



10 DOWNING STREET

Handwritten notes:
cc PC
cc MASTER SET

From the Private Secretary

3 June 1985

Dear Peter,

PRIME MINISTER'S MEETING WITH PREMIER ZHAO ZIYANG

I enclose a record of the Prime Minister's discussion this afternoon with Premier Zhao Ziyang, together with a copy of Zhao Ziyang's speech at the subsequent dinner in his honour.

I am copying this letter and the record to Richard Mottram (Ministry of Defence), John Mogg (Department of Trade and Industry), Rachel Lomax (HM Treasury) and Richard Hatfield (Cabinet Office).

Handwritten signature:
yours sincerely,
Charles Powell

Charles Powell

Peter Ricketts Esq
Foreign and Commonwealth Office.

Handwritten initials: CST

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE
PREMIER OF THE STATE COUNCIL OF THE PEOPLE'S REPUBLIC OF
CHINA ON 3 JUNE AT 10 DOWNING STREET AT 1700 HOURS

Present:

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| Prime Minister | Premier Zhao Ziyang |
| Foreign Secretary | Vice-Premier Tian Jiyun |
| Mr Richard Luce | Minister for Foreign Affairs |
| Sir Percy Cradock | Wu Xueqian |
| HM Ambassador Peking | Mr Zhou Nan |
| Sir Edward Youde | Mr Gan Ziyu |
| Dr David Wilson | Mr Lin Zongtang |
| Mr Charles Powell | Mr Jia Shi |
| Mr Bernard Ingham | Mr Bao Tong |
| | Mr Hu Dingyi |
| | Mr Ke Zaishuo |
| | Mr Mei Zhaorong |
| | Mr Tang Longbin |

Welcoming Zhao Ziyang, the Prime Minister said that she hoped that his visit would open a new chapter of friendly relations between China and the United Kingdom. Both sides recognised that tremendous steps forward had been taken, first the signing of the Hong Kong Agreement and now with its ratification. She enquired after the health of Deng Xiaoping, Hu Yaobang and Li Xiannian.

Zhao Ziyang thanked the Prime Minister for the invitation extended to him and the warm and ceremonious welcome which he had received. He had been entrusted by Deng Xiaoping and Hu

Yaobang to convey warm greetings to the Prime Minister. They were both in excellent health.

The Prime Minister proposed that their talks should concentrate on Hong Kong, on bilateral matters and international questions, leaving trade and economic issues to be discussed later in the week.

Hong Kong

The Prime Minister said that there appeared no major outstanding problems. The Hong Kong economy was in excellent shape and this itself was a testimony to the success of the Joint Declaration. Britain accepted responsibility for maintaining prosperity and stability up until 1997. The next step would be the drafting of the Basic Law. This would be very important indeed. Obviously it was China's responsibility. But the more that Hong Kong people knew about it and the more they could be involved, the easier it would be for all concerned. Naturally there was some demand in Hong Kong for a greater degree of participation in Government. But we would move very carefully and very sensitively on this, building on existing institutions. The Prime Minister continued that the most frequent question she was asked was whether the Joint Declaration would be implemented. She always replied vigorously that it would be: it had been signed by both sides in good faith with the intention of implementing it in letter and in spirit. She thought it was helpful if each time British and Chinese leaders met, people were reassured of this intention. It would be useful if both sides were to do so following the present meeting.

Zhao Ziyang agreed that Sino-British relations were entering a new and historic period. One could say that China and Britain enjoyed the best relations which they had ever had. China wanted a mutually beneficial relationship on a long term basis. China and Britain were good examples of countries with different social systems, able to coexist peacefully.

Zhao Ziyang continued that he shared the Prime Minister's assessment of the situation in Hong Kong. The Joint Declaration was a very good agreement which had been warmly received in Hong Kong itself, in China, by the British people and by the overwhelming majority of world opinion. The task now was to co-operate even more closely in implementing the Joint Declaration. He could say that China was committed to a firm, comprehensive and effective implementation of the Joint Declaration. The Standing Committee of the National People's Congress would soon decide on the setting up of the drafting committee on the Basic Law. People from Hong Kong would make up a significant percentage of this committee and would be representative of a broad cross-section of the Hong Kong population. Indeed the committee would include a member of UMELCO, who would of course sit on the committee in a private capacity.

