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China

Ref. A01555

PRIME MINISTER

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Defence Sales to China

(OD(80) 15 and 17)

BACKGROUND

OD discussed this subject on 11th June last year, and generally endorsed the defence sales to China policy initiated by the previous Administration: offensive weapons to be excluded, contracts to be considered on a case-by-case basis, and our COCOM partners to be kept informed but not consulted about our intentions.

2. Since that discussion Premier Hua Guofeng has visited this country and been informed of our readiness to supply China with military equipment. The attitude of our international partners, particularly the United States, towards such sales has been improved by the Soviet invasion of Afghanistan.

3. In his memorandum the Secretary of State for Defence proposes a continuation of the case-by-case approach, and suggests that OD should agree now to certain proposals from industry regarding destroyers, air-to-air missiles and (with one exception) aeroengines. Taken together these potential orders represent a step-change in the scale of United Kingdom defence sales to China which amounts to a significant change in policy.

4. The Foreign and Commonwealth Secretary supports the Secretary of State for Defence's proposals, though with some misgivings.

5. The Secretary of State for Industry has been invited for this item in view of the industrial implications of the Secretary of State for Defence's proposals. The Secretary of State for Trade will be represented by Mr. Parkinson.

6. There is some urgency because a Chinese trade delegation is arriving this weekend to negotiate with British Aerospace, and because Mr. Pym is visiting China in late March.

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HANDLING

7. You will wish to ask the Secretary of State for Defence to introduce his paper, and the Foreign and Commonwealth Secretary to speak to his. You may then care to invite the Secretary of State for Industry to deal with the industrial implications and Mr. Parkinson to deal with the trade aspects.

8. The points to establish in subsequent discussion are:-

- (a) How serious does the Secretary of State for Defence believe Chinese intentions to be? The Chinese have got a reputation for window-shopping and trying to pick up Western technology on the cheap. Do they really intend to go through with orders of the size suggested? How will they pay for them?
- (b) Do the proposed orders include components produced by our COCOM partners which may give rise to problems? For example the shipbuilding proposals include the provision of Lynx helicopters equipped with torpedoes. It has apparently not been decided whether these will be Mark 46 torpedoes (of United States design and manufacture) or our own even more advanced Stingray.
- (c) If the proposed orders come to fruition, how much of the work will actually be carried out in this country? It seems likely that the destroyers will be refitted in Chinese yards, and the new destroyers built in China except perhaps for the first-of-class. Is the Secretary of State for Industry satisfied that the provision of equipment and expertise, which will be the main United Kingdom contribution, will be a satisfactory return for the investment of effort involved?
- (d) What are our NATO allies doing about defence sales to China? Last June there were indications that the French were planning to proceed, outside COCOM and without consultation, on the sale of such items as the anti-tank guided weapon system HOT. The Americans and West Germans (and Japanese) did not at that stage wish to sell defence equipment to China as a matter of principle. The Americans have since Afghanistan decided on some modification of their policy; and paragraph 9 of Lord Carrington's paper suggests that our other leading COCOM partners are now more relaxed about such sales.

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- (e) How serious is the risk of an adverse Soviet reaction? Given that our economic relationships with the Soviet Union are being deliberately reduced because of Afghanistan, and that such relationships in any case depend on mutual economic advantage, is there any likelihood that the Soviet Union will take economic retaliation?

CONCLUSION

9. Subject to the discussion, the Committee might be guided to agree to the recommendations proposed by the Secretary of State for Defence and supported by the Foreign and Commonwealth Secretary. You may however wish to stress that the phrase "subject to making satisfactory arrangements with COCOM" in paragraph 6b. of the Secretary of State for Defence's memorandum does not mean "subject to prior consultation with COCOM". What it does mean is that our COCOM partners should be told of our proposals in terms to which it is hoped they will not take strong exception.

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ROBERT ARMSTRONG

28th February, 1980

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