

ccpk  
3 ①



MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1A 2HB  
Telephone 01-880 7022 218 2111/3

MO 11/14

29th May 1985

Prime Minister  
Agree, subject to  
views of colleagues?

W.S.M. CDP

29/5.

Dear Charles,

CHINA - REVIEW OF DEFENCE TRADE POLICY

In response to your letter of 25th February I attach a paper showing the outcome of the inter-departmental review of defence sales policy towards China.

It would clearly be of great assistance if the Prime Minister were able to endorse the recommendations before the meetings which she and other Ministers are having with the Chinese Premier next week.

I am copying this letter, and its attachment to the Private Secretaries of OD and to Richard Hatfield (Cabinet Office).

Yours ever,  
*Jenny Wright*

(J S WRIGHT)

Charles Powell Esq  
No 10 Downing Street

CHINA - REVIEW OF UK POLICY ON THE SALE OF DEFENCE AND MILITARILY RELEVANT EQUIPMENTINTRODUCTION.

1. Between 1979 and 1983, applications to sell defence equipment were judged against the criterion that the equipment should not upset, or have a significant effect on, the strategic balance in the area. In 1983 Ministers, considering particularly the sale of submarine equipment, expressed concern about the possible impact of sales on public opinion in Hong Kong during the negotiations with China over the future of the territory. Policy therefore continued to be restrictive and this was reinforced by Industry's reaction to the Chinese decision, following three years of negotiation, not to ratify contracts for the modernisation of naval ships.
2. In February 1985, as a result of the satisfactory completion in December 1984 of negotiations on the agreement with China over Hong Kong, and other encouraging signs, the Prime Minister's approval was sought to the sale of certain items of submarine equipment eg batteries, periscopes and masts, on the understanding that complete hulls and weapons systems, torpedoes and torpedo firing systems would still be prohibited. The Prime Minister agreed but, in doing so, expressed the hope that we might be able to go beyond what had been proposed and be ready to sell torpedoes and torpedo firing systems. As a result of this the Defence Secretary proposed that, in view of recent political and commercial developments, a full review of our policy in this area should be set in hand and that recommendations should be produced for Ministers to consider. The Prime Minister agreed.
3. The advantages of a more liberal policy on defence sales to China are clear. It could lead to increased opportunities for British exporters, and would fit well with our overall aim of promoting a more closely cooperative relationship with China, to build on the success of the Hong Kong negotiations. Insofar as it lead to an essential strengthening of China's military position vis a vis the Soviet Union, it could also have a helpful effect on the global balance of power. But a more liberal policy would not be without risk.
4. The review has therefore considered China's current and probable future strategic alignment in relation to Britain, the Superpowers,

other trading partners and the regional balance in the Far East. These issues are addressed in the paragraphs which follow, leading to recommendations concerning the procedures governing defence trade with China.

THE POTENTIAL THREAT.

5. The latest assessment of the threat posed by China is summarised at Annex A. It argues that any direct strategic threat to UK or UK bases abroad is small in present circumstances. The main sensitivities concern the potential effect of Chinese military modernisation on Hong Kong, ASEAN and other Asian countries with whom the UK has close diplomatic or military connections.

6. Factors which mitigate the threat include the following:

a. China is unlikely in the foreseeable future to cease regarding USSR as her major strategic threat. The possibility of a rapprochement has been enhanced by the arrival of a new Soviet leader who has publicly appealed for closer ties. China has also been laying the seeds of better relations with non-Soviet Warsaw Pact countries. However, fundamental political differences remain and they are unlikely to disappear or to be resolved quickly. Neither is China likely to jeopardise the intended flow of high technology into China from the West by appearing too friendly towards USSR.

b. China's current moderate policies are dictated by economic necessity; internal and external stability is a perceived prerequisite, while military modernisation is the lowest priority of the "four modernisations". Opposition to Deng's policies remains, however, and its status will depend partly on the success of Deng's policies and partly on the length of time he has before his departure from power.

c. China is unlikely to use her nuclear forces against non-Soviet neighbours, with whom she is in dispute on some issues. Conventional forces may be perceived as a threat by those neighbours, but they are also seen as a useful constraint on Vietnamese action in Cambodia and counter to the growing Soviet capability in Vietnam. The distrust of China throughout the region is often fuelled by

the presence of large ethnic Chinese communities which could represent an internal security threat. Singapore and Malaysia for example, our partners in the FPDA, see China as their major long-term threat once Chinese forces have been modernised. For the foreseeable future there is however little rational justification for China to foment such subversion and China is likely to continue her efforts to cultivate better relations, especially with ASEAN nations. We should nevertheless remain sensitive to ASEAN concerns particularly when considering the sale to China of major items with an offensive capability.

