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Foreign and Commonwealth Office

London SW1A 2AH

19 April 1985

*Dear Charles,*Aid Trade Provision for China

The Foreign Secretary has seen a copy of your letter of 18 March to Callum McCarthy, in which the FCO are asked to advise on the possibility of extending ATP funds to China.

Sir Geoffrey was most encouraged by the success of Lord Young's visit and shares his assessment that the commercial prospects for trade with China now look much more promising. He sees the force of Lord Young's point that there may be a case for the selective use of aid in China, but like the Prime Minister is conscious of the practical difficulties this poses.

As the Prime Minister knows, with the overall size of the aid programme static, the bilateral aid programme is under intense and increasing pressure, both from the growth of multilateral aid and from the new commitments that have arisen recently. The Prime Minister will know from her recent visit to Asia the degree of pressure on us to maintain our programmes in countries where we have traditionally given aid, such as India and Sri Lanka. She will also be aware of the new requirement that may arise in Indonesia. We have taken on new commitments in other countries as well over the last year: for example El Salvador and Mozambique; and Jordan may be bidding for new funds soon.

The need to respond quickly and generously to the enormous famine and development problems of Africa has been a further significant call on the aid programme. The Parliamentary and public pressure on the Government to make an adequate contribution will continue and indeed grow. On the multilateral side, the current meeting of the IBRD/IMF Development Committee is likely to begin the negotiating process for a substantial increase in the World Bank's capital of which the paid-in element will come from the aid programme. The Chancellor has rightly drawn attention to the risk that we shall find ourselves isolated in opposition.

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In addition, there is the prospect that the Community's aid to Turkey will be unblocked soon; that will result in a major new commitment, quite apart from the growth of budgetised EC aid generally. CHOGM in October will be faced with two reports - on Africa and the Security of Small States - to which some aid response will be urged on us by our Commonwealth partners (particularly the donors amongst them).

In these circumstances, the outlook must be for a continuing decline in our bilateral aid programmes despite Ministers' wishes to see these given greater priority. Our resources are already very fully committed and thinly spread.

As regards China, we have at present a small technical cooperation programme, which is welcomed by the Chinese. Any capital aid would obviously have to be on a substantial scale to have any impact and to be acceptable to the Chinese authorities. The Foreign Secretary considers that we simply do not have the resources for that. He agrees however with Lord Young that aid could be used to help our commercial prospects in particularly significant cases through the use of mixed credits. You may have seen press reports that Mme Cresson, the French Trade Minister has secured major business for France (some reports have valued it at \$500 million) during her current visit to China, particularly in the telecommunications sector, on the basis of soft credit.

For these reasons, the Foreign Secretary sees the force of the Prime Minister's suggestion to use ATP. Ministers have taken the view in the past that ATP funds should not be provided to Communist countries. The Foreign Secretary considers that this remains right as a general rule, but sees China as a special case. But given the pressures on the aid programme he does not believe that it will be possible to increase the total funds available to ATP.

I am copying this letter to John Mogg (DTI), Rachel Lomax (HM Treasury), Leigh Lewis (Lord Young's office) and Michael McCulloch (ODA).

Y ever,

Peter Ricketts

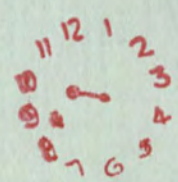
(P F Ricketts)
Private Secretary

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China : Relations A72



19 APR 1985



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10 DOWNING STREET

18 March 1985

From the Private Secretary

UK Trade Mission to China and Hong Kong

The Prime Minister has read with interest Lord Young's report on the mission which he led to China from 27 February to 13 March. She has also had a brief discussion of the mission with him.

The Prime Minister is very keen to see the mission followed up. Once the new Chinese Ambassador has arrived and established himself, she would propose to invite him to Downing Street to meet the members of the mission - and perhaps others - to stress the importance we attach to the groundwork laid during the mission. She also intends to ensure that members of the mission are associated with Zhao Ziyang's visit here. She suggests that it might be useful for high-level Chinese visitors with an interest in trade to call on Lord Young as well as DTI and FCO Ministers. We should in due course give thought to a follow-up mission to China.

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The Prime Minister has noted Lord Young's suggestion about the possibility of using some of our aid budget for promoting business with China. While recognising the difficulties, the Prime Minister wonders whether there is scope for extending ATP to China. I should be grateful if FCO could advise on this, in conjunction with other departments.

I am copying this letter to Peter Ricketts (Foreign and Commonwealth Office), Rachel Lomax (HM Treasury), Leigh Lewis (Lord Young's office) and Michael McCulloch (Overseas Development Administration).

(Charles Powell)

Callum McCarthy Esq
Department of Trade and Industry

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