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 DESKBY FCO 091000Z  
 FROM PEKING 090405Z NOV 84  
 TO IMMEDIATE FCO  
 TELNO 2727 OF 9/11/84  
 INFO IMMEDIATE HONG KONG

MY TELNO S 2723 AND 2724 : FUTURE OF HONG KONG: PRIME MINISTER'S  
 VISIT TO PEKING AND HONG KONG

1. THE FOLLOWING RECOMMENDATIONS ON SUBJECTS WHICH MIGHT BE COVERED DURING THE PRIME MINISTER'S TALKS WITH CHINESE LEADERS ARE MADE IN RESPONSE TO BOYD'S TELELETTER OF 1 NOVEMBER, AS WELL AS IN RESPONSE TO YOUR TELNO 1385.

#### HONG KONG AIMS

2. WE ARE AGREED THAT THE MAIN PURPOSE OF THE VISIT WILL BE TO SIGN THE AGREEMENT AND THAT, IN HERE TALKS WITH CHINESE LEADERS, THE PRIME MINISTER WILL WANT TO EXPRESS THE GOVERNMENT'S DETERMINATION TO DO EVERYTHING POSSIBLE TO MAKE THE AGREEMENT WORK. AS THE GOVERNOR HAS POINTED OUT (HIS TELELETTER TO CRADOCK OF 19 OCTOBER), WE SHALL NEED TO THINK CAREFULLY ABOUT WHAT SHE MIGHT SAY ABOUT THE BASIC LAW. THIS WILL DEPEND TO SOME EXTENT ON THE OUTCOME OF THOMSON'S AND MCLAREN'S DISCUSSION WITH LU PING NEXT WEEK. (I AM COMMENTING SEPARATELY ON HONG KONG TELNO 3405). WE SHALL ALSO NEED A DEFENSIVE LINE ON OUR PLANS FOR REPRESENTATIVE GOVERNMENT IN HONG KONG. MY OWN MEETING NEXT WEEK WITH ZHOU NAN AND MCLAREN'S WITH LU PING SHOULD AGAIN HELP IN THE DETERMINATION OF WHAT THIS SHOULD BE.

3. BOYD ASKED WHAT CHINESE AIMS ON HONG KONG WERE LIKELY TO BE. I BELIEVE THAT THEY WILL BE SIMILAR TO OUR OWN. WE KNOW AT PRESENT OF NO PARTICULAR ITEMS WHICH THE LEADERSHIP WILL WISH TO RAISE WITH THE PRIME MINISTER. BUT WE MUST EXPECT DENG TO REPEAT THE ADMONITIONS WHICH HE ADDRESSED TO YOU IN JULY (EG. ON BRITISH INVESTMENT IN HONG KONG AND ON HONG KONG GOVERNMENT EXPENDITURE) AND CAREFUL DEFENSIVE BRIEFING WILL BE NEEDED ON ALL FIVE OF THESE.

#### BILATERAL AIMS

##### (H) VISITS

4. I AGREE WITH BOYD THAT THE PRIME MINISTER SHOULD ASK ZHAO TO GO GO FIRM ON A TIME FOR A VISIT AS SOON AS POSSIBLE, MAKING IT CLEAR THAT HE WOULD BE WELCOME EVEN BEFORE RATIFICATION. I THINK THAT THE PRIME MINISTER SHOULD VOLUNTEER SOMETHING IN RESPONSE TO DENG'S INVITATION TO THE QUEEN, EVEN IF THIS CAN ONLY BE ACCEPTANCE IN PRINCIPLE AT THIS STAGE. IT WOULD LOOK ODD IF SHE WAITED TO BE ASKED (AS SHE WOULD BE) FIVE MONTHS AFTER THE INVITATION WAS ISSUED.

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5. I DO NOT THINK THAT INVITATIONS SHOULD BE ISSUED TO DENG XIAOPING AND HU YAOBANG TO VISIT THE UK. DENG IS NOW GENERALLY THOUGHT TO BE TOO OLD TO TRAVEL ABROAD AND (AS I HAVE SAID WHEN ADVISING ON WHETHER OR NOT WE SHOULD CONSIDER INVITING HIM TO HONG KONG) HE IS UNPREDICTABLE. HU YAOBANG HAS INVITATIONS OUTSTANDING TO HIM TO VISIT THE FRG AND ITALY. BUT NEITHER IS FROM THE GOVERNMENT. THE GERMAN INVITATION COMES FROM HERR BRANDT AND THE ITALIAN INVITATION FROM THE ITALIAN COMMUNIST PARTY. HU'S LACK OF GOVERNMENT STATUS APART, HE TOO IS HIGHLY UNPREDICTABLE. THERE WOULD ALSO BE TIMING PROBLEMS IN INVITING EITHER DENG OR HU. THE MAIN VISIT TO THE UK NEXT YEAR MUST BE THAT OF ZHAO. IF THE QUEEN WERE TO VISIT CHINA IN 1986, IT WOULD NOT NECESSARILY BE APPROPRIATE TO HAVE A TOP LEVEL VISIT IN THE OPPOSITE DIRECTION IN THAT YEAR. AFTER THAT, THE LOGICAL MOVE WOULD BE A STATE VISIT BY THE CHINESE PRESIDENT (NOT NECESSARILY LI XIANNIAN FOR MUCH LONGER).