d. On Hong Kong, the risks of a Chinese military intervention before 19<sup>9</sup>/<sub>7</sub> (now very slight) would not be increased by enhanced Defence Sales, since China already has a more than adequate capability to occupy Hong Kong if she so chose.

e. Any effect of the supply of defence equipment on our bilateral relations with the Soviet Union would be considerably reduced if other western countries were also involved in the supply of such equipment.

7. On balance, the advantages of a moderately modernised Chinese military capability in the Far East, dependent to some extent on possession of, and continued support for, Western technology and equipment, outweigh the slight risks of adventurism or of other marked changes of direction in Chinese policy.

#### TRADE RELATIONS WITH THE WEST.

8. In 1953, China became one of the "proscribed destinations" for which all militarily relevant exports required COCOM approval. Since 1980, there has been a consensus in COCOM that China represents less of a strategic threat than the other proscribed destinations (the Soviet Union and its allies). There has also been general acceptance of the US argument that the West shares some common security interests with China. COCOM therefore agreed that, although no formal differential should be made, applications for exports to China should be treated more favourably than comparable exports to the Soviet Bloc. Following changes to US national licensing policy in 1983, the number of China cases in COCOM has increased dramatically. In March 1985 a special study group met to consider ways of reducing this workload of China cases so that scarce resources could be concentrated on controlling exports to the Soviet Bloc. It is likely that more liberal procedures will soon be agreed by COCOM for exports to China of certain equipment with dual civil and military use.

9. The UK has been among the COCOM nations most anxious to modernise and rationalise policy towards China. The slender resources available both nationally and in COCOM for export control and technology transfer could be more profitably employed on Soviet Bloc work. An assessment of Chinese requirements is at Annex B and British sales prospects to China are discussed at Annex C. During the visit of Lord Young's trade mission to China earlier this year the Chinese made it clear that with the successful completion of the Hong Kong agreement they placed great importance in pursuing a large expansion in Sino-UK trade relations. The Chinese Premier added a cautionary note, that the Chinese were looking for competitive prices and for advanced technology for China's modernisation programme.

10. China's strategic trade relations with other Western nations are described in Annex D, which shows that our major COCOM partners are giving China clear signals of willingness to consider the sale of sophisticated equipment. America already finds the civil electronics market lucrative and is well placed to expand into the defence field. With France and Italy already moving in the same direction, the UK will need to act soon if she wishes not to be left behind when firm decisions begin to be made on defence equipment contracts.

11. CONCLUSIONS.

a. China's Primary objective is rapid economic development; this requires several decades of internal and external peace and political stability.

b. In view of a, so long as the Chinese administration can demonstrate to their people that current policies are succeeding then the general direction of those policies is likely to be maintained even after Deng's departure.

c. Also in view of a and bearing in mind China's sharply reduced support for Communist insurgent groups operating in the area, there is unlikely to be any real Chinese threat to neighbouring nations in the short or medium term.

d. With the Hong Kong agreement now successfully concluded the threat to Hong Kong is small (although one cannot totally exclude circumstances leading to a Chinese military intervention) and

unlikely to be increased by UK defence sales to China.

e. Given China's current capabilities and intentions the threat to the UK Home Base and UK bases abroad is negligible.

f. For the foreseeable future it is likely that China will continue to require Western technology and that the Soviet Union will continue to pose a strategic threat to China.

g. The risk that the Chinese might pass directly on to Warsaw Pact countries any Western technology which they acquire is therefore slight (and less than that in many non-aligned countries).

h. Our COCOM partners (and competitors) broadly share this judgement and are moving towards a policy of liberalisation of trade with China without removing it from the list of proscribed destinations.

i. UK policy on defence sales must be seen against the background of civil trade, where Lord Young's visit and other recent Ministerial contacts with the Chinese administration have indicated our willingness to build our trade links with China in the high technology sector.

j. There are a number of sales prospects currently under negotiation between UK and China and some may lead to valuable contracts.

