

CONFIDENTIAL  
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FM PEKING  
TO IMMEDIATE F C O  
TELNO 1106  
OF 110915Z JUNE 89  
INFO IMMEDIATE HONG KONG, JSIS HONG KONG, WASHINGTON, MOSCOW  
INFO IMMEDIATE CANBERRA, TOKYO, ACTOR, UKDEL NATO, MODUK  
INFO IMMEDIATE EC POSTS, HANOI, SINGAPORE  
INFO ROUTINE SEOUL

SIC U2B

MODUK FOR SEC (O)(C).

HONG KONG FOR GOVERNOR AND POLAD.

SINO-BRITISH RELATIONS AFTER 4 JUNE REPRESSION.

1. AS YOU HAVE STATED, IN PRESENT CIRCUMSTANCES THERE CAN BE NO QUESTION OF CONTINUING NORMAL BUSINESS WITH THE CHINESE AUTHORITIES. H M G HAVE ANNOUNCED CERTAIN MEASURES, E.G. SUSPENSION OF MINISTERIAL AND HIGH LEVEL MILITARY EXCHANGES, A NECESSARY REVIEW OF THE PRINCE OF WALES' VISIT AND BANNING OF ALL ARMS SALES.

2. I HAVE BEEN GIVING SOME PRELIMINARY THOUGHT TO WHAT BUSINESS CAN AND SHOULD CONTINUE TO BE CONDUCTED WITH CHINA IN THE AFTERMATH OF THE APPALLING EVENTS OF 4 JUNE. WE NOW HAVE A GLIMMERING OF THE SHAPE OF THE NEW AUTHORITY IN CHINA THROUGH THE FIRST APPEARANCE OF DENG XIAOPING WITH A NUMBER OF HIS OLD CRONIES, ONLY THREE SURVIVING MEMBERS OF THE STANDING COMMITTEE OF THE POLITICAL BUREAU AND A GROUP OF SENIOR MILITARY FIGURES INCLUDING THOSE ON THE CENTRAL MILITARY COMMISSION. WE ASSUME THE CENTRAL LEADERSHIP HAVE STILL TO AGREE THE VERDICT ON ZHAO ZIYANG AS WELL AS THE FULL AWAKIJO OF THE SO-CALLED 'COUNTER-REVOLUTIONARY MOVEMENT' AND THE LINE FOR THE WAY AHEAD. IT WILL BE SOME TIME - PERHAPS MONTHS - BEFORE THE SITUATION BECOMES CLEARER.

3. IT SEEMS THAT THERE ARE FOUR BROAD AREAS ON WHICH WE SHOULD BE CONCENTRATING ATTENTION. THESE ARE:

- (A) HONG KONG AND ITS FUTURE.
- (B) POLITICAL AND PROFESSIONAL CONTACTS.

- (C) COMMERCIAL AND ECONOMIC RELATIONS.  
(D) EDUCATIONAL, SCIENTIFIC AND CULTURAL RELATIONS.

4. IN THIS TELEGRAM, I DO NOT PROPOSE TO DISCUSS HONG KONG. THIS IS A HIGHLY POLITICAL SUBJECT OF GREAT DELICACY ON WHICH DISCUSSIONS HAVE ALREADY TAKEN PLACE BETWEEN THE GOVERNOR AND YOURSELF AND THE PRIME MINISTER. BUT THERE CLEARLY WILL BE AN INTERACTION BETWEEN HOW WE HANDLE OUR POLITICAL, COMMERCIAL AND CULTURAL RELATIONS WITH MAINLAND CHINA AND OUR POLICIES TOWARDS HONG KONG. IN THIS TELEGRAM I THEREFORE WILL ONLY TOUCH UPON THE ASPECTS RELATING TO PARAGRAPH 3 (B), (C) AND (D).

