles, and US reluctance to transfer advanced technology.

2. There have been few signs of significant improvement in Sino-Soviet political relations. There has been no progress on the "three obstacles", whose removal remains a Chinese precondition for improved relations (Afghanistan, Cambodia, and Soviet troop and missile deployments near the Chinese border). However, economic, scientific, technological and cultural relations are expanding rapidly. The most significant development has been the signing of a 5 trade agreement in July 1985, which targets the annual value of total trade to rise to US\$3.7 billion by 1990. According to Chinese statistics, the level of trade increased by 38.1%. But although the increased level of contacts in recent years has dissipated the military tension of the late 1960's, the political atmosphere remains cool. The Chinese rule out Party-Party contacts for the foreseeable future, and recently publicly denied Soviet reports that an exchange of visits by Foreign Ministers had been agreed for 1985. There is no reason to predict dramatic progress in political relations in the foreseeable future.

3. Geographical proximity and economic complementarity ensure that Sino-Japanese relations are important bilaterally and, increasingly, within the Asia-Pacific region. Japan is China's largest trading partner and China is fourth among Japan's trading partners. Sino-Japanese relations have been passing through a difficult phase, largely because of Japan's increasing trade surplus. The Chinese have also been concerned at a visit by Mr Nakasone to a shrine associated with militarism. Although it is not clear how the considerable trade imbalance (US\$6.2 billion) will be adjusted, it is unlikely that these difficulties will be allowed to threaten the relationship seriously.



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4. Taiwan also remains a major Chinese preoccupation. Under the "one country two systems" formula, the Chinese have offered even greater autonomy than for Hong Kong. In a new departure, and a sign of Hu Yaobang's close personal interest, he recently told a US academic that the Taiwanese government was a legitimate government. The Taiwanese have consistently maintained that China's offers are insincere and until recently refused all official contact. However, following the defection to the mainland of a Taiwanese pilot, the Taiwanese airline agreed to negotiate in Hong Kong the return of the aircraft and crew. This has now taken place, also in Hong Kong.

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HU YAOBANG: GENERAL SECRETARY OF THE CENTRAL COMMITTEE OF THE CHINESE COMMUNIST PARTY (CCP) AND MEMBER OF THE STANDING COMMITTEE OF THE POLITBURO

1. Hu Yaobang was born in 1915 in Zhanghe, a small mountain village of some 30 households in Hunan Province in China's southwest. He is usually described as coming from a family of poor peasants although one report that the family lived in a nine-room brick house would suggest that it was comfortably off by the standards of the day. Hu also benefited from a relatively good education, attending primary and middle school. He has one brother, who is still alive.
2. Hu's revolutionary career began early. At the age of 14 he left his home village to join the Red Army. He joined the Communist Youth League in 1930 and three years later, at 18, was admitted into the Communist Party. He then became an official of the Communist Youth League, embarking upon work with young people which was to become a feature of his career. In 1934-35 he went on the Long March, the epic trek of 6000 miles from Jiangxi Province in the southeast to Yanan in the northwest, which the embattled communists undertook to escape the attacks of the Nationalists and establish a base from which they could fight on. Only from five to ten per cent of those who began the Long March arrived in Yanan. Hu himself suffered from a serious illness at its beginning (possibly malaria or typhoid) and later suffered shrapnel wounds to his hip. In Yanan he attended the Anti-Japanese Military and Political University.
3. Clearly Hu came through this desperate and testing period with great credit for in 1938, still only 23, he was appointed to the important post of director of the Central Military Commission's Organisation Department. Hu continued as a political officer working with military units throughout the War against the Japanese and the Civil War up to the establishment of the People's Republic in 1949. His appointment to the 2nd Field Army in 1945 probably brought him into close contact with Deng Xiaoping, who was the Political Commissar of the 2nd Field Army at this time. Since then Hu's career has run parallel to Deng's, sharing his disgrace in the Cultural Revolution and benefiting from his subsequent return to power in the late 1970s.
4. In the early years after 1949, Hu worked as a senior Party official in Sichuan Province in southwest China,

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where Deng was also active. They were both transferred to Peking in 1952, with Hu heading the New Democratic Youth League (formerly, and again subsequently the Communist Youth League), a position he would hold until the Cultural Revolution. In this capacity he led youth delegations to Romania, Albania and the USSR. For much of this time Deng was the General Secretary of the CCP Central Committee and the two men must have worked closely together once again. Hu's importance was confirmed by his election to the Central Committee in 1956.

5. Hu was an early victim of the Cultural Revolution. After being removed from the Communist Youth League in 1967, he spent (according to his own account) two and a half years in a stable and five more "sitting at home". He seems to have suffered relatively lightly however and was rehabilitated in 1972. He did not return to prominence until 1975 when Deng Xiaoping, by then also rehabilitated and a Vice-Premier, assigned him to the Chinese Academy of Sciences. There he tried to improve the treatment and conditions of intellectuals and helped to prepare an important report proposing a change in the role of intellectuals in Chinese society. This work won him the support of many intellectuals but also the enmity of the Maoist radicals. The report was attacked as a "poisonous weed" by the 'Gang of Four' and Hu disappeared in 1976 after Deng Xiaoping had once more fallen from power.

6. Deng's period in the wildeness was this time shortlived. He became politically active again in 1977 and from then on began the rise which would make him China's paramount leader, able to instigate the reform process that would have a thoroughgoing effect on almost all aspects of Chinese society. Hu Yaobang obviously figured in Deng's plans from an early stage. From 1977, Hu took on increasingly important positions in the Party hierarchy until, in 1980, he joined the Party's leading body, the Standing Committee of the Politburo, and assumed the Party's most senior position as General Secretary of the Central Committee.

7. As one of China's top leaders and an obvious successor to Deng Xiaoping, Hu has been a controversial and somewhat unconventional figure. Deng may well have seen in Hu's energy and drive just those qualities needed to overcome conservative resistance to change and to carry out reformes which challenge many long-held and

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almost sacred beliefs and practices. Although Hu's lifelong commitment to basic Marxist tenets and the Party cause cannot be doubted, he can probably be counted amongst the more openminded of China's leaders, impatient of ossified attitudes standing in the way of progress and welcoming new ideas. He has been subject to some criticism in the past for allowing more radical writers and theorists to express their ideas openly.

8. Hu is unconventional in his manner of expressing himself. In his public appearances he gives an impression of tremendous vitality, bordering sometimes on the frenetic. He is prone to making apparently off-the-cuff statements which subsequently have to be qualified. He does not project a statesmanlike image: indeed, many ordinary people feel he does not have the dignity appropriate to a top leader. This, together with the opposition which his ideas provoke among conservative members of the political and military hierarchies, has led to speculation that he may not in fact succeed Deng as China's leader. His age may also tell against him. Nonetheless, Hu remains a vigorous and shrewd politician who has built up an extensive network of supporters in key positions and he seems likely to remain an influential figure for some time.

9. Hu married his wife, Li Zhao, in the 1930s. She has now retired from a job in the textile industry. They have four children, three sons and a daughter. All are university graduates and married with children. One son is a chemical engineer, and the daughter the editor of a medical journal. Hu was reported in 1984 to take his daily exercise by walking 10,000 paces and to carry a pedometer to make sure he fulfills his daily quota. Like Deng Xiaoping, he is a keen bridge player, and is reported to like folk music. He smokes heavily.

10. In 1983 Hu visited Romania and Yugoslavia and in the same year went to Japan, his first visit to a non-socialist country. He toured the South Pacific, Australia and New Zealand in 1985. He had to call off some of his programme in New Zealand because of exhaustion. In May 1986 he accompanied Australian Prime Minister Mr Hawke extensively on his visit to China.

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Hunan, Hu Yaobang's Home Province

Hunan Province lies in south-central China. It has a population of 54 million, the majority of which is Han Chinese. Minority nationalities, such as the Dong (who are of Thai descent) and the Miao, inhabit some of the hilly border areas. The land is fertile and Hunan is known as one of the granaries of China. It is famous for its handicrafts, particularly embroidery, and its hot, spicy food.

The provincial capital is Changsha, a city of 2.6 million. It is noted for its marionette and shadow-puppet theatre. In the provincial museum is exhibited the remarkably well-preserved corpse of a woman who died 2000 years ago. The corpse was discovered in one of three tombs unearthed at Mawangdui in 1972.

Hunan Province is strongly associated with the communist revolution. The early Communist armies found refuge in the Jinggang Mountains on the borders of Hunan and Jiangxi Provinces in 1927. It was there that the Communists began their struggle with the Kuomintang (Nationalists), and from neighbouring Jiangxi Province that the Long March began. Many Communist leaders come from Hunan. Mao Zedong was born in Shaoshan Village, not far from Changsha, where he studied at teacher training college from 1912 to 1918. Former President Liu Shaoqi and General Peng Dehuai were also natives of Hunan. Mao's successor, Hua Guofeng, had been an important provincial leader there.

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LI PENG: MEMBER OF THE POLITBURO AND SECRETARIAT OF THE CHINESE COMMUNIST PARTY (CCP) CENTRAL COMMITTEE; VICE-PREMIER; MINISTER OF THE STATE EDUCATION COMMISSION

1. Li Peng was born in 1928 in Shanghai although his family come from Sichuan Province in southwest China and he spent some of his early years there. Li has good revolutionary credentials: his father was Li Shouxun, a communist guerrilla leader who was executed by the Nationalists in 1931. As a child he and his mother lived in the city of Chongqing, in Sichuan, where he attended school. From the age of 11 he was taken under the wing of Zhou Enlai, (already a prominent Communist Party leader and the future Premier), and his wife, Deng Yingchao, (herself a member of the Politburo between 1976 and 1985). They sent him to the Communist base area of Yanan in 1941, where he attended the Institute of Natural Sciences. He joined the CCP in 1945.

2. After completing his education in China in 1946, Li worked briefly as a technician in the power industry. He then studied hydropower at the Moscow Dynamics Institute between 1948 and 1955, during which time he was Chairman of the Federation of Chinese Students in the Soviet Union. On returning to China, he worked for ten years as an engineer and later manager of various power plants in northeast China. In 1966, at the beginning of the Cultural Revolution, he was transferred to Peking where he eventually took on the important post of Director of the Peking Power Administration Bureau and also served as the Secretary of its Party leading group.

3. Li's progress accelerated after 1979 when he became successively Vice-Minister of Power Industry, Minister of Power Industry and First Vice-Minister of Water Conservancy and Power. In the latter post he first gained responsibility for the Guangdong Nuclear Project and visited Britain in this connection in 1982. It became clear that Li was destined for high office in 1983 when he was appointed a Vice-Premier and was named by Hu Yaobang as one of five up and coming people who would be future leaders. As a Vice-Premier, Li has been responsible for the key sectors of energy, transport and communications, together with the electronics and computer industries. In 1985, he was additionally made head of the newly-formed State Education Commission, to preside over a major strengthening of the Chinese education system. (Note: there are currently five Vice-Premiers. Li's colleague and potential rival, Vice-Premier Tian Jiyan, visited Britain in 1985 with Premier Zhao Ziyang).

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4. Li's party status was enhanced when he joined the Central Committee in 1982. After his appointment as a Vice-Premier in 1983 he was widely recognised as a leading candidate to succeed Zhao Ziyang as Premier. His political standing was correspondingly raised in 1985 by his appointment to the Party Central Committee's Politburo and Secretariat.

5. Li's excellent political connections must have helped his steady rise in the political hierarchy. But he has served his apprenticeship in industry and has proved his ability at all levels of the government administration. He has probably succeeded on merit. As a relatively young technocrat (he has also studied computer languages and programming) he also meets the current criteria for advancement. He seems assured of considerable influence for the foreseeable future, whether or not he eventually becomes Premier. Li has a reputation for being practical and open minded, with a good grasp of detail and a dry wit.

6. He would not have been brought along so quickly since 1979 without fully supporting the reformist strategy of Deng Xiaoping. There is however some speculation that he may be more cautious about the pace and scope of reform than are some others. Li is among a growing number of people now coming into influential positions who studied in the USSR in the 1950s. This economic experience is therefore rooted in Soviet style centralism. Politically, it is rumoured that he also favours more rapid progress in Sino-Soviet relations and may even have been rebuked for being too forthcoming in his two meetings with Gorbachev in 1985.

7. Li is married with two sons and a daughter. His wife and children also work in the electric power sector. His hobbies are reported to be reading and cooking Sichuan-style food. He has travelled abroad frequently over recent years. Since his visit to Britain (and France) in 1982, he has visited the United States twice (1985 and 1986), the USSR twice, most Eastern European countries, North Korea, Canada, West Germany, Japan and several African countries. Li speaks fluent Russian and some English.

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FEI XIAOTONG

President of the Chinese Society of Sociology.
A Vice-Chairman of the China Democratic League.
A Vice-Chairman of the Chinese People's Political Consultative Conference.
A Vice-Chairman of the Committee for Drafting the Basic Law of the Hong Kong Special Administrative Region.

Fei is a distinguished anthropologist. After graduating in social science from Peking's Yanjing University, and continuing his studies at Qinghua University, (also in Peking) he came to London. After two years under Professors Malinowski and Firth, he completed a PhD in anthropology in 1938. When Fei left London Professor Malinowski suggested that he investigate the rural community in the interior of China.

Yanjing University was captured by the Japanese in 1937 and its research group established headquarters in the National Yunnan University in Kunming. Fei became a Professor of Social Anthropology there in 1939. In 1940 the university was bombed, and the group continued its research in a village nearby. There Fei collected material for his book, "Earthbound China". In 1943-44, at the invitation of the State Department, Fei went to the USA (Harvard and Chicago Universities) to prepare an English translation of this work. He then spent a further period in London, at the LSE.

Since 1949, Fei has made an extensive study of China's national minorities. He joined the State Commission for Nationalities Affairs in 1951, becoming a Vice-Chairman in 1957. In 1983, he was appointed adviser to the Commission.

Fei has long been involved with the Chinese People's Political Consultative Conference (CPPCC). This body, which provides a formal platform for distinguished figures and important secular interests (particularly those of intellectuals outside the Party, is the nearest in Chinese terms to a second chamber. Fei attended the first plenary conference of the CPPCC in 1949 and has since 1978 been a Vice-Chairman.

Fei has been persecuted several times. In 1946, when in danger of assassination by Chiang Kai-shek's supporters, the British Council arranged for him a travelling fellowship to Britain. In 1957, during the Hundred
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Flowers Campaign (in which intellectuals were, for a while encouraged to speak out), he was criticised as a rightist deviationist for expressing doubts about Party policy. After making a self-criticism in 1958, he was cleared of all charges. Nothing is known of his activities at the height of the Cultural Revolution from 1966 until 1972, when he reappeared at a reception for the American Sinologist, John K Fairbank.

Fei travelled to Denver, USA, to collect the Malinowski Prize for anthropology in 1980. His last visit to Britain was in 1981, when he was awarded the Thomas Huxley Prize by the Royal Anthropology Institute of Great Britain and Ireland. He has also visited Japan and Canada in the late 1970s.

Publications

1939	Peasant Life in China
1945	Earthbound China
1947	Systems of Child Bearing
	Rural China
1948	Rural Reconstruction
	Gentry Power and Imperial Power
1953	China's Gentry

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MR HU DINGYI

Mr Hu was born in 1921 in Chongqing, the largest industrial city in Sichuan Province. He studied at the (then Nationalist) Central University in Nanjing and began his diplomatic career in 1950. His first overseas appointment (in 1950) was as Third Secretary of the Chinese Embassy in New Delhi.

In 1954, Mr Hu was posted as Third (later Second) Secretary in the Office of the Chargé d'Affaires in London. After 4 years he returned to Peking for two years in Western European Department in the Ministry of Foreign Affairs. In 1960 he went to Accra, where he worked for six years as Second, (later First) Secretary. In 1972 he returned to London, for a seven-year posting, as Cultural, and Press Counsellor from April 1973. He then served in the United States, as Consul-General in San Francisco (1979-83) and as Minister in The Embassy in Washington (1983-84). He took on his present appointment as Ambassador in London on 15 April 1985.

Mr Hu is married with a son (studying business management in Canada) and a daughter in the Chinese Embassy in Lisbon. His wife, Madame Xie Heng was born on 9 September 1926 in Peking. She was Second Secretary in the Embassy during her husband's last posting. They share an interest in the theatre, including fringe theatre.

Mr Hu has an impressive command of English; his wife's is also excellent. She also has responsibility in the Embassy for town-twinning arrangements.

GUIDANCE ON PRONUNCIATION AND DESIGNATION

<u>Name and Title</u>	<u>Pronunciation</u>	<u>Abbreviated form of address for use in conversation</u>	<u>Standard of English</u>
His Excellency General Secretary of the Central Committee of the Communist Party of China (CPC) <u>HU YAOBANG</u>	HU rhymes with TWO YOW rhymes with COW BANG	General Secretary Hu (or Your Excellency)	None
His Excellency Vice Premier of the State Council of the People's Republic of China, <u>LI PENG</u>	LI rhymes with SEA PUNG rhymes with BUNG	Vice Premier Li (or Your Excellency)	None
Vice Chairman of the National Commission of the Chinese People's Political Consultative Conference, Professor <u>FEI XIAOTONG</u>	FAY rhymes with HAY SYOW rhymes with COW TOONG	Professor Fei (or Your Excellency)	Fluent
Head of the International liaison Department of the Central Committee of the CPC, <u>ZHU LIANG</u>	DJOO rhymes with TWO LEEANG " " SANG	Your Excellency	None
Vice Minister of Foreign Affairs, <u>ZHOU NAN</u>	DJOW rhymes with SHOW NAN	Your Excellency	Good
Special Assistant to General Secretary Hu Yaobang, <u>ZHENG BIJIAN</u>	DJUNG rhymes with HUNG BEE JYEN rhymes with HEN	Your Excellency	None
His Excellency the Chinese Ambassador to the United Kingdom, <u>HU DINGYI</u>	HOO DING YEE	Ambassador Hu (or Your Excellency)	Fluent

<u>Name and Title</u>	<u>Pronunciation</u>	<u>Abbreviated form of address for use in conversation</u>	<u>Standard of English</u>
Director of the Western European Department of the Ministry of Foreign Affairs, Mr <u>MEI ZHAORONG</u>	MAY DJOW rhymes with COW ROONG	Mr Mei	Good
Director of the Policy Research Department of the Ministry of Foreign Affairs, Mr <u>DING YUANHONG</u>	DING YOO-AN HOONG	Mr Ding	Good
Director of the International Liaison Department of the Central Committee of the CPC, Mr <u>ZHU DACHENG</u>	DJOO rhymes with TWO DA rhymes with CAR CHUNG rhymes with HUNG	Mr Zhu	A little
Director of the Protocol Department of the Ministry of Foreign Affairs, Mr <u>WU MINGLIAN</u>	WOO MING LYEN rhymes with MEN	Mr Wu	A little
Deputy Director of the Information Department of the Ministry of Foreign Affairs, Mr <u>LI ZHAOXING</u>	LEE DJOW rhymes with COW SHING	Mr Li	None
Deputy Director of the Third Bureau of the Ministry of Foreign Economic Relations and Trade, Mme <u>YANG DANHUA</u>	YANG rhymes with SANG DAN HWAR rhymes with FAR	Madame Yang	None
Deputy Director of the Security Bureau of the Ministry of Public Security, Mr <u>WAN JINGCHANG</u>	WAN rhymes with CAN JING CHANG	Mr Wan	A little

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MINUTE 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 F 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

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.

