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10 DOWNING STREET

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FILE TITLE:

RELATIONS

SERIES

CHINA

PART

3

PART BEGINS

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CAB ONE

28 NOVEMBER 2002

30 June 03

Labour Administration

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PREM 49/2931

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PART

CLOSED

DATE CLOSED	30 June 03
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Series : CHINA

Title : RELATIONS

Part : 3

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09/12/2002		FA/PS	Lord Powell - PM's visit to China	U	
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21/03/2003	FCS	FA/APS	Postponement of the Prime Minister's visit to the Far East	R	
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Department of Trade and Industry



Foreign & Commonwealth Office

London SW1A 2AH

From The Minister of State
International Trade and Investment

30 June 2003

David Hallam Esq
10 Downing Street
London
SW1A 2AA

Dear David,

You have asked for advice on whether a business delegation should accompany the Prime Minister during his visit to China. If a delegation is invited you also asked for confirmation that Mr O'Brien will lead it.

Following earlier discussion at official level TPUK approached a number of major UK companies with important interests in China or significant issues to pursue with the Chinese authorities to see whether they would wish to join up with the Prime Minister for the China leg of his Far East trip. The following have confirmed that they would come if invited:

Dr Brian Sanderson	Chairman, Standard Chartered Bank
Lord Sterling	Chairman, P&O
Lord Levene	Chairman, Lloyds of London
Lord Powell	China Britain Business Council

Of the other companies approached we have not heard directly from Rolls Royce, the Prudential is unlikely to come and HSBC, Shell, BP and Kingfisher/ B&Q (the latter three Think UK sponsors) have regretted. Companies which have not yet been approached but who might be expected to accept an invitation include Glaxo Smith Kline, Thames Water (also sponsors of the Think UK programme), JCB, MG Rover (potential investors in China) Vodaphone, and Barclays Capital. Sir Christopher Hum is especially keen to offer participation to all the Think UK sponsors to ensure that they are treated equally.

CC JPB
DM
MR
GMackey ✓
Presn ✓



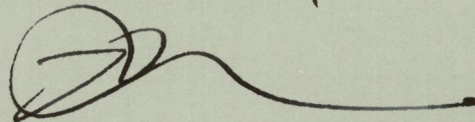
Sir Christopher has recommended, and we agree, that a business delegation would add value to the Prime Minister's visit. A strong team on the above lines accompanying the Prime Minister would have real impact in the immediate post-SARS period, and would enable us to enhance the focus on the commercial relationship. The Prime Minister will only have time to put across the headline messages during his calls on the leadership. We need also to engage the relevant Ministries, including the Ministry of Commerce and the National Reform and Development Commission (NDRC).

If the business leaders are to get benefit from the visit we would aim to involve them in elements of the Prime Minister's own programme such as the call on the Premier and lunch. They would also derive value from separate calls on the Minister of Commerce and the NDRC Minister but we share the Sir Christopher Hum's view that a Minister would need to lead the delegation if they are to secure the best possible access. Managing the members' expectations will be an important element in the success of the programme and Mr O'Brien recognises that as the Minister responsible for International Trade he is well placed to contribute to this aim as well as achieving wider commercial access.

In anticipation that a business delegation will be agreed, the Embassy has begun to prepare individual programmes for the likely members of the delegation. We would also want them to take part in a business forum in Shanghai involving the local British Chamber of Commerce and Shanghai entrepreneurs, at which (in addition to the Prime Minister's brief participation) Mr O'Brien might play a leading role.

I would be grateful for your early confirmation we should proceed with inviting a business delegation in the China leg of the Prime Minister's trip and that Mr O'Brien should lead the delegation. If you agree we will then submit formal letters of invitation.

I am copying this letter to Simon McDonald, David Whineray, Denis Keefe, Erica Zimmer (DTI), Sir Stephen Brown (BTI), David Warren (TPUK), Tim Holmes (TPUK), Mike Mielniczek (TPUK) and Sir Christopher Hum (Beijing).

Your ever,


Peter Elder
Private Secretary



DFID Department for
International
Development

1 Palace Street, London SW1E 5HE

Telephone: 020 7023 0418
E-mail: v-head@dfid.gov.uk

From the Private Secretary

David Hallam
10 Downing Street
London SW1A 2AA

Dear David,

30 June 2003

DFID'S PROGRAMME IN CHINA

China has developed tremendously since 1980. But millions still live in poverty. Inequality is growing and key services, such as education and health, are chronically under-funded. DFID is working with the government and other agencies to address this. Our focus is on health, education and sustainable livelihoods. The programme is expanding (£38 million this year). By opening the new DFID office, the PM would show that the development programme is an important part of HMG's coherent and joined-up relationship with China.

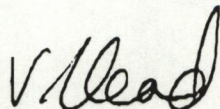
1. China's real per-capita income has quadrupled since 1980. An estimated 200 million have moved out of poverty. This has been an immense contribution to the overall achievement of the Millennium Development Goals. But the World Bank estimates 160 million Chinese people are still poor. There is growing inequality. Continued growth will *not* automatically translate into poverty reduction. A highly regressive fiscal system and failure to invest adequately in good quality, accessible public services, such as health and education, means significant numbers of vulnerable poor remain.

2. Against this background, our development programme in China is built around three core outcomes for poor people: educated and literate people; healthy people; and people with productive and sustainable livelihoods. In working towards these outcomes, we are also looking at the participation of poor people in decision-making; tackling social exclusion; effective government policies and initiatives which benefit the poor; and promoting gender equity

3. Our support for the poor western provinces is absolutely in line with the concerns of the new Chinese leadership. We have a successful and highly innovative partnership with the World Bank, which generates increased funding in support of poverty-focused activities. This close relationship gives us a prominent seat at the table in discussing major economic and financial policy issues. We are collaborating closely with the Asian Development Bank in a Chinese province. Our work on HIV/AIDS is likely to be carried out in co-operation with UN agencies. We provided £3 million for SARS control and prevention as part of a co-ordinated programme. The Chinese were very grateful for our swift response, the fact that it was strategic, and carried out in partnership with others.

4. DFID has an expanding programme in China (£38 million this year). We have established a new office in Beijing. The PM's personal involvement in opening it would demonstrate that the development programme is an important part of HMG's coherent and joined-up relationship with China. It would also raise the profile of DFID within China, and make it easier for us to deliver overall UK objectives, including helping to reducing poverty.

Yours,



Vanessa Head
Private Secretary

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

25 June 2003

Dear Kara,

**PRIME MINISTER'S MEETING WITH THE CHINESE FOREIGN
MINISTER**

The Prime Minister met Chinese Foreign Minister Li today. Li was accompanied by Zha Pexin (Chinese Ambassador), Zhao Jun (Adviser) and Liu Jianchao (Foreign Ministry). Bill Rammell, Christopher Hum (HMA Beijing), Jonathan Walters (FCO), you and I were also present.

Li thanked the Prime Minister for the UK's help with SARS. The Prime Minister congratulated Li on China's efforts and said that we had to find a way to deal more effectively with issues like SARS where the economic impact could be out of all proportion with the actual problem.

Li said that, like the Prime Minister, the Chinese government's policy was to exercise power for the good of the people. Bilateral relations were good. The Prime Minister's stance on the economy, international relations and environment was widely respected in China. The Prime Minister said that the UK accommodated some thirty thousand Chinese Students. Trade relations were good. He looked forward to deepening the political relationship when he visited China next month.

The Prime Minister welcomed China's efforts on DPRK. Li said that China and the US agreed that the Korean peninsula should be nuclear-free and to work for a peaceful solution. China had told Kim Jong-il that it wished him no harm, but that it did not agree with DPRK withdrawing from the NPT. China had also told him that having nuclear weapons was dangerous. DPRK had said first that it had weapons, then that it had the right to have weapons, then that it wanted to have weapons. China had told the US that it should respond to the DPRK's proposal and try to address DPRK's security concerns. China was open to which parties were involved in the talks and was ready to make constructive efforts to keep the Beijing process alive. The Prime Minister said that, if DPRK continued as it

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was, there would always be a problem. We had to work out how DPRK could embark on the process of transition. The US wanted a negotiated solution, but worried about DPRK continuing to develop nuclear weapons. Li said that the UK was a long way from DPRK, but China shared a 1300 kilometre border. Migration was easy, especially in winter, causing problems in the border area.

Li said that China had many common interests with the UK and wanted to work with us on all issues. China fully supported the Quartet roadmap. China had legitimate rights and interests in Iraq and relied on the UK to ensure that these were respected. China appreciated our efforts to bring Iraq back into the UN framework.

Li said that China was concerned at tariff peaks on Chinese exports to the EU. He hoped that the UK could support early lifting of these restrictions.

Comment

Li was very friendly and seemed to appreciate the Prime Minister taking the time to see him.

This is copied to Peter Watkins (MOD), Erica Zimmer (DTI), Anna Bewes (DFID), David Whineray (FCO), Desmond Bowen, Jim Drummond and John Scarlett (Cabinet Office), Sir Jeremy Greenstock (New York), Sir Nigel Sheinwald (UKRep Brussels), Sir Stephen Gomersall (Tokyo), Christopher Hum (Beijing), Tony Brenton (Washington), Charles Humfrey (Seoul) and David Slinn (Pyongyang).

Yours ever,



David Hallam

Kara Owen, FCO

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10 DOWNING STREET
LONDON SW1A 2AA

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added to la box*

From the Private Secretary

24 June 2003

Dear Kara,

DAVID MANNING/CHINESE AMBASSADOR, 7 JULY

Sir David Manning will meet the Chinese Ambassador over lunch on 7 July. I should be grateful if you could provide a comprehensive brief to cover:

- China internal/political issues;
- UK-China bilateral issues, including bilateral trade;
- regional and other issues such as the MEPP and Iraq; and
- global issues such as climate change and the WTO.

This is not an exclusive list: feel free to add in other issues if you think they are relevant.

This should reach me no later than close on Thursday 3 July.

Yours ever,

A handwritten signature in black ink, appearing to read 'D Hallam'.

DAVID HALLAM

Kara Owen, FCO

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Foreign &
Commonwealth
Office

cc JPO.
BVP

24 June 2003

London SW1A 2AH

Dear Dad,

Prime Minister's meeting with the Chinese Foreign Minister: Wednesday 25 June

The Prime Minister has agreed to see the Chinese Foreign Minister, Li Zhaoxing, on Wednesday 25 June at 14.15 for 15 minutes at No 10. Li will come from lunch with the Foreign Secretary at Carlton Gardens. They will continue their talks at No 10 when the Prime Minister departs.

Li is visiting the UK as a Guest of the British Government. It is his first visit to this country as Foreign Minister (he was appointed as part of the new leadership in March) and also the first high level Chinese visit since the new Government was appointed. Li's predecessor, Tang Jiaxuan, visited the UK in January 2002 and met the Prime Minister briefly. The visit is part of a European tour which also includes Portugal and Greece, where Li will attend an EU Troika/China Foreign Ministers meeting.

This visit is important as our first opportunity to meet and welcome representatives of the new leadership. It is a part of our strategy of increased engagement with the Chinese as a means to integrate China more into the international community, encourage reform and promote Britain as China's preferred partner in Europe.

The Foreign Secretary will have detailed discussions on bilateral relations (including illegal immigration and Think UK), as well as on a range of international issues (Iraq, MEPP, Burma, DPRK, India/Pakistan). Li will also call on the Deputy Prime Minister, Lord Powell (in his capacity as Chairman of the China Britain Business Council) and Lord Howe (as Chairman of the Great Britain-China Centre). A call on Baroness Amos was cancelled due a change in her travel plans at short notice.

The Chinese attach great importance to this call. It will help ensure that the Prime Minister will receive the best possible reception when he visits China next month (20-22 July). The Prime Minister may wish to open the discussion by welcoming the strength of UK/China relations, and the importance we attach to more frequent high level exchanges. He could look forward to his forthcoming visit to China and congratulate Li on the lifting on 24 June of the WHO travel advice on Beijing as a result of the SARS outbreak. He could emphasise the significance of the

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Think UK campaign which he will be involved in during his visit to China. The Prime Minister may wish to refer to the recent useful telephone exchanges between the Foreign Secretary and Li on Iraq, MEPP and DPRK - where China has played a positive role, hosting trilateral talks with the US in April. He could stress our interest in working together with the Chinese to resolve this issue. The Prime Minister may also like to welcome China's increasing positive engagement in global issues more widely.

not detailed

... I enclose a CV for Foreign Minister Li. One of his personal interests is in the works of Shakespeare. The Prime Minister can expect a lively and well-informed discussion.

I am copying this letter to the David Prout (DPM).

(Kara Owen)
Private Secretary

David Hallam Esq
10 Downing Street

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PRIME MINISTER'S MEETING WITH CHINESE FOREIGN MINISTER LI ZHAOXING [PRON: LEE JOW-SHING], 25 JUNE 2003, 1415 HRS

KEY MESSAGES

- Understand WHO SARS travel advice on Beijing lifted yesterday. Excellent news! Glad DFID were able to contribute (\$5 million) to international donor effort.
- Looking forward to visiting China next month. Success of "Think UK" a priority. Essential to encourage links between young people of both countries.
- Important to further develop contact at all levels. Room for more frequent high level bilateral exchanges. Welcome recent telephone contact between Foreign Minister and Foreign Secretary on DPRK, Iraq and MEPP.
- Welcome China's increasing engagement in global issues. China playing positive role on DPRK nuclear issue. Need to work together to find solution.
- Share similar objectives on MEPP. Understand your special envoy was in the region last month.
- On Iraq, political process consistent with Resolution 1483. Stabilisation a key Coalition priority.

CHKD
24 June 2003

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From: David Hallam
Date: 24 June 2003

PRIME MINISTER

cc: Jonathan Powell
David Manning
Danny Pruce
Carol Kempton

CHINESE FOREIGN MINISTER: WEDNESDAY 25 JUNE

You are dropping in on the Chinese Foreign Minister, Li Zhaoxing, for ten minutes at 2:20pm in the White Room. Jack Straw will host. There will be a photo op when you join the meeting.

Mr Li will be accompanied by Zha Pexin (Chinese Ambassador), Zhao Jun (Adviser) and Liu Jianchao (Foreign Ministry). Bill Rammell, Christopher Humm (HMA Beijing), Nigel Cox (FCO) and I will attend. There will be interpreters on both sides. Jack will have just entertained Mr Li for lunch at Carlton Gardens and will continue the meeting after you leave at 14:30.

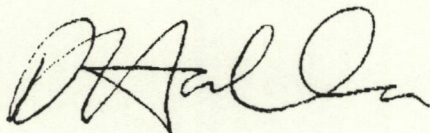
This is the first high level Chinese visit since the new Government was appointed in March. There are two reasons for your meeting Mr Li: to demonstrate the importance we attach to relations with the new Government, and (related to this) to pave the way for your visit next month. You might like to mention:

- **Your visit**, and how much you are looking forward to seeing the new Leadership in Beijing and to visiting Shanghai and Hong Kong;
- **SARS**, and congratulate Li on Chinese efforts to tackle the disease, culminating in the lifting (today) of the WHO travel advice for Beijing (Hong Kong has been OK for a while);

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- **North Korea**, and welcome China's helpful role, flag our interest in working with China to resolve the issue, and ask Li's views on next steps.

Li is interested in the works of Shakespeare. This might be a useful icebreaker.