#### RECOMMENDATIONS.

12. Ministers are recommended to agree that in future our policy for the sale of defence and militarily significant equipment to China should be no less favourable than that towards other strategically non-aligned countries with expanding defence industries, other than the continuing need to consult COCOM.

13. This will have the effect of:

a. inviting the Release of Military Information Policy Committee (RMIPC) to consider raising from Restricted to Confidential the current level of information which may be released to China. As with all other countries this will be kept under constant review.

b. agreeing to the sale or transfer of advanced technology to China except where this will enhance nuclear capability or otherwise jeopardise UK interests.

c. allowing our COCOM negotiators to pursue relaxations in the COCOM embargo consistent with national policy but without removing China from the list of proscribed destinations.

ASSESSMENT OF THREAT TO UK FROM PEOPLES REPUBLIC OF CHINATHE NATURE OF THE THREAT

1. The nature of the potential threat to UK from China is both direct and indirect and may be divided as follows:

- a. China's strategic threat to the UK Home Base and UK bases abroad.
- b. China's strategic and conventional threat to UK interests in the Far East and to the interests of the UK's allies in the region.
- c. The threat to UK interests posed by the modernisation of China's defence industries and concomitant increases in both strategic and conventional capabilities.

THE STRATEGIC THREAT TO UK FROM CHINALand Based Strategic Missiles

2. The only Chinese ICBM which has the range to strike the UK Home Base is the CSS-4. It is uncertain how many of these missiles are currently deployed but it is believed to be at least 4. The UK garrisons in Belize, Ascension and Falkland Island are beyond the range of CSS-4 but all other UK garrisons in Europe, Mediterranean and UK forces in the Middle East are vulnerable. The CSS-3 ICBM, which has less range than CSS-4, can strike UK bases in Cyprus and UK forces in the Middle East. There are believed to be about 10 CSS-3 ICBMs deployed. The threat to the Hong Kong garrison is discussed under the Regional Threat Heading.

3. It is assessed that by the year 2000 the number of deployed CSS-3 and CSS-4 ICBMs will probably be less than 50. In addition, it is possible that by the year 2000, limited numbers of a new solid propellant ICBM may have been deployed.



Submarine Launched Ballistic Missiles

4. To provide flexibility in its nuclear capability the Chinese are developing a submarine ballistic missile force. At least 3 SSBNs would be required to keep 1 on station and the Chinese Navy is unlikely to have 3 units operational before the early 1990s. To date only 1 SSBN has been built and this may well be deployed in 1985. Although 1 SSBN may be deployed in 1985 its missile is unlikely to be in series production before 1986. The limited range of the missile, about 2400km, will compel the SSBN to deploy vulnerably close to the target country and thus restruct its strategic capability.

Strategic Air Force.

5. The Chinese strategic bomber force consists of copies of the outdated Soviet medium bomber, BADGER. With a range of 1600km and a nuclear delivery capability, it could pose a regional threat to targets unprotected by modern air defence systems. However, its lack of ECM, speed, range, stand-off capability and anti-radar reflective technology would probably confine its radius of operations to those countries adjacent to its borders. Clearly there is no threat at present to UK Home Base from China's strategic bomber force and this will not change in the next 15 years.

REGIONAL THREAT TO UK INTERESTSHong Kong.

6. China is the only external threat to Hong Kong. While she could occupy the colony at any time by military force the current threat is regarded as negligible. China has publicly signed and ratified an international agreement with the UK, committing itself to a peaceful settlement on the Hong Kong issue. Whilst it is not possible to be certain of developments up to 1997, when Hong Kong is due to revert to Chinese sovereignty, the aim of the current Chinese leadership is to achieve a smooth handover of sovereignty and administration on 1 July 1997. However, one cannot exclude a collapse of confidence among the population of Hong Kong as 1997 draws near, which could give rise to internal disturbances which could conceivably deteriorate out of Police control. Should the British garrison not be able to contain the

situation China might feel compelled to intervene militarily.