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,

/China

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

MEMORANDUM OF UNDERSTANDING BETWEEN THE UNITED KINGDOM OF GREAT BRITAIN AND
NORTHERN IRELAND, THE SIR YUE-KONG PAO FOUNDATION AND THE PEOPLE'S REPUBLIC OF
CHINA ESTABLISHING THE SINO-BRITISH FRIENDSHIP SCHOLARSHIP SCHEME

The Government of the United Kingdom of Great Britain and Northern Ireland (hereinafter called "the United Kingdom"), the Sir Yue-Kong Pao Foundation (hereinafter called "the Foundation") and the Government of the People's Republic of China (hereinafter called "China");

Confirming the proposals of Sir Yue-Kong Pao to establish a scheme to promote Sino-British friendship and to increase the opportunities for students from China to study in the United Kingdom;

Reaffirming the excellent relations between the United Kingdom and China especially their mutual interest in increasing the opportunities for study by students from China particularly in the fields of science, technology, economics and social science;

Have decided to implement the following arrangements to establish the Sino-British Friendship Scholarship Scheme.

1. There is hereby established the Sino-British Friendship Scholarship Scheme (hereinafter called "the Scheme") which will remain in being for a period of ten years from 1 April 1987.

Object and purpose of the Scheme

2. The object and purpose of the Scheme is to provide scholarships in the United Kingdom for students from China, particularly in the fields of science, technology, economics and social science, in order to enable them better to contribute to the modernisation and development of their country.

Financial arrangements for the Scheme

3. During the ten year period of existence of the Scheme:

i. the Foundation will contribute or cause to be contributed to the Scheme instalments of one million four hundred thousand pounds sterling (£1,400,000) per annum;

ii. China will contribute to the Scheme instalments of one million four hundred thousands pounds sterling (£1,400,000) or equivalent funds per annum;

iii. The United Kingdom will contribute to the Scheme instalments of seven hundred thousand pounds sterling (£700,000) per annum and the cost of management services provided by the British Council;

The Sino-British Friendship Scholarship Scheme Commission

4. There is hereby established the Sino-British Friendship Scholarship Scheme Commission (hereinafter called "the Commission"). The responsibilities of the Commission are:

i. to establish the administrative and financial arrangements of the Scheme having regard to the provisions of this Memorandum;

ii. to determine guidelines for the allocation of the scholarships with particular reference to subject areas of study, and duration of awards;

iii. to approve the annual programme of awards proposed by the Chinese State Education Commission and the annual budget put forward by each contributor;

iv. to monitor and scrutinise the implementation of the Scheme in order to ensure that all contributions are used effectively and in full;

v. to consider and approve the annual accounts provided by each contributor, and make necessary adjustments to the charges against each contribution according to actual expenditure;

vi. to decide on any amendments to the provisions of the Annex to this Memorandum;

vii. to determine any other relevant issues within the provisions of this Memorandum.

5. The United Kingdom, the Foundation and China will each nominate two members of the Commission. If for any reason a member cannot continue to serve, the relevant nominating party will appoint another member to replace him. The Commission will have one Chairman and two Vice-Chairmen. The tenure of office of the Chairman will be three years. Each nominating party will in turn appoint a member to serve as Chairman and the other two parties will each appoint a Vice-Chairman from their own members. The first Chairman of the Commission will be Sir Yue-Kong Pao.

6. The Commission will hold meetings at least once each year. Members of the Commission may consult each other by other appropriate means if necessary at any time. Its members will reach decisions by consensus. The place at which the Commission holds its meeting will be decided each time by the Commission.

Sino-British Friendship Scholarship Scheme: Scholarships

7. The Scheme will provide scholarships to Chinese students in fields consistent with the priorities of the Chinese civil modernisation programme with particular emphasis on science, technology, economics and social science. Scholarships will normally be for study and research by postgraduates, visiting scholars, and advanced research workers but can also be offered for industrial training.

8. The scholarships will normally be of the duration from six months to three years.

Selection of candidates for scholarships

9. Candidates will be selected on the basis of their aptitude and with the intention that on their return to China they will utilise the knowledge and expertise acquired during their study in the United Kingdom to the benefit of the development of China.

10. Candidates will normally be under the age of thirty-five years at the time of the commencement of the scholarship. Exceptions may be made in the case of visiting scholars and advanced research workers nominated for study lasting not more than twelve months. Candidates will have adequate proficiency in the English language.

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2. Contributions to the Scheme by the Foundation will be spent on the costs identified in paragraphs 3 and 4 of this Annex. Each year the Foundation's contribution will be allocated in advance by the Commission on the basis of the budgets and the planned programme of awards.
3. Contributions to the Scheme by China will be spent on international airfares and on living expenses incurred by the scholars while in the United Kingdom, on necessary course fees for English language tuition before departure and on other costs incurred in China, except the costs of management services, as approved by the Commission.
4. Contributions to the Scheme by the United Kingdom will be spent on tuition and bench fees including approved English Language Training in the United Kingdom, approved costs connected with the production of a thesis (where this is a requirement for a scholar taking a higher degree), a book allowance and on other costs incurred in the United Kingdom, except the costs of management services, as approved by the Commission. Discretionary allowances may also be made in respect of study visits or similar activities within the United Kingdom which form an integral part of the scholar's course of study.
5. All contributions and expenses will be accounted for in pounds sterling. International airfares and other expenses incurred in China will be accounted for in pounds sterling at the rate of exchange current at the date of expenditure.
6. The Commission will endeavour to plan the programmes of awards so that the full amount contributed annually is spent each year. Approved expenditure incurred before 1 April 1987 will be treated as part of the first year's contributions. Funds left over from the Foundation's contribution in any year will be used in the following year. Any funds unspent at the end of the scheme will be spent the next year on awards as determined by the Commission.
7. The Foundation will:
 - i. make recommendations, if any, to the Commission for the better implementation and financial administration of the scheme;
 - ii. make arrangements to enable the other contributors to receive funds from the Foundation as required to finance the approved budgets.
8. The Chinese State Education Commission will:
 - i. draw up the annual programme of awards and after consultation with the Cultural Section of the British Embassy in China submit the programme to the Commission for approval;

ii. select candidates for scholarships and provide the necessary completed application forms and medical reports, supplying other forms required by any regulations in force for the acceptance of foreign students for study in the United Kingdom;

iii. provide necessary English language tuition, normally lasting six months, for candidates before departure;

iv. arrange for all scholars to travel to the United Kingdom in accordance with study arrangements made by the British Council;

v. appoint the Chinese Embassy in the United Kingdom to monitor the academic progress and care for the well-being of scholars whilst in the United Kingdom, these responsibilities to be fulfilled in consultation with the British Council;

9. The British Council will:

i. place scholars in institutions of higher education and other appropriate institutions to study the subjects identified in the application forms and taking due account of the applicants' other preferences, consulting the Education Section of the Chinese Embassy in the United Kingdom in cases of difficulty, and notifying the Chinese State Education Commission of each placement;

ii. arrange for scholars nominated for awards to take the English Language Testing Service test in China except in those cases agreed by the Chinese State Education Commission and the Cultural Section of the British Embassy consulting together;

iii. provide postgraduate students and others whose awards are for one year or longer with up to three months' English language tuition in the United Kingdom if necessary under guidelines set by the commission;

iv. in consultation with the Chinese Embassy in the United Kingdom monitor the academic progress and care for the well-being of scholars whilst in United Kingdom;

v. report at least annually to the Chinese State Education Commission on the academic progress of each postgraduate scholar;

vi. pay fees and allowances as set out in paragraph 4 of this Annex;

vii. report at the end of each year on the implementation of each year's programme.

10. Applications for scholarships will be sent by the Chinese State Education Commission to the Cultural Section of the British Embassy in China. The Cultural Section will check nominations and forward them to the British Council in London. The British Council will consider applications for approval and will notify the Chinese State and Education Commission of every award.

11. Each year, after consulting each other as necessary, the British Council on behalf of the United Kingdom, the Foundation and the Chinese State Education Commission will submit draft budgets for their respective expenditure under the

Scheme to the Commission for approval. After six months of each year, each will report to the commission on expenditure, and the British Council will report on placements. At the end that year, each will account to the Commission for expenditure actually incurred.

12. Any proposal for extending an award by more than one month or for terminating an award will be acted on only if the Chinese State Education Commission and the British Council both agree, taking into account any guidelines set by the Commission.

SINO-BRITISH FRIENDSHIP SCHOLARSHIP SCHEME

POINTS TO MAKE

1. Very pleased to witness signature of this scheme with Hu Yaobang. Glad my discussions with Sir Y K Pao since December have borne fruit.
2. As well as educational benefits, Scheme will greatly increase opportunities for direct contacts between Chinese and British peoples.

SIGNATURE OF SINO-BRITISH FRIENDSHIP SCHOLARSHIP SCHEME

Background

In December last year, the Prime Minister agreed in principle that the UK would contribute to a scheme for more Chinese students to study in Britain which Sir Y K Pao had proposed to the Prime Minister and to Deng Xiaoping. A Memorandum of Understanding (MOU) was negotiated in May with officials of the Chinese State Education Commission (SEDC) and Mr Stephen Pan of Sir Y K Pao's London Office.

2. The Scheme will cost £35 million (expressed in sterling) over 10 years. The Chinese government and Sir Y K Pao will each contribute the equivalent of £1.4m pa; we will provide £700,000 pa. Sir Y K Pao's contribution, which will be provided through a foundation he has established for the purpose, will be channelled to either government as required during each year. In practice, most of the Foundation's contribution as well as all of HMG's will be spent in the United Kingdom on fees and related costs. The scheme will be called the "Sino-British Friendship Scholarship Scheme" (at Sir Y K's suggestion).
3. A Commission will oversee the scheme though as a representational rather than executive body. Each party to the MOU is to be represented by two Commissioners, including Sir Y K Pao himself, who is to be the first Chairman. The practical administration of the scheme at the UK end will be by the British Council, who will manage this programme much as they do our conventional training programmes for China.
4. The administrative costs of the British Council (probably around £250,000 pa) were a major difficulty in the negotiations. We had intended that these would be borne from the UK contribution. However, both the Chinese and Sir Y K Pao pressed strongly for HMG to cover these separately. Sir Y K Telexed the Prime Minister and the Secretary of State. The Prime Minister has now replied confirming that we will do so. This will allow the scheme to make around 350, rather than 300 new awards a year (if all awards are of one year duration).

RESTRICTED



5. More generally, we have been working vigorously for some time to increase the number of Chinese students in Britain. There are currently some 1400 (of whom just under half receive support from HMG), compared with around 800 in 1984/85. The primary channel is ODA. But China is also the greatest beneficiary under the FCO SAS Scheme (currently 58 awards; although this is outside the special arrangements for Malaysia, Hong Kong and Cyprus).

RESTRICTED

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Administration and funding of scholarships

11. The selection, language training and placement of candidates and the administration of their awards will be arranged through consultation between the State Education Commission and the British Council in accordance with the provisions of the Annex to this Memorandum.

12. The detailed administrative and financial provisions of the Scheme are set out in the Annex which forms an integral part of this Memorandum.

Done in triplicate at London this Day of 1986 in
the English and Chinese languages, both texts being equally authoritative.

For the Government of the United Kingdom of Great Britain and Northern Ireland:

For the Sir Yue-Kong Pao Foundation:

For the Government of the People's Republic of China:

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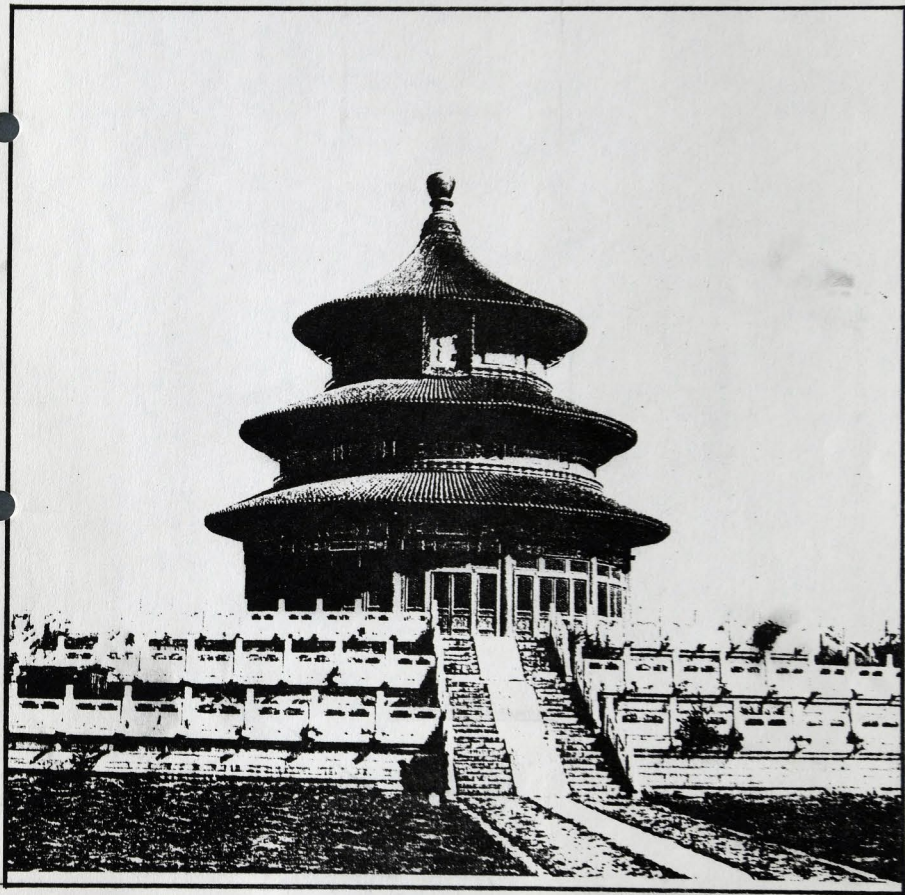
Scheme to the Commission for approval. After six months of each year, each will report to the commission on expenditure, and the British Council will report on placements. At the end that year, each will account to the Commission for expenditure actually incurred.

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GENERAL INFORMATION

THE PEOPLE'S REPUBLIC
OF CHINA

RA
Booklet
on
China 1988
X



JUNE 1986

ASIAN REGION RESEARCH DEPARTMENT
FOREIGN AND COMMONWEALTH OFFICE

GENERAL INFORMATION ON THE PEOPLE'S REPUBLIC OF CHINA

"Governing a large state is like boiling a small fish." (Lao Tzu)

<u>CONTENTS</u>	<u>PAGE</u>
MAP: POLITICAL	1
THE LAND AND THE PEOPLE	2
THE POPULATION OF CHINA'S PROVINCES AND OTHER ADMINISTRATIVE AREAS	5
MAP: PHYSICAL	6
HISTORY	7
CHINESE DYNASTIES	10
THE PEOPLE'S REPUBLIC	12
PARTY AND STATE STRUCTURE	15
	The Chinese Communist Party
	Government
	Foreign Relations
	The Armed Forces
THE STATE, PARTY AND GOVERNMENT LEADERSHIP	21
CHINA AND BRITAIN: A BRIEF HISTORY	25
THE ECONOMY	31
	General
	Agriculture
	Industry
	Transport
	Foreign Trade
STATISTICAL CHARTS	38
CONVERSION TABLE	40
SOCIETY	42
	Living Conditions
	Health and Welfare
	Education
	Legal System
	Arts
	Religion
HINTS FOR VISITORS	47
PRONUNCIATION OF PINYIN	49
CONTACTS	50

June 1986

Research Department
Foreign and Commonwealth Office

THE LAND AND THE PEOPLE

"All under Heaven is one Community" (Book of Rites)

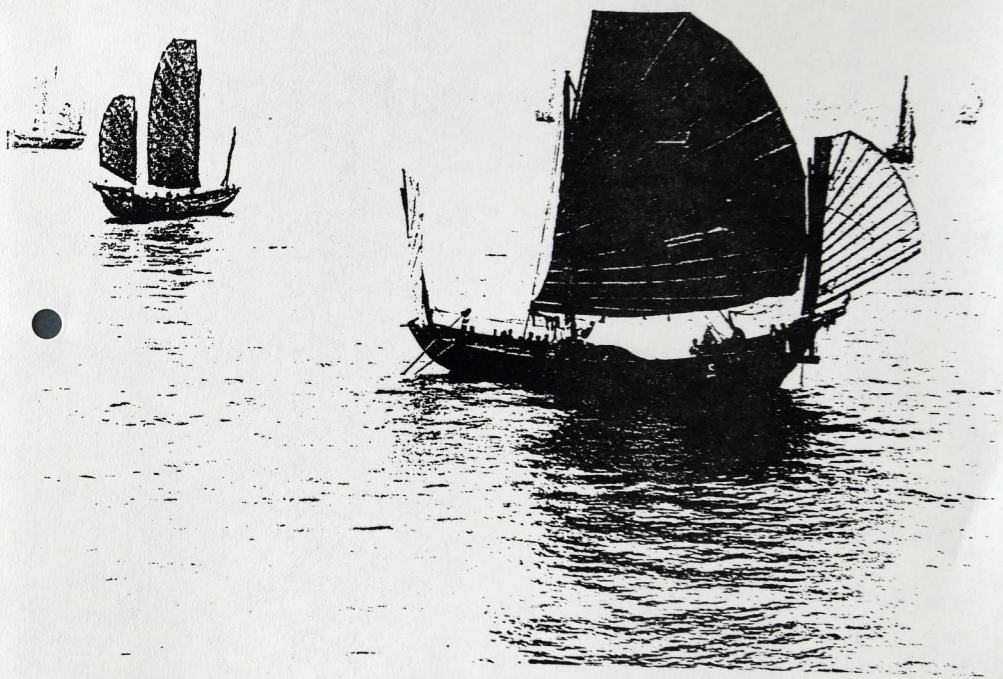
"The immense population of China, the richness of its soil, the variety of its product, the vast extent of its territory, and the facility of communication by land and water, the activity of its inhabitants, all united to render this nation the most commercial in the world ..." Abbe Huc, the Chinese Empire, 1859.