A handwritten signature in black ink, appearing to read 'David Hallam', written in a cursive style.

DAVID HALLAM

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Foreign &
Commonwealth
Office

London SW1A 2AH

23 June 2003

cc: Mr
Gavin Madley
SICF

Dear David,

Prime Minister's Visit to China: SARS

Your letter of 4 June to Simon McDonald asked for advice on whether the Prime Minister should visit Beijing on 20-22 July in the light of our current travel guidance on SARS. This advises that travel to the Chinese capital be deferred because of the outbreak of Severe Acute Respiratory Syndrome (SARS).

We have consulted the Chief Medical Officer, who is responsible for issuing any travel advice on health grounds. He advises that while the visit is not free of all risk, it should be judged against the rapidly improving situation in Beijing. He has no firm objections to the Prime Minister visiting Beijing at the end of July. His advice is based on an analysis of current trends and follows consultation with senior officials at the WHO.

(Kara Owen)
Private Secretary

David Hallam Esq
10 Downing Street

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Foreign &
Commonwealth
Office

London SW1A 2AH

10 June 2003

DFM
cc JPO
SM
KUK
Press
BJD

Dear David,

Chinese Foreign Minister Li Zhaoxing's Visit to the UK: 25-26 June

The new Chinese Foreign Minister Li Zhaoxing will visit the UK from 25-26 June as a Guest of Government. The Foreign Secretary will host talks followed by lunch on 25 June for Li, who will be making his first trip to European capitals as Foreign Minister. I am writing to ask whether the Prime Minister could spare just a few minutes to meet Li.

It has been enormously helpful in the past that the Prime Minister has seen visiting Chinese Foreign Ministers in London, most recently Li's predecessor Tang Jiaxuan in January 2002. The Chinese are expecting the same practice this time and would be highly sensitive if the first high-level visitor to the UK since their new government was appointed in March were given a lower level reception than his predecessors. A meeting would enable us to seek reciprocal access for British Ministers visiting China. In addition, it would fit squarely with the Whitehall-wide strategy for China agreed by Ministers and endorsed by the Prime Minister last year, which emphasised the need for increased engagement with the Chinese government at the highest level level.

We see the Prime Minister's brief meeting with Li as fulfilling several key objectives:

- to indicate to the new Chinese government the high importance we place on our bilateral relations with a significant regional and international economic and political player and fellow member of the P5;
- to impress an influential and well-connected member of the new Chinese Government who is likely to remain Foreign Minister for the next five years;
- to outline our interest in working with the Chinese to resolve the DPRK nuclear issue in advance of more detailed talks on the subject during the Prime Minister's visit to China;
- to raise our concerns about illegal immigration from China and the proposals for cooperation which a visiting team of FCO/Home Office shall deliver in Beijing the week following Li's visit. This will also help build momentum in advance of the Prime Minister's own visit to China in July;

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- to emphasise the significance of the 'Think UK' campaign - a major series of profile-raising events in China later this year targeted at young people. We hope the campaign will encourage more young Chinese to consider studying in the UK, despite the impact of SARS. China is one of the priority countries for the Prime Minister's International Student Initiative.
- to ensure the Prime Minister receives the best possible reception when he visits China on 20-22 July.

... I enclose a CV for Foreign Minister Li. The Prime Minister can expect a lively and well-informed discussion.

Given the pressure on the Prime Minister's diary, the Foreign Secretary would be happy to hold his talks with Li on Wednesday 25 June (1245-1330 hrs) at Downing Street to make it more convenient for the Prime Minister to drop by for 15 minutes.

(Kara Owen)
Private Secretary

David Hallam Esq
10 Downing Street

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Li Zhaoxing 李肇星



Minister of Foreign Affairs
Member of the Communist Party Central Committee

- 1940 Born in Shandong Province.
- 1958-64 Undergraduate at Beijing University, studying Western language and literature, majoring on Shakespeare.
- 1964-67 Post-graduate student at Beijing Institute of Foreign Languages.
- 1967-70 Staff member at Chinese People's Institute of Foreign Affairs.
- 1970-77 Attaché at the Chinese Embassy in Kenya.
- 1977-83 Third Secretary, Second Secretary and Deputy Division Chief of the MFA Information Department.
- 1983-85 First Secretary at the Chinese Embassy in Lesotho.
- 1986-89 Deputy Director General, MFA Information Department.
- 1989-91 Director General, MFA Information Department and MFA spokesman.
- 1990-92 Assistant Foreign Minister responsible for African affairs.
- 1992-95 Permanent Representative at the UN.
- 1995-98 Vice-Foreign Minister responsible for US affairs.
- 1997-2002 Alternate member of the Communist Party Central Committee.
- 1998-2001 Ambassador to the US.
- 2001- Executive Vice Foreign Minister.
- 2002- Member of the Communist Party Central Committee.
- 2003- Minister of Foreign Affairs.

Li Zhaoxing is a career diplomat, with a background in the two most important areas of China's foreign policy: US and UN affairs. Li is a fluent English speaker, and has been described by the US Ambassador to China as energetic and lively. Li had been Executive Vice Foreign Minister since 2001 when he returned from three years as Chinese Ambassador to the US. Before that he was Vice Minister responsible for US affairs and Permanent Representative at the UN. While at the UN Li twice assumed the role of the Chairman of the Security Council, and was involved in many rounds of negotiations with the then Haitian president to secure the re-democratisation of Haiti.

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Li spent much of his early career developing two strands of expertise: understanding African affairs and information work. He served in Kenya and Lesotho and rose to become Assistant Foreign Minister for African affairs in 1990. He reportedly visited 33 countries in the Africa and the Middle East during his three years in the latter post. He also spent a total of eleven years in the MFA Information Department rising to become the department's Director General at the end of the 1980s. Li was one of the MFA spokesmen during the Tiananmen aftermath in 1989.

In 1997 Li is reported to have lobbied Vice Premier Qian Qichen hard to replace Li Daoyu as US Ambassador, stressing his good working links with Secretary of State Madeline Albright while the two were at the UN. Li arrived as Ambassador to the US in March 1998, in time to prepare for the visit of President Clinton to China. The Chinese regarded this visit as highly successful. During his three-year tenure in Washington Li dealt with important crises in the US-China relationship: the US bombing of the Chinese Embassy in Belgrade, rocky WTO accession talks, and allegations of nuclear espionage. Li's robust defence of Beijing's positions reportedly irritated some US politicians.

On the Taiwan and human rights issues in particular Li has been known at times for taking a hard and uncompromising stance. The US Ambassador to China has commented that while Li can be an entertaining and cultured companion, on issues where China's national pride is at stake he can become highly emotional. On such occasions he has been prone to lecture at great length and sometimes in offensive terms. When meeting the Finish Foreign Minister Erkki Tuomioja in November 2002 Li described international human rights organisations such as Amnesty International as seeking to return China to a "semi-colonial status". Tuomioja pointed out that he was himself a member of Amnesty and maintained the organisation did not have malevolent intentions.

Li was part of the team representing China at the First Asia-Europe Meeting (ASEM), and has assisted three times at Asia Pacific Economic Co-operation (APEC) Ministerial Meetings. Li has also had leading roles on various UN agencies and other international bodies including UNESCO, the Framework Convention of Climate Change, the International Convention of Anti-Desertification, the Chemical Weapon Ban Treaty, the South Pole Committee, and the International Environmental Co-operation Committee. He had also been the Deputy Director of the Organising Committee of the World Gardening Exposition, and a member of the China's National Anti-Drug Committee.

Li is well-read in Chinese, English and French literature. He is the honorary chairman of the Chinese Shakespeare Society as well as a guest professor of Peking and Nankai universities. He continues to write poems, essays on literature (including Mark Twain and Henry Fielding), and articles on human rights for the Chinese press.

He speaks good English, French and Swahili. His wife is Jin Xiaomei, who has also served in the MFA as an official in the International Organisations Department. It is reported that they together translated an English-language history of world ballet into Chinese. They have one son.

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File



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

10 June 2003

Dear Sir Christopher,

PRIME MINISTER'S VISIT TO CHINA

Thank you for your letter of 6 June about the recce for the Prime Minister's visit to China next month. I have explored the options with the recce team. Unfortunately we will have to proceed with the recce in the week of 23 June. The constraints of other visits by the Prime Minister mean that our visits people have no other dates available.

I appreciate that you would have preferred to be in-country for the recce. Indeed, I too would have much preferred that you were there.

I wonder if you might be able to call in at No.10 when you are here with the Chinese Foreign Minister? I would welcome the chance to hear your views direct.

I attach a copy of the recce itinerary, for your information.

Yours ever,

A handwritten signature in black ink, appearing to read 'D Hallam', written in a cursive style.

David Hallam

Sir Christopher Hum KCMG

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**ITINERARY FOR RECCE VISIT
22-28 JUNE 2003**

Sunday, 22 June

1340 ETD LHR (BA5)

Monday, 23 June

0910 ETA Tokyo

Recce in Tokyo and travel to Hakone early evening

Overnight hakone

Tuesday, 24 June

1805 ETD Tokyo (UA853)

2100 ETA Beijing

Thursday, 26 June

1105 ETD Beijing (FM108)

1255 ETA Shanghai

2000 ETD Shanghai (KA809)

2225 ETA Hong Kong

Kate Garvey would then return to London aboard the BA flight from Hong Kong at 2345 hours, leaving Gavin Mackay and Tom Fletcher to do the Hong Kong recce on Friday, 27 June.

Friday, 27 June

2305 ETD Hong Kong (BA26)

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hle



*From the Ambassador
Sir Christopher Hum, KCMG*

British Embassy
Beijing

6 June 2003

11 Guang Hua Lu
Jian Guo Men Wai
Beijing 100600
People's Republic of China

David Hallam Esq
10 Downing Street
LONDON
SW1A 2AA

Telephone: (0086 10) 6532 1961
Facsimile: (0086 10) 6532 1937

Dear David

VISIT BY THE PRIME MINISTER

1. I am very glad that we are now moving ahead over preparations for the Prime Minister's visit.
2. One small practical problem has arisen over which I should be grateful for your help. I see that the No 10 recce is likely to begin in the week of 23 June, with Beijing towards the end of the itinerary. I am naturally very anxious to be here when the recce party is in town. However the Chinese Foreign Minister will be making his first visit to the UK in the same week, and has meetings in London (including we hope in No 10) on 25 and 26 June. You will understand that I am hoping to sit in on the key parts of that visit, and this would take me away from Beijing from Tuesday 24 June, returning on the morning of Saturday 28 June.
3. I realise that this probably cannot be a determining factor. But I would be very grateful if it was possible to organise the timing of the recce visit so that the business in Beijing is done after my return. Please could you let me know if that is likely to be possible?

[SIGNED]

Christopher Hum

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From: David Hallam**Date: 30 May 2003****PRIME MINISTER****cc:****Jonathan Powell****David Manning****Alastair Campbell***31/5 DP TV SUP*

**CHINESE PRESIDENT HU JINTAO: DINNER AT ST PETERSBURG;
POSSIBLE BILATERAL AT EVIAN**

You will be sitting close to Chinese President Hu Jintao at dinner in St Petersburg and we are trying to arrange a bilateral, or at least a brush-past, in Evian. The purpose of a meeting with Hu now is to re-establish contact prior to your visit to China in July. You should call him President Hu (pronounced HOO).

Hu's itinerary takes in Moscow, for a State visit and Shanghai Cooperation Organisation (SCO) Summit; St Petersburg; Evian (the first time China, traditionally wary of the G8, has had senior representation at the outreach event); Kazakhstan and Mongolia. This is Hu's first big international outing as President. As well as Putin, we understand he will have bilaterals with Bush, Koizumi and Vajpayee - key countries for China's bilateral relations.

You last saw Hu Jintao in October 2001 when he visited the UK as Vice-President. His reputation is that of a cautious technocrat. He was appointed President in March this year, in a smooth take over from Jiang Zemin. Since then SARS has dominated. Initial handling was ineffectual **Both** made things worse. Belatedly Hu took a grip, improved transparency, and the battle against SARS may have turned the corner - new cases are down and the

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feared rural epidemic seems to have been averted. Contrary to some speculation, there is no evidence that this will be China's Chernobyl, catalysing a new political paradigm.

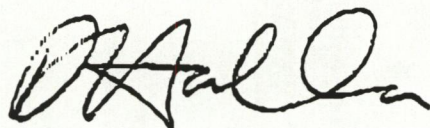
I suggest you should cover the following with President Hu:

Congratulate Hu on his appointment in March, and say you are looking to visiting in July.

Offer sympathy on SARS (325 dead so far) and ask about the latest situation. DFID has provided \$5 million to the international effort to help China - the largest single country contribution.

Ask about the impact of SARS on the economy. Our assessment is that China's economy ~~is~~ is doing so well it will still hit this year's 7% growth target. However, structural problems remain: serious rural/urban income inequality, which Hu has pledged to address, and unemployment.

Say how you value China's contribution to the international effort to resolve the DPRK problem peacefully. All the key players agree that a nuclear DPRK is in nobody's interest. China's hosting of trilateral talks with the US and DPRK was a major step forward. What does President Hu think are the next steps?



DAVID HALLAM

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**Foreign &
Commonwealth
Office**

London SW1A 2AH

29 May 2003

*cc: Mr
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Private Secretary

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MEETING WITH CHINESE PRESIDENT HU JINTAO

Objectives

- To reestablish contact with new Chinese President in advance of the Prime Minister's visit to China in July and,
- to reaffirm our wish to work closely with China bilaterally and in international fora, particularly the P5.

Handling

This is a chance to build on the Prime Minister's first meeting with Hu in 2001 and to set the scene for the PM's trip to China in July. This will be Hu's first big international meeting as President and he will be careful not to put a foot wrong. He will be preoccupied with the outbreak of the SARS virus in China. The Prime Minister should emphasise our readiness to continue to work closely with the Chinese on SARS and other issues on the international agenda, including DPRK, Iraq reconstruction and international security.

Key messages

- Congratulations on appointment as President. Look forward to visit in July.
- Challenging first few months with SARS crisis. Latest position? Effects on economy? UK stands ready to help. DFID contribution of US \$5 million to international donor effort.
- All leaders represented here are facing challenges at home and abroad. Need to work together to harness opportunities of globalisation. China and UK shared interest in Doha Development Agenda.
- Security environment puts us all at risk. Value our cooperation in P5. Important work ahead on Iraq reconstruction and MEPP. Hope can deepen our dialogue on these and other major foreign policy issues.
- Value China's contribution to international efforts to resolve DPRK problem peacefully. Key players all agree: nuclear DPRK in nobody's interest. Next steps?
- Working to encourage better understanding between our people eg through education, scientific and cultural exchanges. 'Think UK' initiative in China during second half of year: key to ensuring the positive development of bilateral relations in long term.