6. I SEE NO PARTICULAR NEED TO PRESS FOR TIAN JIYUN TO VISIT THE UK NEXT YEAR (ALTHOUGH, IF THE CHINESE MENTION IT, THE PRIME MINISTER SHOULD OF COURSE CONFIRM THE INVITATION). MY OWN VIEW IS THAT A VISIT BY LI PENG WOULD BE MORE VALUABLE THAN A VISIT BY TIAN. BUT WE COULD HARDLY INVITE THE FORMER WITHOUT CONFIRMING THE INVITATION TO THE LATTER: AND THAT WOULD OVERLOAD THE CIRCUIT.

(iii) TRADE

7. I AGREE WITH BOYD THAT THE PRIME MINISTER SHOULD PRESS FOR GREATER EXPORT AND INVESTMENT OPPORTUNITIES FOR BRITISH INDUSTRY, UNDER THE SIGNBOARD OF GREATER PARTICIPATION IN CHINA'S MODERNISATION. IT WILL BE IMPORTANT HOWEVER TO HANDLE THIS IN PUBLIC IN SUCH A WAY THAT HONG KONG OPINION DOES NOT SEE OUR MOVES TO DEVELOP TRADE AS EXPLOITATION OF THE HONG KONG AGREEMENT. WE SHOULD THEREFORE EMPHASISE:

- (A) OUR DISAPPOINTMENT AT THE SMALL UK SHARE OF THE MARKET, AND
- (B) THE CHINESE DESIRE, AS PROCLAIMED BY ZHAO ZIYANG IN EUROPE LAST JUNE, TO DEVELOP CHINA'S COMMERCIAL RELATIONS WITH WESTERN EUROPE.

8. CLEARLY THE MAJOR PROJECT IS GUANGDONG NUCLEAR AND THE LATEST NEWS FROM HONG KONG (BTC TELNO INDUS 273 AND 275) SUGGESTS THAT THE IMPASSE OVER OFFTAKE MAY AT LAST BE RESOLVING ITSELF. WHAT THE PRIME MINISTER WILL BE ABLE TO SAY, HOWEVER, WILL MUCH DEPEND ON INTERVENING DEVELOPMENTS. THE GOVERNOR'S POINTS (HONG KONG TELNO 3401) ARE ALSO EXTREMELY RELEVANT.

9. OTHER PROJECTS AND MAJOR CONTRACTS WHICH MAY BY THE TIME OF THE VISIT BE EITHER READY FOR SIGNATURE OR SUPPORT AT PRIME MINISTERIAL LEVEL INCLUDE:

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(A) BRITISH AEROSPACE 146 AIRCRAFT. A BAE NEGOTIATING TEAM WILL BE IN PEKING THIS WEEK AND IT IS CONCEIVABLE THAT CAAC WILL WISH TO PURCHASE A NUMBER OF THESE AIRCRAFT. IF SO IT IS ALSO POSSIBLE THAT SOMETHING COULD BE SIGNED BEFORE THE END OF THE YEAR.

(B) AVELING BARFORD. THIS COMPANY HAS ALREADY SIGNED (BUT DELIBERATELY NOT ANNOUNCED IN CASE THE PRIME MINISTER WOULD WISH TO) A CONTRACT FOR A 10 MILLION U S DOLLAR SALE OF 92 DUMP TRUCKS TO THE MINISTRY OF RAILWAYS AND IS CURRENTLY NEGOTIATING A MUCH LARGER TRANSFER OF TECHNOLOGY DEAL WITH OTHER CHINESE ORGANISATIONS. THIS INVOLVES BETWEEN 700 AND 1200 DUMP TRUCK UNITS, VALUED AT BETWEEN U S 60 AND 100 MILLION.

(C) PINGGUO ALUMINIUM. SIGNATURE OF AN AGREEMENT FOR A FEASIBILITY STUDY BY WIMPEY COULD BE ACHIEVED BY THE END OF THE YEAR.

(D) TANGSHAN COALMINE. FOLLOWING THE NCB FEASIBILITY STUDY, OPPORTUNITIES FOR UK EQUIPMENT SUPPLIERS MAY REQUIRE MINISTERIAL SUPPORT.

10. I SEE NO ADVANTAGE IN BRIEFING THE PRIME MINISTER TO SEEK A CHINESE VIEW ABOUT A JOINT COMMISSION. THE CHINESE WOULD ALMOST CERTAINLY REPLY THAT THEY ARE READY FOR A JOINT COMMISSION AND THAT IT IS FOR US TO DECIDE WHETHER WE WANT ONE. A RELEVANT POINT HERE IS THAT, WITH THE DEVOLUTION OF DECISION-MAKING IN CHINA, THE ABILITY OF CHINESE MINISTRIES POLITICALLY TO DIRECT PROCUREMENT DECISIONS IS BEING UNDERMINED; ONE ARGUMENT IN FAVOUR OF JOINT COMMISSIONS MAY THEREFORE BE LOSING SOME WEIGHT.