#### UK Military Involvement in Asia

7. In addition to close trading links with ASEAN, the UK has a close military involvement with several Asian countries based on long standing defence agreements. Under the provisions of these agreements UK forces might in theory be brought into conflict with Chinese forces, or any aggressor, through a third country. In brief these agreements are:

- a. Manila Pact. Signed in 1954 by Thailand, Philippines, Australia, New Zealand, Pakistan (who later dropped out), USA, France and UK. The provisions of the Pact include a mutual assistance clause.
- b. Five Power Defence Arrangements. (UK, Malaysia, Australia, New Zealand and Singapore). These 1971 arrangements require member countries to consult the others in the event of a threat to the security of Singapore or Malaysia. This could lead to some form of UK involvement.
- c. Brunei. A Treaty of Friendship and cooperation exists with UK which has no time limits. Under a special Defence Agreement a battalion of the British Brigade of Gurkhas will be stationed in Brunei until September 1988, with the possibility of an extension beyond that date.
- d. South Korea. As part of the 16 nation declaration of July 1953 the UK undertook that, in the event of a renewal of armed conflict challenging the principles of the UN, the signatories would unite and resist. This undertaking however has no legally binding force.

#### Development of the Regional Threat

8. The bulk of China's nuclear missile forces consist of MRBMs (CSS-1) and IRBMs (CSS-2). These missiles, together with their air delivered nuclear weapons, give the Chinese a substantial regional nuclear capability. By the year 2000 this capability may be enhanced by the addition of a new solid propellant IRBM. It is considered

unlikely that China will use these assets against her Asian neighbours, including India, Vietnam and Taiwan, with whom she is in dispute on a variety of issues. ASEAN countries may feel threatened by a modernisation of Chinese conventional forces enabling China to project power and influence into South East Asia and the South China Sea. However, a more modernised Chinese military presence in the area may be seen as a useful counter to the growing Soviet presence in Vietnam and their naval deployments in the area. The distrust of China by some ASEAN countries is fuelled by the presence in their countries of large ethnic Chinese communities which China has made efforts to cultivate. This situation is unlikely to change over the next 15 years. The involvement of UK forces in a regional conflict seems remote.

#### CHINA'S DEFENCE INDUSTRIES.

9. The Chinese Government sees defence as being strengthened largely through improvements to the national economy. There is evidence to suggest that, with the exception of strategic weapons, the Chinese are now reconciled to their being no dramatic improvements in their conventional weapons capabilities in the short term.

#### Historical Constraints.

10. The defence industries of China were largely created in the 1950s under Soviet tutelage using Soviet design and technological methods. Being transplanted in a backward agrarian economy, sustained and balanced growth throughout the defence industries was dependent on continued infusions of Soviet technology. Following the Sino-Soviet rift, China's defence sector was cocooned in Soviet design and production practices of the 1950s. Production of conventional defence systems has remained almost entirely confined to copies or extemporizations of Soviet 1950s originals.

#### Prospects for Defence Modernisation.

11. The Chinese Government sees defence as being strengthened largely through improvements to the national economy: its intention is to quadruple output value by the year 2000. The officially published Chinese figure for defence spending suggests that the defence sector

is more vulnerable to cutback in the present economic climate than other areas. There is evidence to suggest that, with the exception of strategic weapons, the Chinese are now reconciled to there being no dramatic improvements in their conventional weapons capabilities in the short term.

12. However there are signs of a growing diversity of weapons development activity which is likely to lead to a modest improvement in the sophistication of some of the military equipment produced. China's links with friendly developing countries have provided indirect access to Soviet weapons of more recent vintage than those reflected in present Chinese designs. Also, careful and selective appraisal of Western equipment will assist the Chinese in emerging from the legacy of the 1950s but with an emphasis on maximising the degree of self-reliance. The scope for China's defence modernisation will be limited. The only other options the Chinese could consider are:

a. Reallocation of resources from the civilian to the military sector. Current economic policy rules out this option. Indeed the trend has been for the military industries to undertake civilian production.

b. Reliance on a foreign power to provide massive capital and expertise to revitalise the defence industry as a whole. This is unlikely given their earlier experience with the Soviet Union. However, there will <sup>be</sup> scope for select purchases of weapons' licences and related production technology and significant scope for the import of dual use intermediate and basic technologies.

c. Import of foreign produced weapon systems. This is unlikely on a wide scale given the current emphasis by the Chinese leadership on self-reliance.

d. The fourth option is to let things remain much as they are, with the exception of strategic weapons, and try to develop the economy to a point where it will sustain a more effective and balanced defence industry.

e. A fifth option is the selective purchase of foreign production technology in a number of high priority areas. This is the

most likely strategy but tempered by imports as defined at paras b and c.