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1. Hu Jintao [pron.HOO JIN-TAU], who last met the Prime Minister in October 2001 during his visit to the UK as Vice-President, was appointed General Secretary of the Chinese Communist Party in November 2002 and State President in March. The transition went smoothly and the new Government has been careful to maintain policy continuity. Combating the outbreak of Severe Acute Respiratory Syndrome (SARS), which has so far caused over 325 deaths throughout the country, remains their major preoccupation. DfID has contributed US\$5 million to the international donor effort to help China (the largest single country contribution).
2. The Chinese economy continues to perform well, with year on year growth at 9.9% for the first quarter of 2003. Severe structural problems remain, however, including a growing income gap between the urban rich and rural poor and widespread unemployment. China has slowly been implementing its WTO commitments since joining at the end of 2001. The UK remains the EU's largest investor in China.
3. The Chinese government is keen to promote P5 unity on Iraq and has been generally supportive of Coalition plans for Iraq reconstruction. They continue to show some interest in Middle East Peace Process (partly based on their growing energy security concerns) and plan to send their Special Envoy to the region soon. Their hosting trilateral talks with the US and DPRK was a major step forward: they hope to arrange further talks within two months (they remain reluctant to involve the UN).
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NO 10 FOR SIR D MANNING

SUBJECT: PRIME MINISTER'S BRUSH-BY WITH HU JINTAO: SCENE-
SETTER

SUMMARY

1. Hu's elevation to President and Party Secretary long and carefully prepared. Much continuity, but he has signalled some changes of emphasis on substance and style. He took over a country on a roll. But first reactions to SARS ineffectual. Much damage done. However Hu has taken a grip and could still emerge strengthened. No evidence, currently, that this will lead to political reform.

DETAIL

2. The Prime Minister should have a chance to speak to Hu Jintao at Saint Petersburg or Evian, to look forward to his visit to China planned for July. They first met when Hu called on him in London in November 2001. At that time Hu was Vice-President, but it was already an open secret that he was being groomed to succeed Jiang Zemin as State President and as General Secretary of the Chinese Communist Party. His visits to Western Europe (London, then Paris and Berlin), and subsequently to the US in April 2002, were important parts of the grooming process.

3. By all accounts he acquitted himself well in London and elsewhere. Despite his almost total lack of international experience he seemed at ease - low key, interested, well informed, on top of his briefs. More importantly in domestic terms, he did not put a foot wrong on the substance, deferring carefully to Jiang Zemin's ideological leadership.

4. Hu's elevation duly came about, carefully stage-managed and smoothly executed. He became Party General Secretary at the 16th Congress in October 2002 and President at the 10th National People's Congress in March 2003. Until March Hu was content to keep a low public profile, with Jiang retaining the number one protocol position. Since then he has asserted himself more, taking centre stage in the media while Jiang has retreated almost entirely from the public gaze.

5. This is a political culture which stresses continuity and collective decision-making. Even so, Hu has moved to place his own stamp on the party leadership and to signal some changes of emphasis, both on substance and in style:

- on substance, a new stress on improving the living standards of the rural population and reducing income inequalities, hence emphasis on agriculture, rural development, the environment and social security;

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The decision to attend a G8 outreach event itself contrasts with China's earlier mistrust of the grouping as a rich countries' club.

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and careless of the welfare of its own citizens. It also highlighted the damage done by chronic under-investment in health services, especially in rural areas.

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29 May 2003



Foreign &
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From: BEIJING**

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to glance at highlights only in fets below.

Lanning 29/5

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7. All this should have been the best possible platform from which Hu could launch himself into international society. But that was before SARS threatened to knock China sideways. Domestically and internationally SARS showed up the new leadership, in its initial reaction to the crisis, as slow and ineffectual;

and careless of the welfare of its own citizens. It also highlighted the damage done by chronic under-investment in health services, especially in rural areas.

8. China's new leaders, when put under pressure, fell back on the old reflexes - giving priority to party prestige and social control, seeking to suppress and manipulate information (unsuccessfully in the age of the internet and the text message). Faced with embarrassing exposure and the rapidly worsening situation in Beijing, Hu rallied. Belatedly he took a firm grip on the problem, pushing through a policy change which, according to some reports, more conservative elements in the leadership balked at. Transparency became the order of the day and officials were sternly warned against covering up. Now all the human and propaganda resources of the country have been mobilised, rather as they used to be for political campaigns, to tackle the new public enemy which is SARS.

9. But much damage has been done. Hu's first 100 days were turned into a nightmare round of crisis meetings and morale boosting visits to hospitals. Beijing became for a time a ghost city, shunned by State guests (with a few exceptions), tourists and businessmen alike. Prestigious international events across China have been cancelled or postponed. Even now, when Hu is venturing abroad for the first time as President, the official briefing has to reassure others of the lengths to which he will go to ensure he is not carrying infection. It is all very humiliating for a proud country.

10. The battle against SARS could now have turned a corner. The numbers of new cases have come steadily down, and the feared epidemic in China's vast and poor rural areas seems to have been averted. If this trend holds, economic damage will turn out to be limited. After China's stellar economic performance in the first months of the year it is still quite possible that it can achieve its target growth rate for the year of a very healthy 7%.

Temporarily retained

**THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT.**

*Uf
vke
rou
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(eng)*

(Handwritten marks)

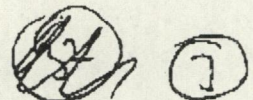
11. And Hu could still emerge fairly unscathed in the eyes of the Chinese public. The initial cover-up will not be forgotten or forgiven. But it was inherited from the outgoing leadership. Moreover the expectations of the people are strikingly low on this front. If Hu continues to show strong leadership in steering China through the crisis this will do a lot to re-establish his public standing. He could also emerge with his position within the leadership reinforced. He has taken care to associate his political rivals with the campaign against SARS and (pace some commentators) there is no hard evidence that they have sought to use the crisis to undermine him.

12. Could this turn out to be China's Chernobyl, the disaster that precipitates political change? It would be foolhardy to reach this conclusion without much more evidence. Certainly Hu has been forced to set standards of transparency in dealing with a public issue which, together with the greater openness of Chinese society and the greater accessibility of the globalised media, will make it more difficult to return to policies of cover-up in the future.

13. But it is much too early to tell whether this will have any substantial effect on the future way in which the party, and Hu in person, handle the long term relationship between rulers and ruled. Hu is the product and beneficiary of the status quo. There is currently no evidence that this cautious technocrat perceives any benefit, for China or for his own position, in introducing significant political reform.

HUM

Sent by BEIJING on 28-05-2003 08:46
Received by No10 on 28-05-2003 11:00



5. We briefly recapped UK concerns in standard terms, and undertook to report.

Desk Officer for terrorism/detainees: Carl News

BRENTON

Sent by WASHINGTON on 28-05-2003 23:23
Received by No10 on 29-05-2003 01:34

2

CONFIDENTIAL
NOSEC: BUSH'S VISIT TO EUROPE AND THE MIDDLE EAST
From: WASHINGTON

TO IMMEDIATE FCO
TELNO 749
OF 282303Z MAY 03
INFO IMMEDIATE ACTOR, BERLIN, CABINET OFFICE, CANBERRA
INFO IMMEDIATE EU ENLARGEMENT POSTS, EU POSTS, IRAQREP
INFO IMMEDIATE MIDDLE EAST POSTS, MODUK, MOSCOW, NATO POSTS
INFO IMMEDIATE OTTAWA, PARIS, ROME, SECURITY COUNCIL POSTS
INFO IMMEDIATE TOKYO, UKMILREP CENTCOM, WHIRL

SIC A2P/A2M/A2N/A2C/CAO

Summary

1. Dominant in Washington, Bush will take his style of bold leadership onto the global stage. He will start his tour in Poland with his vision of how the transatlantic partnership should work to make the world a better place. And he will finish in the Middle East, showing that the US practises what it preaches. A Russian fence should be mended on the way, but others may have to wait a little longer.

Detail

2. Bush sets off on Friday this week on an 8 day trip to Europe and the Middle East. He will give a major speech in Krakow on 30 May; take part in the 300th Anniversary celebrations in St Petersburg on 31 May - 1 June; attend part of the G8 summit in Evian on 1-2 June; and then head to the Middle East for summit meetings with Arab leaders in Sharm el Sheikh, and with Sharon and Abu Mazen in Aqaba. His final stop will be a visit to the troops in Qatar. Powell will accompany Bush most of the way (and will therefore miss the NAC Ministerial in Madrid).

3. Several of our senior contacts (including Armitage, Fried, NSC and Burns, State) have given us a foretaste of what is likely to be at the top of Bush's mind on each leg of the journey.

Where Bush stands domestically

4. There is a swagger in Bush's stride as he sets off for Krakow. At the start of the year he staked his political capital on two ambitious goals, and his boldness has paid off. On tax cuts as on Iraq, it is mission accomplished. The Democrats hedged their bets on both and are left looking divided and indecisive. Americans trust Bush and approve of his leadership by two to one. After two tax cuts and two wars, he dominates Washington as much as anyone in a generation. The only doubt for the Bush team as they launch the re-election campaign this month, is how much this will count for if the economy stays in the doldrums. But whether the economy revives or continues to falter, the political strategy will be the same. At home and abroad Bush's instinct will be to set the agenda, and continue to show that bold leadership delivers results.

Krakow

5. It is no accident that Bush's first stopover will be in Poland, a key element of "new Europe". The Americans have high hopes of the Atlanticist instincts Poland and others will bring to the EU and NATO. Following a highly symbolic visit to Auschwitz (the starkest possible product of unchallenged tyranny), Bush will deliver a major policy speech, outlining a forward-looking

3

US/European co-operation agenda. There will be no attempt to rake over the Iraqi coals. His reference point will be his Warsaw "enlargement" speech of two years ago and how much has been achieved in Europe since then. He will call on European countries, as among the world's richest democracies, to join him in meeting the major global challenges - combating international terrorism; countering WMD proliferation (on which he will announce a new US initiative on tougher interdiction); promoting democracy and human rights; and fighting poverty. He will also put in a plug for Polish membership of the EU.

St Petersburg

6. The US expect this leg of the visit to be mostly theatre. Bush will have a bilateral with Putin, there will be a couple of joint statements (of little consequence, according to Fried); and a joint press conference. Given the US wider strategic interest in "forgiving" the Russians for their Iraq performance, it is unlikely that Bush will press too hard, at least in public, on either DPRK or Iran. The White House believes that Putin was badly misled about Iraq, and badly advised by his MFA. They have detected signs that Putin knows this, and is not satisfied with the Igor Ivanov approach. The US is quietly trying to develop direct lines with the Presidential Administration. As Moscow Telno 196 reports, Bush will probably invite Putin to the US in September - Camp David is the most likely venue.

*maybe ... but
maybe useful to
have too. (Putin wants to
be treated
as a partner
and seen
to be so)*

Evian

7. Bush hates the G8. He has still not recovered from his first experience of the event - in 2001 - when he felt that he was pilloried by Chirac over Kyoto. The White House generally regards the G8 as a ludicrous process. Light on substance, but heavy on turgid statements and travelling circuses. Bush and his press-minders' focus will therefore be on the next stage - the Middle East.

8. Nevertheless, Bush will be conscious that the eyes of the world will be looking at his body language with Chirac and Schroeder. He will play this very properly: no overt antagonism, but no excessive warmth. The main challenge may turn out to be whether he can rise above any extravagant grandstanding by Chirac. On the substance, the US team is not going to Evian with high expectations. Bush may take up the reins over assistance for HIV/AIDS in Sub-Saharan Africa and encourage his G8 counterparts to match his own commitment of \$15 billion over 5 years. He will, of course, remain strong on the issues of counter-terrorism and counter-proliferation. He will push Hu Jintao on DPRK in their bilateral. And the issue of Iranian support for terrorism, its interference in Iraq, and its lack of transparency over its nuclear ambitions will not be far from the surface. Bush will firmly resist any talk of carrots in exchange for Iranian co-operation.

*US Hand line on Iran
likely to surface at G8*

Middle East

9. Bush shows every sign of now being thoroughly committed both on the MEPP and on reform throughout the greater Middle East. The focal point of his visit will be two meetings. The first will be with Arab leaders (Mubarak, Crown Prince Abdullah, King Abdullah, Abu Mazen and the King of Bahrain) and will cover in addition to the MEPP, the war on terror, Iraq and economic openness in the region. The second meeting will be with Sharon and Abu Mazen at Aqaba on the morning of 4 June and will include separate bilaterals with each of them. The US are carefully avoiding

(4)

raising expectations, but are working hard behind the scenes for concrete steps forward on the Roadmap. They will also use the trip to underline Bush's commitment to progress in the region, and Abu Mazen's (as opposed to Arafat's) centrality to progress on the MEPP.

10. Bush will also swing by Qatar on the way home in order to see the troops - lots of great photo opportunities to bolster his domestic standing still further.

BRENTON

Sent by WASHINGTON on 28-05-2003 23:03
Received by No10 on 29-05-2003 01:04

⑤

RESTRICTED
IRAN: US VIEWS 28 MAY
From: WASHINGTON

TO IMMEDIATE FCO
TELNO 751
OF 282313Z MAY 03
INFO IMMEDIATE ACTOR, CABINET OFFICE, CANBERRA, EU POSTS, IRAQREP
INFO IMMEDIATE MIDDLE EAST POSTS, MODUK, NATO POSTS, NEW DELHI
INFO IMMEDIATE OTTAWA, SECURITY COUNCIL POSTS, TOKYO
INFO IMMEDIATE UKMILREP CENTCOM, WHIRL

OUR TELNO 737

SIG CAQ/A2P/A2N/A2M/A2C/A2D/LDQ/INX/IGR/INY/ESA

SUMMARY

1. A further update on the interagency debate on Iran. State (Armitage and Burns) take a reassuring line. There is no question of military intervention, though there are serious concerns about Iran's failure to cooperate over AQ. DoD are taking a much tougher view. While stopping short of advocating regime change, they favour the US washing its hands of any further attempt to engage with any part of the regime, and appealing directly to the Iranian people.

DETAIL

2. Further to TUR, I spoke to Armitage and Burns (Assistant Secretary, NEA) today about Iran. We have also spoken to Dibble (DAS, NEA, State) and Luti (DAS, OSD).

3. Armitage sought to put me at ease. We should not read too much into press speculation. It was true that the Administration were very unhappy over Iranian failure to cooperate over AQ. Principals would now discuss Iran on 29 May. There was no question of military intervention as an option. But some within the Administration did favour ratcheting up the pressure on the regime. Armitage said that there had earlier been some move to describe the MEK as freedom fighters, but State and NSC had fought this off (comment: OSD continue to deny vigorously to us that they have ever advocated this).

4. Burns said that the Administration were united in believing that the US should take a tough approach on Iran/AQ following the Riyadh bombings. Some might soften their view if the US received any indication that Iran was willing to do more in this area. But the US had received no hint that this was likely - the response they had had through the Swiss had been "stiff". I said that we too had the impression that the Iranians were not ready to play ball. But we were working to encourage the EU to make progress on the TCA more dependent on Iranian cooperation in the key areas of concern. Burns welcomed this.

5. Dibble confirmed that there had been a hardening of attitude - but not of policy - across the Administration in the wake of the Riyadh bombings. The dialogue with Iran over Afghanistan and Iraq had now been suspended. State still expected Iran to hand over the AQ leaders, but were prepared to give this some time to happen. They were also watching carefully to ensure that Iranian involvement inside Iraq did not prove to be destabilising.

6. Beyond this, Dibble said the Administration was not quite sure what to do. State favoured continuing to try to establish relationships with reformers. OSD saw this as a busted flush.

6

Dibble did not expect the interagency debate to be resolved any time soon. The review of Iran policy had been going on for years, and was unlikely to be concluded over the next few weeks - not least because both Bush and Powell would now be fully engaged in the MEPP in the period ahead.