5. POLITICAL EXCHANGES BELOW THE MINISTERIAL LEVEL SHOULD, I THINK, BE LOOKED AT ON A CASE BY CASE BASIS, TAKING ACCOUNT OF BOTH UK AND HONG KONG INTERESTS. IN MY VIEW, PROFESSIONAL CONTACTS OUGHT TO BE GUIDED BY THE SAME PRINCIPLE, WITH THE PROVISIO THAT WHERE THERE IS BENEFIT TO THE CHINESE PEOPLE IN HELPING THE CIVIL, LEGAL AND OTHER ADMINISTRATIVE SERVICES TO BECOME MORE HUMANE AND ACCOUNTABLE WE SHOULD CONTINUE.

COMMERCIAL AND ECONOMIC RELATIONS.

6. THE SINO-BRITISH TRADE COUNCIL WILL NO DOUBT WISH TO CONSULT WITH THE D T I ABOUT THE WISDOM OF CONTINUING WITH THEIR MAJOR EXHIBITION IN PEKING IN NOVEMBER TIMED TO COINCIDE WITH THE NOW PROBABLY DOOMED VISIT OF THE PRINCE OF WALES. IF THE PRESENT LEADERSHIP CONSOLIDATES ITS POWER THERE WILL PRESUMABLY BE NO ROYAL VISIT AND THIS MAY HAVE A VERY DAMPENING EFFECT ON SBTC'S PLANS. THERE MAY BE OTHER EXHIBITIONS PLANNED WITH A LESSER PROFILE, BUT IN GENERAL I WOULD HAVE THOUGHT THAT PROPOSALS OF THIS KIND SHOULD BE PUT IN SUSPENSION FOR THE TIME BEING.

7. NEVERTHELESS, THERE ARE MAJOR PROJECTS ALREADY CONTRACTED FOR OR OTHERWISE IN THE PIPELINE SUCH AS THE DAYA BAY NUCLEAR POWER PROJECT, THE YUEYANG POWER STATION PROJECT, WANG FU ZHOU POWER PROJECT AND THE BOHAI ALUMINIUM SCHEME ETC WHICH WE WILL PRESUMABLY NOT WISH TO DISTURB BECAUSE OF THE DAMAGING EFFECT IT WILL HAVE ON BRITISH CONCERNS. NEITHER BRITISH COMPANIES NOR THOSE CHINESE WHO HAVE A STRONG INTEREST IN KEEPING THE OPEN DOOR POLICY GOING AND WANT TO DEAL WITH THE OUTSIDE WORLD WOULD WELCOME A MOVE TOWARDS CANCELLATION.

8. THE GERMANS AND THE JAPANESE HAVE POSTPONED SIGNATURE OF THEIR AGREEMENTS FOR THIS YEAR FOR FURTHER LOANS TO CHINA. WE WILL HAVE

TO THINK CAREFULLY ABOUT OUR OWN SOFT LOAN POLICY. IN GENERAL I WOULD SUGGEST WE WOULD NOT WISH TO INTERFERE WITH PROJECTS ALREADY AGREED, BUT IF WE WANTED TO SHOW OUR CONTINUED DISSATISFACTION WITH THE CHINESE LEADERSHIP WE COULD DELAY THINGS BY SIMPLE ADMINISTRATIVE MEANS WHICH WOULD HOLD UP BUSINESS SOMEWHAT BUT I DO NOT SEE MUCH PURPOSE OR SENSE IN THIS. THE CHINESE AUTHORITIES STILL REFER TO THE CONTINUATION OF THE POLICIES OF REFORM AND THE OPEN DOOR AND IN THE LONG RUN WE MUST WANT OUR OWN DOOR INTO THIS MARKET TO STAY OPEN, HOWEVER MUCH WE MAY DISAPPROVE OF RECENT VIOLENCE IN PEKING AND A TIGHTENING OF POLITICAL DISCIPLINE THROUGHOUT CHINA.