CONCLUSIONS.

13. The strategic threat to UK Home Base and UK Bases abroad from China is negligible given their current capabilities and intentions. While China's policies may change their strategic capabilities to strike at the UK will have improved little by the year 2000. However, it would seem prudent, for national security reasons, not to assist the Chinese in the improvement of their delivery capability.

14. The extent of a regional threat to UK interests is a complex issue. Although the threat to Hong Kong from Chinese occupation before 1997 is small it remains a possibility. The UK has a number of defence agreements in the region which are likely to remain extant until the year 2000; however, whether these agreements would result in the operational deployment of UK forces is questionable. China has sharply reduced her support for communist insurgent groups operating in the region and we see no reason for this trend to change. UK assistance in modernising China's conventional forces may cause political and commercial repercussions among our friends and allies in the region but we see no direct military threat to the UK personnel or forces (other than conceivably to Hong Kong).

15. There would appear to be a very small risk of UK technology passed to the Chinese being transferred directly or indirectly to the Warsaw Pact nations. However, while there would be little immediate effect in passing technology to China's defence industry, the accumulation of sophisticated equipment and technical data could, by the year 2000, present considerable problems for the UK if no controls were exercised. A detailed assessment of China's defence industry will be issued in October 85 as a JIC note.

CHINA: ASSESSMENT OF STATE OF SECURITY

The state of security in China is good and China's present friendly posture reflects a pragmatic approach to foreign policy objectives (like the foreign policy of most states), notably the need for technology and the perception of the Soviet threat. However, these objectives have become well established and there is little short term prospect that they will change. Again like most states, the Chinese government would probably have no scruples in making any use they wanted of information they received from the UK. However, this applies equally to countries such as Syria, Iraq, Yugoslavia and India, to whom the UK sells considerable quantities of technically advanced equipment and, in the latter two examples, much of it is highly classified. We consider that UK information passed to China would be much less susceptible to compromise by Soviet intelligence services than in the aforementioned countries. We therefore recommend a pragmatic approach by the UK, consistent with our defence sales policy towards the other countries mentioned above and with the overall trend of good and improving bilateral relations with China. It is our assessment that any technology transfer which occurs as a result of such sales would not manifest itself in Chinese produced copies for at least 15 years after delivery, by which time the technology will have been overtaken in the UK.

PRC INTEREST IN WESTERN MILITARY EQUIPMENT AND TECHNOLOGY1. MAJOR WEAPON SYSTEMS AND TECHNOLOGIES

<u>CATEGORY</u>	<u>TYPE</u>
MISSILES	SAMs, AAMs, ASMs, ATGMs
AIRCRAFT	Fighters, Transporters, Helicopters
NAVAL	ASW, Torpedoes, Ship to Ship Missiles, SAMs
LAND ARMS	Tanks, APCs, Artillery

2. INTERMEDIATE TECHNOLOGIES

MISSILES & AEROSPACE	Propulsion, Guidance and Control, Satellite Launch and Ground Control, Early Warning Equipment/Technology
AIRCRAFT	Airframe manufacturing and Test, Jet Engine Manufacturing and Test, Aircraft Electronics (Nav/Attack, AI, IFF, ECM, EC Technology).
NAVAL	Marine Engine, Ship Design and Construction, ASW, Fire Control and Communications, Periscopes, Equipment and Manufacturing Technology.
LAND ARMS	Diesel and Turbine, Armour, Gun, Sighting, Image Intensifiers, Tactical Communications Equipment, Design and Production Technology.

3. BASIC TECHNOLOGIES

	High Speed Cameras, Aerial Flight Vibration Test, Aero Dynamic Test, Accoustical Equipment.
MACHINE TOOLS	NC, CNC, Electron Beam Melting and Welding Vacuum Induction Melting Furnaces, Metal Cutting and Forming, Forging and Casting, Multi-Axis Equipment.
ELECTRONICS	ICs and Semiconductors, Computers and Microprocessors, Measure and Test Instruments, Analogue Digital Comms, Detection and Location, Infra-Red and Optical Equipment and Production Tech.

SECRET UK EYES A

SALES PROSPECTS FOR DEFENCE EQUIPMENT

1. The Chinese Government sees defence as being strengthened largely through improvements to the national economy. There is evidence to suggest that with the exception of strategic weapons the Chinese are restricted to their being no dramatic improvements in their conventional weapons capabilities in the short term.
  