7. Against this background, Dibble said that we should continue to expect conflicting public statements from different parts of the Administration (comment: as we have seen this week, with Powell saying there has been no change in policy; and Rumsfeld, at his Council on Foreign Relations press conference in New York on 27 May, warning Iran not to interfere in Iraq). But Dibble did admit that on one point there was now interagency agreement: the Iranian people had become apathetic and dissatisfied, and had given up on the reformers.

8. Luti took a much tougher line. The Deputies meeting scheduled for 27 May had been cancelled because Rice was furious that "disgruntled" State Department officials had leaked stories about interagency disputes over Iran to the media over the weekend. But one meeting in any case would not resolve a longstanding interagency battle (the operational centrepiece of which is an effort to revise the National Security Policy Directive - NSPD - on Iran developed by the Clinton Administration).

9. Luti argued that the reality was that Bush was swinging behind the OSD view that the real divide in Iran was not between different factions of clerics, but between the clerics as a whole and ordinary people. This was, in effect, the same analysis that many in the first Bush Administration had initially missed when looking at the Soviet Union prior to its collapse. Khatami had been unable to pull off significant reforms. In Luti's view, he had never been a reformer in the first place. As with Gorbachev, the Iranian people were coming to see this and would eventually draw the right conclusions.

*NOT an analogy
to pin the fault.*

10. Luti said that this analysis called not for regime change as understood in the Iraq context (he too ruled out military options as unrealistic), but for a policy of moral suasion - appealing directly to the Iranian people. OSD were working up a wide variety of (unspecified) tools to support this policy. In the meantime, the interagency battle would continue.

11. On Iran/Iraq, Luti said that Rumsfeld's tough talk on non-interference was just the start. OSD and CENTCOM were unfolding a plan to counter aggressively Iranian influence in Iraq (Comment: this is one area of Iran policy where State and NSC may struggle to keep a grip, given the way DoD are setting the Iraq policy agenda more generally). This would include rounding up IRGC officers and "dealing with them". Action would also get under way to remove the Badr Corps. Bremer, who was "hot" on this issue, had already told Hakim to stand down the Corps. Hakim had not reacted well.

BRENTON

Sent by WASHINGTON on 28-05-2003 23:13
Received by No10 on 29-05-2003 01:03

⑦

CONFIDENTIAL
NOSEC: INDIA/PAKISTAN: US VIEWS, 28 MAY
From: WASHINGTON

TO IMMEDIATE FCO
 TELNO 750
 OF 282309Z MAY 03
 INFO IMMEDIATE ACTOR, BEIJING, CABINET OFFICE, CANBERRA, COLOMBO
 INFO IMMEDIATE DFID, DHAKA, EU POSTS, ISLAMABAD, KABUL
 INFO IMMEDIATE KATHMANDU, MIDDLE EAST POSTS, MODUK, MOSCOW
 INFO IMMEDIATE NEW DELHI, OTTAWA, SNUFFBOX, TOKYO
 INFO IMMEDIATE UKMIS NEW YORK, WHIRL

SIC CAO

SUMMARY

1. The US is encouraged by continuing signs of Indo/Pak detente, but remains engaged at political level lest momentum be lost. Bush will not meet Vajpayee this weekend, but NSC hope the Prime Minister will use his bilateral to press India to send troops to Iraq. The US is likely to offer India concessions on the "Trinity", but India still has to show that it is worth the effort. Discussion continues on whether to offer F16s to Pakistan, but Rice has told Kasuri that she thinks it a bad idea.

DETAIL

2. We discussed India and Pakistan with Millard (South Asia Director, NSC) and Good (India Director, State) on 28 May, and briefed them on recent UK high-level contacts with Sinha, Sibal and Khokar (FCO telnos 60 and 63 to New Delhi and telnos 82 and 83 to Islamabad).

3. Millard was encouraged by Pakistan's naming of a new High Commissioner to India, and by Vajpayee's announcement on bus routes. The Pakistanis were being intransigent on overflights, but she hoped the two sides could find a way through. The US was not getting heavily involved in the detail of these bilateral issues: India and Pakistan were capable of working them out between themselves. But it was important that the international community remained engaged at a political level. The two sides were probably now back to where they had been before the militant attacks on the Delhi Parliament on 13 December 2001: links were in place, but they were not actually talking to one another. If detente lost momentum, experience showed that things could stagnate for a long time. Good said that the US was encouraging both sides to make further progress, chiefly via their Ambassadors in Delhi and Islamabad. The US was encouraging India to respond to any sign that the situation along the LoC was improving: this was a judgement which only India could make.

4. Millard said that, despite Indian requests, Bush would not see Vajpayee at St Petersburg or Evian: he was not doing bilaterals, making exceptions only for Putin and Chirac (as hosts) and Hu (because Cheney had cancelled his visit, and a meeting was overdue). But Bush would probably drop by on Advani when he met Rice in Washington next month.

5. Millard hoped that Mr Blair would use a meeting with Vajpayee to push the Indians to contribute ground forces to Iraq. The US had amended the draft of UNSCR 1483 in response to India's concerns, and now expected India to contribute: Good said that CENTCOM were poised to send a team to talk through the modalities as soon as India gave the green light. The US understanding of the internal debate in New Delhi chimed with ours (New Delhi telno

pm: You will see Advani too when he comes through London.

218). They would welcome any insight into Valpayee's thinking.

6. We asked about the interagency debate on developing US/India relations. Good said that Deputies, and later Principals, would be invited to consider how better relations with India would benefit US interests; and, if the "Trinity" issues were determined to be the main obstacle, how far it was worth compromising the US non-proliferation regime in order to improve relations. On the "Trinity", Good thought it likely that Principals would eventually agree: to concede a broader definition of balance of plant (ie those components of a nuclear plant which were not directly related to the reactor); to ease licensing requirements for trade in dual use goods; to take the Indian Space Research Organisation off the US "entities list" (freeing up trade); and to allow India to launch third-country satellites with US components. But Good said that India's intense focus on the "Trinity" issues had created resentment in Washington. The US would expect some serious Indian co-operation in return for concessions, including on Iraq, Iran and wider non-proliferation concerns. It was still not clear that it was possible to have a proper strategic relationship while India continued to see the world through the prism of Kashmir and relations with Pakistan.

7. Millard said that the US was also looking at working with India on missile defence - Pakistan was lobbying against this. The Pakistanis were also unhappy that the US had signalled it had no objection to the Israelis selling their Falcon Early Warning System to India (the US had objected to this last year, when Indo/Pak tensions had been at their height).

8. On US/Pakistan relations, Millard said that Musharraf would see Bush at Camp David on 24 June. The Pakistanis had floated the idea of working with like-minded Islamic states to reclaim Islam from the extremists. Musharraf was likely to discuss this with Bush, who would be very interested.

9. Millard said that the interagency debate on US assistance to Pakistan continued. The US was likely to offer Musharraf USD 500 million a year for five years in economic and military assistance. The US side would make clear that it expected Pakistan to respond to US concerns over WMD proliferation and support for terrorists: the need to secure annual approval from Congress imposed a de facto conditionality on assistance. On the economic side, the US assistance package would include debt relief as well as development aid. The shape of the military package was not yet clear. We asked if it would include F16s. Millard said that she was not privy to the discussions on this, which continued at a very high level. But when Kasuri had asked about this, Rice had told him that she did not think it would be a good idea for the US to give F16s to Pakistan at a time when Indo/Pak relations were thawing.

Desk Officer for India and Pakistan: Colin Crooks (FTN 8430 6586).

BRENTON

Sent by WASHINGTON on 28-05-2003 23:05
Received by No10 on 29-05-2003 33:33

*Mr. Likely to be
Musharraf's patch to
you when he comes
thru' London too.*

✓

9

CONFIDENTIAL
NOSEC: DPRK NUCLEAR: US VIEWS, 23-28 MAY
From: WASHINGTON

TO IMMEDIATE FCO

TELNO 747

OF 282246Z MAY 03

INFO IMMEDIATE ACTOR, BEIJING, CABINET OFFICE, CANBERRA, DFID
INFO IMMEDIATE EU POSTS, MODUK, MOSCOW, OTTAWA, PYONGYANG, SEOUL
INFO IMMEDIATE SNUFFBOX, TAIPEI, TOKYO, UKMIS GENEVA
INFO IMMEDIATE UKMIS NEW YORK, UKMIS VIENNA, WHIRL

SIC CAO

BEIJING TELNOS 195 AND 203

SUMMARY

1. Bush thanks Roh for his firm line on the DPRK. He will encourage Hu to face up to the DPRK's nuclear intentions. NSC think the Chinese can be persuaded to change their attitude to the DPRK: further talks with the DPRK should help. DoD want the US to push the Chinese further, but State think there are limits to how far the Chinese will be prepared to go. State want more talks in the trilateral format, but DoD insist that Japan and the ROK must be there.

DETAIL

2. We have reported separately Moriarty's (NSC Senior Asia Director) account of the Bush/Koizumi discussion of the DPRK. Moriarty also said that Bush had spoken to Roh on 26 May. Roh, after returning to Seoul, had stuck courageously to the spirit of his joint statement with Bush, and had "got the crap blasted out of him by critics, while the DPRK was frothing at the mouth". In the call, Bush had told Roh he noted and appreciated the line Roh had taken. He understood that the DPRK issue would test Roh, and the US/ROK relationship, but he knew that Roh would not be intimidated and would continue to work for the best interests of his people. Roh had agreed to see Wolfowitz (Deputy Secretary of Defense), who would be stopping by Seoul on his way to the IISS conference in Singapore. Roh had agreed with Bush that it was vital to get the Chinese to play a constructive role.

3. We discussed the Chinese position with Moriarty. He was interested by the comments of Fu Ying and Cui Tiankai recorded in TURs. Fu's line on the need for bilateral US/DPRK dealings tracked with what her boss Wang Yi had been saying to the Japanese and ROK. The US, including Moriarty personally, had told the Chinese firmly that a bilateral US/DPRK deal was out of the question. Cui's different line showed that Chinese thinking was not monolithic. We should not assume the Fu/Wang line was cleared with Hu Jintao. Zeng Qinghong et al. They were MFA Asianists, with a strong vested interest in established policy, which revolved around maintaining the DPRK as a buffer state. US diplomacy was aimed at getting the Chinese to understand that this mindset had to change.

4. Moriarty agreed that more negotiations with the DPRK would be necessary to achieve this. The Chinese wanted another round of talks. He expected the US to keep the process going, helping to preserve Chinese face. Meanwhile they would press the Chinese to face up to the unpalatable realities. Bush would ask Hu, at Evian, how he reacted to the fact that the DPRK had asserted that they were reprocessing, in defiance of Chinese warnings; and that Li Gun had threatened Kelly. Moriarty judged that the most important equity in all this for the Chinese was preventing the nuclearisation of NE Asia. Day by day the DPRK was moving closer to becoming a declared nuclear weapons state. Moriarty thought

10

that Chinese policy on the DPRK, which had already moved some distance, would shift further.

5. Separately, we spoke to State (Saeed, Korea Desk) and DoD (Greene, OSD). Saeed said that the Chinese were already exerting more pressure on the DPRK than the US had expected: they could probably go still further. But she very much doubted that the Chinese would ever see the collapse of the DPRK regime as a palatable policy option. Greene, by contrast, thought that this might be possible, although she conceded that it would be a tough sell: the first step was to persuade the Chinese to apply more pressure. She thought the US should do more to persuade China that the effects of regime collapse in Pyongyang - beginning with refugee flows across the DPRK/China border - could be mitigated. Saeed pointed out that Administration hawks were torn between a desire to see China apply more pressure to the DPRK, and the fear of a more assertive Chinese foreign policy.

6. Saeed said that Administration Principals (Cabinet minus Bush) would meet on Thursday to discuss next steps on the DPRK. State (please protect) had opposed the meeting, arguing that it was impossible to take the policy forward before Bush's meeting with Hu (1 June) and the TCOG meeting with Japan and the ROK (now set for 11-12 June). But the hawks wanted to push ahead with action in the UNSC (Greene confirmed that DoD thought a Presidential Statement was "long overdue"), and with interdiction measures against DPRK illicit activities. DoD and others were also keen to declare the Light Water Reactor project dead. State were opposed. They hoped for a further round of talks in the trilateral format before the end of the summer. The US would not have a proposal to make, but did need some more clarification of the proposal which the DPRK had made in Beijing. Greene, however, said that the DPRK proposal had been studied closely and found to be unacceptable. She accepted that pressure was mounting for a further round of talks, but said that DoD were adamant that the ROK and Japan had to participate.

Desk Officer for Korea: Colin Crooks (FTN 8430 6586).

BRENTON

Sent by WASHINGTON on 28-05-2003 22:46
Received by No10 on 29-05-2003 33:33

11

UNCLASSIFIED
HUMAN RIGHTS: AMNESTY INTERNATIONAL ANNUAL REPORT: US
From: WASHINGTON

TO PRIORITY FCO
TELNO 746
OF 282244Z MAY 03
INFO PRIORITY CABINET OFFICE, DFID, EU POSTS, UKMIS GENEVA
INFO PRIORITY UKMIS NEW YORK

CABINET OFFICE FOR MANNING, RYCROFT
REACTIONS

SUMMARY

1. Stung by Amnesty's criticism, the Americans come out swinging.

DETAIL

2. US spokesmen have taken a predictably forthright approach in responding to the suggestion in Amnesty International's Annual Report that recent US actions had been bad for human rights.

GENERAL

3. State's spokesman (Boucher) said that Amnesty did an enormous amount of work on human rights around the world. Their report would be taken seriously. But the US did not agree with everything in it. The US complied with its international obligations. It was a strongly committed advocate of human rights around the globe. And the US had "taken reasonable and legal steps to fight terrorism".
4. Boucher said that the Administration rejected Amnesty's criticism. He said that "Amnesty International's particular charges are incorrect...the war on terrorism has not detracted from our strong and steadfast commitment to human rights and democracy." And "if anything, the United States' involvement with other governments in the war on terrorism has raised the respect for human rights".

IRAQ

5. Asked about Amnesty's views on Iraq, the White House spokesman (Fleischer) ran through a list of abuses under the Saddam regime and suggested that Amnesty focus on investigating them. He said that "the world is rejoicing in the fact that, thanks to the efforts of the coalition, millions of people who were previously imprisoned are now free."

GTMO

6. On Guantanamo, Fleischer said detainees were being treated humanely and in general "receiving far better treatment than they received in the life that they were living previously". He added that "these people are terrorists who still want to wreak harm and havoc on the United States and our people. They're very dangerous people". State took a similar line: "the people who are under detention in Guantanamo are being treated according to the standards of the third Geneva Convention". As combatants, "they need to be taken off the field as long as the fighting is going on".

Acting desk officer for human rights: Carl Newns

BRENTON

12

Sent by WASHINGTON on 28-05-2003 22:44
Received by No10 on 29-05-2003 33:33

19

RESTRICTED
IRAQ: POLITICAL PROCESS
From: WASHINGTON

TO IMMEDIATE FCO
TELNO 748
OF 282247Z MAY 03
INFO IMMEDIATE ACTOR, BEIJING, CANBERRA, EU POSTS, IRAQREP, KUWAIT
INFO IMMEDIATE MIDDLE EAST POSTS, MODUK, MOSCOW, OTTAWA
INFO IMMEDIATE UKMIS NEW YORK, WHIRL

YOUR TELNO 5 TO UKREP IRAQ

SIC CAO/A2N/A2M/A2P/INX/LDQ

SUMMARY

1. State (Armitage) and NSC are aware of Bremer's plans - thanks to us - and agree that we must take care to remain consistent with both the UNSCR and the Hillsborough Summit language. OSD support Bremer's view, but are clear that the appointed body would have limited functions. Rumsfeld views this as his - and Bremer's - decision to take; and he is unlikely to be impressed by arguments founded on strict interpretations of UNSCR 1483.