The People's Republic of China (PRC) is the world's most populous country. It lies roughly within the same latitudes as the United States. Its land area, about 3.7 million square miles (9.6 million square kilometres), is the third largest in the world, after the USSR and Canada. The country slopes down from the high mountains of Tibet and Central Asia to the Pacific coast, with three principal river systems, the Huanghe (Yellow River), the Changjiang (Yangtze) and the Xihe* (West River) descending to the coastal plains in a generally easterly direction. The Huanghe is known as "China's sorrow", due to its high propensity to flood. It carries the largest volume of silt of any of the world's rivers. 1600 million tons of silt per year enter the lower reaches: a quarter goes into the bed, half into the delta and a quarter ~~into~~ into the sea. Over the centuries the silt has raised the river bed above the level of agricultural land for many hundreds of square miles on either side of the river, and the inhabitants depend on the sound maintenance of the dikes for protection against the threat of flooding.

The topography is extremely varied. Less than one-sixth of the country is suitable for agriculture and this lies mainly in the eastern third, which is relatively flat though interspersed with mountain ranges. In the west are the mountains of the Qinghai/Tibet plateau (over two thirds of China is mountainous) and the deserts of Xinjiang. There are large areas of semi-arid grassland in the northeast. The climate is affected by the monsoon cycle. Temperatures vary from cool winters and hot summers in the southeast to extremely cold winters and hot summers in the north and the interior. Rainfall is heaviest in the southern coastal areas, diminishing gradually northward and westward towards the vast areas of desert and semi-arid land.

China has large energy and mineral resources but also problems of uneven distribution and poor quality. The eastern seaboard and the northeast which account for 73 per cent of industrial output have barely 10 per cent of total energy resources. Coal is plentiful in northern China but less so in the south. Water resources are ample but are in most cases remote from industrial centres, and the seasonal variation in river flow causes problems. 70 per cent of hydroelectric power is generated in the southwest. Although unexploited reserves of crude oil, including those offshore, are thought to be extensive, reserves currently exploited are viscous with a high proportion of heavy distillates. Iron ore reserves are

* Chinese names rendered in the Pinyin system, now the standard method of transliteration - a guide to Pinyin is attached.



JUNKS, SOUTH CHINA SEA

abundant but have a low iron content. China is well provided with manganese and many alloying metals essential for the development of the steel industry. It probably has the world's largest reserves of tungsten (wolfram). Resources of tin, mercury and antimony offer considerable development and export potential. China also has reserves of uranium, but is deficient in chrome, nickel, cobalt and copper.

The 1982 national census gave the population of the PRC as 1,008 million, of whom 80 per cent live in rural areas. Current policy aims at limiting annual natural population growth to 13 per 1000 and ensuring that the population in the year 2000 does not exceed 1200 million. In order to achieve this target a one child per couple policy, backed up by a series of formidable incentives and penalties has been instituted. Nearly nine-tenths of the people live in the eastern third of the country, where in some areas the density of population exceeds 1,000 persons per square mile. Some 6 per cent of the population are ethnic minorities living for the most part in the thinly populated peripheral areas. There are 55 such groups. Most numerous are the Zhuang in Guangxi, the Uygurs in Xinjiang and the Mongols in Inner Mongolia. Birth control policies are less strictly applied in minority areas.

The written language is uniform throughout the country. The standard form of spoken Chinese is based on a northern dialect. In China, it is normally referred to as "putonghua" (common speech) or because of its region of origin as "Beijinghua" (Peking speech). The term "Mandarin" is used abroad, but is not used in the People's Republic. There are many different forms of spoken Chinese particularly in southeast China. The differences may be compared with the differences in the Latin group of languages in Europe. Cantonese is the best known to foreigners because it is spoken by most Chinese in Hong Kong and most of those who have settled in Western countries. The Chinese often refer to themselves and their language as "Han". Most other ethnic groups have languages quite distinct from Chinese. Simplified forms of many Chinese characters have been introduced. A phonetic script with the Latin alphabet (Pinyin) is used for some purposes, but is not intended to replace characters in the foreseeable future.

THE POPULATION OF CHINA'S PROVINCES AND OTHER ADMINISTRATIVE AREAS

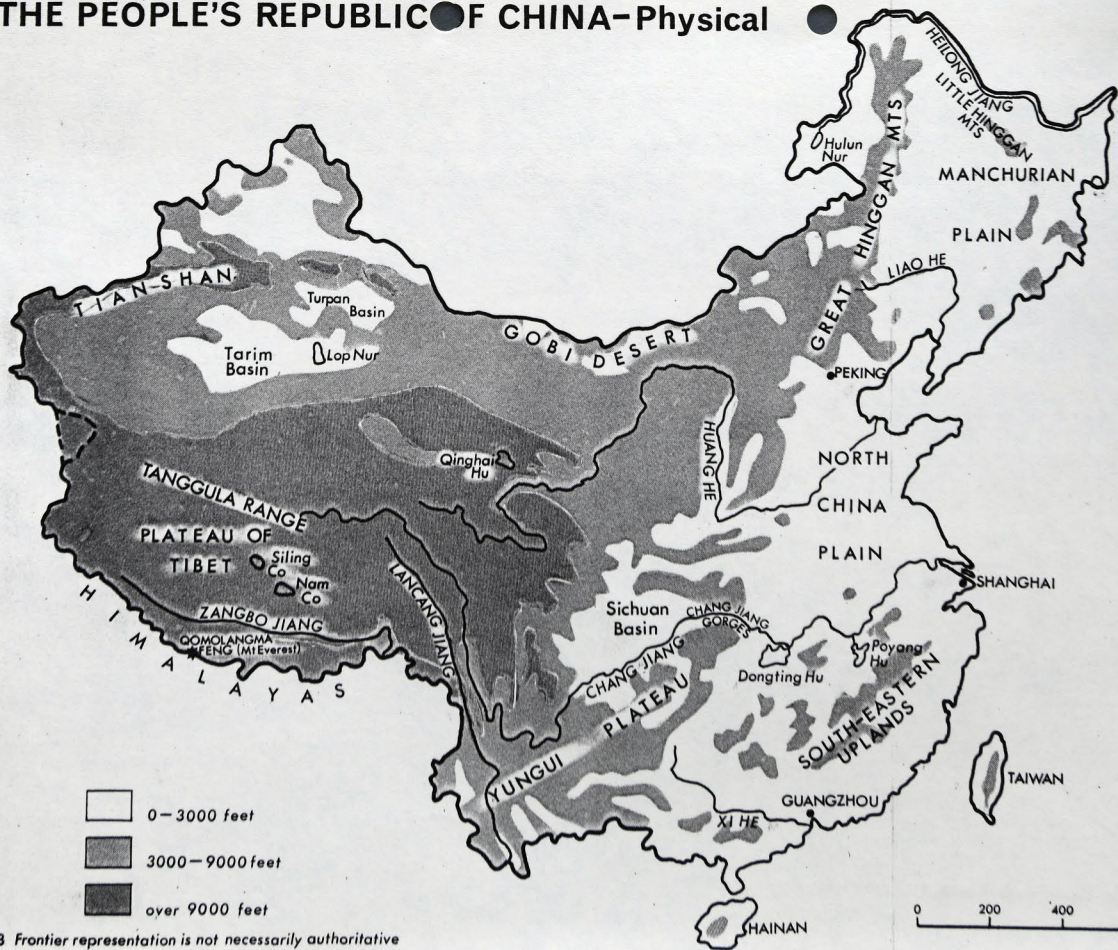
"Whenever you come by wine, then laugh and shout -
After all, how long does a man's life last?" (Wei Chuang, ?858-910)

	(millions)		(millions)
Anhui	49.7	Ningxia (Hui Autonomous Region)	3.9
Fujian	25.9	Peking (Municipality)	9.2*
Gansu	19.6	Qinghai	3.9
Guangdong	59.3	Shaanxi	28.9
Guangxi (Zhuang Autonomous Region)	36.4	Shandong	74.4
Guizhou	28.6	Shanghai (Municipality)	11.9*
Hebei	53.0	Shanxi	25.2
Heilongjiang	32.7	Sichuan	99.7
Henan	74.4	Tianjin (Municipality)	7.8*
Hubei	47.8	Tibet (Autonomous Region)	1.9
Hunan	54.0	Xinjiang (Autonomous Region)	13.1
Inner Mongolia (Autonomous Region)	19.3	Yunnan	32.5
Jiangsu	60.5	Zhejiang	38.9
Jiangxi	33.2	Armed Forces	4.2
Jilin	22.6		
Liaoning	35.7		
		<u>Total</u>	<u>1008.2</u>

* The figures for Peking, Shanghai and Tianjin include the following populations of the rural areas administered by the municipalities: Peking - 3.6 million; Shanghai - 5.5 million; Tianjin - 2.6 million.

These figures are taken from the 1982 national census.

THE PEOPLE'S REPUBLIC OF CHINA-Physical



NB Frontier representation is not necessarily authoritative

HISTORY

"The years cannot be recalled, nor time suspended; all is impermanent, waxing and waning, with each ending followed by a new beginning." (Zhuang Zi)

Chinese civilisation began in the Yellow River basin of northern China, an area of fertile loess (wind-deposited) soils, where neolithic agricultural communities developed in the 5th and 6th centuries BC. In 221 BC, the King of Qin completed the conquest of neighbouring states, and for the first time an extensive area of China was united under a single ruler. By this time cities and commerce had emerged with an administration capable of undertaking drainage and irrigation projects; agricultural and basic industrial techniques were well developed; and the bases of Chinese thought - Confucianism, Daoism (Taoism), and Legalism - had been established. During the Qin Dynasty and its successor, the Han Dynasty, the administrative system was further developed, weights and measures, the written language and the legal code were unified, and Chinese rule extended westwards and southwards.

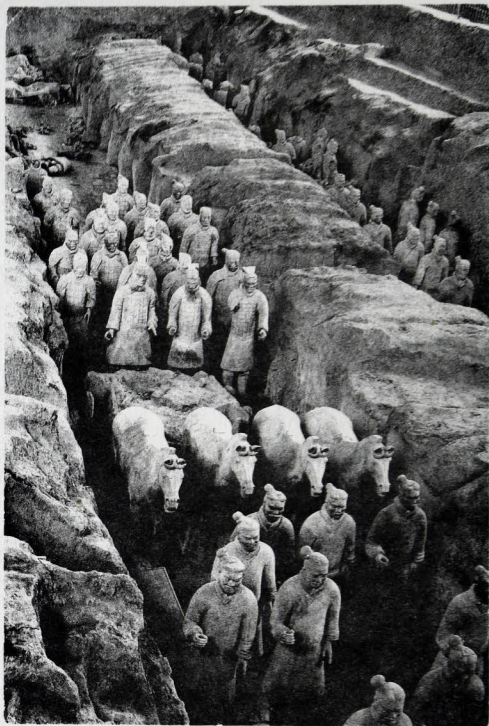
The Han Dynasty fell in AD 220 and China remained divided until reunited by the Sui in 589. The Sui gave way to the Tang Dynasty (618-907), when an effective Confucian bureaucracy was set up, Chinese culture flourished and Chinese rule spread into inner Asia. There was then a period of division in which the Chinese Song Dynasty ruled in southern China and the Mongols, under Genghis Khan, in the north. In 1279 Kublai Khan defeated the Song and reunited China under Mongol rule, with his capital at what is now Peking. The Mongols called their capital Dadu. The name Peking (northern capital) is now officially rendered as Beijing.

In 1368 the Chinese threw off Mongol rule. Under the Ming, the traditional Chinese economic and administrative system was perfected. In 1644 the Manchu people from the northeast conquered China and founded the Qing Dynasty. The Manchus had long been in contact with Chinese civilisation and took over the Ming system almost intact (although leading posts were reserved for Manchus). The Qing extended their rule over the Asian periphery of China, including Tibet, so that by the mid-eighteenth century the traditional Chinese Empire was at the height of its strength and prosperity.

During the nineteenth century the Qing faced repeated challenges from peasant revolts and the attentions of the western powers. Following the Chinese defeat in the first "Opium War" (1839-42), the Qing ceded Hong Kong island to Britain, and were forced to open certain ports to foreign trade. Further concessions were obtained by Britain and other powers, including the establishment of extra-territorial rights. At the same time a massive popular revolt, the Taiping Rebellion (1855-65), devastated much of central China. Half-hearted attempts at reform were made, but the dynasty never really recovered.

The Qing dynasty fell in 1911. A fluid political situation followed, in which many areas were under the domination of local warlords. The Nationalist Party led by Dr Sun Yat-sen (who died in 1925), and the Communist Party, whose founder members included Mao Zedong, were formed in 1912 and 1921 respectively.

A brief period of co-operation between the two parties came to an end in 1927 when the Nationalists under Chiang Kai-shek turned against the Communists. Communist guerrillas established bases in rural areas, the principal ones being in the southern province of Jiangxi from 1928 to 1934 and subsequently, following the Long March (1934-35), in the northwest around Yan'an in north Shaanxi. The two parties agreed on a "united front" against the Japanese in 1937, but after the Japanese defeat, full-scale civil war between the Communists and Nationalists resumed in 1946. In August 1949 the Nationalists took refuge on the island of Taiwan off the southeast coast which they continue to hold with some smaller islands, including the Jinmen (Quemoy) and Mazu (Matsu) groups close to the mainland. The Nationalists still claim to constitute the lawful government of China. Both the Nationalists and the Communists regard Taiwan as a province of China and oppose any idea of an independent Taiwan.



Terracotta figures from the tomb of
Qin Shihuangdi at Xian.

CHINESE DYNASTIES

"Better fifty years of Europe
Than a cycle of Cathay!"
(Lord Tennyson)

Xia	c 21st century BC - 16th century BC
Shang	c 16th century BC - 11th century BC
Western Zhou	c 11th century BC - 770 BC
Eastern Zhou	770 BC - 476 BC
Spring and Autumn period	770 BC - 476 BC
Warring States period	475 BC - 221 BC
Qin	221 BC - 207 BC
Han	206 BC - 220 AD
Three Kingdoms	220 - 280
(Wei, Shu, Wu)	220 - 280
Jin	265 - 420
Northern and Southern Dynasties	420 - 589
Sui	581 - 618
Tang	618 - 907
Five Dynasties and Ten Kingdoms	907 - 979
Song	960 - 1279
Yuan (Mongol)	1279 - 1368
Ming	1368 - 1644
Qing (Manchu)	1644 - 1911



ON GUARD - CULTURAL REVOLUTION WOODBLOCK

THE PEOPLE'S REPUBLIC

"You cannot chop rotten wood if you give up cutting. Persist and you can cut through gold and stone." (Proverb)

The People's Republic of China was established on 1 October 1949. The new government faced enormous problems of establishing administrative control and restoring an economy ravaged by warfare. Land was redistributed to the peasants and by 1953 the economy had been restored to its pre-1937 level. In a campaign which reached its peak in 1955 the peasants were organised into collectives and the remaining private industries passed into collective ownership. By 1956 the leadership felt confident enough to encourage greater intellectual freedom and launched the "Hundred Flowers" movement. However the criticisms proved unacceptable and the foremost critics were imprisoned during the subsequent "anti-Rightist" campaign.

The first Five Year Plan (1953-58) had been based on the Soviet model of development, with priority given to heavy industry. In 1958, searching for a Chinese model, Mao Zedong launched an ambitious economic programme known as the "Great Leap Forward" which involved the intensive organisation of agriculture through the commune system and the widespread development of small-scale local industries. The programme foundered, with problems aggravated by poor harvests from 1959 to 1961 and by the withdrawal of Soviet aid in 1960.

In 1959 Mao retired as Head of State, and was replaced by Liu Shaoqi. Under his direction, and that of the Premier Zhou Enlai, the economy gradually recovered. However Mao became increasingly concerned by the policies and style of their leadership which he regarded as revisionist. In 1966 he launched the "Great Proletarian Cultural Revolution" with the aid of his wife, Jiang Qing, and the then Defence Minister, Lin Biao, and encouraged the Red Guards, consisting mainly of students, to criticise the Party and Government. Officials at all levels, including Liu Shaoqi and Deng Xiaoping, then the General Secretary of the Party, were disgraced and the Party machine was all but destroyed. In 1967-68 violence and anarchy forced Mao increasingly to rely on the armed forces to maintain order and exercise control. In 1971, Lin Biao, who had been designated Mao's successor, was killed in an air crash while attempting to flee to the Soviet Union after the failure of a coup d'état. Following his fall the army's influence was reduced and many Party and Government officials were rehabilitated.

