



PM/82/73

PRIME MINISTER

*My worry is that this is so derisory compared with what they have asked for (a \$11 billion loan of a \$1 billion Aid to China) - that it will do no good at all.*

Prime Minister:  
The Foreign Secretary returns to the issue raised in the ODA letter of 28 July, copy attached, on which you had doubts.

*RF 28/8*

1. John Coles's letter of 30 July recorded your doubts about the proposal to embark on a broader programme of technical co-operation with China, and invited Neil Marten to reflect further about the proposal.

#### Political Background

2. Our intention in putting forward a proposal of this kind at this time should be seen against the background of your own imminent visit to China. This visit is not only the first by a British Prime Minister in office to the People's Republic of China, but is also of considerable significance in discussion of a number of international and bilateral issues, particularly relating to Hong Kong.

3. The Chinese are sensitive about the attitudes towards China of Western countries, and are prone to make comparisons between their performance in China. Their tactics in commercial dealings, of playing each competitor off against the others, are matched by similar attitudes in the wider political arena. They are keenly aware of the comparative performance of European countries in respect of aid to China. Unfortunately several of our European competitors are at present ahead of us in this respect.

4. We believe that the Chinese will fail to understand a decision on our part to make no gesture towards them in the field of technical co-operation or aid, at the time of a major visit by the Prime Minister. The atmosphere for discussions of considerable strategic importance could be impaired. The relative smallness of the sums proposed at this stage is of less importance than the fact that you would be able to promise something, with the implication that more might be forthcoming when our resources permitted. Moreover by concentrating resources on certain key areas we can hope for a greater impact than the bare figures,





seen against China's vast population, would suggest.

Commercial Benefit

5. There could also be damage to our commercial prospects if nothing were offered, and corresponding advantage if you were able to make some mention of a British offer. The Chinese have recently been showing some signs of greater willingness than for the past two years or so to contemplate significant new industrial investment, particularly in their priority sectors of energy, transport and communications. The use of a substantial part of the proposed TC programme for specifically commercial purposes such as feasibility studies, consultancies and training could significantly improve the chances of British companies winning contracts as new investment goes ahead. On the Guangdong nuclear power station project, for example, part of this budget could be used to fund the provision of site design services and operational training as part of a British package, following the success of this approach on the Castle Peak project. Another possibility, put forward by the Association of British Mining Equipment Companies, would be to arrange training courses for Chinese coal mining experts. Our competitors already provide commercially-oriented technical assistance to China - a recent example is an Italian offer of aid support for a feasibility study on a major coal project in the South West - and British companies understandably argue that without similar British government support they are placed at a disadvantage.

6. It is for these reasons that, despite the pressures on available aid resources, we decided to allocate money for starting up a programme of technical co-operation for China. I hope that you will agree that these arrangements should go ahead.

/7. I am

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7. I am sending copies of this minute to Leon Brittan,  
Patrick Jenkin and Arthur Cockfield.

*FP*

(FRANCIS PYM)

Foreign and Commonwealth Office  
25 August 1982

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