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Foreign and Commonwealth Office

London SW1A 2AH

15 October, 1982

Dear John,

Visit of the Prime Minister to the Far East

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

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

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

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

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

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

Yours ever

J E Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
Private Secretary
10 Downing Street

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