2. The low priority afforded to Defence in Deng's modernisation programme has led to a comparative scarcity of financial resources and the Defence Sales Organisation believes that it is wise to target any UK initiative to the areas which China accords the highest priority: all submarine equipment, including torpedoes, naval systems, avionics and airborne radar and missile technology. A liberalisation in one or more of these areas might well lead to a significant breakthrough in the Chinese market and, as a concrete sign of UK's willingness to help China, might have valuable knock-on effects in other less contentious fields. As an indication of recent increased Chinese attention towards UK defence equipment it is worthy of note that the value of defence equipment contracts with China exceeded £30M in 1984 whereas in 1983 they amounted to £1M. Details of specific sales for 1984 are shown ~~overpage~~ together with prospects for 1985 and thereafter with values.



Year	Product	Company	Value £M (Approx)
1984	3" Cathode Ray Tubes (CRTs)	Rank Electronic Tubes (RET)	0.01
	Licensed manufacture of 1" and 3" CRTS. Supply of 1" CRTs.	RET	0.50
	Thermal Imaging Common Modules (TICM II)	Marconi Avionics	0.32
	Remote Control Vehicle and Accessories	AI Security	0.01
	KTC-2 Integrated Communications System	Marconi Communications Systems	6.50
	Trajectory Analysing Systems B 250	John Hadland (PI)	0.78
	Active and Receiver Antennae for NTC 2	Marconi Communications Systems	1.40
	EOD Bomb Disposal Vehicles	AI Security	0.15
	Licensed Manufacture of F7 Radar Altimeters	Smiths Industries	0.03
	Licensed Manufacture of F7 Head-Up Display (HUD) optic optics	Pilkington PE	1.10
	Licensed Manufacture of F7 HUDs and Air Data Computers	GEC Avionics	5.70
	Cymbeline Spares	Thorn EMI	1.23
	Supply and Licensed manufacture of F7 Air Pressure Transducers	Solartron Transducers	0.81
	3" CRTs	RET	0.05
	Tactical Electronic Warfare Systems	Racal Communications Ltd	10.22
	Message Handling Systems	MEL	0.82
	Shell Banding Presses	Fletcher & Stewart	0.10
1985	M70 Explosive Detectors	AI Security	0.01
	Body Armour	Security Equipment Supplies	0.01
	Pressure Controller/Indicator	Smiths Industries Aerospace	0.02

Year	Product	Company	Value £M (Approx)
1985	3" CRTs	RET	0.04
	Watchman Air Traffic Control Radar	Plessey Radar	1.90
	Multipliers and Amplifiers	Watkins Johnson	0.19
	Low Level Height Keeping and Rushton Targets	Flight Refuelling	2.60
	L3A1 Explosives Detector	S&D Security (Equipment)	0.01
	Explosives Detectors	A1 Security	0.02
	Explosive Vapour Detectors	Communications Control Systems	0.07
	M70 Explosives Detectors	A1 Security	0.01
	Manpack and Vehicle Radio Systems (PRO 420)	Plessey Military Communications	0.11

MAJOR SALES PROSPECTS FOR 1985

Product	Company	Value £M (Approx)
Interceptor Gamma: Ship FCS FCS	British Aerospace	10.00
MATILDA Early Warning System	MEL	5.00
SM1c Gas Turbine	Rolls Royce	N/K
Stonefish Naval Ground Mine	Marconi Underwater Systems (MUSL)	N/K
Tigerfish torpedo ) KAFS Fire Control System )	MUSL/Ferranti	N/K
Avionic Kit for F7 Fighter	GEC Avionics	25.00
Skyflash AAM	British Aerospace	100.00
Cymbeline Mortar Locating Equipment	Thorn EMI	8.00
Tactical Electronic Warfare Communications Systems	Racal Communications	5.00

MAJOR SALES PROSPECTS FOR 1986 ONWARDS

Product	Company	Value £M (Approx)
Periscopes	Barr & Stroud	N/K
Mine Countermeasures Equipment	Racal Positioning Systems	N/K
- Hyperfix/Microfix Positioning Systems	Racal Positioning Systems	
- 193M Sonar	Plessey Marine	
- Minnow: Remote Control Minehunter	MUSL	
Measuring Radar	Plessey Research	2.50
Low Level Height Keeping and Rushton Targets	Flight Refuelling	N/K
Air Refuelling Equipment	Flight Refuelling	3.5
Avionics Kit for F8 fighter	Ferranti plc	N/K
Rapier	British Aerospace	N/K
Night Vision Equipment	Pilkington PE	10.00
PRC420 Radio Manpacks	Plessey Military Communications	N/K

