

LDW 538
LIM 393/17

00 TOKYO

00 HONG KONG

00 FCO

GR 500

SECRET

FM PEKING 170244Z SEP 82
TO IMMEDIATE TOKYO (FOR PM'S PARTY)
TELEGRAM NUMBER 26 OF 17 SEPTEMBER
INFO IMMEDIATE HONG KONG (PERSONAL FOR GOVERNOR), FCO (FOR FED)

FOR PRIME MINISTER'S PARTY

PRIME MINISTER'S VISIT.

1. THE PRIME MINISTER MAY FIND IT HELPFUL TO HAVE SOME IDEAS ON HOW SHE MIGHT BEST USE THE TIME AVAILABLE TO HER IN PEKING FOR DISCUSSIONS WITH LEADERS.
2. ALTHOUGH THERE IS NOW SOME SIGN OF GIVE ON THE QUESTION OF A SECOND TALK WITH DENG XIAOPING, WE CANNOT RELY ON THIS AND IT WOULD BE PRUDENT TO BUDGET FOR ONLY ONE MEETING WITH HIM FOLLOWING TWO ROUNDS OF TALKS WITH ZHAO ZIYANG. BY AGREEMENT WITH THE CHINESE THE FIRST ROUND OF TALKS WITH ZHAO WILL BE DEVOTED TO THE INTERNATIONAL SCENE. THE MAIN POINTS OF INTEREST FOR US WILL BE CHINESE COMMENTS ON SINO-US AND SINO-SOVIET RELATIONS. BUT IT WILL BE IMPORTANT TO ENSURE THAT THESE TALKS DO NOT SPILL OVER ON TO THE SECOND DAY. I THINK THE CHINESE ARE ALSO AWARE OF THIS.
3. ROUND 2 WITH ZHAO WILL BE DEVOTED TO BILATERAL ISSUES WHICH WILL BE ON OUR SIDE ALMOST ENTIRELY HONG KONG, THOUGH SINCE WE HAVE ABOUT TWO-AND-A-HALF HOURS IN ALL IT WOULD BE REASONABLE TO ALLOW FOR HALF-AN-HOUR AT THE END IN WHICH THE PRIME MINISTER COULD COVER OUR MAIN COMMERCIAL EXPECTATIONS. OTHERWISE TRADE WOULD GO UNMENTIONED.
4. THIS UNDERLINES THE POINT MADE IN OTHER TELEGRAMS OF THE NEED FOR THE PRIME MINISTER TO MOVE IN VERY FAST ON THE SUBJECT OF HONG KONG, OPEN THE DISCUSSION AND DELIVER A CONVINCING CRITIQUE OF THE DENG PLAN. WE CANNOT EXPECT ANYTHING REALLY NEW FROM ZHAO. HE IS LIKELY TO BEGIN BY RESTATING WITH GREAT EMPHASIS THE CHINESE POSITION ON SOVEREIGNTY. HE WILL THEN NO DOUBT RESPECTFULLY REHEARSE WHAT DENG SAID TO MR HEATH. HOWEVER, HE WILL NOTE WHAT WE HAVE SAID AND REPORT TO DENG. THE CHINESE ARE VERY QUICK AND ACCURATE IN THIS.
5. THE MEETING WITH DENG COULD LAST FOR ALMOST TWO HOURS, THOUGH WE CANNOT BE SURE THAT HE WILL USE UP ALL THIS TIME. HE MAY WISH TO MAKE SOME OBSERVATIONS ON GEO-POLITICS BUT WILL UNDERSTAND THAT HONG KONG IS THE KEY ISSUE. WE SHOULD BE ABLE TO ASSESS FROM THE TALKS WITH ZHAO WHETHER IT IS REASONABLE TO ATTEMPT TO ACHIEVE MORE THAN OUR MINIMUM OBJECTIVE WITH DENG OR WHETHER WE SHALL NEED TO USE ALL OUR TIME WITH HIM PERSUADING HIM THAT AN AGREEMENT TO HOLD TALKS WITHOUT PRECONDITIONS IS ESSENTIAL FOR SHORT-TERM CONFIDENCE IN HONG KONG. THERE MAY COME A POINT WHEN IT WILL BE NECESSARY TO SUGGEST TO DENG THAT THERE IS LITTLE PROFIT IN REHEARSING DIFFERENCES OF PRINCIPLE AND THAT IT WOULD BE BETTER TO PUT THESE DIFFERENCES ASIDE FOR THE MOMENT AND SEE IF WE COULD CONDUCT A FACTUAL STUDY OF THE PROBLEM WHICH MIGHT LEAD TO THE DEFINITION OF COMMON GROUND.
6. THE LUNCH WITH HUANG HUA WHICH FOLLOWS THE TALK WITH DENG WILL BE UNLIKELY TO PRODUCE ANYTHING NEW SINCE HUANG HUA WILL LACK THE NECESSARY AUTHORITY, BUT IT WOULD GIVE US AN OPPORTUNITY TO CONSULT THE CHINESE ON HOW BEST TO PRESENT THE RESULTS OF OUR TALKS TO THE PRESS LATER THAT AFTERNOON. SOME FURTHER TIME THAT AFTERNOON COULD PROFITABLY BE SPENT IN PRIVATE PREPARATION FOR THE PRESS CONFERENCE, THOUGH THIS IS LIKELY TO BE AT THE COST OF SOME REDUCTION IN SIGHTSEEING.

