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FILE

cc: - MOD

10 DOWNING STREET

From the Private Secretary

13 July, 1982

BF

CHINA/HONG KONG

After the dinner given by the Chinese Ambassador last night, the Prime Minister had a tete-à-tete conversation with the Ambassador.

The Prime Minister told me this morning that the Ambassador had asked which topics the Prime Minister would wish to raise during her visit to China. She had replied that, while her views were not yet firm, she would wish to discuss a number of current international issues as well as United States/China relations, bilateral trade and the future of Hong Kong. The Ambassador asked whether we should have any particular measures of co-operation to propose. The Prime Minister said that she was not yet aware of the state of preparations for this aspect of the visit.

The Ambassador then said that there were two subjects on which he would be grateful for the Prime Minister's views. He was returning to China in mid-August and would find it helpful to have a response before then. First, he understood that the possibility of a soft loan for China had been raised (it may be no coincidence that Sir Y K Pao was present at the dinner). What was our attitude to this? Secondly, difficulties were being caused by the "tax" which we imposed on the sale of military equipment. The Prime Minister did not understand this reference which may be to the R and D levy which, I understand, can be waived in the case of a sale.

I think it would be helpful if you could let me have fairly soon a draft letter which the Prime Minister, or I on her behalf, could send to the Chinese Ambassador covering these two points and possibly, subject to your views, setting out the issues which the Prime Minister will wish to discuss with her Chinese counterpart.

The Ambassador also made some comments on the question of the future of Hong Kong. These are covered in a separate letter which I shall be sending you about a conversation which Sir Y K Pao had with the Prime Minister this morning.

I am copying this letter to David Omand (Ministry of Defence).

A. L. COLES

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Foreign and Commonwealth Office

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