SECRET UK EYES A

CHINA'S STRATEGIC TRADE WITH THE WEST1. United States

a. US pressures for a more liberal export policy to China were based on the judgement that the West shared some security concerns with China vis a vis the Soviet Union and should therefore support the development of a stable, modernising China which focuses its energies on its own economic development. The US maintain that under current Chinese doctrine military modernisation must follow the building of a more modern base in industry and education. China's capacity to assimilate new technologies and apply them to military uses is limited. Progressive growth in China's technical capabilities is desirable to prevent the Soviet Union from acquiring the degree of superiority that could intimidate or coerce China. An infusion of dual use technology, except in a few critical areas, would have little effect on China's ability to threaten Western security objectives. Those critical areas, over which the US consider that very careful scrutiny should be exercised, are known as the US "Mission Areas" and fall into the following categories:

- i. Nuclear Weapons and Delivery Systems.
- ii. Anti-Submarine Warfare.
- iii. Electronic Warfare.
- iv. Intelligence Gathering.
- v. Air Superiority.
- vi. Power Projection.

b. US policy, whilst advocating liberalisation in high technology trade with China, is to proceed at a deliberate pace, waiting to see how current relatively modest projects, eg anti-tank missiles, artillery shells and avionics, proceed before getting too ambitious. The US are also very concerned that ASEAN nations and others are kept abreast of developments to dispel fears that military cooperation with China could be to the detriment of their security. In the field of Naval cooperation the current US approach is also believed to be a limited one, restricted to assistance with anti-submarine warfare in coastal waters, though the US are known to have told the Chinese that they would be willing to approve the sale of Phalanx naval anti-missile guns. D-1

c. Finally, during a visit by the Chairman of the US Joint Chiefs of Staff to China in January 1985, it was reported that the following areas were discussed:

- i. Anti-Submarine weapons (sonar submarine detection devices and torpedoes).
- ii. Anti-Missile defence systems (Phalanx).
- iii. Gas Turbine Engines.

2. France. France's relations with the Chinese are on a very sound footing at present and were strengthened in February 1985 when the two countries signed an agreement on space collaboration. Under this agreement a Franco-Chinese committee will meet once a year to look into areas for cooperation. This initiative has now provided the political foundations for the Chinese administration to construct commercial links with France. Already negotiations are in hand in the aerospace field concerning a number of French aircraft which includes the possible sale of Mirage 2000. There is little doubt therefore that recent moves to strengthen space collaboration are part of a well coordinated attack on the Chinese market.

3. Italy. In early April 1985 it was publicly reported that China and Italy had signed an agreement under which the Italians would sell arms to the Chinese and provide training in advanced weapon systems. The areas in which the Chinese are reported to be interested are radar systems, transport and fighter planes, helicopters, mines, torpedoes and electronic equipment. Perhaps it is also significant that the Chinese had said that they would only consider the purchase of such equipment if it was available at low prices and involved high technology. It is however significant that the Italians have already agreed the sale of 40 torpedoes (equivalent to Stingray) to China and the case has been submitted to COCOM. The US have cleared the case (possibly as a trade-off for something they were seeking in COCOM). The UK has also now cleared the case,

# China Pt 2 Relations

29 MAY 1985

11 12 1 2 3 4 5 6 7 8 9 10

CHEMICALS AND CERAMICS

Chemical processing, Boron Fibre Metal Matrix, Carbon Composites, Fibre Glass, Reinforced Plastics, High Temperature Coating Equipment and Production Technology.

SPECIAL METALS

Aluminium, Cobalt, Magnesium, Nickel, Titanium, High Grade Steels/ESR Processing Technology and Equipment.

4. In addition, DTI assess Chinese interest in industrial-use equipment to include the following:-

- Controlled switching systems.
- Data communications.
- Satellite communications.
- Optical fibre technologies.
- Computers
  - Network software.
  - Peripherals.
  - Microcomputers and components.
- Machine tools (especially Numerically Controlled).
- Advanced Instrumentation.