



China

Prime Minister

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PRIME MINISTERDEFENCE SALES TO CHINA

I thought that I should report that the Chinese signed a contract yesterday with Marconi Avionics Ltd for the supply and licensing of avionics equipment for the Chinese F7 aircraft. The contract is worth about £40M, with more to come.

2. This deal indicates that the Chinese are following up the intentions they expressed to me during my visit to China in March when they said that they were looking first to this country for the modernisation of their existing equipment.

3. When I met the Chinese delegation today they told me that they hoped to reach agreement in principle in the next week or so over the supply of radars, head-up displays and other items for their F8 aircraft with Ferranti, Smiths and several other companies. This should be worth another £30M or so.

4. Negotiations are also continuing on several other items including an air to air missile and the refit and modernisation of the Chinese Luda class frigates. There is therefore an encouraging prospect of substantial additional business.

5. Both the Chinese and Marconi Avionics Ltd have asked that the fact that a contract has been signed should be treated as confidential for the time being.

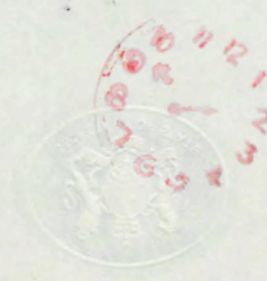
6. I am copying this minute to the other members of OD; the Secretary of State for Industry; and Sir Robert Armstrong.

Ministry of Defence

1st July 1980

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RE JUL 1980





MINISTRY OF DEFENCE
 MAIN BUILDING WHITEHALL LONDON SW1
 Telephone 01-~~938X02X~~ 218 2111/3

MO 11/14

30th May 1980

Dear Rodric,

Prime Minister ^②

MB ^{2/6}

DEFENCE SALES TO CHINA

While my Secretary of State was in China in March he held a number of discussions, as you will know, with Chinese Ministers and officials on the sale of defence equipment. It quickly became clear in the discussions that the Chinese authorities regarded their programme to up-date the avionics equipment for their F7 fighters as having the highest priority. However, the Chinese repeatedly claimed that the prices which were being offered by the manufacturers, Marconi Avionics Limited, were much too high. It is therefore satisfactory to report that we have just heard from Marconi that their negotiations look like coming to a successful conclusion. I understand that a contract is expected to be agreed by 7th June for signature - probably in the UK - on 17th June.

I gather that the deal for the avionics equipment will be worth some £40M to Marconi, including a fee for licensed manufacture in China. Delivery will start in three years' time and will be completed in five years; licensed manufacture in China will follow.

Cocom partners have been notified of the proposed deal, and, assuming they are content, my Secretary of State would recommend that in accordance with the discussion in OD (OD(80) 6th meeting) we should give full approval for the deal to be concluded.

I am copying this letter to Michael Alexander (No 10), to Private Secretaries to other members of OD and the Secretary of State for Industry, and to David Wright, Cabinet Office.

J D S Dawson

(J D S DAWSON)

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China

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VISIT TO CHINA BY THE RIGHT HONOURABLE FRANCIS PYM MP,
SECRETARY OF STATE FOR DEFENCE, MARCH 1980

(Her Majesty's Ambassador at Peking to the
Secretary of State for Foreign and Commonwealth
Affairs)

SUMMARY

1. Mr Pym visited China from 23 to 28 March, presided at the opening of the British Aerospace Exhibition in Shanghai and held talks in Peking with a number of Chinese leaders. His de facto host was Vice-Premier Wang Zhen (paragraphs 1-3).
2. In the political and strategic talks the Chinese expounded their policies on Afghanistan and expressed their dislike of neutrality proposals. Mr Pym explained the value of our proposals in maintaining public pressure on the Soviet Union. He reminded the Chinese of the value of the Rhodesia settlement. On Cambodia the Chinese were more hopeful than last year. Cambodian seating at the United Nations could cause problems (paragraphs 4-7).
3. On defence sales, the Chinese explained their philosophy of first improving existing weapons and then acquiring, as cheaply as possible, the technology for the next generation. Mr Pym explained that we were ready to provide technology on the basis of sales of a sufficient quantity of hardware (paragraph 8).
4. The Chinese list of requirements from the UK was headed by the refit of the F7 and F8 fighters and the LUDA class destroyer. It did not include Harrier (paragraphs 9 and 10)
5. An agreed minute recorded the main points of the technical talks. There was virtually no pressure on sensitive items (paragraphs 11 and 12).
6. Future military exchanges were promoted (paragraph 13).
7. A group from the Department of Industry concurrently pushed civil sales (paragraph 14).
8. Though our press has been negative, the visit was a distinct success.