DETAIL

2. I took action on TUR on 28 May with Armitage. We have also spoken to NSC (Miller, Senior Director) and OSD (Luti, DAS).

3. Armitage said he was aware of the Bremer paper. This was thanks to us (we had alerted an unaware Miller yesterday, and he in turn had told Armitage). Armitage agreed that a coalition-appointed IIA would be contrary to UNSCR 1483 and also the Hillsborough language. State (Dibble, DAS, NEA) told us later that they would feed our concerns in supportive fashion back to Bremer.

4. Miller said he had been trying all day to extract the Bremer paper from DoD. The latter regarded it as a personal communication addressed to Rumsfeld, and not for sharing (Comment: this is part of a wider problem which State and NSC are grappling with - Miller has admitted to us that he is seeing very little of what Bremer is communicating). Miller would appeal this evening to Rice to intervene. He too could see the strength of our arguments.

5. Luti was, unsurprisingly, more relaxed. The Bremer paper was in fact no more than a one and half page letter to Rumsfeld, setting out in broad-brush fashion his view that the right balance had to be struck between fast and slow on the IIA, and, by extension, between coalition control and Iraqi legitimacy. Bremer leaned towards the former. He was advocating getting to an IIA-type body quickly - within the next month - mainly to demonstrate to the Iraqi people that moves were underway to form institutions designed to represent their views. But he was equally clear that such a body, given that it was appointed by the coalition, would have to have a limited remit. Issues like the constitutional process and judicial reform would have to await the creation of a more representative body - and that in turn could only happen when the security situation allowed for a broad cross-section of Iraqis to be identified.

6. Luti said that Rumsfeld was generally persuaded by Bremer's argument. Although State would try to resist, OSD were clear that the decision should be left to Bremer to take and to implement.

Mr.
Tracks more or less with what Bremer told you today. I imagine here of how little DoD communicates with other agencies/depts in Washington

L

(14)

7. As for Vieira de Mello's role in all this, Dibble warned that not even State saw it as significant at this stage. Their view was that the UN Special Representative would come properly into play once the coalition had established the IIA. The UN's real strength would be in political institution-building, not, as Dibble put it, in late-night wheeling and dealing over who should be in the IIA.

COMMENT

8. It remains to be seen how much influence State and NSC are able to bring to bear on a DoD increasingly convinced that it should (indeed must) take the lead on Iraq policy. Rumsfeld for his part will instinctively be attracted to the "what works" argument that Bremer appears to be advocating. The emphasis in Rumsfeld's 17 principles on a readiness for trial and error and experimentation should not be underestimated - and he will care little, if at all, for the letter of the UNSCR if he judges that a strict interpretation of it could complicate the task at hand.

BRENTON

Sent by WASHINGTON on 28-05-2003 22:47
Received by No10 on 29-05-2003 33:33

(15)

RESTRICTED
ICC: ROLLOVER OF RESOLUTION 1422 (2002): US INTENTIONS
From: UKMIS NEW YORK

TO IMMEDIATE FCO
TELNO 906
OF 282200Z MAY 03
AND TO IMMEDIATE CABINET OFFICE, EU POSTS, MODUK, OTTAWA
AND TO IMMEDIATE SECURITY COUNCIL POSTS, SOSFA, UKDEL NATO
AND TO IMMEDIATE UKMIS GENEVA, UKREP BRUSSELS, WELLINGTON

SUMMARY

1. USUN have been instructed to seek a one year rollover of resolution 1422 (2002).

BACKGROUND

2. Resolution 1422 (2002) was adopted on 12 July 2002 to meet US concerns that its servicemen and officials might one day be brought before the International Criminal Court (ICC). The resolution requests the Court to defer for a twelve month period starting 1 July 2002 investigations or prosecutions of cases involving current or former officials or personnel from a contributing state not party to the Rome statute over acts or omissions relating to a UN established or authorised operation. The Council also expressed the intention to renew this request each 1 July for a further 12 month period for as long as may be necessary.

3. Negotiation of the resolution last July was difficult and controversial, generating heated opposition from those states strongly pro ICC (including many within the EU) and from the vociferous and well organised NGO community. With the approach of the expiry of the one year period envisaged by resolution 1422, speculation has been growing in New York about US intentions.

NEXT STEPS

4. USUN legal advisers told us on 28 May that the mission has now been instructed to seek a further one year roll over of resolution 1422 (i.e to propose a further resolution in exactly the same terms as resolution 1422, changing the date in OP1 from 1 July 2002 to 1 July 2003.) USUN will begin to discuss this proposal with other P5 and Council members in the coming days, with a view to as low-key an adoption of such a resolution as possible, during the Russian Presidency of the Council in June.

5. In informal discussions at working level in New York, the reluctant conclusion of most states inside and outside the Council has been that a further one year roll over of 1422 would be the least bad outcome for the ICC and the UN. Our current estimate is that France and Spain would vote in favour of such a resolution. The Germans are less likely to do so: Pleuger told me recently that an abstention was the best he could imagine from Berlin; but he did not think they would stir up trouble. The rest of the Council (with the possible exception of Mexico) is, we judge, likely to follow a P5 lead.

6. If the US tread carefully and do not allow discussion of a draft resolution of this kind to fester (so that a head of opposition begins to build up, encouraged by the NGOs), there is a good chance they will get the text they seek. The process will not be straight forward: we (the UK) can expect criticism in the EU (from, for example, Sweden, the Netherlands, Germany and others) and from NGOs. And there is almost certain to be a

(16)

request (from New Zealand, Canada and Switzerland) for a public debate in the Council, open to non members. But discussion in these fora should be manageable - if the US stick to the proposal they put to us today, and if they move to adoption of such a draft with reasonable speed and purpose. Unless otherwise instructed, we will work discreetly with USUN towards that goal.

Contact: Iain MacLeod: +1-212 745 9338 or on Confidential Firecrest.

GREENSTOCK

Sent by UKMIS NEW YORK on 28-05-2003 22:00
Received by No10 on 29-05-2003 33:33

17

CONFIDENTIAL
NOSEC: US/JAPAN: KOIZUMI AT CRAWFORD, 23 MAY
From: WASHINGTON

TO IMMEDIATE FCO
TELNO 744
OF 282235Z MAY 03
INFO IMMEDIATE ACTOR, BEIJING, CABINET OFFICE, CANBERRA, EU POSTS
INFO IMMEDIATE MIDDLE EAST POSTS, MODUK, MOSCOW, OTTAWA
INFO IMMEDIATE PYONGYANG, SEOUL, TOKYO, UKDEL NATO
INFO IMMEDIATE UKMIS NEW YORK, WHIRL

SIC CAO
TOKYO TELNO 159
SUMMARY

1. Bush and Koizumi see eye to eye on the DPRK

Koizumi tells Bush he will do what he can to help in Iraq, and that he will visit the Middle East to seek support for Japanese reconstruction efforts.

DETAIL

2. Moriarty (Asia Senior Director, NSC) added some insights to the full account of the Bush/Koizumi Summit in TUR. He described the Summit as a "love fest". The two men had similar world views, and got on well.

3. Moriarty said that the main foreign policy issue had been the DPRK, on which discussions had gone well. Bush and Koizumi had delivered a carefully choreographed press conference, with pre-negotiated, largely parallel statements. The Japanese side had been pleased by the US's public call for a peaceful, diplomatic and multilateral solution, and the US by Japan's public willingness to increase pressure if the DPRK kept moving in the wrong direction. Bush's public reference to the abductees had also been a very big deal for the Japanese.

4. Moriarty confirmed that Bush and Koizumi had spent some time talking about strengthening interdiction measures against illicit DPRK transfers. The Japanese had pointed to interdictions they had already successfully undertaken. The two had agreed that Japan should be included in any further rounds of talks with the DPRK. They had also agreed on the need to get the Chinese to engage.

5.

Temporarily retained
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RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT.**

6. Moriarty confirmed that Bush had asked for Japanese "boots on the ground" in Iraq. The SDF could help in particular with transportation within Iraq. Koizumi had asked for space to pursue this in his own way, taking account of realities in Japan: he would do whatever was possible. He would visit the Middle East, where he planned to ask governments, including Egypt and Saudi Arabia, to support Japanese reconstruction projects in Iraq (for example, Arab doctors for Japanese-funded hospitals).

7. On economic issues, Bush had expressed concern about the possibility of deflation. Koizumi had said that he was fighting to increase the money supply in Japan. Bush had said that he had a strong dollar policy, and Koizumi had said that he would like

(18)

the Yen to be weaker.

8. They had not discussed Iran in sessions with officials present. Moriarty noted that the two men had spent two hours alone together.

Desk Officer for Japan: Colin Crooks (FTN 8430 6586).

BRENTON

Sent by WASHINGTON on 28-05-2003 22:35
Received by No10 on 29-05-2003 33:33

19

RESTRICTED
LIBERIA: P3 MEETING: 28 MAY
From: UKMIS NEW YORK

TO IMMEDIATE FCO
TELNO 908
OF 202336Z MAY 03
INFO IMMEDIATE ABIDJAN, PARIS, WASHINGTON, WEST AFRICA POSTS

SUMMARY

1. US, France and UK agree on key elements of a comprehensive peace plan for Liberia. We should explain these to ECOWAS and Abubakar in preparation for the 4 June peace talks in Akosombo. US now appears more engaged in Liberia, although still cautious about how far they will assume a leading role in practice. They believe the new Liberian request for direct US/Liberian talks may indicate Taylor's readiness to do a deal (but they still distrust him - and still no obvious answer to the key question of what to do with him). P3 agree on need for an International stabilisation force; France keen to explore possibility of using UNAMSIL troops. Next P3 meeting in London or Paris?

DETAIL

2. P3 experts met in New York on 28 May to discuss next steps on Liberia. France was represented by Lenain (FranMis), the US by Arietti (State).

3. The US said LURD controlled most of northern Liberia, and MODEL now much of the east, as far as Harper port. Because of the threat MODEL now posed to Buchanan, State had issued a statement on 21 May warning LURD and MODEL not to attack Monrovia or Buchanan. All US posts in the region had been instructed to deliver this message to any LURD or MODEL contacts and to host governments. (US talking points by fax to AD(E) and Abidjan).

3. Arietti said Taylor was under unusual pressure: continued LURD attacks; the French/Ivorian operation in western Cote d'Ivoire now driving Liberian fighters back into Liberia (who would then fight with MODEL, LIMA and MODEL being virtually interchangeable and both supported by the Ivorian Government); the end of timber revenues. The US had in the last 48 hours been approached by people close to Taylor (apparently with Taylor's blessing) who wanted to "discuss Liberia's future". Arietti and US Ambassador Blaney planned to meet them, probably on 2 June in Brussels. (Comment: although Arietti asked us to keep this information to ourselves, GoL has since formally notified the sanctions committee that a delegation led by Minister Jonathan Taylor will travel to Brussels to meet US officials.)

4. Arietti said the Liberian approach - the first direct to the US - might indicate a real shift in Taylor's position. However, he agreed with us that Taylor was a past master at deception; the US would remain sceptical.

5. On the Accra peace talks, Arietti said there would be an opening ceremony on 4 June in Accra after which there would be two parallel sets of talks, on a ceasefire (with only the belligerents participating) and on the broader peace process (with wider participation, including 18 opposition parties and civil society, 85 people in all). Pamela Bridgewater (Assistant Secretary of State) would represent the US on 4 June; Blaney and Arietti would attend thereafter. The US was attending at Taylor's insistence, but Arietti thought all Contact Group members should be invited. (Comment: have we been?) Arietti said the structure of the talks was unclear. It was difficult to get information from Abubakar or ECOWAS. For example, had they prepared any draft peace agreement.

20

or even elements? That said, it was encouraging that this was ECOWAS-led; there might be merit in spontaneity, with ideas emerging from the Liberians themselves.

6. Arietti said Abubakar had met LURD representatives in Freetown on 26 May. They had promised to participate. Abubakar had only contacted MODEL by telephone. It was unclear who really represented LURD and MODEL, but the US believed them to be in regular contact with each other. The UN would be represented at Akosombo by Moussa (head of UNOL) and political and humanitarian affairs officers. The UN was adding USD 150,000 to the EU's USD300,000 contribution to the cost of the talks.

7. Lenain said we had to ensure that we could support the outcome of Akosombo. It must not give Taylor too great a role. Given the lack of clarity over ECOWAS intentions, perhaps we should make clear in advance what our bottom lines would be. We and the US agreed. Neither of us could support any peace plan that led to Taylor's re-election. We agreed to recommend to capitals that we (a) draw up a list of key elements of a comprehensive peace plan (ceasefire, transitional government, free elections, etc) (by email to AD(E)) and (b) tell key interlocutors (ie Abubakar, Akufo-Addo and Chambas) what these were. We should also make clear privately to ECOWAS that we could not accept a peace deal which allowed Taylor to stand for re-election. The US were even reluctant to see Taylor continue as head of an interim government, suggesting an alternative like Moses Blah, Vice President (and constitutionally the correct successor). Lenain stressed that replacing Taylor by LURD would be even worse. France would follow the US lead on the Taylor question.

8. On Taylor's future, there were no easy answers. Once no longer President, he would lose sovereign immunity (including for acts committed while Head of State, if they were crimes against humanity). We said that Taylor assumed the Special Court would indict him, whether or not the existing sealed indictment was for Taylor. But it was not within the Security Council's power to offer immunity or a reduced sentence. The Court was independent. Moreover Taylor would be dangerous as long as he remained in Liberia, even if no longer President. The US and France wondered if a safe haven might be found for him elsewhere.

9. We all agreed that an international stabilisation force was essential for any long term stability. But who would lead it? France virtually dismissed the ECOWAS option; they had found it difficult enough constructing a force for Cote d'Ivoire (not to mention the earlier disaster of the Nigerian led ECOMOG force in Liberia) and they could not cope with another, simultaneous exercise. Over lunch Duclos (French DPR) wondered whether UNAMSIL troops might be re-deployed to Liberia. The French had not floated this publicly to avoid cutting across British interests in Sierra Leone. But might there be a regional UN PKO, transferring the withdrawn UNAMSIL assets to Liberia? We thought a UN PKO in Liberia would have to be set up separately and be based in Monrovia; but that did not rule out the possible use of former UNAMSIL troops in any such operation.

10. We suggested we host a follow up P3 meeting on London. The French were also ready to host (Duclos suggested en route back from the Security Council mission to West Africa, which will transit Paris on 5 July.)

COMMENT

11. It is welcome that the US appear increasingly willing to get engaged in Liberia - partly driven by the initiative of Ambassador

(21)

Blaney in Monrovia, partly by this new Liberian approach which may indicate Taylor's readiness to do a deal. But they share our fundamental scepticism about Taylor and, while now apparently willing to consider options such as an international stabilisation force, will not support this if it risks entrenching Taylor.

12. Seen from here it would therefore be useful to speak to Abubakar and ECOWAS before the Akosombo talks begin on 4 June, to make clear our bottom lines, particularly on Taylor, and to find out if they have any better ideas for dealing with him.

