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DESKBY 210900Z (FCO)

FM PEKING 210745Z MAY 85

TO IMMEDIATE FCO

TELEGRAM NUMBER 776 OF 21 MAY.

AND TO IMMEDIATE WASHINGTON AND MOSCOW.

INFO ROUTINE DTI, HONG KONG, BTC HONG KONG.

ZHAO'S VISIT: SINO-BRITISH RELATIONS

1. YOU MAY FIND IT USEFUL TO HAVE MY UP-TO-DATE ASSESSMENT OF THE STATE OF, AND PROSPECTS FOR, SINO-BRITISH RELATIONS IN ADVANCE OF ZHAO'S ARRIVAL.

BACKGROUND

2. I TAKE IT THAT OUR INTERESTS IN RELATIONS TO CHINA ARE:

(A) TO WORK FOR THE SMOOTH IMPLEMENTATION OF THE AGREEMENT ABOUT THE FUTURE OF HONG KONG SEMICLN

(B) TO ENCOURAGE THE MAINTENANCE BY CHINA OF HER CURRENT INTERNATIONAL POSTURE, ESPECIALLY IN RELATION TO THE SOVIET UNION SEMICLN

(C) TO HELP BRITISH INDUSTRY TO OBTAIN AS LARGE A SHARE AS POSSIBLE OF CHINA'S EXPANDING IMPORT MARKET SEMICLN

(D) TO BUILD UP KNOWLEDGE OF, AND SYMPATHY FOR, THE UNITED KINGDOM IN CHINA, ESPECIALLY AMONG THE YOUNGER GENERATION.

3. FOR CHINA, THE UNITED KINGDOM IS IMPORTANT AS THE POWER WHICH ADMINISTERS HONG KONG SEMICLN AS A COUNTRY WHICH HAS WORLD WIDE INTERESTS AND CONNECTIONS SEMICLN AS AN IMPORTANT MEMBER OF NATO AND THE EC SEMICLN AND AS A POTENTIAL SOURCE OF THE THREE THINGS WHICH CHINA MOST NEEDS FROM THE DEVELOPED WORLD FOR HER MODERNIZATION PROGRAMME: CAPITAL, TECHNOLOGY AND ADVANCED TRAINING, NOT LEAST IN MANAGEMENT SKILLS.

4. THE IMPORTANCE OF THE FIRST OF THESE FACTORS NEEDS NO COMMENT. THE IMPORTANCE OF THE SECOND SHOULD NOT, IN MY VIEW, BE UNDERESTIMATED. THE CHINESE KNOW THAT WE HAVE CLOSE LINKS WITH, AND INFLUENCE OVER, MANY COUNTRIES WHICH ARE IMPORTANT FOR THEM. THE UNITED STATES IS AN OBVIOUS EXAMPLE. OTHER EXAMPLES ARE THE COUNTRIES OF THE INDIAN SUB-CONTINENT AND THE ANGLOPHONE COUNTRIES OF AFRICA. AS REGARDS THE THIRD FACTOR NATO AND THE EC BOTH MEAN A GOOD DEAL TO CHINA. THE CHINESE OF COURSE TREAT THE EC AS AN AUTONOMOUS ENTITY. THEY ALSO TEND TO REGARD THE NATO COUNTRIES OF WESTERN EUROPE AS MAKING UP SUCH AN ENTITY. I BELIEVE THAT OUR MEMBERSHIP OF THE EC AND OF NATO ENHANCES RATHER THAN DIMINISHES

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THE IMPORTANCE OF THE UNITED KINGDOM IN THEIR EYES (I WOULD NOT, INCIDENTIALLY, CLAIM THAT THIS WAS TRUE OF IRELAND IN THE CASE OF THE EC OR OF DENMARK IN THE CASE OF NATO). THEY KNOW THAT WE EXERCISE GREAT INFLUENCE IN BOTH GROUPINGS.

5. AS REGARDS THE FOURTH FACTOR, THE UNITED KINGDOM INEVITABLY RANKS BEHIND THE UNITED STATES AND JAPAN AND PERHAPS OF THE FRG AS WELL. BUT I BELIEVE THAT IT RANKS AT LEAST WITH CANADA AND AUSTRALIA AND AHEAD OF THE OTHER DEVELOPED COUNTRIES OF WESTERN EUROPE.