9. THERE IS, OF COURSE, A FURTHER POINT. THE WORLD BANK HAS DECIDED TO WITHDRAW ITS LAST PROJECT LOAN PROPOSAL. OUR SOFT LOAN POLICY, WHILE TAKING ACCOUNT OF BRITISH DISAPPROVAL OF THE CHINESE GOVERNMENT'S ACTIONS, WILL ALSO HAVE TO TAKE ACCOUNT NOT ONLY OF POLITICAL CONSIDERATIONS BUT EQUALLY STRONG ECONOMIC FACTORS. FOR EXAMPLE THERE IS NO POINT IN LENDING MONEY TO THE CHINESE IF THEY CANNOT REPAY THE DEBT BECAUSE OF THEIR CHANGE IN THEIR OWN POLICY OR BECAUSE OF DAMAGE WHICH THEIR NEW POLICIES CAUSE TO THEIR ECONOMY. IN OTHER WORDS, WE MUST LOOK AT THE VIABILITY OF EACH PROJECT FOR WHICH SOFT LOAN FINANCING IS BEING CONSIDERED. DECISIONS ABOUT LOANS WILL BE DETERMINED BOTH BY POLITICAL CONSIDERATIONS AND BY THE STATE OF THE CHINESE ECONOMY, THE PROSPECTS FOR WHICH ARE NOW FAR FROM ROSY.

10. THIS LEADS ON TO THE DEVELOPMENTAL ASPECT. I IMAGINE WE WOULD NOT WISH TO CUT OFF DEVELOPMENTAL AID TO CHINA, PARTICULARLY WHERE THIS WAS RELATED TO THE ENVIRONMENT OR POLLUTION CONTROL, WATER SUPPLY, ETC. THIS IS ANOTHER AREA IN WHICH THE CHINESE PEOPLE AS OPPOSED TO THE CHINESE COMMUNIST PARTY OR GOVERNMENT COULD BE HURT AND THERE IS CLEARLY A HUMANITARIAN AS WELL AS A DEVELOPMENTAL ASPECT TO THIS. WE ALREADY HAVE THIS APPROACH TO TIBET.

11. AS FOR EDUCATIONAL, SCIENTIFIC AND CULTURAL RELATIONS, I IMAGINE WE SHOULD WANT TO GO RATHER LOW-KEY. I SUBMIT WE SHOULD KEEP THE DOOR OPEN FOR THE FUTURE BY CONTINUING ENGLISH LANGUAGE TEACHING. WE SHOULD ALSO KEEP SENIOR ACADEMIC EXCHANGES, THE PEAK PERIOD FOR WHICH IS SEPTEMBER, UNDER REVIEW WITH THE BRITISH COUNCIL. WE SHOULD ALSO HELP TARGETTED GROUPS OF CHINESE TO TALK TO US AND WE OUGHT TO CONTINUE SCHOLARSHIPS AND BOOK PROGRAMMES TO SHOW THAT THERE IS A BETTER WORLD OUTSIDE CHINA AND THAT POLITICAL REFORM WILL EVENTUALLY HAVE TO COME. ELT AND SCHOLARSHIP ACTIVITIES ARE MOSTLY JOINTLY FUNDED AND MUCH WILL

DEPEND ON CHINESE WILLINGNESS TO FIND FOREIGN EXCHANGE, WHICH MAY POSSIBLY BE IN INCREASINGLY SHORT SUPPLY (SEE PARA 9, ABOVE).

12. I SUGGEST WE DO NOT WANT HIGH PROFILE ACTIVITY LIKE THE ART EXHIBITION WHICH WE HAD PLANNED TO COINCIDE WITH THE 40TH ANNIVERSARY CELEBRATIONS OF THE PEOPLE'S REPUBLIC OF CHINA. WE PROBABLY SHOULD ALSO PUT OFF THE PLANNED BRITISH FILM AND TV WEEKS AND ELT SYMPOSIUM.

13. THERE ARE OTHER MATTERS THAT NEED LOOKING AT, SUCH AS OUR VISA POLICY, THE RIGHT LEVEL OF STAFFING IN THIS EMBASSY AND OUR CONSULATE-GENERAL IN SHANGHAI. THESE I WILL REVERT TO AS SOON AS THE SITUATION ALLOWS.

DONALD.

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