Zhao Ziyang concluded that he noted that there had been talk of changes in Hong Kong's institutions. There were differing views about this in Hong Kong. He hoped that the British side would be prudent about this. Foreign Ministers might discuss it in detail.

Macao

Zhao Ziyang said that the President of Portugal had recently visited China. There had been discussions about the future of Macao and the two sides had reached a common view. Talks on the future of Macow would start shortly through diplomatic channels. The problem would be solved by following the concept of one country two systems. Macao would become a Special Administrative Region. The Prime Minister expressed confidence that a satisfactory outcome would be achieved.

East/West Relations

Zhao Ziyang invited the Prime Minister to give her assessment of recent developments in East/West relations, the Geneva negotiations, and over the Strategic Defence Initiative.

The Prime Minister said that she thought that Mr Gorbachev would give priority to domestic matters. His aim appeared to be to make the Soviet system work more effectively through greater discipline rather than by changing the system itself. One result of this preoccupation with internal matters would be that he would not yet be able to focus on the Geneva arms control negotiations. It would therefore be unrealistic to expect early progress. As regards the Strategic Defence Initiative, it was impossible to monitor or control research. The key therefore was to ensure that deployment of a defensive system, if it proved possible was negotiated. It was for this reason that Britain had suggested that both sides at Geneva should reaffirm the ABM treaty, since this established the framework and procedures for such negotiation. Meanwhile, it was essential not to undermine nuclear deterrence. Unfortunately the Soviet Union appeared to be insisting that the United States should give up research on the Strategic Defence Initiative as a pre-condition for negotiations on reductions in offensive weapons.

Zhao Ziyang said that the Chinese Government did not know a great deal about the arms control talks. But they welcomed the fact that a dialogue had been established between the United States and the Soviet Union, even though little immediate progress seemed likely. At least the atmosphere was better, even if there was little change on substance. They were, however, concerned by the prospect that the arms race would be extended into outer space. The crucial question about the Strategic Defence Initiative was: what was the real intention of the United States? Some people said that it was a purely defensive concept. But the Chinese Government did not believe this. Rather, they feared that the United States

aimed at superiority and that it would lead to a new escalation of the arms race. They hoped that European countries would exert pressure on the United States to be very prudent about the Strategic Defence Initiative and to halt research.

The Prime Minister recalled that, when she had met President Reagan following her visit to Peking, they had agreed four points on the Strategic Defence Initiative. One of these was that neither side should seek superiority. She acknowledged the risk of a fresh escalation of the arms race. But it was for this reason that we proposed reaffirmation of the ABM Treaty, since this would ensure that any eventual deployment of a ballistic missile defence system would be negotiated and therefore preserve balance. She welcomed the improved atmosphere in US/Soviet relations: this was an essential prelude to successful negotiations.

Zhao Ziyang said that, on other aspects of East/West relations, China noted that contacts between Eastern and Western Europe were increasing and that there was a growing tendency on the part of East European countries to take their national interests more into consideration. This was a positive development. China also hoped to see a united and strong Western Europe which would take its destiny into its own hands, and wanted close, long term relations with such a Western Europe.

Sino-Soviet Relations

Zhao Ziyang said that the Prime Minister might be interested in his assessment of Sino-Soviet relations. Both economic and trade relations had expanded recently and there had been some increase in visitors in each direction. A long term trade agreement had been initialled and Vice Premier Yao Yi-Lin would visit the Soviet Union in early July to sign it. However the Soviet Union had shown no flexibility on the three obstacles to improved political relations. China would

not abandon its position on these three obstacles. While economic and trade relations would continue to develop, this would not mean normalisation of relations overall. We might have noted that China now described the Soviet Union as a socialist country, but this on no account meant restoration of party relations. It simply described the Soviet Union's domestic system. China would not allow ideology or social systems to determine its relations nor would it enter into an alliance with any great power.

Sino-US Relations

Zhao Ziyang thanked the Prime Minister for conveying Deng Xiaoping's oral message on Taiwan to President Reagan last December. It had been an important message but the response had not been positive. China still hoped that the United States could accomplish something on Taiwan by following the concept of one country two systems. This was in the United States' long term strategic interest. In other fields, relations with the United States were stable. President Li Xiannian would visit the United States in July and Vice President Bush would visit China in the autumn.