11. DEFENSIVE BRIEFING WILL BE NEEDED ON COCOM AND THE GATT.

## (HW) CLAIMS

12. I THINK THAT THE PRIME MINISTER SHOULD PRESS THE CHINESE TO SPEED UP THEIR EXAMINATION OF OUR LIST OF CLAIMS. SHE COULD SAY THAT, NOW THAT THE HONG KONG NEGOTIATION HAS BEEN SUCCESSFULLY CONCLUDED, WE SHOULD LIKE TO SEE AN EARLY SETTLEMENT OF THIS OTHER BILATERAL ISSUE LEFT OVER FROM HISTORY.

## (HW) CIVIL AVIATION

13. TIME PERMITTING, I RECOMMEND THAT THE PRIME MINISTER SHOULD PRESS FOR A ONE YEAR EXTENSION FROM 16 JANUARY, 1985, OF BA RIGHTS ON THE PEKING ROUTE AND FOR CPA TO BE GIVEN ONE THIRD OF THE TRAFFIC ON THE HONG KONG-SHANGHAI ROUTE AS PROVIDED FOR IN THE 1979 CONFIDENTIAL MEMORANDUM OF UNDERSTANDING ON REGIONAL ROUTES.

## (V) SHANGHAI CONSULATE-GENERAL

14. THIS MAY BE A SUBJECT TO RAISE, BUT MUCH WILL DEPEND ON PROGRESS BETWEEN NOW AND THE TIME OF THE VISIT.

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## (VI) TECHNICAL CONSULTANCIES, CAPITAL AID AND MIXED CREDIT.

15. I HOPE THAT THE PRIME MINISTER WILL BE ABLE TO SAY THAT ODA WILL BE INCREASING THE AMOUNT OF MONEY ALLOCATED TO CHINA FOR TECHNICAL CONSULTANCIES (SEE ODA'S EXPENDITURE FORECAST FOR THE PRC AT 30 SEPTEMBER 1984). I AM NOT INCLINED TO RECOMMEND THAT SHE SHOULD OFFER CAPITAL AID TO CHINA (THOUGH I HOPE THAT THIS POSSIBILITY CAN NOW BE RE-EXAMINED ON A LONGER TIME-SCALE). THE CHINESE MAY, HOWEVER, ASK ABOUT LOW-INTEREST LOANS. ON THIS, I SUGGEST THAT THE PRIME MINISTER SHOULD BE READY TO SAY THAT CHINA IS NOW ELIGIBLE TO RECEIVE MIXED CREDIT FOR PARTICULAR PROJECTS.

## (VII) CULTURE

16. I CAN THINK OF NO PARTICULAR POINTS FOR THE PRIME MINISTER TO MAKE, OTHER THAN TO NOTE THAT OUR EXCHANGES ARE DEVELOPING WELL.

## (VIII) AGREEMENTS

17. DEPENDING ON HOW FAR CONSIDERATION HAS GONE ON THIS SUBJECT IN LONDON, I RECOMMEND THAT THE NEGOTIATION OF A NUCLEAR COOPERATION AGREEMENT SHOULD BE PROPOSED. THERE MAY ALSO BE SOMETHING TO SAY ON THE NEGOTIATION OF THE SINO-BRITISH IPPA IN THE LIGHT OF PROGRESS IN THE DISCUSSIONS IN PEKING THIS MONTH, AND ON A SPACE MEMORANDUM OF UNDERSTANDING WHICH WE ARE PUTTING TO THE CHINESE THIS WEEK.

## MULTILATERAL AIMS

18. I AGREE WITH BOYD THAT WE SHOULD PROPOSE THE FOLLOWING:

(A) EAST-WEST AND ARMS CONTROL. THE IMPORTANCE OF MILITARY LIAISON AND MILITARY WISHS COULD BE MENTIONED UNDER THIS SUBJECT.

(B) SINO-SOVIET RELATIONS. HINDO-CHINA AND AFGHANISTAN COULD BE COVERED UNDER THIS HEADING.

(C) SOUTH ASIA. THE SINO-INDIAN BORDER TALKS AND RELATIONS WITH PAKISTAN ARE OBVIOUS TOPICS.

(D) KOREA.

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19. I DO NOT SEE ANY ADVANTAGE IN THE DISCUSSION OF DEVELOPMENT ISSUES.

20. THE CHINESE MAY WISH TO RAISE EC MATTERS AND WE SHOULD BE READY TO RESPOND, BUT I SEE NO REASON FOR THE PRIME MINISTER TO RAISE THIS SUBJECT HERSELF.

21. I HAVE ASSUMED IN MAKING THESE RECOMMENDATIONS THAT THERE WILL NOT BE TIME FOR A SEPARATE MEETING BETWEEN YOURSELF AND WU XUEQIAN.

EVANS

FUTURE OF HONG KONG  
LIMITED

HD/HKD  
HD/FED  
HD/PLANNING STAFF  
HD/FUSD  
DEP HD/FUSD  
RESEARCH D (MR WALKER)  
PS  
PS/LADY YOUNG  
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