Contact: Vanessa Howe-Jones: +1-212 745 9357 or on Confidential Firecrest.

GREENSTOCK

Sent by UKMIS NEW YORK on 28-05-2003 23:39
Received by No10 on 29-05-2003 01:34

22

RESTRICTED
DRC: DRAFT RESOLUTION ON FORCE FOR BUNIA
From: UKMIS NEW YORK

TO DESKBY 290300Z FCO
TELNO 910
OF 290122Z MAY 03
INFO PRIORITY BRUSSELS, DFID, HARARE, KAMPALA, KIGALI, KINSHASA
INFO PRIORITY LUANDA, LUSAKA, MODUK, PARIS, PRETORIA CAPETOWN
INFO PRIORITY UKREP BRUSSELS, WASHINGTON

MIPT/MIFT

SUMMARY

1. First round of negotiations on French draft resolution. Little French give on mandate. Hard push from Pakistan on financing. Revised text in MIFT. Next expert round scheduled for 29 May. Instructions requested deskby 291300Z.

DETAIL

2. Experts held a long and unfocused first round of negotiations on the French draft resolution authorising a multinational force for Bunia. Most delegations were without instructions, so we can expect a further long round on 29 May once capitals have fed in.

3. We were grateful for rapid comments from AD(E), UND and DFID. Many of the UK suggestions have been taken on board in the revised text. But there were two main sticking points:

OP1: several delegations sought changes to the terms of the mandate. The French firmly resisted all but linguistic changes. The mandate as set out in OP1 has been agreed at the highest levels in Paris and the Mission here have no flexibility. The French were prepared to insert our language on providing a secure base for the institutions of the Ituri Pacification Commission in the preamble. However, they are not prepared to accept any language that broadens the task of the force to cover, eg cantonment of armed groups, or that would imply a role beyond Bunia.

finance: the Pakistanis' made repeated pitches for "guaranteed" funding of troop contributors who were unable to meet their own costs. They rejected the idea of a trust fund - for a two month mission, this would not give a fast enough turnaround. Others, including us and the Russians, rejected Pakistani proposed language which would give the Secretary-General responsibility for finding funding for troop contributors.

4. The US also had a difficulty with the language in OP2, which effectively sets aside the conditions for MONUC deployment under SCR 1445. The US can accept an exception being made for Ituri, but for Congressional reasons, are not prepared explicitly to shelve 1445. they are working with the French and the Secretariat to find practical alternative language.

COMMENT

5. On the mandate, we see little prospect of any shift from the French. It certainly will not come from the Mission here, who are clearly under firm instructions. On finance, we may need to consider a compromise formula such as "appeals to member states to provide practical and financial support to potential contributors who are not in a position to meet their own costs". Such a formula would make clear that costs must be met by member states.

not the UN, but without excluding those unable to pay for themselves. The Pakistanis have already told us that "appeals" is not enough, payment must be ensured. But on this point we can expect some support from others.

GREENSTOCK

Sent by UKMIS NEW YORK on 29-05-2003 01:22
Received by No10 on 29-05-2003 03:19

(24)

29/05/2003

RESTRICTED
DRC: SECURITY COUNCIL CONSULTATIONS
From: UKMIS NEW YORK

TO DESKBY 290600Z FCC
TELNO 909

OF 290120Z MAY 03
INFO PRIORITY BRUSSELS, DFID, HARARE, KAMPALA, KIGALI, KINSHASA
INFO PRIORITY LUANDA, LUSAKA, MODUK, PARIS, PRETORIA CAPETOWN
INFO PRIORITY UKREP BRUSSELS, WASHINGTON

SIC

MY 2IFTS

SUMMARY

1. Secretariat update. French announce intention to lead multinational force for Bunia and circulate draft resolution for adoption by 30 May.

DETAIL

2. Annabi (ASG, DPKO) briefed Council members on developments in the DRC during informal consultations on 28 May. Fighting had resumed in Ituri, with UPC now in full control of Bunia. MONUC was concerned that the FRPI was gathering for a counter attack. The latest violence had happened just after USG Guehenno's visit, when the parties had reconfirmed their commitment to the Dar es Salaam Agreement.

3. MONUC had recently helped the IPC to establish their offices in Bunia. But following the resumption of fighting, the IPC leaders had had to return to the MONUC premises. During the previous week's calm the Red Cross had collected bodies in Bunia - 360 had been registered.

4. Some progress had been made on the multinational force for Bunia. Both Kabila and the Ugandan Foreign Minister had written to the Secretary-General supporting the force (and Kabila had also called for general strengthening of MONUC's mandate). On 24 May Kagame had told the Secretary-General that he would support the deployment and would respond to the Secretary-General's letter accordingly. (We have now heard that a fax advance of the letter has been received.)

5. In the meantime, MONUC continued to provide protection to 5,000 IDPs at their premises in Bunia and to a further 7,000 at the airport. Most were women and children and were not willing to leave the camps until a multinational force was deployed. A further 50,000 IDPs were reported to have fled from Bunia into north Kivu. Guehenno also commented briefly on the continuing RCDG offensive in the Kivus and on the blockage in the national political process.

6. Sabliere (France) announced that the French government had decided to lead a multinational force for Bunia. The necessary conditions appeared now to be in place. France would hold a troop generation meeting on Friday 30 May in New York. It was "indispensable that certain key countries commit themselves at that meeting". He then circulated a draft authorising resolution. (report of first round of expert negotiations and revised text in MIFTs.)

7. In the discussion that followed, all Council members expressed their support for the proposed multinational force and welcomed the French lead. I said the UK was looking very closely at what

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we could contribute. We needed some more detail on the shape of the force (some of which was now covered in the draft resolution), and it would also be helpful to know the status of other possible contributions. We also raised concerns at reports of FAC troop movements between Benin and Bunia. GoDRC should be included in a call for restraint from all the parties. We also asked how the UN might help to unblock the Congolese political process - was there a role for Menkerios or scope to bring forward Swing's arrival?

8. Pleuger (Germany) said his government was looking at how it could help in Ituri, and had identified USD 500,000 of emergency aid. One of their junior Foreign Ministers was currently in the region. They were looking at the scope to provide logistical support at the Bunia airfield. Pleuger also made a point of referring positively to the 28 May ESDP discussion. Williamson (US) made the usual cautious remarks about any change to MONUC's overall mandate, but expressed support for the multinational force.

9. The Secretary-General, who attended the consultations, said he had been in touch with Kabila, Museveni and Kagame. It was important, not only that they support the multinational force, but also that they ensure no support reached the militias in Ituri. He had told Kabila to be very careful about any movement of the FAC and to remember the negative experience of the 700 of the PIR police sent to Bunia. The parties also needed to be pressed on the political front. Annabi added that MONUC continued to watch FAC movements very closely. As for the Congolese political process, he said that the two deputy SRSGs for the DRC were working with the Congolese parties to try to get the process back on track. DPKO later told us that the South Africans had promised a contribution separate from their MONUC contingent, but they had not yet spoken numbers.

COMMENT

9. the French are determined to move ahead fast with their resolution, and have wide support from Council members in doing so. Sabliere's heavy hint about UK participation was unmistakable.

Contact: Catherine Mackenzie: +1-212 745 9394 or on Confidential Firecrest.

GREENSTOCK

Sent by UKMIS NEW YORK on 29-05-2003 01:20
Received by No10 on 29-05-2003 03:19

(26)

RESTRICTED
DRC: DRAFT RESOLUTION: ON FORCE FOR BUNIA: TEXT
From: UKMIS NEW YORK

TO IMMEDIATE FCO
 TELNO 811
 OF 290124Z MAY 03
 INFO PRIORITY DFID, HARARE, KAMPALA, KIGALI, KINSHASA, LUANDA
 INFO PRIORITY LUSAKA, MODUK, PARIS, PRETORIA CAPETOWN
 INFO PRIORITY UKREP BRUSSELS, WASHINGTON

SIC

MY TWO IPTS

1. Text of draft resolution following first round of expert negotiations on 28 May.

BEGINS

The Security Council,

Recalling its previous resolutions and declarations by its President on the Democratic Republic of Congo, in particular its declaration of 16 May 2003 (S/PRST/2003/6),

Determined to promote the peace process at the national level, and in particular to facilitate the early establishment of an inclusive transitional government in the DRC.

Expressing its utmost concern at the fighting and atrocities in Ituri as well as the gravity of the humanitarian situation in the town of Bunia,

Reaffirming its full support for the political process initiated by the Ituri Pacification Commission, calling for its swift resumption and for the establishment of an effective, inclusive political and security mechanism in this framework, to complement and support the existing Ituri Interim administration,

Recognising the urgent need for a secure base to allow the operation and development of the institutions of the Ituri Pacification Commission,

Commending MONUC for its efforts in order to stabilise the situation in Bunia and to support the political process in Ituri,

Taking note of the request of the Secretary-General to the Council in his letter dated 15 May 2003 and taking note also of the support for this request expressed in the later dated 20 May from the President of the DRC and also by the Ituri parties on 16 May 2003 in Dar es Salaam, as well as the support expressed by Uganda (letter from the Minister of State for Foreign Affairs dated 17 May 2003) and Rwanda (letter of its President dated 28 May 2003), as requested by the Secretary-General, to the deployment of a multinational force in Bunia,

Determining that the situation in the Ituri region, and in Bunia in particular constitutes a threat to the peace process in the DRC and to peace and security in the Great Lakes,
 Acting under Chapter VII of the Charter of the United Nations,

1. Authorises the deployment until 1st September 2003 of an Interim Emergency Multinational Force in Bunia in close coordination with MONUC, in particular its contingent currently deployed in the town, to contribute to the stabilisation of the

(27)

security conditions and the improvement of the humanitarian situation in Bunia, to ensure the protection of the airport, the internally displaced people in the camps in Bunia and, if the situation requires it, to contribute to the protection of the civilian population in the town;

2. Stresses that this Interim Emergency Multinational Force is to be deployed on a strictly temporary basis to allow the Secretary-General to reinforce MONUC's presence in Bunia and in this regard, authorises the Secretary-General to ensure the deployment, within the existing MONUC ceiling, of a reinforced United Nations presence in Bunia, and request him to do so by mid-August 2003;

3. Calls on Member states to contribute personnel, equipment and other resources to the Multinational Force, and invites those Member states to inform the leadership of the force and the Secretary-General;

4. [Stresses that the expenses of the Multinational Force will be borne by participating Member States concerned, requests Secretary-General to establish a trust fund through which contributions could be channelled to the Member states or operations concerned and encourages Member states to contribute to such a fund] or

[Authorises the Secretary-General to ensure the availability of sufficient financial and logistic support to facilitate the deployment of the Interim Emergency Multinational Force and enable it to fulfil the tasks listed in OP1.](Comment: Pakistani language)

5. Authorises the Member States participating in the Interim Emergency Multinational Force in Bunia to take all necessary measures to fulfil its mandate;

6. Demands that all the parties to the conflict in Ituri and in particular in Bunia cease hostilities immediately and reiterates that International Humanitarian Law and human rights must be respected, that there will be no impunity for violators and that violators will be held accountable;

7. Demands that all Congolese parties and all States in the Great Lakes region cooperate with the Interim Emergency Multinational Force and with MONUC in the stabilisation of the situation in Bunia and provide assistance as appropriate, that they provide full freedom of movement to the Force, and they refrain from any military activity in the region or from any activity that could further destabilise the situation in Ituri, and in this regard, demands also the cessation of all support, in particular arms supplies, to the armed groups and militias.

8. Calls on all Member states, in particular those in the Great Lakes region to provide all necessary support to facilitate the swift deployment in Bunia of the Interim Emergency Multinational Force;

9. Requests the leadership of the Interim Emergency Multinational Force in Bunia to report regularly to the Council on the implementation of its mandate, through the Secretary-General;

10. Decides to remain actively seized of the matter

ENDS

28

Contact: Catherine Mackenzie: +1-212 745 9394 or on Confidential Firecrest.

GREENSTOCK

Sent by UKMIS NEW YORK on 29-05-2003 01:24
Received by No10 on 29-05-2003 03:19

29



10 DOWNING STREET
LONDON SW1A 2AA

Foreign Policy Adviser to the Prime Minister,
and Head of the Defence and Overseas Secretariat

FDe
FAXED - Via Pindar
23 May 2003

Sir Christopher,

Thank you for your letter of 14 May about the Prime Minister's visit and the possibility of the Prime Minister meeting President Hu Jintao in St Petersburg or Evian. I agree absolutely that we should try to get the two together before the Prime Minister's visit. As you will know by now, we are trying to arrange a meeting in Evian.

As ever,
DM

DAVID MANNING

Sir Christopher Hum KCMG

CONFIDENTIAL



British Embassy
Beijing

11 Guang Hua Lu
Jian Guo Men Wai
Beijing 100600
People's Republic of China

Telephone: (0086 10) 6532 1961
Facsimile: (0086 10) 6532 1937

From the Ambassador
Sir Christopher Hum, KCMG

14 May 2003

David Manning
10 Downing Street
LONDON

cc Jonathan B

*David Hum.
for explore the
possibilities,
Consulting FCO*

14/5

Dear David

I am glad we had a chance to discuss the proposed visit to China by the Prime Minister when I was back in London on 1 May. We are contributing to outline programmes, both for a full visit and, if necessary, a scaled-back SARS-affected version. I understand our ideas will be sent across to you shortly.

President Hu Jintao will be at the St Petersburg celebrations and at the G8 outreach event in Evian on 1 June. I believe that it would look odd if the Prime Minister did not take advantage of these events to set aside time for a brief exchange with Hu. I know that time will be tight but there is no need for more than a short conversation to set the scene for a more substantial renewal of their acquaintance during the Prime Minister's visit. We will of course be planning for a call by the Prime Minister on Hu and (if we play our cards right) a meal together. It would help if Hu had been warmed up in advance.

[SIGNED]

David

Christopher Hum

We have received several direct

approaches from desks/embassies asking about bilaterals at St Petersburg, Evian and the Progressive Government seminar. Liz & I have asked FCO for a consolidated list of attendees, and for advice. (But I think

China would be a good one!).

David + 15/4

*David: Thanks
We must reply
to this once we
know what
the best looks like*

aiming for Evian

15/5

CONFIDENTIAL



10 DOWNING STREET
LONDON SW1A 2AA

file
DCC filing

14 April 2003

THE PRIME MINISTER

Dear Margaret,

Thank you for your letter of 4 April about your recent visit to China with the Vice-Chancellors of Oxford, Warwick, Nottingham and Manchester Universities. I agree with you that the expansion in the Chinese university sector presents us with a huge opportunity, and I agree that we need to do all we can to ensure that Britain benefits fully from this.

I fully support the ambition to increase UK further education links with China. Your ideas for building up links between British and Chinese universities fit in with our objectives of making the UK the international study destination of choice for Chinese young people and China's partner of choice for science and technology. I hope that your and other Departments will discuss these ideas with other priorities in the China Education group as part of the overall UK strategy towards China. As you know I hope myself to visit China later this year, and will be looking for where we can deepen our engagement across the board.