POLITICAL RELATIONS

6. I BELIEVE THAT THE QUALITY OF POLITICAL RELATIONS IN THE FUTURE WILL DEPEND MOST OF ALL ON HOW THINGS GO OVER HONG KONG. IF THEY GO WELL, THE QUALITY OF POLITICAL RELATIONS WILL BE GOOD. IF THEY GO BADLY, THE QUALITY OF POLITICAL REALTIONS WILL DETERIORATE SEMICLN AND IN A MANNER WHICH WOULD BE LITTLE AFFECTED BY OTHER CONSIDERATIONS.

7. AFTER HONG KONG, I THINK THAT THE QUALITY OF POLITICAL RELATIONS WILL DEPEND MOST ON THE CONSISTENCY (OR OTHERWISE) OF THE ATTITUDES AND POLICIES OF THE TWO COUNTRIES TOWARDS THE SOVIET UNION AND ON OUR TREATMENT OF CHINA IN THE SPHERE OF ECONOMIC AND COMMERCIAL RELATIONS (SEE PARAGRAPH 11 BELOW).

8. I DO NOT BELIEVE THAT THERE HAS BEEN ANY QUALITATIVE CHANGE IN RELATIONS BETWEEN CHINA AND THE SOVIET UNION DURING THE PAST FEW MONTHS. THE CHINESE CONTINUE TO INSIST THAT THE THREE OBSTACLES (INDO-CHINA, AFGHANISTAN AND SOVIET MILITARY FORCES ON THE NORTHERN BORDER) SHOULD BE REMOVED BEFORE RELATIONS CAN BE 'NORMALISED'. THIS DOES NOT MEAN THAT THE REMOVAL OF ALL THREE OBSTACLES IS A PRE-REQUISITE FOR SOME IMPROVEMENT IN POLITICAL RELATIONS. NOR DOES IT MEAN THAT AN IMPROVEMENT IN POLITICAL RELATIONS IS A PRE-REQUISITE FOR THE DEVELOPMENT OF ECONOMIC AND COMMERCIAL RELATIONS. INDEED, ECONOMIC AND COMMERCIAL RELATIONS ARE NOW DEVELOPING QUITE FAST.

ECONOMIC RELATIONS

9. CHINA'S IMPORT MARKET HAS BEEN EXPANDING RAPIDLY, ALTHOUGH WITH UPS AND DOWNS, DURING THE PAST SEVEN YEARS. IT GREW FROM ABOUT DOLLARS 10 BILLION IN 1978 TO ABOUT DOLLARS 19 BILLION IN 1983 AND JUMPED TO ABOUT DOLLARS 24 BILLION IN 1984. I BELIEVE THAT IT COULD WELL BE WORTH DOLLARS 40 BILLION BY 1990. (THE IMF HAS BASED SOME PREJECTIONS ABOUT CHINA'S ABILITY TO INCUR AND SERVICE DEBT ON SUCH A FIGURE).

10. THIS WILL PRESENT BRITISH INDUSTRY WITH A DIG OPPORTUNITY. BESIDES, THERE ARE TWO SPECIAL FACTORS WHICH ARE WORKING IN FAVOUR OF BRITISH INDUSTRY: LAST YEAR'S POLICY DECISION THAT

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CHINA SHOULD SWITCH HER IMPORTS RELATIVELY, IF NOT ABSOLUTELY, AWAY FROM THE UNITED STATES AND JAPAN AND TOWARDS WESTERN EUROPE SINCE AND THE PROPENSITY TO THINK WELL OF THE UNITED KINGDOM, AND BY EXTENSION OF THINGS BRITISH, IN THE AFTERMATH OF THE AGREEMENT ABOUT HONG KONG.

11. AT THE SAME TIME, CHINA'S PROPENSITY AS A STATE TRADING COUNTRY TO IMPORT FROM THE UNITED KINGDOM WILL TO SOME EXTENT DEPEND ON BRITISH ATTITUDES TOWARDS SEVERAL TRADE POLICY ISSUES. THESE ARE COCOM RESTRICTIONS OVER THE EXPORT OF GOODS AND TECHNOLOGY TO CHINA SINCE QUANTATIVE RESTRICTIONS OF CHINESE EXPORTS TO THE UNITED KINGDOM SINCE AND THE WILLINGNESS OF THE GOVERNMENT AND/OR THE BANKS TO LEND CHINA MONEY AT SUB-CONSENSUS RATES. THE CHINESE WILL ALSO BE KEEPING AN EYE ON THE BILATERAL BALANCE OF TRADE (THEY ARE, I BELIEVE, STILL AT HEART BILATERAL RATHER THAN MULTILATERAL TRADERS). AS INDICATED IN PARAGRAPH 7 ABOVE, I BELIEVE THAT OUR ATTITUDES ON THESE ISSUES COULD ALSO AFFECT THE QUALITY OF POLITICAL RELATIONS.