The last years of Mao's life were marked by an increasingly intense struggle for succession between those leaders who had come to power during the Cultural Revolution (such as Jiang Qing), and the old guard of the Party (personified by Zhou Enlai), many of whom had been rehabilitated after being disgraced in the Cultural Revolution. In 1973 Deng Xiaoping was rehabilitated, and was clearly intended by Zhou Enlai to succeed him. Zhou died in January 1976. He was succeeded as Premier (and as second to Mao in the Party) not by Deng but by the then relatively unknown Hua Guofeng. Deng was dismissed for a second time in April 1976. Mao himself died in September and

within a month, Jiang Qing and her associates (the "Gang of Four") were arrested, and Hua Guofeng was appointed Chairman of the Chinese Communist Party.

Deng Xiaoping was rehabilitated for a second time and restored to his former positions in 1977 and from then on increased his power at the expense of Hua, who lost his Party Chairmanship and Premiership to Deng's followers (the former in 1981 to Hu Yaobang and the latter in 1980 to Zhao Ziyang) and was eased out of all his leadership positions by September 1982. Although many elements of Mao's Thought have been retained he is now judged to have committed serious errors after 1957 and many of his ideas have been rejected and his policies reversed. Deng has been the driving force behind a thoroughgoing programme of economic and social reform aimed at modernising the economy, developing China's external relations (the "open door") especially with the West and implementing a limited and gradual liberalisation of Chinese society.



"ASK THE PUBLIC SECURITY OFFICER ! "

PARTY AND STATE STRUCTURE

The Chinese Communist Party

"If all men were equal in power, the state could not be unified; if all stood on the same level, there could be no government." (Xunzi)

There are three major hierarchies in China: the Communist Party, the government and the military. Of these, the Communist Party plays the leading role. There are Party branches in all organisations from the centre (government ministries and army general staff) down to local level. Important positions tend to be held by Party members who may hold concurrently posts in the Party, government and or military.

The smallest unit of the Party is the Party Branch, for example in factories, workshops, rural production brigades, offices, schools and shops. Above the branches is an interlocking system of congresses and committees with the National Party Congress and the Central Committee at the apex. Congresses are normally held at 5-yearly intervals and Central Committee meetings once or twice a year. There are approximately 40 million Party members.

The inner core of the Party leadership consists of the Politburo and the Secretariat. The Politburo has a small Standing Committee which acts as a kind of "inner cabinet" and is the supreme decision-making body. The senior Party post is that of the General Secretary of the Central Committee (currently Hu Yaobang). Broadly speaking, the role of the Politburo is to make policy and that of the Secretariat is to attend to the day-to-day work of the Central Committee and Politburo. Other senior central Party bodies responsible to the Central Committee are the Military Commission (through which the Party controls the PLA), the Advisory Commission (consisting of elderly, longstanding Party members) and the Discipline Inspection Commission.

In September 1985, a National Conference of Party Delegates was convened. About 20 per cent of the Central Committee and almost half of the Politburo resigned on grounds of age, to be replaced by younger, better-educated people who support the reform policies. In the Politburo, the average age has fallen from 68 to 56 years, and military representation has been reduced from nine to four members.

Government

"Heaven has its seasons; Earth has its resources; Man has his government. This means that man is capable of forming a trinity with the other two." (Xunzi)

A new State Constitution was adopted by the National People's Congress (NPC) - China's parliament - in December 1982. The Constitution is both a political and an organizational document. It defines "socialist modernization" as China's basic task. It stipulates that under the leadership of the Communist Party and with the guidance of Marxism-Leninism-Mao Zedong Thought the Chinese people will "uphold the people's democratic dictatorship and the

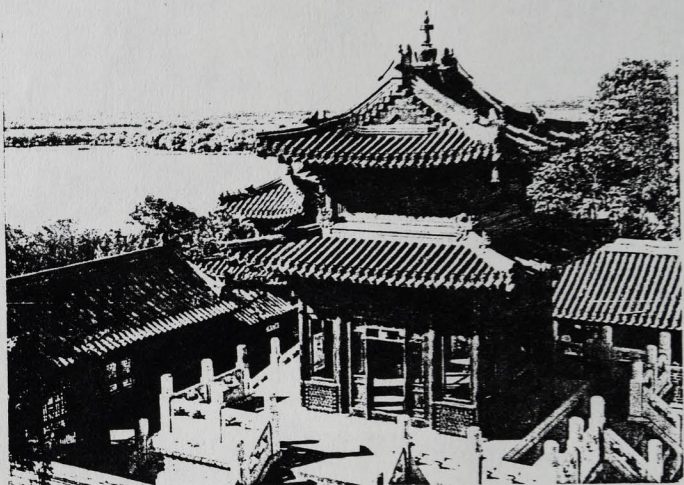
socialist road".

The NPC is described in the Constitution as "the highest organ of State power". The current NPC has 3,500 deputies. Representation is weighted in favour of urban areas by a factor of 8:1. Deputies are elected indirectly (see below). According to the Constitution the NPC has a five-year term and meets once a year. The NPC's powers include those to amend the Constitution, to pass laws, to make appointments to the major offices of State, to approve economic plans and budgets, and to decide on questions of war and peace. The Standing Committee of the NPC, which at present has some 175 members, is empowered to carry out the functions of the Congress between sessions.

The State Council is the executive organ of the NPC, and the highest level of State administration. It consists of the Premier, who presides over the work of the State Council, the Vice-Premiers, the State Councillors and the Ministers. As a result of the 1982 streamlining of the government apparatus, the number of Ministries, Commissions and other agencies under the State Council was cut from 98 to 52, with a reduction in staff of one third (from 49,000 to 32,000). Many of those over 65 were retired, while others were retained as advisers. Zhao Ziyang assumed charge of a new Commission for Restructuring the Economic System. The number of Vice-Premiers was reduced from 13 to 2 (the number has since been increased to 5). Most Vice-Premiers became State Councillors, with or without portfolio. The establishment of the Education Commission in 1985 brought the number of State Commissions to 9.

China is divided administratively into 21 provinces (excluding Taiwan), 5 autonomous regions, and 3 special municipalities (Peking, Shanghai and Tianjin). The autonomous regions - Inner Mongolia, Guangxi, Ningxia, Xinjiang and Tibet - are areas inhabited by ethnic minorities for whom certain special constitutional provisions are made, but the status of a region is in most respects similar to that of a province. The lowest level of state administration comprises small towns, districts of cities and rural townships (xiang) which are being reintroduced to take over administrative responsibilities from people's communes. (The latter were established in 1958 and combined economic management and administrative functions.) The system of local government is patterned on that of the central government. At each level from the province down there are local people's congresses whose executive arms are the local governments. The local government is also responsible to the government at the next highest level in the hierarchy.

Deputies to the people's congresses up to and including the level of county are elected directly. Deputies to congresses at higher levels are elected by the congresses immediately below them. The electoral law (a new version of which came into force on 10 December 1982) stipulates that at all levels election is by secret ballot. Anyone over the age of 18 has the right to vote and stand as a candidate, except those who have been deprived of their political rights by law. The number of candidates should exceed the number of places to be filled.



SUMMER PALACE PEKING

Foreign Relations

"What we need to learn from Europe is science, not political philosophy." (Sun Yat-sen)

The Soviet Union was the first country to establish relations with the People's Republic of China, on 2 October 1949. The new government was quickly recognized by the Communist countries of Eastern Europe and soon after by a number of other countries, including the United Kingdom on 6 January 1950. China's differences with the Soviet Union came into the open in 1960 when Soviet technicians and aid were withdrawn. During the Cultural Revolution, China's foreign relations were at a low ebb. However, during the 1970s, China moved increasingly out of its former isolation. In 1971 the People's Republic was voted into the China seat at the United Nations, and is a permanent member of the Security Council. In early 1972 President Nixon visited Peking. The USA and the People's Republic of China agreed on full diplomatic relations in December 1978. Over 120 countries now have diplomatic relations with China. The People's Republic is now a member of all the specialised agencies of the United Nations and of most major international organisations, eg the International Atomic Energy Agency and the International Monetary Fund.

Although the United Kingdom recognised the People's Republic of China in 1950, the Chinese government did not agree formally to exchanging diplomatic representatives until 2 September 1954. Representation was at the level of Chargé d'Affaires until 13 March 1972 when agreement was reached to exchange Ambassadors.

The main aims of China's foreign policy are to develop good relations with those states which can assist it (with technology, capital and expertise) in carrying out its modernisation programme and to counter external threats, which are seen as coming chiefly from the Soviet Union. These aims have determined that China develop close ties with the West, especially the United States, and Japan. Nonetheless China maintains that she pursues an independent foreign policy, free from the domination of any other country, and perceives the ambitions of both superpowers to be the main causes of instability in the world and the greatest threats to world peace. China counts herself a member of the Third World.

The Armed Forces

"You may have won the empire on horseback, but you cannot govern it on horseback." (Adviser to the Han court)

The Armed Forces consist of the People's Liberation Army (PLA - a name applied to all three arms of service) and the Militia. The concept of "people's war", in which the PLA together with the Militia would fight a mainly defensive war in the event of a major invasion of China, is still an important element in Chinese strategic doctrine. Much of China's military equipment is based on Soviet designs of the 1950s and is now out of date. The modernisation of national defence is one of the 'four modernisations', but China's ability to produce modern armaments suffers from both economic and technological constraints. Although military spending

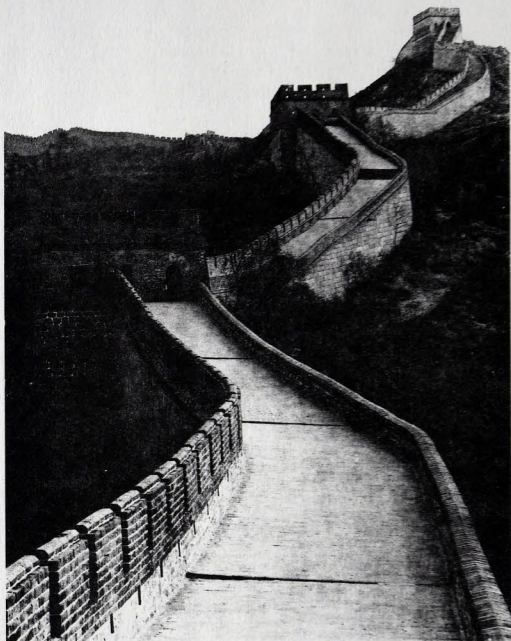
is difficult to gauge precisely, it has probably remained fairly static over recent years. All-round economic development is regarded as a precondition for military modernisation. However, reform in the organisation of the PLA took a big step forward in 1985. It was announced that manpower is to be reduced by 1 million (a 25 per cent cut). The eleven military regions into which China was divided have been reorganised and streamlined into seven. Two-thirds of the demobbed regular soldiers have been officers. The trend is to replace the older officers who are retiring with younger, better-educated ones. Conscription regulations were published in 1985 - volunteers are now fewer, due to the success of the economic reforms in the countryside. New uniforms were unveiled to replace the previous baggy green and blue fatigues.

With the reduction in numbers in progress, it is difficult to know present army strength. In autumn 1985 it numbered some three million. It is deployed through the seven military regions under the control of the Ministry of National Defence, and is divided into Main Forces for strategic defence and Local Forces for local defence. The Militia, divided into backbone and primary Militia and believed to total more than 10 million, serves as a reserve for the Army. This, too, is to become a smaller, more professional body. The reorganisation of the military regions has increased their power and combat effectiveness. The command of armoured, artillery and chemical warfare units has been transferred to the military regions. Only the second Artillery corps (rocket unit) continues to be commanded by the General Staff headquarters.

The Chinese Navy numbered some 350,000 in autumn 1985, with 2 nuclear-powered submarines, 107 diesel submarines and 44 major surface combatants. It is divided into three Fleets (the North, East and South Sea Fleets) of which the North is the strongest. It is still primarily a coastal defence force, though with the number of its Luda class destroyers slowly increasing, it is beginning to develop a 'blue-water' capability. The Chinese Naval Air Force comprises some 1,000 aircraft, most of which are intended for the defence of naval installations.

The Air Force is basically an air defence force with few bombers in a total of about 5,300 combat aircraft, the majority of which are Chinese-produced MiG-19s. The half million personnel of the Air Force include more than 200,000 assigned to aircraft control and warning, surface-to-air missile (SAM) sites and anti-aircraft (AA) units. China's few SAM sites are concentrated near industrial, population and military centres.

The Chinese nuclear testing programme began in 1964. China now has about 300 nuclear warheads which can be delivered by both land and sea missiles as well as by conventional bomber aircraft. The Chinese have a small number of inter-continental ballistic missiles and claim to have successfully carried out the testing of a submarine launched ballistic missile in 1985. The "Long March 3" rocket has proved successful in launching satellites, and the Chinese government is offering launch facilities for sale abroad.



The Great Wall

THE STATE, PARTY AND GOVERNMENT LEADERSHIP
(as at May 1986)

"(The Chinese) are remarkable ... in the excellence of their apparatus for impressing ... the best wisdom they possess upon every mind in the community, and securing that those who have appropriated most of it shall occupy the posts of honour and power".
(J S Mill)

	<u>Date of Birth</u>
<u>1. State Leaders</u>	
President of the People's Republic of China .. Li Xiannian	1909
Vice-President	Ulanhu 1906
<u>2. CCP Leaders</u>	
<u>Members of the Politburo</u>	
(* indicates member of Politburo Standing Committee)	
*Chen Yun	1905
*Deng Xiaoping	1904
Fang Yi	1916
Hu Qili	1929
Hu Qiaomu	1912
*Hu Yaobang	1915
Li Peng	1928
*Li Xiannian	1909
Ni Zhifu	1933
Peng Zhen	1902
Qiao Shi	1924
Tian Jiyun	1929
Wan Li	1916
Wu Xueqian	1921
Xi Zhongxun	1913
Yang Dezhi	1910
Yang Shangkun	1907
Yao Yilin	1917
Yu Qiuli	1914
*Zhao Ziyang	1919
<u>Alternate members</u>	
Chen Muhua (f)	1921
Qin Jiwei	1911
<u>Members of the Secretariat</u>	
General Secretary - Hu Yaobang	1915
Chen Pixian	1916
Deng Liqun	1915
Hao Jianxiu (f)	1935
Hu Qili	1929
Li Peng	1928
Qiao Shi	1924
Tian Jiyun	1929
Wan Li	1916
Wang Zhaoguo	1941
Yu Qiuli	1914

2. The Government (State Council)

Premier	Zhao Ziyang	1919
Vice-Premiers	Wan Li	1916
	Yao Yilin	1917
	Li Peng	1928
	Tian Jiyun	1929
	Qiao Shi	1924
State Councillors	Chen Muhua (f)	1921
	Fang Yi	1916
	Gu Mu	1914
	Ji Pengfei	1910
	Kang Shien	1915
	Song Jian	1932
	Song Ping	1917
	Wang Bingqian	1925
	Wu Xueqian	1921
	Zhang Aiping	1910
	Zhang Jingfu	1909
Secretary-General	Chen Junsheng	1927

Ministries (listed alphabetically)

Ministers

Agriculture, Animal Husbandry and Fishing	He Kang	1923
Astronautics Industry	Li Xu'e	1929
Auditor-General of Auditing Administration	Lü Peijian	1928
Aviation Industry	Mo Wenxiang	1923
Chemical Industry	Qin Zhongda	1923
Civil Affairs	Cui Naifu	1929
Coal Industry	Yu Hongen	1928
Commerce	Liu Yi	1931
Communications	Qian Yongchang	1933
Culture	Zhu Muzhi	1916
Defence	Zhang Aiping	1910
Electronics Industry	Li Tieying	1937
Finance	Wang Bingqian	1925
Foreign Affairs	Wu Xueqian	1921
Foreign Trade and Economic Relations	Zheng Tuobin	1924
Forestry	Yang Zhong	1933
Geology and Minerals	Zhu Xun	1931
Justice	Zou Yu	
Labour and Personnel	Zhao Dongwan	1926
Light Industry	Yang Bo	1920
Machine Building Industry	Vacant	
Metallurgical Industry	Qi Yuanjing	1929
Nuclear Industry	Jiang Xinxiong	1931
Ordnance Industry	Zou Jiahua	1927
Petroleum Industry	Wang Tao	1932
Posts and Telecommunications	Yang Taifang	1927
Public Health	Cui Yueli	1920
Public Security	Ruan Chongwu	1933
Radio, Cinema and Television	Ai Zhisheng	1929

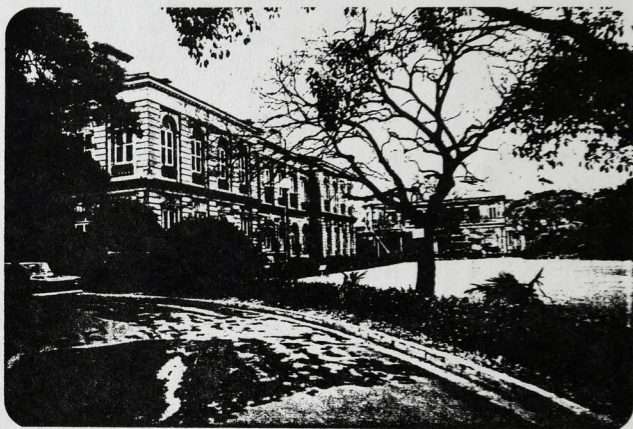
Railways	Ding Guan'qen	1930
State Security	Jia Chunwang	1938
Textile Industry	Wu wenying (f)	1933
Urban and Rural Construction, and Environmental Protection	Ye Rutang	1940
Water Conservancy and Power	Qian Zhengying (f)	1922

Commissions

Economic	Lu Dong	1915
Education	Li Peng	1928
Family Planning	Wang Wei	1915
Nationalities Affairs	Yang Jingren	1917
Physical Culture and Sports	Li Menghua	1922
Planning	Song Ping	1917
Restructuring the Economic System	Zhao Ziyang	1919
Scientific and Technological	Song Jian	1932
Science, Technology and Industry for National Defence	Ding Henggao	1931

Bank

People's Bank of China	Chen Muhua (President)	1921
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FORMER BRITISH CONSULATE-GENERAL, SHANGHAI

CHINA AND BRITAIN: A BRIEF HISTORY

"Commerce was the beginning, the middle, and the end of our life in China... If there were no trade, not a single man, except missionaries, would have come there at all" (C M Dyce, 1906).

