



OVERSEAS DEVELOPMENT ADMINISTRATION
ELAND HOUSE
STAG PLACE LONDON SW1E 5DH

Telephone 01-211 5409

From the Minister

28 July 1982

I doubt whether this is the best use of the money. not

Prime Minister

Agree that the new technical cooperation programme should be announced during your visit?

A. S. C. 29/7.

Dear John,

AID TO CHINA

At a meeting of the Official Committee on Exports last month it was decided that the position on aid for China should be brought to the Prime Minister's attention at an early opportunity in advance of her visit.

The only aid we are giving at present to China is a small educational aid programme administered by the British Council. The cost in 1981/83 is £180,000. Ministers have decided, however, to start a broader programme of technical cooperation with China. The aid framework proposed by the Foreign Secretary to cover the years up to 1985/86 includes the following provision:

	Emillion (cash)		
<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	
1	2	3	

The use of this money will have to be discussed with the Chinese authorities. Depending on their views it would be possible, for instance, to finance about 200 training awards at British universities, to double or treble the British Council's programme of English Language teaching, and to pay for about half-a-dozen of the kind of operations by British Consultants that may open up further opportunities for British firms.

The Prime Minister may like us to keep back the news of this offer so that she can announce it in the course of her visit.

The possibility of starting a programme of capital aid to China has been considered. This would thicken our overall bilateral relationship with China and enhance our commercial prospects there. We should moreover be following the example of a number of other countries which

/are



are seeking to become serious partners in China's economic development. Chinese expectations on this front, however, would be considerable and existing pressures on available aid resources would make it very difficult indeed to find the amounts which would be likely to be required as the minimum politically feasible offer (say at least £4million - £5million).

The Guangdong nuclear power project could be assisted with a grant from the Aid/Trade Provision (ATP) provided that

- a. Ministers were willing to allow an exception to their general rule of excluding Communist countries,
- b. the DOT and DOI were willing to set aside enough of the limited funds available for 1984/85 and subsequent years,
- c. the ODA were satisfied as to the developmental value of the project, and
- d. the Treasury could accept the proposed degree of subsidization.

This project will be the subject of separate submissions. A Sino British Friendship Hospital, a project favoured by the Embassy, could be considered as an alternative possibility for our ATP grant if the nuclear power project fell through.

I should mention that, although he is content with the proposal for an expanded programme of technical cooperation, Mr Marten has expressed some reservations about starting up capital aid. Because of the existing pressures on the aid programme, he thinks we should be extremely careful not to get ourselves into a position where we are pouring money into China's bottomless pit. If some gesture is considered necessary, however, his preference would be the hospital rather than the Guangdong project, not least because of the latter's enormous cost.

I enclose a separate paper, which has been prepared by the Foreign and Commonwealth Office, on Sir Y K Pao's proposal for a soft loan to China.

*Yours ever,
Mike Power.*

(M A Power)
Private Secretary

A J Coles Esq
10 Downing Street
LONDON SW1

cc PS/Secretary of State
PS/Secretary of State
for Trade
PS/Chief Secretary, Treasury



SIR Y K PAO'S PROPOSAL FOR A SOFT LOAN FOR CHINA

1. Sir Y K Pao has raised with the Prime Minister, Lord Carrington, the Chancellor of the Exchequer, Sir M Maclehorse and Sir E Youde a proposal that a soft loan (US\$1 billion has been mentioned) might be made available to China, possibly linked to an understanding on the future of Hong Kong. An alternative suggestion put forward by Sir Y K is that funds for such a loan might be found from Hong Kong commercial sources if the Hong Kong Government were prepared to act as guarantor. In his meeting with the Chancellor on 2 April, the last occasion when this was discussed substantively, there was the further suggestion that it would be impossible for the Chinese to accept a loan from what they regard as their own territory and that funds would have to be paid through, and ostensibly by, the United Kingdom.

2. The Chancellor explained that it would be very difficult to improve on ECGD's normal export credit terms because we were bound by the OECD consensus; and that budgetary constraints made provision of funds from the aid budget equally difficult. Lord Carrington had already told Sir Y K Pao that the conditions suggested for provision of the loan from Hong Kong would raise great difficulties of precedent for the Hong Kong Government; while the Treasury have expressed concern about the possibility of a contingent liability for HMG.

3. For the reasons given by the Chancellor, which are also referred to in the general consideration of capital aid for China in para 6 of the letter, it is difficult to see how a large soft loan could be provided by HMG in present circumstances. The proposal that the Hong Kong Government should underwrite a loan that would be raised privately in Hong Kong, but might be channelled through HMG, is unusual and would also not normally be considered favourably. A loan of this kind might however be tied into a deal on the future of Hong Kong. By itself it would be unlikely to buy such a deal. But a loan or guarantee could be a useful sweetener once the lines of an acceptable deal had emerged. Other economic or financial inducements might also be possible in this context. But the Hong Kong Government could not be committed in any way at this stage. (The Prime Minister might



of course also wish to consider the possibility of a UK loan if the Chinese suggested directly and explicitly that it would secure the future of Hong Kong to our advantage; but the budgetary difficulty would remain).

Foreign and Commonwealth Office

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