CRADOCK

NNNN

China Pdy Prime Minister
MS
A-J-C. 17/9

CYPHER

LDW 496/16

LIM 379/16

OO TOKYO

RR FCO

RR HONG KONG

GR 800

CONFIDENTIAL
FM PEKING 160845Z SEP 82

TO IMMEDIATE TOKYO (FOR PRIME MINISTER'S PARTY)

TELEGRAM NUMBER 25 OF 16 SEPTEMBER

INFO ROUTINE FCO, HONG KONG (PERSONAL FOR GOVERNOR)

PRIME MINISTER'S VISIT: POLITICAL AND E

CONOMIC SCENE

1. THE PRIME MINISTER MAY FIND IT HELPFUL TO HAVE SOME BROAD-BRUSH IMPRESSIONS OF THE SCENE ON THE EVE OF HER VISIT.

POLITICAL

2. IT IS STILL VERY MUCH DENG'S CHINA. AT THE RECENT PARTY CONGRESS HE AND HIS SUPPORTERS SECURED A STRANGLEHOLD ON THE PARTY SECRETARIAT WHICH RUNS ALL DAY-TO-DAY BUSINESS, ESTABLISHED A FIRM MAJORITY ON THE POLITBURO, PROBABLY FOR THE FIRST TIME, AND OBTAINED THE ELECTION OF A YOUNGER CENTRAL COMMITTEE MORE LIKELY TO BE SYMPATHETIC TO REFORMIST POLICIES. THE CONGRESS UNRESERVEDLY ENDORSED THE ECONOMIC POLICIES WHICH DENG HAS INTRODUCED PROGRESSIVELY SINCE 1980, AS WELL AS THE QUOTE OPEN DOOR UNQUOTE FOREIGN POLICY. ALTHOUGH IT ALSO ADOPTED A HARD LINE IDEOLOGICALLY, THERE IS NO REASON TO SUPPOSE THAT DENG DISAGREES WITH THIS.

3. DENG'S ONLY FAILURE WAS HIS INABILITY TO SECURE THE RETIREMENT OF THE OLD MARSHALS, WHO REMAIN A NUCLEUS OF OPPOSITION WITHIN THE POLITBURO. THERE IS A CONTINUING RIFT BETWEEN THE PARTY AND THE HIGHEST LEVELS IN THE MILITARY, WHICH COULD BECOME TROBLESOME IF, FOR INSTANCE, DENG DIED SOON. THE SUCCESSION TO DENG OF HU YAOBANG AND ZHAO ZIYANG IS THEREFORE NOT YET ASSURED, AND IT IS SYMPTOMATIC THAT DENG HIMSELF HAS HAD TO RETAIN LEADERSHIP OF THE PARTY'S MILITARY COMMISSION, AS WELL AS ACCEPTING CHAIRMANSHIP OF THE PARTY'S NEW ADVISORY COMMISSION. THIS IS SOMEWHAT CONTRARY TO THE COLLECTIVE LEADERSHIP PRINCIPLE WHICH HE ADVOCATES.

4. AT RECENT INTERVIEWS DENG HAS SEEMED OLDER AND DEAFER, THOUGH HE IS STILL MENTALLY VERY ALERT. HU YAOBANG STILL LACKS POLITICAL STATURE, PARTICULARLY WITH THE ARMY, BUT HE IS ENERGETIC AND A FORCE TO BE RECKONED WITH. ZHAO ZIYANG HAS GAINED IN STATURE AND CONFIDENCE.