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Mr Pym was able to smoke out Chinese intentions on defence sales and contracts of fighter and destroyer refits, if concluded, would be considerable business and would open further opportunities (paragraph 15).

Peking
3 April 1980

My Lord

1. I have already reported by telegram the salient points of the visit to China by the Secretary of State for Defence, The Right Honourable Francis Pym MP, from 23 to 28 March. This despatch gives a rather fuller account. A copy of Mr Pym's programme and a list of his delegation are at Annexes A and B*.
2. The occasion for the visit was the opening in Shanghai on 27 March of the British Aerospace Exhibition. The ceremony was performed by Vice-Premier Wang Zhen in the presence not only of Mr Pym but of Han Zheyi, the Deputy Mayor of Shanghai (in the absence of the Mayor whose translation to the Centre is imminently expected) and of Lu Dong, whose Third Ministry of Machine Building is responsible for the aircraft industry. The Exhibition was a major effort involving more than sixty companies under the aegis of the Society of British Aerospace Companies in association with the British Overseas Trade Board. By no means all the products on display or the seminars held had to do with defence. It was a strong bid to maintain Britain's place in the Chinese aerospace industry as a whole. We shall be reporting separately on the Exhibition. Mr Pym was, however, able to visit all the stands, and, by his presence and speeches, to boost the efforts of the companies concerned.
3. The visit to Shanghai was preceded by two and a half days of talks and calls in Peking. Mr Pym was the first Cabinet Minister of the present administration, and I think the first West European Defence Minister, to visit China. Following Prime Minister Hua Guofeng's visit to Britain last November and the Soviet invasion of Afghanistan his arrival had a special significance and in protocol terms he was given top-level treatment. His host was nominally Xu Xiangqian, Vice-Premier and Minister of National Defence. Apart from attending the banquets and having a preliminary discussion with Mr Pym, however, Xu, who is 78 and in poor health, took no part in the proceedings. The de facto host was Vice-Premier Wang Zhen, who accompanied Mr Pym to Shanghai and in Peking chaired the key discussions attended by two Deputy Chiefs of the General Staff. In addition, Mr Pym paid long calls on both Prime Minister Hua Guofeng and Foreign Minister Huang Hua, and in Shanghai had a workmanlike session with Minister Lu Dong. He visited the Sixth Tank Division, where he saw a fire-power display, and found time for a visit to the Great Wall and the Forbidden City.

* Not attached

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4. As I have already reported, the talks in Peking fell into two parts, relating to political and general defence matters on the one hand and defence sales and cooperation on the other. In the first area it would be wrong to say there was any real dialogue. The age of many of the Chinese leaders and the nature of their discourse at any age, a quality both complacent and didactic, are factors that do not encourage the give and take of discussion as we know it. The Chinese spoke of Soviet policy along predictable lines. As usual, they sought to give the impression that the threat of being out-flanked imperils the West rather than China also. They were unspecific about their own plans for improving their defence except in relation to the particular weapons systems under discussion and they gave no suggestion that defence modernisation enjoys higher priority as a result of Afghanistan. Mr Pym for his part gave a clear and effective exposition of our defence strategy, reminding them that the Atlantic Alliance has upheld peace in the West for the past 35 years and is now building up its strength to meet the growing Soviet threat. He explained also the importance and the problems of strengthening the defence of the "soft spots" in the Middle East, south of the Soviet borders. He underlined the dangers of the next ten to fifteen years and it is in the interest both of sound strategic assessment and our own defence sales to press this point on the Chinese.

