China

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Foreign and Commonwealth Office

London SW1A 2AH

4 August 1982

Submitted to Prime Minister as amended.

Dear John.

Letter to the Chinese Ambassador

Thank you for your letter of 3 August. We have consulted officials in the Treasury and MOD.

Our only real difficulty with the re-draft which you attach relates to the last two sentences of your third paragraph concerning the soft loan proposal. Since some of our competitors are already prepared to offer the Chinese loans at rates as low as 3 per cent in connection with particular projects and since at present China like other Communist countries is still ineligible for the Aid Trade Provision, we cannot be confident that we could meet our competitors on any project. Moreover it is not as a result of any understandings with OECD partners that we are unable to envisage a major new commitment in China not linked to specific projects; any OECD country is free to offer aid loans or grants to China. As our original draft made clear, the problem is one of increasing public expenditure. May I therefore suggest that the two last sentences of the paragraph be again re-drafted as follows:

> 'Where particular projects are concerned we can consider matching such lower interest rates as may be offered by competitors. But it would be very difficult for us to envisage the major new commitment in China, not linked in the first instance to specific projects, which has been discussed'.

The use of the word 'refund' in your slight re-draft of the passage on defence sales (fifth paragraph) is slightly misleading as the levy is not necessarily used directly to offset research and development costs. 'Payment in respect of' might be preferable.

Yours ever,
(F N Richards)
Private Secretary

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