5. IN THE COUNTRY AT LARGE DENG STILL ENJOYS CONSIDERABLE POPULARITY, BOTH IN RURAL AREAS WHERE MORE LIBERAL AGRICULTURAL POLICIES HAVE BROUGHT CONSIDERABLE INCREASES IN WEALTH AND THROUGH POSSIBLY TO A LESSER EXTENT, IN THE CITIES, WHERE THE PERCEPTIBLE INCREASE IN MATERIAL WELL-BEING IN THE PAST THREE YEARS IS TEMPERED BY SOME RESENTMENT OF TOUGHER IDEOLOGICAL POLICIES INTRODUCED SINCE 1980. IN CONTRAST, SUPPORT FOR THE COMMUNIST PARTY AS A WHOLE IS PROBABLY LOWER IN THE COUNTRY THAN AT ANY TIME SINCE 1949, AND THERE IS WIDESPREAD CYNICISM ABOUT ABUSE OF PRIVILEGE AND CORRUPTION AMONG SENIOR OFFICIALS. RECENT CAMPAIGNS AGAINST THESE ILLS HAVE LACKED CONVICTION. SUPPORT FOR DENG IS THEREFORE LARGELY PERSONAL, AND IT COULD PROVE BRITTLE IF THERE WERE ANY CHECK IN THE MATERIAL PROGRESS OF THE COUNTRY. THIS IS NO DOUBT WHY ECONOMIC MODERNISATION IS NOW THE FIRST PRIORITY.

ECONOMIC

6. THE ECONOMY IS PERFORMING QUITE WELL. THE OVERALL GROWTH RATE IN 1981 WAS 3% AND SHOULD BE HIGHER THIS YEAR. THE CHINESE BELIEVE THAT THE WORST EFFECTS OF THE QUOTE READJUSTMENT UNQUOTE PROCESS ARE NOW OVER. AGRICULTURE HAS DONE ESPECIALLY WELL. THE BALANCE OF PAYMENTS WAS IN SURPLUS LAST YEAR. EFFORTS TO CONTROL INFLATION BY CHECKING OVER-AMBITIOUS STATE INVESTMENT PLANS AND THUS DECREASING THE RATE OF GROWTH OF THE MONEY SUPPLY HAVE BORNE SOME FRUIT. AVAILABLE INVESTMENT RESOURCES HAVE LARGELY BEEN SWITCHED FROM TRADITIONAL HEAVY INDUSTRY INTO MORE CONSUMER RELATED LIGHT INDUSTRIES.

7. BUT THERE REMAIN SERIOUS PROBLEMS. THE ECONOMY IS CONSTRAINED BY A SHORTAGE OF ENERGY, AND ALTHOUGH ADEQUATE ENERGY RAW MATERIALS EXIST, IT WILL TAKE TIME TO EXPLOIT THEM. THE STATE ECONOMIC MACHINERY IS CUMBERSOME AND INEFFICIENT, AND ATTEMPTS TO REFORM IT REMAIN RATHER TENTATIVE. SOME INDUSTRIES ARE STILL PRODUCING GOODS FOR WHICH THERE IS NO MARKET. THE PRICING STRUCTURE IS ANTEDILUVIAN AND UNECONOMIC. SUBSIDIES ON STAPLE FOODSTUFFS HAVE GROWN VERY RAPIDLY AND ARE A SERIOUS BURDEN ON THE BUDGET, THOUGH CIVIL UNREST COULD RESULT FROM ANY ATTEMPT TO DECREASE THEM. THE TENTATIVE BUDGETARY BALANCE ACHIEVED LAST YEAR IS VERY FRAGILE.

FOREIGN POLICY

8. RELATIONS WITH THE US HAVE BEEN SAVED, AND SHOULD NOW PERMIT IMPROVED SINO-US COOPERATION IN PRACTICE, THOUGH THERE ARE LIKELY TO BE SQUALLS FROM TIME TO TIME AND A GOOD DEAL OF ANTI-US RHETORIC. ON THE OTHER SIDE OF THE SINO-US-SOVIET TRIANGLE THE CHINESE WOULD NO DOUBT LIKE MORE FREEDOM TO MANOEUVRE, AND THERE ARE SIGNS OF ATTEMPTS TO REDUCE SINO-SOVIET TENSIONS, BUT SUBSTANTIAL PROGRESS REMAINS UNLIKELY. DESPITE MUCH THIRD WORLD VERBIAGE, THE IMPORTANT POLICY AREA FOR CHINA REMAINS RELATIONS WITH THE BIG POWERS AND THE DECISIVE FACTOR THE SOVIET THREAT.

CONCLUSION

9. GENERALLY THE SITUATION IS STABLE AND LIKELY TO REMAIN SO, THOUGH THERE ARE INEVITABLY QUESTION MARKS ABOUT THE LONGER-TERM (EG THE UNDERLYING CONTRADICTION BETWEEN ECONOMIC PROGRESS AND IDEOLOGICAL CONTROL). GIVEN DENG'S PRAGMATISM AND POWER, THIS IS AS GOOD A MOMENT TO DEAL AND NEGOTIATE WITH CHINA AS WE ARE LIKELY TO FIND, BUT THE POLITICAL/EMOTIONAL FACTORS ON THE ISSUE THAT CONCERNS US MOST SHOULD NEVER BE UNDERESTIMATED.