The first British ships to reach Chinese waters were four trading vessels which arrived off the south east coast in 1637. The British were comparative latecomers to the China coast. The Portuguese had established a position at Macao in the 1550s and other Europeans followed. The first Britons met an unfriendly reception but they persevered and trading links were established. By the end of the 17th century, the East India Company had set up a factory in Canton. The East India Company, in theory, had a monopoly of British trade to China.

Attempts to establish diplomatic contacts were less successful. In 1596, Benjamin Wood set out with three vessels and a letter from Queen Elizabeth to the Emperor of China. Neither he nor the letter arrived, and only one man returned from the expedition. The leader of the next mission, Colonel Cathcart, drowned en route to China in 1778. When the first ambassador Lord Macartney did eventually arrive in 1793 he accomplished nothing, though he did manage to obtain audience with the Emperor Qian Long. Even that success was beyond the subsequent missions of Lord Amherst (1816) and Lord Napier (1834).

In common with the rest of Europe, Britain enjoyed a vogue of chinoiserie during the 18th century. Chinese-style furniture, porcelain and decorations were popular. China, remote and mysterious, was seen as the origin of many good things. There was much admiration, which persisted well into the 19th century, for China's system of government and education. Exotic plants and designs came from China. The Royal Pavilion in Brighton is only the most famous of the many Chinese influenced buildings erected at this time. The Chinese had a somewhat different image of England as the following quotation, taken from a Chinese writing in the mid-eighteenth century, would suggest:

"England is a country which belongs to Holland. The clothing and appearance of the barbarians is much the same in every part of the country. The country is quite rich. The men mostly wear woollen cloth, and like to drink wine. The unmarried women lace up their hips in their desire to be slim. They wear their hair falling loosely over the shoulder, with short clothes and several coats one above the other. When they go out they put on an overcoat overall. They keep snuff in metallic wire boxes and carry them about with them."

The traders on the China coast were not having an easy time. The Chinese authorities saw little need for the goods Europeans brought and imposed strict controls on foreign merchants. An Imperial Edict commented that while China could do without foreign goods, "the tea, the rhubarb, the raw silk of the Celestial land are the sources by which the said nation's (ie Britain) people live and maintain their life". Mutual intransigence, with much insistence on rights, did

little to help. Attempts by the British and other governments to put relations with China on a more understandable footing failed.

As the East India Company's preoccupations turned more and more to the government of its possessions in India, so its interest and control over the China trade declined. New and aggressive merchants, the forerunners of firms such as Jardines and Swires, increasingly successfully challenged the Company's monopoly.

It was the East India Company which had introduced the opium trade to China in order to balance Sino-Indian trade. Whatever the faults of the Company, it had attempted to keep some measure of control over its merchants. But with the ending of the monopoly in 1833, no such control existed over the new men who now began to dominate the China trade. More and more opium was pushed onto the China market and more and more of the merchants chafed at Chinese restrictions. Matters came to a head in 1839, when the Chinese authorities tried to suppress the use of opium throughout the Empire. British stocks of the drug were confiscated and destroyed.

The pent-up frustration of both merchants and the British Government and the continued Chinese refusal to behave like a Western European country led to war in 1839. This war, variously known as the "Opium war" or "the First Anglo-Chinese War", ended with the Treaty of Nanjing in 1842. The Treaty made no mention of opium, but secured Hong Kong as a British colony - much to the chagrin of the British Government, which dismissed it as a "barren rock". The Treaty also provided for the opening of a number of Chinese ports to foreign trade and foreign residence, attempted to put diplomatic relations between Britain and China on a regular western-style footing and laid down new trade and tariff regulations.

The British treaty was quickly followed by others. These added to the concessions gained by the British. All treaties became interlocking through the use of the "most favoured nation" device whereby benefits gained in one were automatically applied to all other treaty powers. These changes put a severe strain on a China already in considerable difficulties. The twenty years after the Treaty of Nanjing saw a series of rebellions against the Central Government. The breakdown of imperial authority provided foreigners with the opportunity, quickly seized, to free themselves of Chinese control. This was particularly the case at Shanghai, where the 1850s saw significant advance of foreign interests at Chinese expense. Tensions created by these developments and by Chinese attempts to reassert control led eventually to the second Opium War of 1856-1860. The treaties concluded as a result of this war allowed the foreign powers to station diplomatic representatives in Peking, extended trade and allowed foreign naval vessels to visit Chinese ports and provided for freedom of travel and missionary activity. In addition, Britain gained the territory of Kowloon as part of the Hong Kong colony. There were also further extensions in the system of extraterritoriality, the legal system under which foreigners, theoretically bound to obey Chinese laws, were in practice under British or other foreign law and legal procedures. First introduced by the United States treaty with China of 1843, it

was now put on a firmer footing.

There were some examples of cooperation between Britain and the Chinese Government. General Gordon (later of Khartoum) commanded the "Ever Victorious Army" which helped imperial forces suppress the Taiping rebellion of the 1860s. The Imperial Maritime Customs Service was organised and headed for many years by Sir Thomas Hart and this provided China with about its only steady, and incorrupt, source of revenue. Such activities are naturally not looked on with favour by China's present rulers, but even they do recall fondly the rescue by Dr Cantlie of Sun Yat-sen from kidnap and incarceration in the Chinese Legation in London in 1896. At a different level, Thomas Huxley's 'Evolution and Ethics' and Adam Smith's 'The Wealth of Nations' were translated into Chinese and published in 1896 and 1902 respectively. Somewhat later, in 1920, Bertrand Russell undertook a year long lecture tour of China.

The years following the Second Opium War saw a steady expansion of foreign influence in China, with the British in the lead. Britain's share of China's foreign trade was the largest of any country. British banks played a major part in Chinese economic development and British missionaries were active in the establishment of schools and hospitals as well as evangelisation. When foreigners won the right to establish manufacturing factories in China, in the treaty signed at the end of the Sino-Japanese war of 1894-95, British entrepreneurs were quick to take advantage of this new concession. By a convention signed in 1898, the New Territories were secured on a 99 year lease, thus extending British control over the area adjacent to Hong Kong.

China did not remain passive while these developments took place. Some Chinese enthusiastically embraced foreign things. Others opposed them. There were many incidents in which foreigners were attacked and in 1900 came the Boxer rebellion. After an initial period of success, the Boxers met defeat after a long siege of the Legation Quarter in Peking. The foreign powers exacted a huge indemnity.

The years immediately following the Boxer rebellion, up to about 1912, marked the height of Britain's position in China. They also marked a growing Chinese nationalism, which was encouraged by the fall of the Manchu dynasty in 1912 and the establishment of the republic. Britain, like the other powers, did not perhaps take Chinese nationalism seriously enough. Certainly, China's claims were ignored at the Versailles Peace Conference in 1919 and the former German concessions in China were given to the Japanese. This led to an outburst of anti-foreign feeling which did not subside for many years.

The 1920s and 1930s saw Britain gradually make some concessions to Chinese nationalism. Britain appeared indifferent to the growing Japanese influence in China, except where their own commercial interests were directly concerned. Like the Americans, the British appeared in Chinese eyes all too willing to appease the Japanese.

The Japanese attack on Pearl Harbour in 1941 changed that. The Sino-Japanese conflict, which had been going on since 1937, was now seen as part of a wider world war. In 1943 Lord Mountbatten, the Supreme Allied Commander, Southeast Asia Command, met the Nationalist leader Chiang Kai-shek and other Allied leaders in the southwest Chinese city of Chongqing to formulate strategy against Japan. Later in 1943 Chiang Kai-shek took part in the Cairo Conference with Winston Churchill and President Roosevelt. In the same year Britain gave up extraterritoriality and the other privileges gained since the Treaty of Nanjing in 1842. The only exception was the refusal to return Hong Kong to China.

The end of the second world war saw Britain's position in China much reduced. Although Britain remained economically important, in numbers and political influence the Americans now became the leading foreign power. Britain generally followed a policy of non-interference in China's civil war but the few incidental involvements which occurred (eg the Amethyst incident of 1949 in which the frigate HMS Amethyst was trapped in the Yangtze by advancing Communist forces and only escaped after several weeks and suffering heavy casualties) were seen as hostile acts by the Chinese communists. Britain was amongst the first to recognise the People's Republic of China on 6 January 1950 and Britain maintained diplomatic representation in Peking. The Chinese, while noting Britain's recognition, would not officially accept the presence of a British diplomatic mission until 1954, when an agreement was reached for the exchange of Chargés d'Affaires. Relations were impaired by the Korean war in which British and Chinese forces were on opposite sides, and by China's pressure on foreign businesses.

After 1954, relations improved. Trade, under very different circumstances, began to develop. A Labour Party delegation visited China in 1954 and the President of the Board of Trade went there in 1960. The onset of the Cultural Revolution in China in the mid-1960s however, put an end to the developing relationship. The spillover of the Cultural Revolution into Hong Kong led in 1967 to an attack on the British diplomatic mission in Peking in which the Chancery was burned down and the Chargés d'Affaires' residence sacked.

But as China came out of the Cultural Revolution's most extreme phase, relations began once again to improve. In March 1972, after lengthy negotiations, the respective diplomatic missions were raised to Embassy level. This was followed by a visit by the Foreign and Commonwealth Secretary, Sir Alec Douglas-Home and by a steadily increasing exchange of delegations. By the late 1970s, there were regular ministerial visits in both ways and in 1979, His Royal Highness the Duke of Kent paid the first official visit by a member of the Royal Family. Negotiations over the future of Hong Kong began in 1982 and were successfully concluded in 1984. During the negotiations, Mrs Thatcher, the Prime Minister, made two visits to China, where she had first gone in 1976, as leader of the opposition. By the terms of the Joint Declaration on the Future of Hong Kong, China will resume the exercise of sovereignty over Hong Kong from 1 July 1997. Britain will remain responsible for its

administration until then. A Sino-British Joint Liaison Group has been set up to facilitate consultation between the two Governments on areas relating to the implementation of the Joint Declaration.



No. 26.—Sale Pears Shant'ung

THE ECONOMY

General

"The accumulation of paces adds up to a thousand miles. The accumulation of streams forms great rivers." (Proverb)

Key factors in the Chinese economy are the need to provide food, consumer goods and employment for the vast and still growing population, the comparatively small amount of arable land (only about 15 per cent of the total), the undeveloped state of communications and energy supplies, the shortage of technical and managerial skills, and the presence of extensive mineral resources many of which are still undeveloped. Most urban enterprises (and all of any size) are owned by the State, while most land in rural areas is collectively owned. However, current policy is to encourage the growth of collectively - and individually - operated enterprises in towns. These are mostly small-scale service concerns, carrying out catering and repair work etc. Similarly in rural areas, most farming operations are now carried out by households or other small units. Collectively - or individually - run service or light industrial enterprises are also being encouraged. China's private economy is said to have almost doubled in size during 1985; private retail sales are now 13 per cent of total sales. More than 17 million work in the private economy (an increase of over 30 per cent from 1984) in individually-owned non-agricultural enterprises ranging from individual fruit carts to laundries. Private transport and construction firms have shown the most rapid employment growth. The new policies are aimed at raising efficiency and production, improving the much-neglected service sector and alleviating the problems of urban unemployment, which is considerable, especially amongst school-leavers, and rural under-employment. Three quarters of the work force, or some 300 million people, are engaged in agriculture, around 75 million work in State enterprises and some 20 million in collective businesses. China has some 21 million officials ("cadres" in the Chinese terminology).

The Chinese have declared the aim of turning China into a "powerful socialist country" through the "four modernisations" - of agriculture, industry, defence, and science and technology. Targets introduced in 1978 were abandoned as over-ambitious, and a programme of "readjustment" has been pursued involving greater emphasis on light industry at the expense of heavy industry, severe cuts in capital investment and the closure of uneconomic plants in order to bring China's budget back into balance. As a result of this policy, the economy has achieved greater sectoral balance. In 1978 the contributions of heavy industry, light industry and agriculture to total national output value were 41 per cent, 31 per cent and 28 per cent respectively. In 1984 each contributed about a third, but the investment and construction boom in 1985 made relatively greater demands on heavy industry; the figures for 1985 were 35 per cent, 31 per cent and 34 per cent. In his report to the 12th Party Congress in September 1982, Hu Yaobang put forward the target of quadrupling the value of gross industrial and agricultural production by the year 2000, thereby placing China in the "front ranks of the countries of the world" in terms of gross national income and the

output of major industrial and agricultural products. Economic progress since 1982 has been on course to achieve this target. Even if it is achieved, per capita income would, as the Chinese acknowledge, remain low compared with that of major industrial countries.

Within the framework of policies determined by the Party leadership economic activity is directed by various Commissions and Ministries. A State Commission for Restructuring the Economic System was set up in 1982, headed by Premier Zhao Ziyang. The State Planning Commission is responsible for drawing up long, medium and short-term plans on the basis of directives by the leadership. The State Economic Commission is responsible for supervising implementation of plans and coordinating the activities of the various ministries. Other economic departments include the Ministry of Finance and ministries responsible for various industrial sectors.

Since the late 1970s, reforms have been introduced which have altered the traditional methods of managing the economy. These reforms, endorsed in 1984 by a major Party document, constitute a thorough revision of economic theory and practices which have prevailed since the 1950s. Rigid bureaucratic control over economic units which left them with little incentive for improving performance, was diagnosed as the major cause of poor economic performance, low levels of efficiency and a low rate of technological innovation. The reform strategy is to relax controls over economic units and give them more freedom and material incentive to improve economic performance and respond to market forces. Attempts have been made to effect a reform of the price system so that prices, which have been set administratively, can better reflect and respond to market conditions. China is to become a "planned commodity economy" with central guidance of the economy being achieved through more varied and indirect planning methods which work through or take note of market forces.

Agriculture

"Recently the Yellow River overflowed its banks and for several years the harvests were poor. Therefore, I journeyed about the empire and performed sacrifices to the Earth Lord praying for the sake of the common people that the grain might grow well." (Emperor Wu of Han)

Agricultural production accounts for about a third of total output value. Although great efforts have been made to improve drainage, irrigation and water conservation, the harvest is still vulnerable to floods and drought. There has been a steady expansion in the volume and range of agricultural machinery produced, but the level of mechanisation is still far behind that of major western countries or Japan. The supply of chemical fertilisers has increased markedly and the practice of multiple cropping and the use of improved strains of seeds have also contributed to increases in output. The major food crops are rice and wheat, the former being produced for the most part in the southern half of the country. Other important food crops include soya beans, barley, maize, sorghum, oats and

potatoes; oil seeds such as rape and peanuts; sugar cane and sugar beet; tea and a wide variety of fruit and vegetables. Cotton is grown widely, especially in the Changjiang (Yangtze) and Huanghe (Yellow River) basins. Important industrial crops are tobacco, fibres, rubber and silk. Increases in the production of grain, the staple food, have until recently barely kept pace with population growth.

Since 1978 collective economic activities have been increasingly reduced. These were previously organised through the People's Communes. Smaller units, in most cases peasant households, now have more say in organising and carrying out agricultural work. This new, more flexible method of management is known as the "responsibility system". Households or other small units are contracted to supply to the commune or government purchasing agency a quantity of crops from an allotted area of commune land. The household has a wide area of choice as to how it fulfills this contract and any surplus produced is at its disposal. Households have a right to work the land allotted to them for a period of at least fifteen years. This land may be transferred from one household to another, provided this is approved by the commune. An area of commune land of up to 15 per cent of the total can also be divided between peasants for use without contractual obligations. Greater freedom has also been given to peasants to undertake "sideline operations" and to market what they produce. This policy, together with an increase in prices paid by the State for agricultural products and favourable weather conditions, has resulted in a marked improvement in agricultural performance.

Industry

"For the manufacture of useful things which constitute the necessities of life, the Chinese excel. They make them durable and suit them to the demand." (Anon, 1838)

Manufacturing industries are still mainly located in the coastal cities such as Shanghai and Tianjin and in the northeast region, although several new industrial areas have been developed since 1949. The rate of industrial growth averaged about 10 per cent per annum during the 1970s.

The northeast region is well supplied with iron and coal. In addition to the great iron and steel complex at Anshan, the industrial complex at Shenyang and the oilfield at Daqing, new enterprises have been established at Changchun (motor vehicles) and Harbin (electrical equipment and machine tools). Peking and Tianjin are the major centres in the northern region for machine building, but important new industrial areas have been developed at Taiyuan, Jinan (diesel engines and machine tools), Luoyang (tractors and mining machinery), and Zhengzhou (textiles). In east China, Shanghai is still the largest engineering centre and has become an important steel centre. New iron and steel combines have been established at Wuhan in central China, and at Baotou in Inner Mongolia. A third has been started at Baoshan near Shanghai, but the second phase of this project was suspended for a time in line

with the readjustment. In the southwest the principal industrial centres are Chongqing (machine building and iron and steel), and Chengdu (machine tools). Industrial development in the northwest is concentrated mainly at Lanzhou (oil refining, oil equipment and chemicals). and Xi'an (electrical equipment). Light industry is concentrated in the coastal areas. New factories have been set up for the production of textiles and other light industrial goods at inland cities such as Xi'an and in the last few years in the new Special Economic Zones in Guangdong and Fujian provinces.