Yours ever,
Tom

Mrs Margaret Hodge MBE MP

PERSONAL

ltd

From: David Hallam

Date: 11 April 2003

PRIME MINISTER

cc: Jonathan Powell

Sally Morgan

David Manning

Andrew Adonis

Liz Lloyd

LETTER FROM MARGARET HODGE: UK-CHINA EDUCATION LINKS

Margaret Hodge has written you a personal note following a visit to China with four UK Vice Chancellors. China is embarking on massive university expansion aimed at becoming the world leader in the knowledge economy. Margaret is worried the UK is not well placed to get involved and needs to invest now to help UK universities establish links for the future benefit of the UK economy. Her suggestions include a new programme of 1000 post-graduate scholarships a year; incentives for collaboration between top UK and Chinese universities; a fund for UK-Chinese research projects; and a professorial exchange programme.

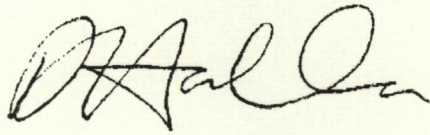
Her suggestions are in line with the objectives of the Government's China Strategy, which you endorsed last year. In fact, DFES are leading work on the education, training, science and technology part of the strategy. Other departments have an interest. FCO will be concerned that any new scholarships do not detract from their Chevening Scheme, of which China is the biggest programme. DFID have decided on poverty focus grounds to stop funding links between UK and Chinese universities, although is looking at other higher education partnerships. Margaret's worry is that, without these links and much more besides, the UK will lose out.

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The key issue will be funding and priorities. The cost of the scholarships alone would be around £15 million. The other ideas would be some millions more. The objective would be to benefit the UK, not China, so Clare would not want to pay. If FCO have any spare cash they would put it into Chevening, which fits their wider objectives. Will Charles Clarke or Patricia Hewitt be willing to put Margaret's suggestions above other priorities?

I suggest you write back supportively but without going into the specifics. A draft reply for your signature is attached.



DAVID HALLAM

I am v. keen on this. I want it taken forward + surely all Depts can contribute.

PERSONAL



Sanctuary Buildings Great Smith Street Westminster London SW1P 3BT
tel: 0870 0012345 dfes.ministers@dfes.gsi.gov.uk
Margaret Hodge MBE MP
Minister of State for Lifelong Learning, Further and Higher Education

PRIME MINISTER

I have been reflecting on my recent visit to China and am writing to set down some initial ideas. **China is investing 20% more year on year, concentrated in its elite universities.** They are bidding to become the world leader in the knowledge economy. **The UK must get involved. We do not have good enough links with Chinese academia and we are behind our competitors.** We have a chance to put this right which we should take now.

I suggest a number of new initiatives including:

- **A new programme of scholarships for top Chinese postgraduates.**
- **Incentive funding for our leading universities to collaborate with the top Chinese universities to deliver joint post-graduate programmes**
- **A ring-fenced Research fund solely for UK-Sino research projects**
- **An exchange programme for UK and Chinese professors.**

I hope that you will have the opportunity to consider these thoughts before your visit to China.

PERSONAL

Context

1. I led a delegation to China together with the Vice Chancellors of Oxford, Warwick, Nottingham and Manchester. We looked at a range of education provision and a number of UK-Sino education links.
2. The Chinese are increasing investment in higher education by 20% each year over the current five year planning period. They currently enjoy an 8-9% annual growth rate in the economy coupled with price deflation and there are plenty of assets which they can sell to maintain their public spending plans.
3. They are unashamedly concentrating their investment on creating a group of elite world class universities by 2011 and we visited a number of these. For instance Fudan University in Shanghai has a current asset base of approx. £115 million and an agreed investment programme of £92 million over the current planning period. With their huge population base and their unambiguous focus on the elite institutions, the investment is mind-boggling. This means that their new laboratories and equipment leave our Science investment programme (£500m by 2004/05) for all our universities looking pitifully meagre. The Chinese also want to double their student numbers by 2010, from a very low base of between 5-10%. Undergraduates contribute towards the cost of tuition with fees

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averaging \$600 p.a. against average annual disposable incomes in urban areas of \$700 p.a. They have introduced interest free loans; the federal government announced a cap on fees in 2000 and universities are expected to spend at least 10% of their fee income on scholarships for poorer students. Furthermore, with the one child per family policy, it is not uncommon to find the "4:2:1" phenomenon – four grandparents and thus two parents all focusing their efforts and financially supporting the one grandchild.

4. The Chinese are very keen for us to transfer knowledge to them, to help grow their university infrastructure. They want the international relationships to build their domestic capacity. They are happy for students to study abroad, but want them back. Indeed, they want to move away from sending students to the USA as two out of three currently remain long term in the States. During our visit, the Vice Chancellors were offered sites on the Chinese campuses by a number of universities. An Oxford or Nottingham University campus at Tsinghua or Jiatong is an attractive proposition because the Chinese students get the UK education but remain in China. The UK Vice Chancellors worry as to whether they can maintain the quality of their brand at a distance. They are also concerned that the Chinese will simply take over the campus as soon as they have established a strong local offer.

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The Prime Minister's Initiative

5. At present under the Prime Minister's Initiative, we are rapidly expanding the numbers coming to the UK for a period of study. Indeed there was a 71% increase in numbers in 2001/02 as compared to 2000/01 and this year we think we have over 25,000 new Chinese students coming to Britain. 50% follow business studies and ICT programmes. But I am worried as to how this programme is impacting on our longterm standing with China and that we are overselling the wrong thing. Too many Chinese students are going to the new universities where they take postgraduate courses. In 2001/02 the University of Central Lancashire took nearly 1000 Chinese students, with the University of Luton in second place, followed by Birmingham, Hull and Hertfordshire. I opened one of our education fairs at Shanghai. Only one Russell Group university had a stall there which is terribly disappointing as opening the doors to customers was like opening the doors on the first day of the Selfridges Sale!
6. Clearly there is a benefit to the modern universities from the income they earn. But many Chinese students do not know enough to differentiate between the quality of different UK universities. In terms of the long term relationship with Chinese decision makers, it is important that prospective students are clear as to what they will get from the university they choose to attend.

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7. At the very least, we must make sure that the information we are making available to UK students with the national student survey, the publication of examiners' reports and the NUS handbook should be freely available on-line in Mandarin to would-be Chinese students.

Current Sino links with top UK Universities

8. The UK Vice Chancellors who accompanied me are establishing links with Chinese universities. They recruit Chinese students and they are engaged in joint research activities. From their point of view, they will entertain activity which adds value to their own reputation and performance. They are suspicious of setting up campuses in China; even Colin Campbell who has recruited a Chinese Chancellor of Nottingham University and recognises the importance of China, is concerned at the risks involved.

9. However the UK as a whole is not engaged sufficiently with China.

At Fudan University the UK ranks 6th in terms of international

agreements, after the USA, Japan, Korea, Australia and France. Yet we have an excellent reputation for both research and teaching and, of course, we speak English. We are thought to give better support to our students and – at present – we are seen as a safer destination for Chinese students.

Future Action

PERSONAL

10. In my view we have a relatively short window of opportunity in China. In ten years time, with the levels of investment to which they are committed, the Chinese will boast the leading research universities, second only to the States. Academics and researchers will be attracted to China and they will have created the engine for growth in the global knowledge economy. It is in our economic interest to get a foothold in China. We must establish relationships and networks which will give us the opportunity to benefit from their investment in knowledge. If we do not, our leading universities will not be able to compete and that will impact on growth and prosperity. I think it is disastrous to do nothing.

11. Our interest is an economic one. The Chinese on the other hand want to build their own higher education capacity. The top UK universities want to maintain their brand. We need to find ways of bringing these different interests together. We must base this on the personal relationships and links which are particularly important ingredients in the Chinese culture.

12. I suggest the following:

- A programme of 1000 scholarships p.a. for top Chinese postgraduates to attend prestigious UK universities. The Americans and Australians currently offer scholarships; we offer patchy support and substantially higher fees for

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international students! Such a programme would enable us to establish links and relationships with top Chinese academics and political leaders which would have a long term benefit.

This must be separate from the Chevening Programme

which picks up people later in their careers and the

programme should be solely targeted at China.

- Incentive funding to enable our leading universities to work together to establish, on a consortia basis, joint taught postgraduate programmes delivered with prestigious Chinese universities. I talked to the four Vice Chancellors who would be interested in something like this. It spreads the risk and helps to create a wide range of links and relationships. It also helps maximise the effect of our investment and avoids duplication.
- A new fund for the Research Councils to specifically fund UK-Sino Research projects, again ruthlessly targeted at the elite in both countries. We do a little joint research, but we need to expand and intensify our activity.
- An exchange programme between UK and Chinese Professors.
- Strengthening of our commitment to the study of Chinese languages and contemporary Chinese society in the UK. This

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could be achieved through HEFCE funding of courses, and possibly with scholarships.

- We should look to some private-public sector partnerships to help fund this activity. BP and Shell clearly have an interest as do a number of major banks. Companies like B & Q are also becoming big players in China.

13.If we do not act, our international competitors will. Indeed they already are. I would strongly urge that you spend an hour at Fudan University when you visit China. You will then see what I am talking about.

14. There are four other issues I want to raise:

- The Chinese are also investing in and expanding their vocational education. I visited a vocational education institution. It is residential and was built in traditional Maoist style. The facilities are used from 6.00a.m. to 10.00p.m. The retention rate is 98%. And again fees are charged. Courses are devised to meet the skill needs in the local economy. I wonder whether we should think about residential FE colleges in the U.K.
- I gather that China is being used to trial our fingerprinting of visa applicants. Everybody is very worried about

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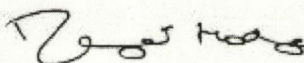
China being treated differently from other countries. All from the Ambassador down, fear that the Chinese would react very badly to being singled out to what would be seen as humiliating treatment. Do we really have to trial this in China? The proposal could be damaging to UK-Sino relations just when we are trying to strengthen them. I think there would be less resistance if we decided to implement this everywhere. It's using China to trial fingerprinting that is likely to cause particular problems.

- DFID are apparently considering stopping funding the UK Higher Education projects in China on the grounds that they could use the money elsewhere to better target poverty. This may be right but it would give completely the wrong message to the Chinese if you accept my argument that we should be strengthening the links to defend the long term UK interest. We should not do this.
- As part of the Think UK Campaign the British Council and Trade Partners UK are promoting an exhibition of contemporary British domestic architecture and design. Top UK designers have been commissioned to design rooms for some famous people (David Beckham, Kate Winslet, Sherlock Holmes and Brunel) and for people

PERSONAL

with particular needs (a visually impaired child and a semi-independent elderly relative.) The British Council want permission to design a room for you that expresses the best of British design. I said I would ask you.

16. I was incredibly impressed by what I saw in China and by the speed of change. I sincerely believe that if we do not invest appropriate resources now we will deeply regret that later. I think we have an opportunity to act by using the universities to establish vital links and relationships for the future benefit of the U.K. economy.



MARGARET HODGE

CC Charles Clarke
Baroness Morgan
Andrew Adonis
Michael Barber

04 April 2003

From: CHRIS CHALMERS
Tel: 7276 0134

~~DAVID HALLAM~~

9 April 2003

CHINA – MARGARET HODGE'S LETTER TO THE PRIME MINISTER

Margaret Hodge (DFES) wrote to the Prime Minister on 4 April 2003 describing her recent visit to China with the Vice Chancellors of Oxford, Warwick, Nottingham and Manchester Universities. She made a number of suggestions of ways in which the UK could increase its engagement and links with the Chinese on higher education. You asked for advice, particularly on whether her suggestions fit with the Whitehall China Strategy.

2. In the medium term, Departments have agreed an overall strategy for UK engagement with China that has four elements:

- Integrating China into the World Economy
- Drawing China into the World Community
- Promoting Reform
- Britain as Partner

3. Ms Hodge's specific suggestions fit within the last of these elements, and more immediately within two key objectives agreed by the Whitehall Group, which are to:

- Aim to make the UK the international study destination of choice for young Chinese, and international education partner of choice for the Ministry of Education in educational reform.
- Position the UK as China's partner of choice on Science and Technology. Promote UK as an active trade and investment partner.

4. Within these objectives, there are a number of activities already ongoing around Whitehall that appear to be closely related to Ms Hodge's suggestions – in particular, TPUK, the British Council, HEFCE, and DFES itself are working in this area.

5. At the most recent meeting of the Whitehall China Group, it was agreed that a sub-group should be set up to explore the synergies possible in education, training, science and technology. This group will be led by DFES.

6. I recommend that the Prime Minister's reply supports the general ambition to increase UK education links with China, but cautions that as new resources are unlikely to become available, there would clearly be an opportunity cost to these initiatives that should be considered carefully before any decisions are made. The Education Sub-group would be the best forum in which to hold these discussions.

CHRIS CHALMERS

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Foreign &
Commonwealth
Office

London SW1A 2AH

162383

9 April 2003

Dear David,

China: Margaret Hodges Letter to the Prime Minister

You asked for our views on Margaret Hodge's letter of 4 April on China.

We very much welcome the overall priority Mrs Hodge attaches to building up our links with China in the higher education area. This is consistent with our overall strategy of building up our engagement with China across the board, as agreed in the Whitehall China Strategy which was endorsed by the Prime Minister last year. We are making good progress. In the coming months we need to concentrate on building strong and lasting relationships with the new Chinese leadership: the Prime Minister's proposed visit in July will of course be central to this.

Education is a vital element of the overall strategy. We have already seen an enormous growth in the number of Chinese students studying in the UK. We and the British Council have been very heavily engaged in helping British education institutions develop their links and presence in China. But there is undoubtedly more that could be done (including as Mrs Hodge recognises in the field of Chinese studies in the UK). Mrs Hodge suggests a number of further initiatives in this area. A number of other Departments (including British Council and the Office of Science and Technology) are of course interested in the education sector in China. The best way of carrying forward the proposals might be for them to be considered by the Whitehall China Group which has been set up to carry forward the Whitehall China Strategy: the Group has recently formed an Education and Science sub committee.

Mrs Hodge proposes a major new scholarship programme for China. We need to consider this proposal in the context of our highly successful Chevening Scholarship programme to which a number of other Whitehall Departments contribute. It will be important that any new scheme did not detract from the effectiveness and prestige of the Chevening programme or the impact in China (China is our largest Chevening programme world-wide). We currently are awaiting news from other departments, including the DFES, on how much they will contribute to the Chevening programme in the coming

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period. It would be consistent with Mrs Hodge's assessment of China's importance to increase the DFES contribution to Chevening and we hope that the Prime Minister might be able to encourage the DFES to do so. no

On other issues raised by Mrs Hodge, there have been separate exchanges on the proposed pilot project for fingerprinting visa applicants in China: the Chinese have expressed their strong opposition to such a pilot. The next stage is expert level talks with the Chinese on the whole immigration agenda. But in the meantime other locations for the pilot fingerprinting project are being pursued.

Mrs Jowell also refers to the Think UK campaign in China – the major public diplomacy campaign we are running this year – which is to be launched in late April by Tessa Jowell. We would be happy to provide a more detailed advice on the question of a possible involvement by the Prime Minister in the design exhibition if this would be of interest. no

(Kara Owen)
Private Secretary

David Hallam Esq
10 Downing Street

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David Hallam

From: Vanessa Head [V-Head@dfid.gov.uk]
Sent: 10 April 2003 12:29
To: DHallam@No10.x.gsi.gov.uk
Subject: China: Higher Education and DFID's programme

David, please find our comments below. Please let me know if you need this as a letter.
Thanks, Vanessa

Summary

Margaret Hodges report to the Prime Minister following her recent visit to China expresses concern that DFID is planning to stop funding links between UK and Chinese universities. These form part of a global Higher Education Links Programme, which is currently being evaluated and reviewed. Our bilateral programme to China focuses on basic education.