5. On Afghanistan the Chinese set out their views at length. They do not rule out an eventual political solution; but they envisage no early Soviet withdrawal and they stand pat on demanding an unconditional withdrawal of Soviet forces and self-determination by the Afghan people, failing which all right-thinking governments should support the Afghan liberation struggle. They stressed the dangers of proposals that might blur these clear lines of policy and allow the Soviet Union to turn the tables on its accusers by demanding guarantees of non-interference by outsiders. The Foreign Minister was particularly strong on this subject. Mr Pym was able to assure the Chinese that our proposals, which assume that the Soviet Union would not readily withdraw, were complementary to the General Assembly Resolution and had as their object the arousal and maintenance of public opinion against Soviet aggression. At this level, as a means of propaganda pressure, our neutrality ideas are at their least objectionable to the Chinese, but it would be wrong to say that there is any real meeting of minds on the subject.

6. In discussing the threat to the "soft spots" between East and West, Mr Pym was able to point to the success in Rhodesia and particularly to the role played by the British monitoring forces in enabling elections to take place. Hua Guofeng went out of his way to make pleasant remarks about recent British actions in Rhodesia, and commended Mr Mugabe not only for his generally conciliatory attitude but, in particular, for retaining the services of General Walls and for eschewing guerrilla attacks on South Africa.

7. The other Chinese theme was Cambodia and Soviet aggression by Vietnamese proxy there. The "counter attack in self-defence" of last year was presented, particularly by Xu Xiangqian, as a model way of dealing with hegemonist ambitions. Hua Guofeng pointed out that two-thirds of the best Vietnamese forces

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are now tied up facing China, thus relieving pressure on the Democratic Kampuchean regime, which has, on Khieu Samphan's account, come through the recent dry season in better shape than had been expected at the time of Hua's visit to Britain. The Chinese came back several times to the question of Democratic Kampuchea's seat in the United Nations, and there is no doubt that if, following our withdrawal of recognition, we went on to withdraw support for their seating, the Chinese would take this seriously amiss.

8. On defence sales Chinese comments reflected their wish, particularly during the present period of readjustment, to avoid over-extending themselves, to improve existing weapons as a first step and as a second to acquire as cheaply as possible the technology for the next generation. They expressed themselves anxious to cooperate with us but expected Mr Pym to exert his influence over British firms to lower prices. Mr Pym repeatedly explained that the British side recognised that the extent of Chinese long-term requirements was such that only domestic production could meet them; but that Britain had to sell know-how on the basis of a preliminary sale of hardware. Cost would be much lower if larger numbers were ordered and in all cases we needed earlier and more reliable information on what the Chinese really want.

9. Following this general exchange, Liu Huaqing, a Deputy Chief of the General Staff, set out those areas where the Chinese sought our immediate assistance, the first time in some two years of conflicting messages that we have had any such statement. The list is headed by the refit of the F7 and F8 fighters and refit of the LUDA class destroyers. These projects should involve considerable hardware sales as well as technology transfer. The Chinese indicated that they wanted to reach the contract stage by the middle of this year and although we may expect some slippage, they do not say such things lightly. There were also a number of smaller projects mentioned.

10. The list, however, did not include Harrier, although only a week before the British Aerospace representative had had a message to the effect that it enjoyed top priority. The Chinese said it was too expensive to buy just a few and that they preferred to consider the matter later on the basis of transfer of technology. The postponement must however be regarded as indefinite. The military arguments in favour of buying Harrier have never been overwhelming. But much political capital has been invested in the deal and it was a symbol of Britain's willingness to help China in the defence field. Mr Pym reminded Hua Guofeng that he had earlier thanked Britain for her steadfastness on Harrier in the face of pressure from Mr Brezhnev, and that the disappearance of this most visible item in our defence sales inventory was bound to be something of an embarrassment. In private, the Chinese were apologetic about the confusion they had caused and the hopes they had raised; but I fear Harrier must now be regarded as a very long shot indeed.