South East Asia

The Prime Minister asked Zhao Ziyang for his assessment of the situation in Cambodia. This was a standing cause for concern for the United Kingdom. There seemed no early prospect of a Vietnamese withdrawal. Zhao Ziyang said that China appreciated the just position taken by the United Kingdom on Cambodia. The latest Vietnamese offensive had failed in its attempt to wipe out the resistance. Rather, by forcing the resistance out of their camps and into the countryside, they had given opposition to the Vietnamese presence a new momentum. He agreed that it would be very difficult for the resistance forces to drive out the Vietnamese. But equally the Vietnamese could not extinguish the resistance. In the long term the burden would become insupportable for the Vietnamese. The answer was for the

international community to continue to exert pressure on Vietnam while giving moral and material support to the resistance.

Korea

The Prime Minister asked how Zhao Ziyang saw the prospects for dialogue between North and South Korea. Zhao Ziyang said Hu Yaobang had paid an official visit to North Korea during which the North Korean Government had reaffirmed its wish to see an end to confrontation. In his view North Korea was sincere in putting forward its proposals for tripartite talks and a mutual non-aggression treaty.

Royal Visit to China

Zhao Ziyang said that he was entrusted to renew the invitation to The Queen and Prince Philip to visit China. The Chinese Government hoped that the visit would take place in the second half of 1986. October would be the best month. Precise dates should be fixed through diplomatic channels. The visit would be another great event in Sino-British relations. The Prime Minister said that she understood that the second half of October next year was likely to be convenient for The Queen. She agreed that it would be a most important event in Sino-British relations.

The Prime Minister said that we hoped that Hu Yaobang would take up our invitation to visit Britain. Zhao Ziyang said that Hu Yaobang wanted to come very much. Dates should be discussed through the normal channels.

The meeting ended at 1900.

C.D.R.

3 June 1985

TALKS WITH CHINESE PREMIER

1. Hope Zhao Ziyang enjoyed his visit to Scotland. Will see Cambridge Science Park tomorrow.
2. Grateful for excellent arrangements made for Lord Young's mission. Want to build on it and expand our trade which is still relatively modest. Purchase of 10 BAe 146 and 8 Shorts SD360 a welcome first step.
3. British companies discussing joint ventures. More willing than many competitors to transfer technology.

4. Recognise Chinese concern to secure favourable terms. We are keen to be in a position to take advantage of trade opportunities. We are examining in what ways financial support can be made available to our exporters & would hope to devise arrangements and financial packages appropriate to Chinese conditions. [In principle this could include soft loans]

5. On specific projects:

- Guangdong Nuclear. Must conclude negotiations this month and start work.

/ - Tangshan

- Tangshan Coal Mine. You will have seen the advanced coal mining equipment we can offer at Anderson Strathclyde yesterday.

✓ - Ningbo Steelworks. Davy McKee are putting proposals.

- Aluminium smelters. London Consortium and Wimpey are discussing projects on South China and Guangxi province.

// - Railway development. Balfour Beatty in touch about railway developments in Peking, Fujian & Guangdong

- Pilkington Joint Venture. Hope this can be designated as priority project so that construction can start.

- Diesel Factory for which IPSECO are bidding.

- CITIC European Office. Hope this will be established in the UK.

Like to see early progress on all these projects: hope decisions can be announced soon so that there is visible evidence that our improved relations bear fruit.

6. Also prospects for co-operation in the defence field. Political will exists on our side to supply increasing range of defence equipment, subject to COCOM. Particular scope in submarine equipment, including torpedoes and periscopes.

7. On COCOM, we continue to press for more favourable treatment for China. We accept the case for some reduction in COCOM controls, though our efforts to secure a formal differential in favour of China failed. In the forefront of moves towards liberalization.

