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CHINESE PRIME MINISTER'S VISIT

1. There are three elements: Hong Kong; trade; and international issues.

Hong Kong

2. Though we are now over the hurdle of the Joint Liaison Group and the Agreement is ratified, there are still important points here. We want the Chinese to confirm publicly their intention to honour the Agreement. We also want to get over to them privately that the greater the Hong Kong involvement in preparing the Basic Law the better the response in Hong Kong to the outcome. (Tricky, since the Basic Law is for the Chinese only and they have already promised to involve Hong Kong people in the drafting). Zhao may warn about too rapid progress to representative Government in Hong Kong.

Trade

3. We wish to capitalise on the excellent state of relations. They may be prepared to give us something more in the way of contracts, but will increasingly press for special favours, eg concessionary finance and access to nuclear technology. I myself doubt whether we shall make more progress against our allies and competitors on trade without being prepared to offer special credit rates in particular cases. We should also try again on defence sales; we have had meagre returns to date despite immense efforts.

International Issues

4. There are three worth concentrating on:

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- a. East/West relations, leading to Sino/Soviet relations. Zhao will probably give the standard reassuring line, but we should not exclude the possibility of movement on the political as well as on the trade front. I have seen one report of the Chinese thinking of an eventual visit by Gorbachev to Peking. This is remote as yet, but we must assume that Gorbachev would very much like to go there; and the three obstacles, (Cambodia, Afghanistan and Soviet troops on the Northern border) may not be as immoveable as they seem.
- b. Korea again is not entirely static. The Chinese are encouraging North/South dialogue and have improved unofficial contacts with South Korea. North Korean-Soviet relations have grown rather closer. I have seen reports that Kim Jong Il (the son of Kim Il Sung) would like to become a reformist like Deng. Zhao may give a wooden response on Korea, as they usually do in public, but the subject is worth exploring.
- c. Indo/China will have to be mentioned but I should avoid getting bogged down on it. The danger of nuclear proliferation in the sub-continent is a more urgent topic.

*PC*

PERCY CRADOCK

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