11. The Chinese indicated that they would very much like an agreed minute recording the main points of the technical talks and after some negotiation a

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reasonably balanced document for internal use only was produced and signed by officials. A copy is at Annex C.* In addition we expect from them a formal list of their requirements. Provided that we can build on this, and ensure that it is up-dated, it should provide us with a tool of continuing use in the pursuit of defence sales. It may also save wasted effort, as over Harrier.

12. Mr Pym came under almost no pressure on sensitive items. Tornado and its engine were not mentioned. He was able to turn aside enquiries about the L70 self-propelled gun and the Mark 46 torpedo by indicating that the first was not yet in service and in any event a collaborative project and that the second was American and not British. At his press conference he dealt with the distinction between offensive and defensive weapons by making the honest point that the distinction is often meaningless. China will value the assurance that she is to be treated like any other country in defence sales matters, each item to be dealt with on its merits.

13. Some progress was made in arranging future military exchanges. A visit to China by the Royal Air Force Central Flying School was agreed and a visit by Royal Naval ships to Shanghai in September was announced.

14. A further aspect of the visit was that a small group from the Department of Industry headed by its Permanent Secretary, Sir Peter Carey, formed part of Mr Pym's delegation and pursued a separate programme. They were able to reaffirm our interest in civil as well as military sales and extended an invitation to the Chinese Minister of Light Industry to visit the United Kingdom.

15. The British press, with its Harrier fixation, has been rather gloomy in reporting this visit. In fact it was a distinct success. Mr Pym was received very warmly at the highest level. The preparations were even more chaotic than usual and we have still not seen a Chinese programme. But the actual arrangements went well, and the Secretary of State carried out his functions with great aplomb and good humour. He reaffirmed our wish to cooperate with China in defence as in the other three modernisations and the Chinese for their part confirmed that they look to us as a major supplier. Moreover he was able finally to smoke out Chinese intentions in this area. We now have an authoritative picture of what they want immediately from us and one which makes sense in terms of their economic circumstances. Within the sectors they have laid down, they clearly mean business and Lu Dong's request to set up a separate office for his Ministry in London was an earnest of this. The refit of fighters and destroyers would be considerable business and should open up opportunities for further cooperation. The key role of course remains with our firms, in their ability to organise themselves to deal with the defence market in China in the face of sharp European and even some American competition, and to provide the right product at the right price at the right time. But if they can exploit the present openings and can plan for long-term cooperation we have good prospects for steady though not always dramatic sales over a long period of years.

* Not attached

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16. I am sending copies of this despatch, without the annexes, to Her Majesty's Representatives at Washington, Moscow, New Delhi, Islamabad and Canberra and to the Governor of Hong Kong.

I am, My Lord,
Yours faithfully

Percy Cradock

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-7 MAY 1980



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Foreign and Commonwealth Office

London SW1A 2AH

16 June 1980

Dear Jonathan,

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- 17/6

China: Marconi Avionics Ltd (MAL)

Thank you for your further letter of 10 June on this subject.

For the reasons set out in my letter of 6 June, we should have preferred to give our COCOM partners more time to comment on the deal before signature was completed. However, we see the commercial pressures for early signature, and certainly do not wish to give the Chinese any impression that we may be having second thoughts about the deal. Given that none of our partners has so far reacted strongly against the deal, we are therefore content that signature should be completed as soon as commercial considerations allow.

Incidentally, no criticism was intended in para 3 of my letter of 6 June. Naturally we recognise that your Department cannot notify us of an impending deal until it is brought to your own attention. I simply wished to make the point that it is helpful for us to have as much notice as possible to complete the necessary consultations with our COCOM partners.

I am copying this letter to recipients of yours.

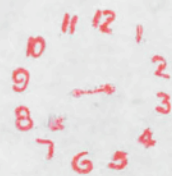
yours ever
Rodric Lyne

(R M J Lyne)
Private Secretary

J D S Dawson Esq
PS/Secretary of State
Ministry of Defence
Main Building
Whitehall
London

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16 JUN 1980



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China



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~XXXXXX~~ 218 2111/3

MO 11/14

10th June 1980

Ivan Rodnic

NBP

Paul

Thank you for your letter of the 6th June in which you conveyed Lord Carrington's agreement in principle that Marconi Avionics Ltd (MAL) should be authorised to sign the contract for avionics equipment for the Chinese F7 aircraft.