8. Import policy a matter for EC not individual member states.

9. Will give favourable consideration to a Chinese request for full membership of GATT.

TALKS WITH CHINESE PREMIER: ROUND I

1. Importance of visit. Want to make it a further big step forward in our relations.
2. Enquire after Deng, Hu Yao Bang and Li Xiannian.
3. Propose we focus today on Hong Kong, bilateral questions and international affairs. Leave trade and economic issues until Thursday when Mr. Tebbit and Lord Young will be present.
4. Hong Kong. Instruments of ratification exchanged. Agreement now in force. Vital that both sides are seen to cooperate in implementation of it. Drafting of Basic Law important: China's responsibility, but more Hong Kong people involved, better it will be received. Fully accept responsibility to maintain stability up to

1990 We have to be responsive to widespread demand in Hong Kong for greater degree of participation in government but intend to move very carefully and build on existing institutions. Hope we shall both tell press that we reaffirmed our commitment to implementation of the Hong Kong Agreement.

5. Bilateral Relations. Ratification of Hong Kong Agreement opens new era for Chinese-British relations. Delighted to sign Economic and Nuclear Cooperation Agreements. Hope Investment Promotion and Protection Agreement will follow. Welcome importance given to English Language Training.

6. Queen's Visit. First ever visit to Communist country. Middle of October (after 11th) would suit best. Would go on to Hong Kong. Also hope to welcome Hu Yao Bang here.

7. RENCO. Not previously sold this technology to anyone. Have to discuss with our partners and any decision would be taken jointly with them. Careful study needed.

8. ✓ East/West. Expectations from Gorbachev. Prospects for Arms Control negotiations. SDI.

9. Sino-Soviet. Different approach under Gorbachev? How far can economic cooperation develop without resolution of political differences? What is significance of offer to discuss obstacles one by one?

10. Korea Agree on importance of dialogue and welcome efforts to promote it. Difficult to accept that present North Korean leadership has genuine desire to seek progress. His assessment of North Korea's intentions.

11. Sino-China. Deplore Vietnam's occupation of Cambodia. Need for resistance to show they are a force to be reckoned with. Not let one faction overshadow others. Hope worst offenders among Khmer Rouge can be retired. What form of government would China accept for Cambodia? //

12. South Asia. Firm support for Pakistan over Afghanistan. Concern about nuclear proliferation in South Asia. Hope China will use influence with Pakistan. Problems in Sri Lanka. //

* Interpreters

D. Thatcher

LIST OF GUESTS ATTENDING THE DINNER TO BE GIVEN BY THE PRIME MINISTER AND
MR. DENIS THATCHER IN HONOUR OF HIS EXCELLENCY MR. ZHAO ZIYANG, PREMIER
OF THE STATE COUNCIL OF THE PEOPLE'S REPUBLIC OF CHINA ON MONDAY,
3 JUNE 1985 AT 7.45 PM FOR 8.00 PM LOUNGE SUIT

The Prime Minister
and Mr. Denis Thatcher

Chinese Suite

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| * | His Excellency Mr. Zhao Ziyang | Premier |
| * | His Excellency Mr. Tian Jiyun | Vice Premier of the State Council |
| * | His Excellency Mr. Wu Xueqian | State Councillor and Minister of Foreign Affairs |
| | His Excellency the Ambassador of the People's Republic of China | |
| | His Excellency Mr. Zhou Nan | Vice Minister of Foreign Affairs |
| * | His Excellency Mr. Gan Ziyu | Vice Minister of State Economic Commission |
| * | His Excellency Mr. Lin Zongtang | Vice Minister of State Economic Commission |
| * | His Excellency Mr. Jia Shi | Vice Minister of Ministry of Foreign Economic Relations and Trade |
| | His Excellency Mr. Bao Tong | Personal Private Secretary to Premier |
| | Mr. Ke Zaishuo | Official of the Office of Hong Kong and Macao Affairs of the Foreign Ministry |
| | Mr. Mei Zhaorong | Director of Department of West European Affairs of the Foreign Ministry |

HM Government

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| Rt. Hon. Sir Geoffrey Howe, MP | |
| Rt. Hon. Norman Tebbit, MP | |
| Rt. Hon. Michael Jopling, MP | Will visit China in November 1985 |
| Rt. Hon. Nicholas Ridley, MP | |
| Rt. Hon. Lord Young of Graffham | Leader of High level delegation to China 1985 |

European Commission

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| Rt. Hon. Lord Cockfield |
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House of Lords

His Grace the Duke of Buccleuch and Queensberry has just returned from a visit to China