CRADOCK

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Safam Policy

CYRIL

LDW 489

LIM 374/16

IMMEDIATE

00 FCO DESKBY 150830Z

00 TOKYO

GR 370
CONFIDENTIAL
DESKBY 150830Z
FM PEKING 160654Z SEP 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 564 OF 16 SEPTEMBER
AND TO IMMEDIATE TOKYO (FOR DONALD)

100%
h-c

FOR FED

YOUR TELNO 375: TECHNICAL CO-OPERATION

1. THIS IS DISAPPOINTING NEWS BUT PERHAPS IT WOULD NOW BE BEST TO POSTPONE FURTHER CONSIDERATION OF THIS MATTER UNTIL WE CAN SEE HOW THE PRIME MINISTER'S VISIT HERE PROGRESSES.
2. THE ARGUMENTS IN FAVOUR OF A TECHNICAL CO-OPERATION PROGRAMME ARE WELL KNOWN TO YOU AND DO NOT NEED MUCH REHEARSAL NOW. HOWEVER, TO TAKE UP THE CENTRAL POINT OF YOUR TUR, I AM CONVINCED THAT A DECISION TO IMPLEMENT A SMALL BUT WELL DIRECTED AID PROGRAMME WOULD HAVE A CONSIDERABLE IMMEDIATE IMPACT IN TERMS OF GOODWILL, AND A GREAT IMPACT OVER TIME IN TERMS OF CLOSER LINKS BETWEEN BRITAIN AND CHINA, PARTICULARLY AMONG THE RISING GENERATION OF YOUNG CHINESE LEADERS AND TECHNOCRATS.
3. THERE IS AN INDISPUTABLE COMMERCIAL SPIN-OFF. OUR COMPETITORS ARE CONVINCED THAT SOME OF THEIR COMMERCIAL SUCCESS IN SCIENCE AND TECHNOLOGY RELATED FIELDS IS ATTRIBUTABLE TO GOVERNMENT SUPPORT FOR TECHNICAL AND LANGUAGE TRAINING AND ACADEMIC EXCHANGES. CHINESE ACADEMICS AND TECHNOCRATS WHO HAVE BEEN TRAINED ABROAD SUBSEQUENTLY PURCHASE INSTRUMENTS AND EQUIPMENT ABOUT WHICH THEY HAVE LEARNED ABROAD, OR WHICH ARE RECOMMENDED TO THEM BY EXPERTS THEY HAVE MET ABROAD.
4. I ALSO BELIEVE WE NEED TO MAINTAIN AND BUILD ON OUR PRESENT LEADING POSITION IN ASSISTING CHINA'S EXTENSIVE ENGLISH LANGUAGE TEACHING PROGRAMME, IN WHICH, IF WE DO NOT EXPAND OUR EFFORTS, WE RISK BEING OVER-SHADOWED BY THE UNITED STATES AND EVEN BY AUSTRALIA AND CANADA. THE TC PROGRAMME WHICH HAS BEEN UNDER DISCUSSION IS EXTREMELY MODEST IN COMPARISON WITH SIMILAR BRITISH SUPPORT FOR OTHER COUNTRIES OF LOW PER CAPITA INCOME, AND COUNTRIES OF FAR LESS COMMERCIAL POTENTIAL AND DIRECT POLITICAL IMPORTANCE TO BRITAIN. WITH RESPECT, IT IS DIFFICULT TO SEE FROM HERE HOW THE MODEST FUNDS REQUIRED COULD BE SPENT BETTER ELSEWHERE.
5. AS REGARDS MR ROBERT ADLEY'S SUGGESTION OF ASSISTANCE TO CHINESE TOURISM AND AGRICULTURE, I SHOULD OF COURSE WELCOME SOME SUPPORT FOR THE LATTER (IN WHICH BRITISH COMPANIES SUCH AS ICI, AND THE BRITISH AGRICULTURAL EXPORT COUNCIL, HAVE ALREADY MADE IMPORTANT EFFORTS). BUT WE HAVE ALREADY SUGGESTED OTHER AREAS SUCH AS MEDICINE IN WHICH I THINK CO-OPERATION WOULD BE EQUALLY, AND PROBABLY MORE APPROPRIATE. ON TOURISM: THERE HAS ALREADY BEEN SOME CONTACT BETWEEN THE BRITISH TRAVEL ASSOCIATION AND THE CHINESE TOURIST AUTHORITIES. TOURISM HAS A COMPARATIVELY LOW RANKING IN CHINA'S SCALE OF PRIORITIES AND IT IS EXPANDING AS FAST AS NEW FACILITIES FOR IT CAN BE PROVIDED. IT DOES NOT MERIT THE APPROPRIATION OF ANY OF OUR AID FUNDS AT THE PRESENT TIME.

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