You went on, however, to suggest that because our COCOM partners have only just been notified of the proposed contract it would be prudent to consider asking Marconi to delay the signing of the contract until say the end of June in order to allow more time lest any of the COCOM countries raised objections.

We have consulted Marconis. I understand that they would be very reluctant to postpone the signing of the contract. The negotiations with the Chinese have been long and difficult and now that Marconi have got the Chinese to the point of signature, they are anxious to complete the deal as quickly as possible. They are re-inforced in this view by the recent changes in US policy towards the sale of defence equipment to China. My Secretary of State, who discussed the sale of this avionic equipment with Chinese Ministers in March, strongly supports MAL and would be very reluctant to seek any postponement of the proposed visit by the Chinese Vice Minister. However, the date of the proposed visit by the Chinese Vice Minister is not yet finally fixed. This is because there are still some issues outstanding between the Chinese and MAL. There could therefore be some delay in the visit on this account, but this would naturally be a

R M J Lyne Esq
Foreign and Commonwealth Office

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very different matter from our taking an initiative to bring about a postponement. My Secretary of State therefore urges that the proposed deal between the Chinese and MAL be completed as soon as possible.

Finally I should add, in view of the implied criticism in Paragraph 3 of your letter, that the Ministry of Defence did in fact notify the Foreign and Commonwealth Office as soon as we were made aware that a deal was likely. I understand that this deal which at one stage seemed dead, was suddenly revived by the Chinese, and that the pace of negotiations speeded up very rapidly.

I am copying this letter to Michael Alexander (No 10), the Private Secretaries to other members of OD and the Secretary of State for Industry, and to David Wright (Cabinet Office).

Yours sincerely

John Dawson

(J D S DAWSON)

11 JUN 1960



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China



Foreign and Commonwealth Office

London SW1A 2AH

6 June 1980

Dear Jonathan,

Handwritten initials and date: H. M. J. 4/6

Defence Sales to China

Thank you for your letter of 30 May about the contract which Marconi Avionics Ltd expect to conclude for the supply to China of avionics equipment worth some £40 million. Lord Carrington was pleased to hear of this success which should encourage other British suppliers of defence equipment to continue their efforts in the China market.

As you say, Ministers have already approved negotiations for the supply of this sort of equipment to China and Lord Carrington agrees in principle that Marconi should be authorised to sign the proposed contract. We understand from your department that there should be no problem over US components since substitutes could, if necessary, be purchased from alternative sources.

There is however a timing difficulty. Contrary to what you suggest in your letter we are only now in the process of notifying our COCOM partners of the contract, on the basis of information very recently supplied by your department (it would be helpful if we could be given more notice of impending sales in future). In view of the size and possible sensitivity of the deal, Lord Carrington considers that our partners should be given the opportunity to comment before the contract is signed. If any of them were to raise serious objections, we might need to review the position.

I understand that there is a possibility that a Chinese Vice-Minister might visit this country to sign the contract. It would clearly be embarrassing if any difficulties with COCOM partners had not been resolved by the time he arrived. You may therefore wish to consider asking Marconi to delay signature until, say, the end of this month.

I am copying this letter to the recipients of yours.

yours ever
Roderic Lyne

(R M J Lyne)
Private Secretary

J S Dawson Esq
Assistant Private Secretary to the
Secretary of State for Defence
Ministry of Defence

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6 JUN 1980



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200
China

10 DOWNING STREET

From the Private Secretary

3 June 1980

DEFENCE SALES TO CHINA

The Prime Minister has seen your letter of 30 May to Roderic Lyne on this subject. She is content that the deal described in your letter should be concluded.

I am sending copies of this letter to the Private Secretaries to the other members of OD, to Ian Ellison (Department of Industry) and to David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

J.D.S. Dawson, Esq.,
Ministry of Defence.

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