Total industrial output value in 1985 (including village industries) reached 969 billion Yuan, 21.4 per cent more than 1984. Light industrial output value was 409 billion Yuan (18.1 per cent growth); heavy industrial output value 467 billion Yuan (18 per cent growth). The planned growth target for total output value for 1985 was 3 per cent. Shortfalls in energy production, despite a recent upturn in coal and oil production, are a serious problem for China's planners in view of the growth of domestic energy consumption and the significance of energy exports in the past for hard currency earnings. But in the longer term China's position is favourable and she should retain her self-sufficiency in energy supplies. From 1990 it is hoped that oil production will increase as off-shore fields are developed. Eighteen contracts with 27 foreign companies have been signed to explore for oil in the South China Sea, Yellow Sea and the Beibu Gulf. In May 1983 the first contract areas were awarded - in the Pearl River delta to a BP-led consortium. The first exploratory wells were sunk in the same year. Initial results however have not been encouraging and the willingness of foreign companies to undertake exploration has been affected by the recent fall in oil prices. It is also planned to double coal production and to increase hydroelectric power production. The potential for expansion of both is great. The Chinese have begun the construction of a nuclear power plant southwest of Shanghai. Negotiations are being conducted with foreign companies on the construction of a nuclear power station in Guangdong province, which would also provide energy for Hong Kong.

Because of its greater complexity, it has proved more difficult to apply the reform principles to industry than it has to agriculture. The progress of industrial reform has been uneven but generally speaking there has been a relaxation of central planning controls over industrial enterprises and a reduction in bureaucratic interference. Enterprises are now able to retain a proportion of their profits which they can devote to improving the welfare of employees or to increasing production. They can use resources now at their disposal to operate in the market, either as buyers of raw materials or to sell their own products. Within enterprises, managers are given greater authority and are given more say in deciding upon bonus payments, size of the work force and appointments and dismissals. A reform in the wage system is also aimed at increasing material incentives and ending egalitarianism. Enterprises are to become independent accounting units working on economic principles rather than links in an administrative chain of command with little incentive to make a profit or meet the needs of consumers.



NEW YEAR POSTER 1940

Transport

"I will not learn to ride a winged horse,
Fearing it will leave me to weep at a lonely roadside." (Juan Chi,
210-63)

Communications have been greatly expanded but remain under-developed in relation to China's size. Railways serve the main industrial centres and ports. The network is most developed in the east and northeast, but important extensions have been built to the western regions. By the end of 1984, the total track length was more than 52,000 kms compared with 22,000 kms in 1949. The road system has also been expanded. The nationwide highway length was 926,746 kms at the end of 1984 compared with 81,000 kms in 1949. Inland waterways are also an important feature of China's transport system totalling 109,000 kms. The Changjiang (Yangtze) is navigable for 2,500 kms up to Chongqing. The Grand Canal is the major north-south waterway linking Hangzhou and Tianjin. China's civil aviation routes cover 260,200 kms; 107,400 km of these are international. Half of freight traffic is carried by rail and 18 per cent by water.

Foreign Trade

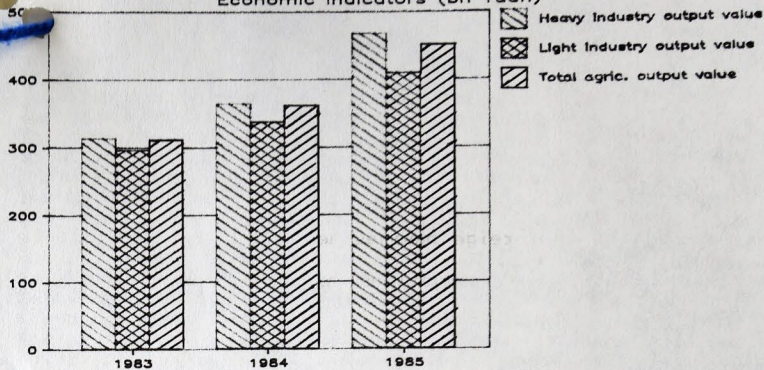
"The Chinese merchants are eager to have dealings with foreigners."
(Anon, 1838)

China's trade with the outside world expanded greatly during the 1970s. It is predominantly with non-communist countries, Japan, Hong Kong, the United States and West Germany being China's main trading partners. China's exports in 1985 were US \$27.4 billion, imports US \$42.3 billion, increases in value terms of 5 per cent and 54 per cent from 1984 levels. The resulting visible trade deficit of almost US \$15 billion is a serious problem which has led to attempts to control import growth and improve export performance. Foreign exchange reserves, though reduced, remain at a sound level. China's principal exports are food, raw materials, fuels and light manufactured goods, particularly textiles. Exports of crude oil and oil products have increased sharply since 1983 and account for about a quarter of export earnings: falling prices will make increases in total receipts difficult to achieve. UK exports to China were US \$514 million in 1985, imports US \$399 million. (1984 levels were US \$424 million and US \$372 million respectively).

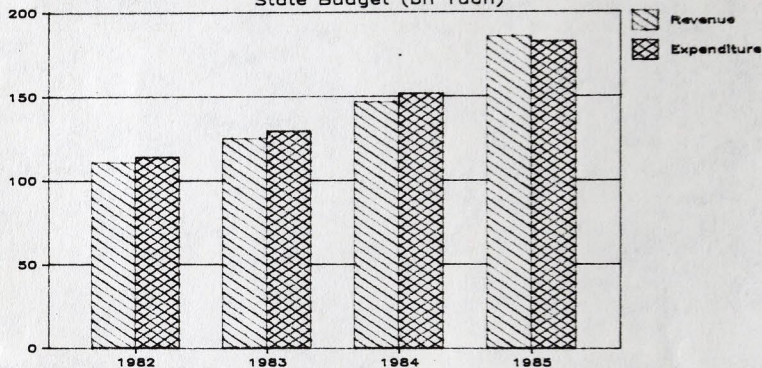
Over the last two or three years China has sought to introduce more flexibility into her foreign trade operations, allowing greater scope to the provincial level. Selected provinces, cities and even enterprises have been given varying powers to engage in commercial activities with foreign business concerns. Their activities are subject to overall supervision by the Ministry of Foreign Economic Relations and Trade. Many of these decentralised powers have been taken back by the centre, and various controls placed on imports, particularly of consumer goods, following the problems of 1985. The Bank of China has greatly expanded its overseas operations in recent years.

The China International Trust and Investment Corporation, established in 1979, promotes joint ventures with foreign companies for the manufacture of products mainly for export. Areas in Guangdong and Fujian provinces have been designated Special Economic Zones for the establishment of joint ventures and other export-oriented industries, although joint ventures are not confined to these zones. Fourteen major coastal cities and several coastal areas were 'opened' up to foreign businessmen and investors in 1984 and 1985. A law adopted in 1979 laid down the basic framework for joint ventures. Since then regulations have been promulgated on taxation and on the operation of the Special Economic Zones in Guangdong and Fujian. The Shenzhen Special Economic Zone (adjacent to Hong Kong) has grown rapidly since 1978, but foreign investment has favoured hotel and property development rather than industry. The Chinese have been disappointed by low levels of foreign direct investment and its limited contribution to production for export. Foreign investors have experienced many difficulties in China, including problems with repatriation of profits in hard currency.

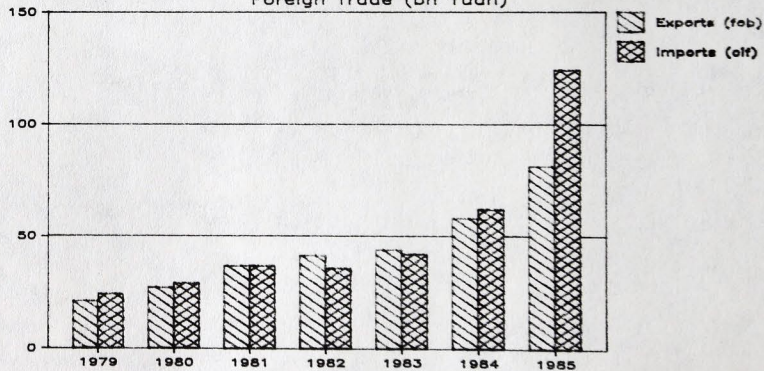
Economic Indicators (bn Yuan)

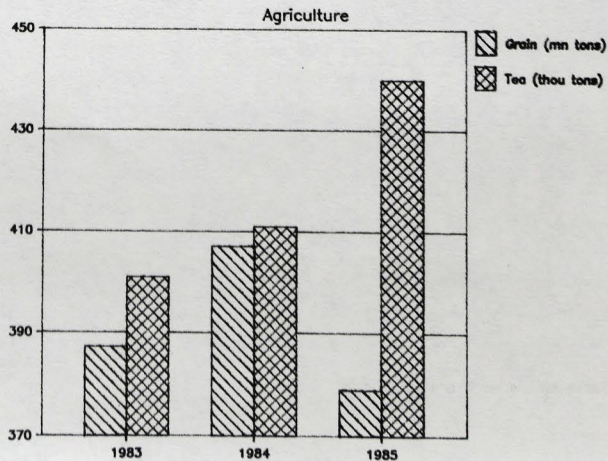
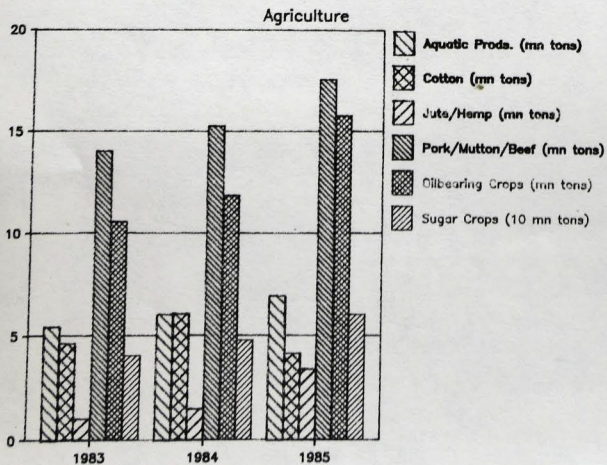
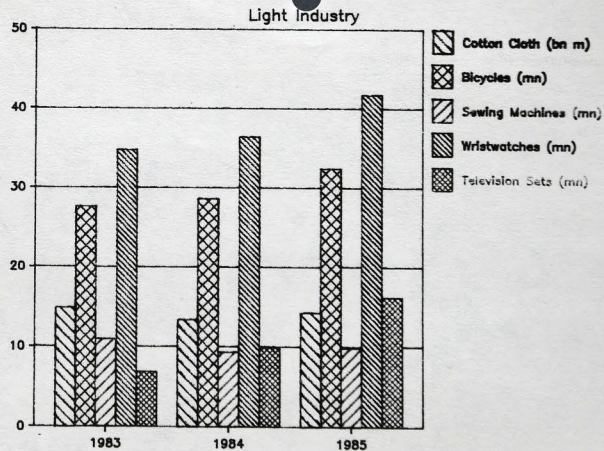
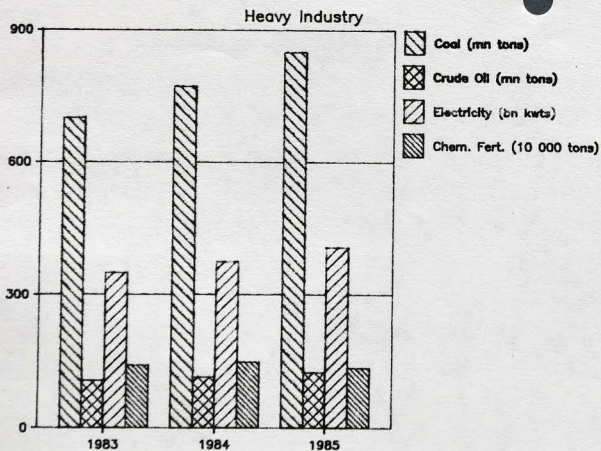


State Budget (bn Yuan)



Foreign Trade (bn Yuan)





CONVERSION TABLE

"To meet an old friend in a strange land is like timely rain after a long drought." (Jung Library Notes)

Weight

1 jin (catty) = 0.5 kilogramme = 1.1 pounds (approx)

1 pound = 0.907 jin

Length

1 li = 0.5 kilometre = 0.31 miles

1 mile = 3.219 li

Area

1 mou = 0.667 hectare = 0.164 acre

1 acre = 6.070 mou

(1,000 catties per mou = 7.5 tonnes per hectare = 2.99 tons per acre)

Currency

10 fen = 1 jiao (or mao)

10 jiao = 1 yuan (or kuai)

1 yuan = 25 pence (approx)

£1 = 4 yuan (approx)



MINORITIES -CULTURAL REVOLUTION WOODBLOCK

SOCIETY

Living Conditions

"Well levelled is the courtyard,
Firm are the pillars,
Cheerful are the rooms by day,
Softly glowing by night,
A place where our lord can be at peace"
(Book of Songs, 600 BC)

The average per capita income for rural Chinese in 1985 was 397 yuan (an increase of 11.8 per cent over 1984) and for urban Chinese 752 yuan (an increase of 23.8 per cent). With inflation running at 8.8 per cent, the increases in real terms were nearer 8.4 and 10.6 per cent. Salaries of professional workers (doctors, engineers, etc) may range from 60 up to 330 yuan a month. (There are over 4 yuan to the pound but official exchange rates do not give an accurate measure of the purchasing power of Chinese currency.) A new "structural wage system" was introduced in 1985 for government workers. Wages are divided into four parts: basic wage; allowance for specific duties; service length allowance, and bonus.

Almost two-thirds of family income is spent on food. The government has recently removed subsidies from many food products, and rationing has been abolished on all but grain and edible oils. Some food prices in the cities rose considerably in 1985: fresh vegetables by 34.5 per cent; meat, poultry, eggs by 22 per cent, and fruit by 35.9 per cent.

Between 1979 and 1984 the average consumption level rose by 57.7 per cent. Ownership of bicycles, radios and wristwatches is fairly commonplace. Colour televisions are now in high demand. Sales of washing machines and refrigerators in 1985 were fifty times greater than a few years ago.

Housing conditions remain cramped. The average per capita living space has increased: in urban areas, from 4.96 (1980) to 6.7 square metres (1985); in rural areas, from 9.4 (1980) to 15 square metres (1985). There are schemes afoot to build houses for private sale. Workers pay about one third of the sale price to the State, the shortfall made up by the state and employers. About 10,000 such homes have been built in Shanghai. Rent at present accounts for 3 per cent of income.

Savings have quadrupled since 1980.

Health and Welfare

"A good doctor first advises his patients how to eat and sleep and only then does he give them medicine." (Proverb)

China has 1.4 million doctors, including 324,000 specialising in traditional Chinese medicine. There are over 2.25 million hospital beds, an average of just over 2 per 1,000 people. Urban workers

generally receive their wages during periods of illness and are entitled to free medical attention but may be charged for drugs and for their board when in hospital. The Chinese government is now encouraging the development of private medicine to supplement its own health service. Private medical workers number some 80,000. Most of these are in the rural areas.

Industrial workers retire at the age of 60 (men) or 55 (women). They are entitled to a pension up to 90 per cent of their last monthly income, depending on length of service, and to free medical care.

According to a national sample survey begun in 1982, the Chinese diet has improved over the last 25 years, though it is still lacking in protein, calcium, riboflavin and iron. Calcium for babies and school-age children is only half the recommended amount. The average daily intake of calories is 2485, most of which comes from cereals and tubers. Average daily consumption of protein is 67 grams (about 2 ounces) - cereals provide nearly three-quarters of this.

Education

"Study without thought is a waste of time. But thought without study is dangerous." (Confucius)

In the early 1950s, 80 per cent of the Chinese population was illiterate or semi-illiterate. According to the 1982 census, that figure has fallen to 23 per cent. Education suffered a setback in the Cultural Revolution when schools were closed and teachers (along with all intellectuals) designated the "stinking ninth category". Now, however, it is recognised that education has an important role to play in China's modernisation process.

Numbers in Education

	Age	No of Students
Primary School	6-11 years	133.7 million
Junior Middle School	11-14 years	32 million
Senior Middle School	14-16 years	15 million
Technical Schools	14-16 years	4.165 million
Institutes of Higher Education		1.7 million

95.9 per cent of China's school-age children are enrolled in primary education, but education beyond primary level is still limited largely to urban areas. Institutes of higher education number 1016, and competition for entry is stiff. Adult education courses are on the increase, and 2 million people have taken television university courses since they began in 1979.

Greater numbers of Chinese students are going abroad to study. There are presently some 12,000 in America and 1200 in the UK. The number of foreign students in China is also increasing. There are now about 7,000 from 109 countries, mostly from the Third World.

The school curriculum is changing gradually. Computers are being introduced into selected schools. Peking had 1265 computers in its middle schools, and 10,000 students had taken computing courses by 1985. Sex education classes, formerly taboo, are entering the curriculum.

Legal System

"The law does not lean towards men of high station any more than the plumbline bends to fit a crooked place in the wood." (Han Fei Tzu, d BC 233)

Legal processes were interrupted during the Cultural Revolution but importance is now placed on restoring them. The judiciary consists of the People's Courts and the People's Procuratorates. The President of the Supreme People's Court and the Chief Procurator of the Supreme People's Procuratorate are elected by the National People's Congress. The leading personnel of the lower level Courts and Procuratorates are appointed by the local People's Congress at the corresponding level. Laws passed in 1979 stipulate that the courts and procuratorates are independent in the administration of justice.

A concerted effort has been made since the late 1970s to build up a complete body of laws. The major aim is to establish well-defined laws and legal procedures as a defence against the kind of arbitrary behaviour which took place during the Cultural Revolution. A second important element is the preparation of economic legislation to provide a stable framework within which China's new economic policies and growing commercial relations with foreign countries can take place.

China had 14,000 full- and part-time lawyers in 1984 and 6,800 notaries. There has been a marked expansion of legal studies at universities in the last few years.