Conservative MPs

Rt. Hon. Sir Peter Blaker, MP Chairman, Hong Kong Parliamentary Group

Sir Paul Bryan, MP close links with Hong Kong

Mr. Robert Adley, MP Chairman, Anglo/Chinese Parliamentary Group

Labour MPs

Rt. Hon. James Callaghan, MP

Trades Unions

Mr. E.A. Hammond General Secretary, Electrical, Electronic, Telecoms and Plumbing Union

Mr. Clive Jenkins General Secretary, Association of Scientific and Technical Managerial Staffs. Has visited China twice

Businessmen

Mr. Ian MacGregor Chairman, National Coal Board. Extensive UK exports to China in coal mining technology

Sir Ernest Harrison Chairman and Managing Director, Racal Electronics. Extensive electronics/defence contracts in China

The Lord King of Wartnaby Chairman, Babcock International plc Construction and energy contracts in China. Also Chairman of British Airways

The Lord Weinstock Managing Director, General Electric Co. plc. Bidding for contract for conventional island in Guangdong nuclear power station

Sir Eric Sharp Chairman and Chief Executive, Cable & Wireless plc. Participated in Lord Young Mission

Mr. Richard Giordano BOC Group. Participated in Lord Young Mission

Sir Peter Matthews President, Sino-British Trade Council

Sir Austin Pearce Chairman, British Aerospace. Sale of BAe 146

Mr. Antony Pilkington Group Chairman, Pilkington Bros. Ltd. Float glass factory in Shanghai is largest UK/China Joint Venture to date

Sir Kenneth Corfield Chairman and Managing Director, Standard Telephones and Cables plc. Signed telecom contract recently with China

Sir Francis Tombs Chairman, Rolls Royce plc. Longstanding cooperation with China in manufacture of aero engines

Sir Peter Baxendell Chairman, Shell Petroleum. Involved in offshore oil exploration South China Sea

Sir William Barlow Chairman, BICC plc. Contracts with Chinese in Power transmission and telecommunications

Mr. P.G. Cazalet Managing Director, British Petroleum. Prospecting in South China Sea

Mr. John Swire
Church Chairman, John Swire and Sons Ltd. Major trading interests in China and Hong Kong

The Right Reverend The Lord Bishop of Southwark (Right Reverend Ronald Bowlby)

Media

Mr. Norman Macrea Deputy Editor, The Economist. Has written on political/social forecasting, of great interest to Premier Zhao

Mr. James Coltart Chairman, The Thomson Foundation. Extensive cooperation with Chinese media

Miss Kathryn Flower BBC presenter of 'Follow Me' Most popular English Language TV programme in China. Speaks Chinese

Academics/Chatham House

Professor Sir George Porter Director, Royal Institution. Has visited China and is Honorary Professor of Chinese Academy of Sciences

Rt. Hon. Lord Richardson of Duntisbourne Chairman, Royal Institute of International Affairs (Chatham House)

Dr. Joseph Needham Director, East Asia History of Science Library. Editor of 'Science and Civilisation in China'

Dr. Keith Griffin Magdalen College, Oxford. Led study delegation to China. Written book on rural China

Dr. Hugh Baker Head of the Contemporary China Institute School of Oriental and African studies

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| Professor Sir Richard Southwood | Chairman, Royal Commission on Environmental Pollution |
| Professor David Pollard | Prominent Chinese scholar and member of Great Britain China Centre |
| Admiral Sir James Eberle | Director, Royal Institute of International Affairs |

Others

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| Mr. Chris Bonington | Mountaineer. Has climbed in China many times. Reached Summit of Mount Everest April 1985 |
| Mrs. Heather Angel | President, Royal Photographic Society. Visiting China April/May 1985 with UK Photographic exhibition |

Military

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| Admiral Sir John Fieldhouse | Chief of Naval Staff and First Sea Lord. Visited China in May 1985 |
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Hong Kong

Sir Edward Youde
The Hon. Sir S.Y. Chung
The Hon. Sir Roger Lobo
Sir Y.K. Pao

Officials

| | |
|-------------------|---------------------------------|
| Sir Antony Acland | Foreign and Commonwealth Office |
| Sir Richard Evans | HM Ambassador, Peking |
| Dr. David Wilson | FCO |

10 Downing Street

Sir Percy Cradock
Mr. Charles Powell