CULTURAL RELATIONS

12. THE TRAINING OF A LARGE NUMBER OF YOUNG CHINESE IN THE DEVELOPED WORLD IS AN IMPORTANT COMPONENT OF CHINA'S POLICY OF OPENING TO THE OUTSIDE WORLD. ABOUT 20,000 CHINESE ARE NOW STUDYING IN THE DEVELOPED WORLD. OF THESE, PERHAPS 15,000 ARE IN NORTH AMERICA AND 1,2000 IN JAPAN. THERE ARE OVER A THOUSAND EACH IN FRANCE AND THE FRG. ABOUT 800 ARE IN THE UNITED KINGDOM.

13. I BELIEVE THAT THE QUALITY OF CHINESE POLITICAL AND COMMERCIAL RELATIONS WITH WESTERN COUNTRIES WILL IN THE FUTURE DEPEND TO AN IMPORTANT EXTENT ON HOW MANY CHINESE STUDENTS GO TO THOSE COUNTRIES DURING THE 1980S AND ON THE IMPRESSIONS THAT THESE STUDENTS BRING HOME WITH THEM. THERE CAN BE NO DOUBT THAT THE CHINESE GOVERNMENT WANTS TO SEND STUDENTS TO THE UNITED KINGDOM AND THAT MANY YOUNG CHINESE WANT TO GO THERE. THIS IS PARTLY BECAUSE WE SPEAK ENGLISH AND PARTLY BECAUSE THERE IS A GREAT RESERVOIR OF RESPECT FOR THINGS BRITISH - POLITICAL, SCIENTIFIC AND CULTURAL - AMONG THE EDUCATED CLASSES IN CHINA.

14. I VERY MUCH HOPE THAT IT WILL PROVE POSSIBLE TO BRING MORE YOUNG CHINESE TO THE UNITED KINGDOM DURING THE NEXT FEW YEARS. I HAVE BEEN HEARTENED DURING THE PAST FEW MONTHS BY THE READINESS OF PRIVATE SECTOR INSTITUTIONS AND COMPANIES (EG LLOYDS AND CABLE AND WIRELESS) TO OFFER SCHLARSHIPS OR OTHER AWARDS TO YOUNG CHINESE. I UNDERSTAND THAT CHANKYLLOR KOHL RECENTLY MADE A SPEECH TO ENCOURAGE GERMAN INDUSTRY TO OFFER MORE AWARDS. I HOPE THAT BRITISH MINISTERS MAY BE PREPARED TO SPEAK SIMILARLY.

15. THE WEB OF SCIENTIFIC AND EDUCATIONAL RELATIONS NOW HAS MANY STRANDS. I HOPE THAT MINISTERS WILL BE ABLE TO SPEAK ABOUT THE IMPORTANCE WE ATTACHE TO THEM DURING SOME OF THE

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FORMAL MEETINGS WITH ZHAO AND OTHERS. ANY BRIEFING SHOULD MENTION THE HUGE SUCCESS IN CHINA OF THE BBC'S ENGLISH TEACHING PROGRAMMES ON TV AND DRAW ON THE REPORT OF MY CULTURAL COUNSELLOR ON THE WORK OF THE BRITISH COUNCIL HERE IN 1964.

CONCLUSION

16. THE CHINESE SPEAK CONSISTENTLY OF THE AGREEMENT ON HONG KONG AS HAVING USHERED IN A NEW STAGE IN RELATIONS BETWEEN THE TWO COUNTRIES. I BELIEVE THAT THIS IS MORE THAN JUST RHETORIC AND THAT WE NOW HAVE THE OPPORTUNITY TO ESTABLISH A RELATIONSHIP - POLITICAL, ECONOMIC AND CULTURAL - WHICH COULD SERVE US IN GOOD STEAD FOR A LONG TIME TO COME.

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