Arts

"The use of literature lies in its conveyance of every truth". (Lu Chi, 261-303)

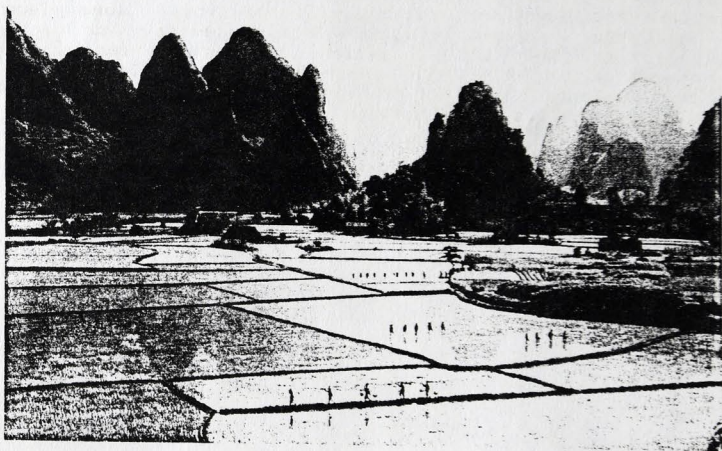
Since the overthrow of the "Gang of Four" in October 1976, there has been a marked revival in the arts. Numerous writers, artists and performers have been rehabilitated and allowed to practise their craft. These include some who were purged in the fifties, besides victims of the Cultural Revolution. Traditional art forms such as the Peking Opera once more use traditional themes, and some western art forms, such as ballet, are now being performed again. During 1985, 127 new feature films were produced. Over 17,000 new book titles were published in 1980; best sellers included a treatise on

economics by Xue Mugiiao, two reprinted classic Chinese novels, short stories by Mao Dun, and a detective novel; translations of 'Jane Eyre', 'Pride and Prejudice' and science fiction were also reported to have sold well.

Religion

"Get rid of strange doctrines in order to exalt the orthodox teaching". (Sacred Edict issued by Emperor Kang Xi, 1662-1723)

Official policy is to tolerate but not to encourage religion. The new Constitution provides for the freedom of religious belief, forbids discrimination against believers or non-believers, and stipulates that the State "protects legitimate religious activities". It also forbids the use of religion for "counter-revolutionary" purposes and to obstruct the educational system, as well as prohibiting any "foreign domination" of religious affairs in China. During 1980 the main recognised religions (Islam, Buddhism, Taoism and the Catholic and Protestant churches) all held national meetings to re-establish national-level religious associations. Some places of worship have been reopened which had been closed down during the Cultural Revolution; over 1200 Christian churches are reported to have been opened since 1979. There are some ten million Muslims, including many belonging to ethnic minority groups in northwest China, 6 million Catholics and 3 million Protestants.



GUILIN

HINTS FOR VISITORS

"Much courtesy displeases nobody." (Proverb)

References to China

Visitors should refer to "China" or "the People's Republic of China".

Terms such as "Red China", "Communist China" or "Mainland China" should be avoided. It is important to get the name of the country correct. "Republic of China" is the title used by the Chinese Nationalists on Taiwan and should be avoided.

The Civil Aviation Administration of China (CAAC) is the national airline of the People's Republic of China. It should not be confused with China Airlines (CAL), Taiwan's airline.

Time-Keeping

The Chinese are extremely punctual. Visitors should make sure that they are on time for appointments. Chinese visitors are likely to arrive exactly on time or even somewhat early.

Social Behaviour

Visitors are usually clapped on arrival at schools, and other institutions. It is customary for the visitors to clap back.

The Chinese are abstemious drinkers. At banquets, beer, wine, Chinese spirits such as Maotai will be served, as well as soft drinks. Although toasts are frequently drunk with a shout of "Ganbei", which literally means empty glass, it is not necessary or expected that visitors will drain their glass on each and every occasion. It is sometimes the practice for the host at a banquet to go from table to table clinking glasses with the guests.

It is politer to accept the topping up of one's plate or glass, and leave what is not wanted, than to decline what is offered. It is rude for guests to touch their chopsticks (or knife and fork) before the host.

Titles

It is now rare in China to use the equivalent of Mr, Mrs or Miss. Chinese will frequently use titles such as Professor or Secretary. When speaking English, Chinese people will of course follow Western practices. Married women in China usually keep their own surname; they are then addressed as "Madame" in English. If they use their husband's name, then Mrs is sometimes used.

Gifts

Gift exchange is not as well established in China as in some other East Asian countries. Gifts in general should not be too expensive.

Literature about the visiting organisation is perfectly suitable, as are standard glossy works on Britain, dictionaries, calculators, and technical literature. It is the custom to hand gifts to recipients with both hands. This is also a useful practice for other objects that are handed over, such as visiting cards.

Tipping is not customary in China, though in certain tourist hotels it is beginning to creep in. Instead of monetary tip, a small present such as a ball-point pen or a keyring is often acceptable. When shopping, it is not the custom to bargain in state-owned shops. Sometimes, however, bargaining is now found in the "free market".

Photography

Photographs may be taken freely, with the exception of military units. It is polite, however, to ask your hosts' permission first.

PRONUNCIATION OF PINYIN

The Pinyin system of romanisation of Chinese was devised in 1958 and used at first primarily as an aid to literacy. From January 1979 it was adopted as the standard method for use in foreign language publications in China.

Pinyin uses all the letters of the English alphabet, although V is only used for foreign or dialect words. The letters are pronounced approximately as in English with the following exceptions:

a	.....	as in far
ai	.....	as "y" in my
ao	.....	as "ow" in now
c	.....	as "ts" in its
ch	.....	as in church
e	.....	as "er" in her
ei	.....	as in rein
i	.....	there are two pronunciations: 1) as "ea" in eat 2) as in sir, in syllables beginning with the consonants "c", "ch", "r", "s", "sh", "z" and "zh"
ie	.....	as "ye" in yes
o	.....	as "aw" in law
ou	.....	as "ow" in low
q	.....	as "ch" in cheek
u	.....	there are two pronunciations: 1) as in too 2) similar to the French "u" in tu
x	.....	as "sh" in she
z	.....	as "dz" in adze
zh	.....	as "j" in jump

The Pinyin system of romanisation is used in this paper, except for cases where it remains customary to use the previous form, eg Peking (Beijing), and for some historical figures.

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PRIME MINISTER

VISIT OF HU YAOBANG

You will be spending most of Monday with Hu Yaobang.

There will be a Guard of Honour ceremony (Scots Guards) in the FCO Quadrangle at 1000. Immediately after, Hu Yaobang will accompany you to No. 10 for a courtesy call. I suggest that, as with Zhao Ziyang, we do this in the Cabinet Room going out onto the terrace if the weather is fine. I have asked Peter Taylor to serve tea and coffee. The courtesy call will end at 1030. Hu Yaobang will return to No. 10 at 1600 for the Signing Ceremony of the Sino-British Friendship Scholarship Scheme. We plan to do this in front of the press in the Pillared Room. The Foreign Secretary will sign with you and Hu Yaobang looking on benevolently. There will be no speeches. Sir Y K Pao is also invited. After the signing, champagne will be served. At 1630 the talks start in the Cabinet Room and continue until 1800. Hu Yaobang returns at 2000 for dinner. You attend a return dinner on Wednesday.

Not to put too fine a point on it, Hu Yaobang's visit is a swan. He has shown marked reluctance to do anything serious. He will lunch with The Queen, visit Stratford on Avon and Oxford (dining at Balliol) and go to the Tower of London. The atmosphere and trappings of the visit are therefore all important. There is no specific business to be done. Hu Yaobang has made plain that he does not want to discuss any specific commercial contracts.

I attach a full set of briefs and some suggestions for conversation at dinner. Although the briefs are detailed, it is worth reading the background material if you have time as well as the personality notes.

I suggest that in the formal talks, you as host, lead off with an opening statement. I attach a draft, covering international issues and Hong Kong. You could then deal with bilateral issues in a second intervention. You could invite the Foreign Secretary to amplify points as necessary.

C D POWELL
6 June 1986

C.D.P.

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no

ack
② B/P



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COVERING SECRET
Foreign and Commonwealth Office

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London SW1A 2AH

Prime Minister
6 June 1986
Re additional briefing material
is in the folder.

Dear Charles, with the idea of a private session
with Mr Yaobang does not look very
manageable. The best opportunity will be
over dinner. The Foreign Office proposal
looks a bit contrived
COP.

Visit of Mr Hu Yaobang, General Secretary of the
Communist Party of China, 8-12 June 1986

[in folder]

In my letter of 5 June, I promised to send you supplementary briefing on arms control, in the light of the past week's developments on SALT II. I now enclose this, together with two other supplementary briefs; Sir Geoffrey Howe, who is in The Hague, has not seen this material.

The first brief covers human rights in China. This is a sensitive subject, but there would be advantage in the Prime Minister raising it and we believe that this can be done in a way which will not cause offence. We would then be able to tell EXCO in Hong Kong that the Prime Minister had told Mr Hu of the importance we attach to the growing legal framework in China to protect individual rights and limit the powers of the Party and the bureaucracy to act arbitrarily (as in the Cultural Revolution). The points are probably best made outside the official talks, when Mr Hu would be constrained by having to take a position for the Chinese record. A further advantage of raising the subject is that it will provide a basis for answering any PQs or MPs letters which may seek to suggest that HMG adopts a double standard in criticising only the Soviet bloc record on human rights and not that of China.

We understand that Amnesty International plan to write to the Prime Minister asking her to raise some individual cases with Mr Hu (we would not recommend that she does so; but the line suggested in the brief would make it possible to reply constructively to Amnesty).

/Another

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Another enclosure covers nuclear safety. The Prime Minister's main brief already includes a point about the need for the Chinese to help to reassure the Hong Kong public, following Chernobyl, on the safety aspects of the Guangdong nuclear project. Since the brief was written, we have had a further report from the Governor of Hong Kong underlining the degree of public disquiet there; and Vice Premier Li Peng has reinforced to our Ambassador in Peking his wish to discuss this with Ministers here. Mr Walker and Mr Channon will be best placed to do so: they will have separate meetings with Vice Premier Li on 9 June (before the talks at No 10). There will probably be no need for the Prime Minister to go into any detail. But she may wish to see the brief we have provided for Mr Walker and Mr Channon. I enclose a copy.

Finally, we have now had a useful briefing (on a personal basis) from Mr Hawke's interpreter during his recent visit to China (a member of the Australian High Commission there). There is one point of which the Prime Minister should be aware. Mr Hu apparently had, at his own suggestion, a number of secret but very useful tete-a-tete discussions with Mr Hawke, ranging freely and informally over many international and Chinese domestic issues. At the same time, he indicated that he had been disappointed to find US interlocutors unwilling to discuss important international questions with him in such depth.

The Prime Minister may wish to consider creating the opportunity for a similar brief discussion after her dinner on 9 June. This would be regarded as a warm personal gesture: it would also provide an opportunity to get Mr Hu's frank and unconstrained views on China and world affairs; it would catch him in a receptive frame of mind to impress on him the Prime Minister's concept of a dynamic Britain in place of the stereotyped preconceptions that we fear he may have. As a guest, Mr Hu would not make such a suggestion himself.

There would be practical problems, particularly in arranging for guests to depart before the guest of honour. Also it would be important not to let it be thought publicly that a separate meeting had taken place so as to prevent speculation (particularly in the Hong Kong press) that some serious bilateral problem had arisen. One way of setting up an informal talk might be to offer the General Secretary a leisurely private tour of No 10. To create the right atmosphere numbers would have to be limited to a minimum (with Mr Hawke, Mr Hu insisted on two a side plus interpreters).

Yours ever

Robin [signature]

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

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Foreign and Commonwealth Office

London SW1A 2AH

6 June 1986

Dear Charles

Handwritten notes:
Prime Minister
This describes the short ceremony for signing this agreement: no speeches. Also details of the scholarship scheme.
CDP 6/6.

Sino-British Friendship Scholarship Scheme

You wrote on 23 May confirming that the Memorandum of Understanding establishing this Scheme should be signed by the Foreign Secretary, Sir Y K Pao and Vice-Premier Li Peng when Hu Yaobang calls on the Prime Minister at 1600 hours on Monday 9 June.

The other signatories are both very pleased that the ceremony will take place in the presence of the Prime Minister and Hu Yaobang, but they agree that it should be short, with no speeches. The Foreign Secretary will be prepared, if necessary, to make a few very brief remarks if this seems appropriate at the time, but it is not expected that the Prime Minister or Hu Yaobang should do so. Apart from those who will join the main discussions with Hu Yaobang, the following (as well as Sir Y K Pao himself) will be present for the signature ceremony alone :

(i) Mrs Anna Pao Fohmen, who will be Sir Y K Pao's fellow Commissioner representing the Sir Y K Pao Foundation on the Commission which will supervise the Scheme (Sir Y K Pao himself is to be the first Chairman); and

Mr Stephen Pan, who represented Sir Y K Pao in the negotiation of the Scheme;

(ii) the two Chinese Commissioners, Huang Xin-Bai, Chairman of the State Education Commission (SEDC) and Sun Ming, also of the SEDC who lead the Chinese negotiating team;

(iii) the British Commissioners, Sir Crispin Tickell, Permanent Secretary (ODA) and Dr Iredale, ODA Chief Education Adviser; and Mr Peter McLean of Eastern Asia Department ODA, who led the British negotiating team.

/The

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The Diplomatic Wing will be represented by **David Wilson**, who will also join the Prime Minister's talks with Hu Yaobang.

/ I attach a brief for the Prime Minister, with two short points to make in case she wishes to make use of them at the signature ceremony.

Yours ever

R N Culshaw

(R N Culshaw)

C D Powell Esq.
PS/No 10 Downing St

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SIGNATURE OF SINO-BRITISH FRIENDSHIP SCHOLARSHIP SCHEME

Background

In December last year, the Prime Minister agreed in principle that the UK would contribute to a scheme for more Chinese students to study in Britain which Sir Y K Pao had proposed to the Prime Minister and to Deng Xiaoping. A Memorandum of Understanding (MOU) was negotiated in May with officials of the Chinese State Education Commission (SEDC) and Mr Stephen Pan of Sir Y K Pao's London Office.

2. The Scheme will cost £35 million (expressed in sterling) over 10 years. The Chinese government and Sir Y K Pao will each contribute the equivalent of £1.4m pa; we will provide £700,000 pa. Sir Y K Pao's contribution, which will be provided through a foundation he has established for the purpose, will be channelled to either government as required during each year. In practice, most of the Foundation's contribution as well as all of HMG's will be spent in the United Kingdom on fees and related costs. The scheme will be called the "Sino-British Friendship Scholarship Scheme" (at Sir Y K's suggestion).
3. A Commission will oversee the scheme though as a representational rather than executive body. Each party to the MOU is to be represented by two Commissioners, including Sir Y K Pao himself, who is to be the first Chairman. The practical administration of the scheme at the UK end will be by the British Council, who will manage this programme much as they do our conventional training programmes for China.
4. The administrative costs of the British Council (probably around £250,000 pa) were a major difficulty in the negotiations. We had intended that these would be borne from the UK contribution. However, both the Chinese and Sir Y K Pao pressed strongly for HMG to cover these separately. Sir Y K Telexed the Prime Minister and the Secretary of State. The Prime Minister has now replied confirming that we will do so. This will allow the scheme to make around 350, rather than 300 new awards a year (if all awards are of one year duration).

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5. More generally, we have been working vigorously for some time to increase the number of Chinese students in Britain. There are currently some 1400 (of whom just under half receive support from HMG), compared with around 800 in 1984/85. The primary channel is ODA. But China is also the greatest beneficiary under the FCO SAS Scheme (currently 58 awards; although this is outside the special arrangements for Malaysia, Hong Kong and Cyprus).

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SINO-BRITISH FRIENDSHIP SCHOLARSHIP SCHEME

POINTS TO MAKE

1. Very pleased to witness signature of this scheme with Hu Yaobang. Glad my discussions with Sir Y K Pao since December have borne fruit.
2. As well as educational benefits, Scheme will greatly increase opportunities for direct contacts between Chinese and British peoples.



House of Lords

Prime Minister⁴
I have acted
N.L.W.
5.6

5 June, 1986

Dear Neil,

IN ATTACHED
FOLDER

Lord Wilson has asked me to send to the Prime Minister the enclosed brochure and material about the China Trade and Cultural Centre development in the London Docklands.

As you will know, Lord Wilson is a director of the ICE Group of Companies, which together with the Tienjin Province in China, are sponsoring the project.

In view of the visit to London next week of the Secretary General of the Central Committee Mr. Hu Yao Bang, and his meeting with Mrs. Thatcher, Lord Wilson felt she would want to know of this exciting development.

With kind regards,

Yours sincerely
Nigel Wicks

Nigel Wicks, Esq.
Principal Private Secretary

8/12

3 June 1986

I enclose a copy of a speech at the dinner in honour of General Secretary Hu Yaobang in a form which has been approved by the Prime Minister. I should be grateful if you could arrange for the text to be translated into Chinese so that it is available for distribution at the dinner.

BFI

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

(C. D. POWELL)

A. C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.

ECU

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Foreign and Commonwealth Office

London SW1A 2AH

5 June 1986



210

Dear Charles

Visit of Mr Hu Yaobang: Dinner at No 10 on 9 June

Your revised version of the Prime Minister's speech is now being translated and printed.

The dinner provides an excellent opportunity to try to rid Mr Hu of some possible misconceptions about the UK; and to impress on him what we can offer China as we both prepare to make countries with historical riches (and impedimenta) ready as world leaders for the 21st century. I attach some notes that the Prime Minister might find useful for the conversation over dinner.

The principal issues in China are: political organisation and succession; agriculture (including grain production) and what to do with surplus labour; problems of economic growth; the political role of China's armed forces; educating and motivating the youth of China on whom the future depends; and the threats China's communist leaders see from corruption, personal greed and a desire for greater freedoms. Put in these terms the issues are too stark to raise directly, although both Hu Yaobang and Li Peng have been much concerned with them during their careers. The notes we have provided seek to probe the subjects without causing the Chinese to clam up.

Anything said about recent Commonwealth visitors to China would be interesting. Mr Mulroney's discussion of human rights with Premier Zhao attracted some press interests, especially in Hong Kong (see attached report in the Hong Kong Standard of 13 May). During Mr Hawke's recent visit to China (when he was accompanied by Mr Hu on a provincial tour) his interpreter was a member of the Australian High Commission here. We shall be in touch with the interpreter later this week. If he has anything important to say about Mr Hu I shall write separately before the weekend.

C D Powell Esq
PS/10 Downing St

Yours ever
R N Culshaw
Private Secretary

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DINNER FOR GENERAL SECRETARY HU YAOBANG ON 9 JUNE:
CONVERSATIONAL POINTS

A. CHINA RELATED

1. Tremendous success of agriculture recently. But redundant agricultural labour, and drift to cities. Widening gap between rich and poor areas. How to balance grain (1985 harvest fell for first time in five years) and cash crop production? How to combine individual incentives with economies of scale?
2. Economic and political relations between Peking and provinces? Are you working towards new synthesis between State and individual economy? World respect for Deng Xiaoping's achievements. What is working relationship between Deng, Zhao, Hu, and other leaders? Where will new leaders come from - the provinces, the Party, the bureaucracy? Whom to invite to UK? Role and status of scientists and artists? (Sent message to distinguished dramatist Mr Cao Yu who organised huge Shakespeare festival in China).
3. How will military planning develop? How many Soviet troops on your borders and how well equipped? Will reduced numbers in PLA mean China increases weapons and equipment? How do Chinese people regard the army?
4. Problems of economic planning in modern China. How do you avoid overheating without restraining individual enterprise? How to attract foreign investment and cooperation without resorting to Stop/Go? How serious are foreign exchange constraints? How to get most out of domestic and foreign technology (eg space programme)?
5. Social consequences of one - child policy (no siblings, uncles, aunts, cousins). Importance of medical care for only children.

/6.

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6. Attitudes to Chairman Mao? (Chinese say great revolutionary but mistakes from mid-50s onwards. Private bitterness at suffering caused by Cultural Revolution and Gang of Four). What will Deng and Hu's legacy be?

B. UK-RELATED

7. UK's image in China? Welcome frank account of negative as well as positive aspects. We think the balance (as for China) very positive: achievements over inflation, enterprise and innovation. Explain approaches to unemployment and decline of traditional industries. Erosion of confrontational class attitudes. Plans for urban renewal, and Northern Ireland (seen by Chinese as typical "colonial" situation).

8. Educational reforms in Britain. Importance of entrepreneurial spirit and links to industry. How is China tackling education and youth work (and making up educational losses of Cultural Revolution)? When study abroad is the right option, we can offer the best teaching anywhere: send your highest flyers to us.

USEFUL QUOTATIONS

"It is because those in authority eat up too much in taxes that the people are hungry." (Laozi circa 4th Century BC).

"A gentleman is ashamed to let his words outrun his deeds." (cf "action not words"): Confucius Analects Book XIV.

"It is good for some people and some regions to be prosperous first." Deng Xiaoping.

"Acting in good faith is a Chinese tradition, not something invented by our generation." Deng Xiaoping.

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Mulroney discusses human rights abuses with Zhao

BEIJING: Canadian Prime Minister Brian Mulroney yesterday told Chinese leaders he is concerned over Beijing's imprisonment of priests and other human rights abuses in China.

Speaking at a press conference at the conclusion of his three day visit, Mr Mulroney said he had "direct, realistic and serious" talks on alleged Chinese human rights with Premier Zhao Ziyang yesterday morning.

"I think it would be abnormal for someone from a democratic country to visit other countries without making allusion to the problems of the oppressed that may exist," Mr Mulroney said.

"It's not a subject that can be brushed under the table and alluded to ever so obliquely," Mr Mulroney



said. He said Canada hoped China would respond to the concerns over human rights violations at upcoming government-to-government meetings.

Western analysts said Mr Mulroney's open discussion of the Chinese government's human rights violations was unprecedented

for a visiting foreign leader.

In what he called a "lengthy" discussion of the rights issue, Mr Mulroney said he specifically raised with Mr Zhao the problem of clergymen imprisoned in China.

Mr Zhao replied by presenting the Chinese government's "attitude and explanations" on the alleged abuses, he said.

The plight of Chinese "underground" Catholics, who retain allegiance to the Vatican against the will of China's breakaway Patriotic Catholic Association, is a vivid example of Beijing's unwillingness to grant full freedom of "normal" religious activities guaranteed in Article 36 of China's 1982 constitution.

As recently as 1984, two Chinese Jesuit monks loyal to the Holy See, Father Fan Xueyuan, 77 and Father Huo Pingcheng, 71, received 10-year prison terms each for making "anti-socialist statements."

A year earlier, four Jesuit priests were convicted in Shanghai of being "counter-revolutionaries who used religion as a cloak" and sentenced to prison terms ranging from 15 to 2½ years.

The London-based human rights organisation Amnesty International has annually condemned the Chinese government for keeping political prisoners and for its sweeping anti-crime campaign, which Western diplomats say has seen some 20,000 people and possibly more executed since August 1983.

Mr Mulroney said he did not raise the topic of rights abuses "in a spirit of hostility," but in one of friendship.

"I expect we'll be hearing from the Chinese on that," he said.

Mr Mulroney was scheduled to depart Beijing yesterday for Seoul, South Korea, where he said he would also raise concerns over human rights abuses by the government of President Chun Doo Hwan. — UPI

Lawyers prosper despite problems

CENTURIES ago Petronius discovered that "law has bread and butter in it." And, except in very poor countries, lawyers everywhere have found that to be true.

If that is a measure of economic progress, then Shanghai's growing number of lawyers indicate incredible success.

In 1979 the city had only one legal firm. Today it has 41.

About 30 years ago there were only 170 lawyers. Their numbers grew slowly. But today there are 1,300 in these 41 firms.

A lawyer's monthly income averages about 400 yuan (HK\$976), which is about the same wage a senior government official like top Chinese leader Mr Deng Xiaoping would get.

Obviously, prospering economic activities account for the rapidly increasing number of law firms. About 20 percent of the lawyers are legal advisers to more than 3,400 enterprises.

Last year, these 41 firms handled cases for some 53,000 people. The China News Service reckons that these consultations and litigations earned them more than 1 billion yuan.

But for all the money involved, it is a troubled profession.

The lawyers represent the two extremes in age: either octogenarians or fresh, young graduates. Together they make up 90 percent of the city's legal force.

Shanghaians will probably agree with Lord Halifax that "if the law could speak for itself, it would complain of the lawyers in the first place."

Or, worse, they may even go along with Shakespeare who said in *Henry VI*, "the first thing we do, let's kill all the lawyers."

China wants better reporting

GET off your butts and do some work! That's what the bosses of the Chinese Communist Party's *People's Daily* have told their reporters.

The editorial committee is fed up with reporters who spend all their time attending government meetings and functions. They should be out doing investigative reporting, the committee said in a meeting reported by a news journal *Xinwen Zhanxian* (News Frontline).

The staff's current reporting was described as "poor" because too many meetings left the reporters with no time for proper work.

The committee reminded reporters not to give up their particular role as professional investigators.

The reporters are now to keep away from such government meetings and devote their time to meeting people and looking into problems.

Cities forge friendship ties

SYDNEY: Guangzhou, capital of China's southern province of Guangdong, and Sydney, capital of Australia's southeastern state of New South Wales, became friendship cities yesterday.

With a population of 3.25 million, Sydney is the largest industrial and financial centre throughout Australia. Guangzhou, which has a population of 7.2 million, represents the largest industrial and commercial city in south China.

A signing ceremony of the proclamation of the aforesaid friendship cities was held in the Sydney Town Hall.

The proclamation was signed by Mayor of Sydney Douglas Sutherland and Mayor of Guangzhou Zhu Senlin.

In the proclamation the two cities pledged to "carry out a wide range of economic, trade, cultural, educational, sporting, scientific, technological, tourist and other activities of mutual exchange and benefit." — Xinhua

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HONG KONG STANDARD 13 MAY 1986.

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Foreign and Commonwealth Office
London SW1A 2AH

5 June 1986

Dear Charles,

Temporarily Retained

**THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE OFFICIAL INFORMATION ACT**

Visit of Mr Hu Yaobang, General Secretary of the
Communist Party of China: 8-12 June 1986

The Prime Minister is due to see the General Secretary of the Chinese Communist Party, Mr Hu Yaobang, and Vice Premier Li Peng at 10am on Monday 9 June, when an inspection of a Guard of Honour in the Foreign Office Quadrangle will be followed by a brief courtesy call on the Prime Minister at Number 10 Downing Street. There will be substantive talks from 4-6 pm that day, following a brief signing ceremony to give effect to the scholarship scheme for Chinese students originally suggested by Sir Y K Pao (we will be writing separately about detailed arrangements for this). Later still on 9 June the Prime Minister will give a dinner at Number 10 Downing Street. We are corresponding separately about the draft speech and notes for suggested topics of conversation at the dinner.

I now enclose the main briefing for the Prime Minister. This is supplemented by a background information paper on China on the lines of the similar papers we sent you recently for Korea and Japan. (We intend to work this up into a more glossy version for the State Visit to China in October.)

As the Prime Minister may recall from her previous meeting with Mr Hu Yaobang, he is a short man, aged 71, with vitality and a reputation for being unpredictable and, (for a Chinese) uncharacteristically expressive in his gestures.

Although he has had a chequered career since 1980 Hu is widely regarded as Deng Xiaoping's chosen successor in the Party. Whether or not he actually does succeed Deng, Hu will for the immediate future continue to work at Deng's right hand as an energetic and no-nonsense reformer, seeking to shake up a political system which suffers from excessive bureaucracy and the paralysing effects of the cultural revolution. He is an astute and practical operator who has built up a large group of political allies and protégés. Among his weaknesses, however, are his lack of understanding with the armed forces, and a wider feeling that he lacks the dignity and composure appropriate to a national leader.

/Li Peng

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Li Peng, the Vice Premier and Member of the Politburo accompanying Mr Hu, has wide government responsibilities including energy and education (he is concurrently Chairman of the State Education Commission). He is a key figure in the development of China's infrastructure; a senior member of Deng Xiaoping's team; and could well succeed Zhao Ziyang as Premier. He is, however, thought to be less critical of the Soviet Union (where he once studied) and of centralised economic planning, than some of his colleagues are. Hu Yaobang will be accompanied to the talks at Number 10 by Assistant Foreign Minister Zhou Nan, a fluent English speaker, who was the leading Chinese negotiator during the latter stage of the talks on the future of Hong Kong.

The Chinese visitors are going on to France, Germany and Italy, but it is significant that they have chosen to start with Britain. During this summer, top ranking Chinese leaders will have visited 18 East and West European countries. This is part of Chinese activity designed to build up a constituency of European powers (both East and West) which will help China resist pressure from, and decrease the global influence of, the two Super Powers.

The briefing covers Hong Kong. Sir Geoffrey Howe had successful talks with the Foreign Minister, Wu Xueqian, in Brussels ten days' ago. He gave Wu a series of papers designed to promote a dialogue with the Chinese about the drafting of their Basic Law for Hong Kong after 1997 and to reassure them about our plans for political development meanwhile. Both subjects are highly sensitive. We hope to continue the dialogue at Foreign Minister level and also when Zhou Nan (Vice Foreign Minister accompanying Hu) meets Mr Renton. But it will also be important to use the visit of Hu Yaobang and Li Peng to reiterate our commitment to the Joint Declaration; get them to do the same; and disabuse the Chinese of any idea that we have hidden plans designed to enable us somehow to retain effective power in Hong Kong after 1997 or to milk the territory for the benefit of HM Government before then (two private Chinese fears).

The briefing package does not yet include up to date material on arms control in the light of recent US statements about SALT II; we will send supplementary material on this as soon as possible.

At the talks themselves we recommend that the Prime Minister should start with international topics such as follow up to the Economic Summit; the prospects for East/West relations; and arms control. Hu Yaobang himself has no government position and therefore no official responsibility for economic matters, and the Chinese have said that he will not wish to discuss commercial issues or other bilateral matters in any detail. Nonetheless, there are some points that can usefully be made in addition to the line suggested on Hong Kong: these are reflected in the briefing.

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/Participants



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Participants in the talks are expected to be as follows:

<u>UK side</u>	<u>Chinese side</u>
Prime Minister	General Secretary Hu Yaobang
Foreign Secretary	Vice-Premier Li Peng
Sir Richard Evans (Ambassador, Peking)	Vice-Foreign Minister Zhou Nan
Dr Wilson (Assistant Under Secretary, Asia)	Ambassador Hu Dingyi
Mr Powell	Mr Mei Zhaorang (West European Department, MFA)
Mr Joseph Ren (Interpreter)	Madame Zhang Youyun (Interpreter)
	Mr Wang Yihao (Note-taker)

In addition the Prime Minister may wish Sir Percy Cradock to be present during the talks. The Prime Minister will note the absence of Mr Y P Cheng, who has interpreted for her at Chinese meetings in the past. On grounds of cost, and to widen our options for future occasions, we have this time chosen Mr Ren, a highly experienced interpreter who works in the Chinese Section of the BBC External Service. Mr Ren will be available to interpret for the Prime Minister throughout this visit.

Yours ever,

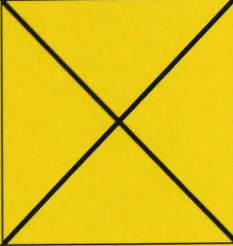
R N Culshaw

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

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A The National Archives

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Use black or blue pen to complete form.

Use the card for one piece or for each extract removed from a different place within a piece.

Enter the department and series,
eg. HO 405, J 82.

Enter the piece and item references, .
eg. 28, 1079, 84/1, 107/3

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This should be an indication of what the extract is,
eg. Folio 28, Indictment 840079, E107, Letter dated 22/11/1995.
Do not enter details of why the extract is sensitive.

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CC HONG KONG
SIR Y K. PAO
PT2



Foreign and Commonwealth Office

London SW1A 2AH

3 June 1986

Dear Mr Pao

You asked in your letter of 21 May for an early reply to Sir Y K Pao's telex to the Prime Minister on the subject of the administrative expenses of the Sino-British Friendship Scheme, which was the subject of negotiation this month with a delegation from the Chinese State Education Commission, Sir Y K Pao's representative in London, and officials from both wings of the FCO. The Memorandum of Understanding is in the final stage of preparation for signature during Hu Yaobang's visit next week.

The draft reply reflects a decision taken by Mr Raison that in addition to our annual £700,000 contribution to the scheme, the administrative expenses of the British Council in managing the scheme should be met from the aid programme. This will allow the full contributions of the Chinese and Sir Y K Pao to be used directly for the costs of scholarships in the UK.

Yours sincerely

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

DRAFT

Draft
by

* SAVINGRAM

* TELEGRAM

File No.	URGENCY *	Routine	Priority	Immediate	Flash	
Your Ref.	SECURITY *	Unclasp.	In Conf.	Restricted	Conf.	Secret
Addressed						Top Secret
Sir Y K Pao						<p style="text-align: right;"><i>To issue on</i></p>
Repeated by TELEGRAM / AIR MAIL (ROUTINE UNLESS OTHERWISE STATED)						<p style="text-align: center;"><i>SATATQ</i></p>

SPECIAL INSTRUCTIONS, DISTRIBUTION AND FURTHER ACTION

Return to Room No.

REFERENCES AND AMENDMENTS

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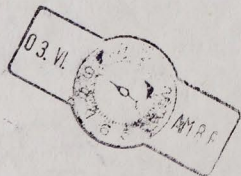
*Tick as appropriate

Thank you for your telex of 21 May.

2 I am very pleased that negotiation of the Sino-British Friendship Scholarship Scheme has gone well, and I too hope that the Memorandum of Understanding will be signed during General Secretary Hu Yaobang's visit.

3 I am sorry to hear of your concern about the administrative costs of the services which will be needed to place and generally look after the students while in British institutions. The administrative demands created by large number of students are very considerable, and we have found it is most cost effective in the long run to ensure they are fully covered. The British Council's record of providing management services of this kind is second to none and has gained them many contracts against international competition. However, I agree that the main objective is to enable as many students from China as possible to benefit from the scheme. HMG will therefore agree to meet these costs in addition to the

£700,000 per annum we have already agreed to provide. But
am sure you will agree that it will be appropriate that Britain's
readiness to meet these costs on behalf of the scheme as a
whole should be reflected in the Memorandum of Understanding.
Perhaps you would ask your representative in London to discuss
this with the Overseas Development Administration with a view to
all three parties reaching agreement of the text of the
Memorandum giving effect to the scheme.





COO
2/6

With the Compliments of
Private Secretary
to the
Minister for Overseas Development

Eland House, Stag Place
London SW1E 5DH
Tel: 01-213 5409

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CDF

FROM : VICTORIA HARRIS
APS/Mr Raison

DATE : 2 JUNE 1986

Private Secretary

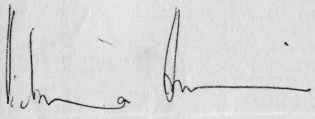
SINO-BRITISH FRIENDSHIP SCHOLARSHIP SCHEME

A

Robert Culshaw, in his letter of 21 May to Charles Powell, mentioned the possibility that the Memorandum of Understanding to give effect to the above Scheme might be ready for signature during Hu Yaobang's visit, perhaps by the Secretary of State with Li Peng and Sir Y K Pao in the presence of the Prime Minister and Hu Yaobang shortly before their meeting at No 10 on 9 June.

2. I am writing to confirm that Mr Raison agrees that the call on No 10 would provide the best opportunity for signing the Memorandum with maximum publicity, which he regards as important to our future aid relationship with China. He therefore suggests that the Secretary of State might wish to consider signing the Memorandum on this occasion. If this proposal is acceptable, we will so inform the Chinese and Sir Y K Pao.

3. I am sending a copy of this minute to Charles Powell at No 10 Downing Street.



Victoria Harris
2 June 1986

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RELATIONS
PT 3



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10 DOWNING STREET

From the Private Secretary

Prime Minister

Dinner for Hu Yaobang

You will need to make a short speech at the dinner for Hu Yaobang next Monday. We ought to get a text translated into Chinese, for circulation at the dinner. I attach a draft.

Approved

C.D.P.
2/6.

PART 3 ends:-

FCO to COP 29/5/86

PART 4 begins:-

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