Detail

DFID has a very strong commitment to poverty reduction in China, where we are increasing our bilateral support from £38 million in this financial year to £60 million in the next financial year. Education is an important part of our programme. DFID's focus is on universal basic education for boys and girls, ethnic minority children and children with special needs in the rural areas of central and western China. We are supporting China in its goal of universal access to compulsory quality basic education by 2010. In pursuing this, DFID is working closely with the Government of China, the World Bank, the United Nations Development Programme and UNICEF. It is important that we focus DFID's resources to ensure the maximum impact on the lives of poor people. Higher education in China is not currently a high priority for DFID support.

The Minister of State for Lifelong Learning, Further and Higher Education recently led a delegation to China, together with the Vice Chancellors of four UK universities. Her report to the Prime Minister urges the UK to become more involved with Chinese universities and suggests a number of new initiatives (eg scholarships programme, collaborative ventures between leading universities, UK-Sino research programme, professorial exchange programme). These initiatives seek to promote DfES' objectives and are not of course appropriate for DFID funding.

The report refers to DFID's programme. The Higher Education Links (HEL) Scheme, which promotes collaboration between universities in the UK and overseas. It has been operating with little change since 1981 and a recent review has concluded that it has a very limited impact on DFID's objectives. While possible future options for higher education partnerships are still under consideration the existing scheme will be phased out over the next three years.

If the DfES believes the current Scheme fulfils their goals, we would be happy for them to assume financial responsibility for the existing programme. If they are keen to maintain the China element only, we would have no problem in them taking this over.

Vanessa

Vanessa Head
Private Secretary

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Fax: +44 (0)20 7023 0634

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162383

9 April 2003

Foreign &
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Office

London SW1A 2AH



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(Kara Owen)
Private Secretary

David Hallam Esq
10 Downing Street

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→ DFH



Original ret'd to DFA

- per advice received 7/4/03.
me

Duty Alerts

Please copy to ~~FCO2DFD~~
for quick comments

by close on Wednesday
(9th).

D. Allan

7/4



Sanctuary Buildings Great Smith Street Westminster London SW1P 3BT
tel: 0870 0012345 dfes.ministers@dfes.gsi.gov.uk

Margaret Hodge MBE MP
Minister of State for Lifelong Learning, Further and Higher Education

PRIME MINISTER

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- I gather that China is being used to trial our fingerprinting of visa applicants. Everybody is very worried about

PERSONAL

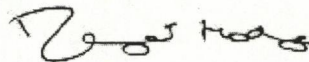
China being treated differently from other countries. All from the Ambassador down, fear that the Chinese would react very badly to being singled out to what would be seen as humiliating treatment. Do we really have to trial this in China? The proposal could be damaging to UK-Sino relations just when we are trying to strengthen them. I think there would be less resistance if we decided to implement this everywhere. It's using China to trial fingerprinting that is likely to cause particular problems.

- DFID are apparently considering stopping funding the UK Higher Education projects in China on the grounds that they could use the money elsewhere to better target poverty. This may be right but it would give completely the wrong message to the Chinese if you accept my argument that we should be strengthening the links to defend the long term UK interest. We should not do this.
- As part of the Think UK Campaign the British Council and Trade Partners UK are promoting an exhibition of contemporary British domestic architecture and design. Top UK designers have been commissioned to design rooms for some famous people (David Beckham, Kate Winslet, Sherlock Holmes and Brunel) and for people

PERSONAL

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MARGARET HODGE

CC Charles Clarke
Baroness Morgan
Andrew Adonis
Michael Barber

04 April 2003

8 April 2003



Foreign &
Commonwealth
Office

London SW1A 2AH

✓
DM
PP.

Dear David,

China: Proposed Visit by Tessa Jowell to Launch Think UK

You asked for advice on Ms Jowell's proposed visit to China at the end of April. The main purpose of this visit would be to launch Think UK, a major public diplomacy campaign. This was scheduled to be launched by the PM before his visit was postponed.

We consider that the launch of Think UK cannot wait because some events are already underway. We believe that Ms Jowell would be best placed to replace the PM because of the nature of her ministerial responsibilities. We intend to keep plans for this visit under constant review, in the light of the ongoing Severe Acute Respiratory Syndrome (SARS) epidemic.

Ms Jowell may be able to prepare the way for the PM's visit by progressing negotiations on the cultural centres agreement, which we hope will be ready for signature during the Prime Minister's proposed visit in July. As you know, an agreement would formalise the status of the British Council in China, allowing it to work out of its own premises (rather than the Embassy) and to consider expanding.

(Kara Owen)
Private Secretary

David Hallam Esq
10 Downing Street



Sanctuary Buildings Great Smith Street Westminster London SW1P 3BT
tel: 0870 0012345 dfes.ministers@dfes.gsi.gov.uk

Margaret Hodge MBE MP

Minister of State for Lifelong Learning and Higher Education

file

Vanessa

Sally - Andrew has a copy.
One copy for you, below.
Top for PM's box (given to Duty Clerk).

As discussed. Margaret would very
much appreciate it if this could go
into the PM's weekend box.

I also enclose copies for Sally, and
Andrew Adonis.

Many thanks for your
help.

Nicole Kett

PS / Margaret Hodge

GTN: 3060 6951.

department for

education and skills

creating opportunity, releasing potential, achieving excellence



INVESTOR IN PEOPLE



Sanctuary Buildings Great Smith Street Westminster London SW1P 3BT
tel: 0870 0012345 dfes.ministers@dfes.gsi.gov.uk

Margaret Hodge MBE MP

Minister of State for Lifelong Learning, Further and Higher Education

PRIME MINISTER

I have been reflecting on my recent visit to China and am writing to set down some initial ideas. China is investing 20% more year on year, concentrated in its elite universities. They are bidding to become the world leader in the knowledge economy. The UK must get involved. We do not have good enough links with Chinese academia and we are behind our competitors. We have a chance to put this right which we should take now.

I suggest a number of new initiatives including:

- **A new programme of scholarships for top Chinese postgraduates.**
- **Incentive funding for our leading universities to collaborate with the top Chinese universities to deliver joint post-graduate programmes**
- **A ring-fenced Research fund solely for UK-Sino research projects**
- **An exchange programme for UK and Chinese professors.**

I hope that you will have the opportunity to consider these thoughts before your visit to China.



Context

1. I led a delegation to China together with the Vice Chancellors of Oxford, Warwick, Nottingham and Manchester. We looked at a range of education provision and a number of UK-Sino education links.
2. The Chinese are increasing investment in higher education by 20% each year over the current five year planning period. They currently enjoy an 8-9% annual growth rate in the economy coupled with price deflation and there are plenty of assets which they can sell to maintain their public spending plans.
3. They are unashamedly concentrating their investment on creating a group of elite world class universities by 2011 and we visited a number of these. For instance Fudan University in Shanghai has a current asset base of approx. £115 million and an agreed investment programme of £92 million over the current planning period. With their huge population base and their unambiguous focus on the elite institutions, the investment is mind-boggling. This means that their new laboratories and equipment leave our Science investment programme (£500m by 2004/05) for all our universities looking pitifully meagre. The Chinese also want to double their student numbers by 2010, from a very low base of between 5-10%.
Undergraduates contribute towards the cost of tuition with fees

PERSONAL

averaging \$600 p.a. against average annual disposable incomes in urban areas of \$700 p.a. They have introduced interest free loans; the federal government announced a cap on fees in 2000 and universities are expected to spend at least 10% of their fee income on scholarships for poorer students. Furthermore, with the one child per family policy, it is not uncommon to find the "4:2:1" phenomenon – four grandparents and thus two parents all focusing their efforts and financially supporting the one grandchild.

4. The Chinese are very keen for us to transfer knowledge to them, to help grow their university infrastructure. They want the international relationships to build their domestic capacity. They are happy for students to study abroad, but want them back. Indeed, they want to move away from sending students to the USA as two out of three currently remain long term in the States. During our visit, the Vice Chancellors were offered sites on the Chinese campuses by a number of universities. An Oxford or Nottingham University campus at Tsinghua or Jiatong is an attractive proposition because the Chinese students get the UK education but remain in China. The UK Vice Chancellors worry as to whether they can maintain the quality of their brand at a distance. They are also concerned that the Chinese will simply take over the campus as soon as they have established a strong local offer.

The Prime Minister's Initiative

5. At present under the Prime Minister's Initiative, we are rapidly expanding the numbers coming to the UK for a period of study. Indeed there was a 71% increase in numbers in 2001/02 as compared to 2000/01 and this year we think we have over 25,000 new Chinese students coming to Britain. 50% follow business studies and ICT programmes. But I am worried as to how this programme is impacting on our longterm standing with China and that we are overselling the wrong thing. Too many Chinese students are going to the new universities where they take postgraduate courses. In 2001/02 the University of Central Lancashire took nearly 1000 Chinese students, with the University of Luton in second place, followed by Birmingham, Hull and Hertfordshire. I opened one of our education fairs at Shanghai. Only one Russell Group university had a stall there which is terribly disappointing as opening the doors to customers was like opening the doors on the first day of the Selfridges Sale!
6. Clearly there is a benefit to the modern universities from the income they earn. But many Chinese students do not know enough to differentiate between the quality of different UK universities. In terms of the long term relationship with Chinese decision makers, it is important that prospective students are clear as to what they will get from the university they choose to attend.

PERSONAL

7. At the very least, we must make sure that the information we are making available to UK students with the national student survey, the publication of examiners' reports and the NUS handbook should be freely available on-line in Mandarin to would-be Chinese students.

Current Sino links with top UK Universities

8. The UK Vice Chancellors who accompanied me are establishing links with Chinese universities. They recruit Chinese students and they are engaged in joint research activities. From their point of view, they will entertain activity which adds value to their own reputation and performance. They are suspicious of setting up campuses in China; even Colin Campbell who has recruited a Chinese Chancellor of Nottingham University and recognises the importance of China, is concerned at the risks involved.
9. However the UK as a whole is not engaged sufficiently with China. At Fudan University the UK ranks 6th in terms of international agreements, after the USA, Japan, Korea, Australia and France. Yet we have an excellent reputation for both research and teaching and, of course, we speak English. We are thought to give better support to our students and – at present – we are seen as a safer destination for Chinese students.

Future Action

PERSONAL

10. In my view we have a relatively short window of opportunity in China. In ten years time, with the levels of investment to which they are committed, the Chinese will boast the leading research universities, second only to the States. Academics and researchers will be attracted to China and they will have created the engine for growth in the global knowledge economy. It is in our economic interest to get a foothold in China. We must establish relationships and networks which will give us the opportunity to benefit from their investment in knowledge. If we do not, our leading universities will not be able to compete and that will impact on growth and prosperity. I think it is disastrous to do nothing.

11. Our interest is an economic one. The Chinese on the other hand want to build their own higher education capacity. The top UK universities want to maintain their brand. We need to find ways of bringing these different interests together. We must base this on the personal relationships and links which are particularly important ingredients in the Chinese culture.

12. I suggest the following:

- A programme of 1000 scholarships p.a. for top Chinese postgraduates to attend prestigious UK universities. The Americans and Australians currently offer scholarships; we offer patchy support and substantially higher fees for

PERSONAL

international students! Such a programme would enable us to establish links and relationships with top Chinese academics and political leaders which would have a long term benefit.

This must be separate from the Chevening Programme which picks up people later in their careers and the programme should be solely targeted at China.

- Incentive funding to enable our leading universities to work together to establish, on a consortia basis, joint taught postgraduate programmes delivered with prestigious Chinese universities. I talked to the four Vice Chancellors who would be interested in something like this. It spreads the risk and helps to create a wide range of links and relationships. It also helps maximise the effect of our investment and avoids duplication.
- A new fund for the Research Councils to specifically fund UK-Sino Research projects, again ruthlessly targeted at the elite in both countries. We do a little joint research, but we need to expand and intensify our activity.
- An exchange programme between UK and Chinese Professors.
- Strengthening of our commitment to the study of Chinese languages and contemporary Chinese society in the UK. This

PERSONAL

could be achieved through HEFCE funding of courses, and possibly with scholarships.

- We should look to some private-public sector partnerships to help fund this activity. BP and Shell clearly have an interest as do a number of major banks. Companies like B & Q are also becoming big players in China.

13.If we do not act, our international competitors will. Indeed they already are. I would strongly urge that you spend an hour at Fudan University when you visit China. You will then see what I am talking about.

14.There are four other issues I want to raise:

- The Chinese are also investing in and expanding their vocational education. I visited a vocational education institution. It is residential and was built in traditional Maoist style. The facilities are used from 6.00a.m. to 10.00p.m. The retention rate is 98%. And again fees are charged. Courses are devised to meet the skill needs in the local economy. I wonder whether we should think about residential FE colleges in the U.K.
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PERSONAL

China being treated differently from other countries. All from the Ambassador down, fear that the Chinese would react very badly to being singled out to what would be seen as humiliating treatment. Do we really have to trial this in China? The proposal could be damaging to UK-Sino relations just when we are trying to strengthen them. I think there would be less resistance if we decided to implement this everywhere. It's using China to trial fingerprinting that is likely to cause particular problems.

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PERSONAL

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MARGARET HODGE

CC Charles Clarke
Baroness Morgan
Andrew Adonis
Michael Barber

04 April 2003

FILE

David Hallam has decided that the PM should not sign these letters. FCO informed and clean drafts faxed to CHKD on 25 March - FCO to inform Embassies to issue unsigned texts.

Ann Marie
25 March

RESTRICTED



Foreign &
Commonwealth
Office

London SW1A 2AH

21 March 2003

*Excluded if you could
type up for PM signature.*
DA 21/3

Dear David,

*cc: DM
JP
Pram
(see to note)*

Postponement of the Prime Minister's visit to the Far East

Thank you for your letter of 18 March. As instructed we have informed the host governments verbally, both in capitals and through their Embassies in London.

You asked for advice on whether it is necessary to for the Prime Minister to send letters. We recommend that, in the case of Japan, the Prime Minister write to Prime Minister Koizumi, to explain why he has had to postpone. This is also an opportunity to thank Koizumi for his clear, and exceptional statement of support for military action in Iraq. A draft letter is enclosed.

In the case of China, we recommend that the Prime Minister write to President Hu Jintao and Premier Wen Jiabao. The Chinese have gone to great lengths to accommodate our wishes for the visit and they would expect a letter from the Prime Minister as a common courtesy. A letter would also emphasise to a leadership less than a week old that we are serious about our desire, as set out in the Whitehall China Strategy, to increase bilateral contacts at a senior level. I enclose draft letters.

In the case of Hong Kong, a letter to C H Tung would be a courtesy. Tung has already made efforts to accommodate our visit plans. I enclose a draft letter.

If, given the Prime Minister's travel plans, it would be difficult to get signed letters, perhaps the Prime Minister could consider sending messages.

Kara Owen
Ko

(Kara Owen)
Private Secretary

David Hallam Esq
10 Downing Street

RESTRICTED

RESTRICTED

Draft Letter from Prime Minister to HE Mr Junichiro Koizumi

HE Mr Junichiro Koizumi

I am sorry to have to tell you that I have had to postpone my visit to Japan, and to the Far East in April. I had very much been looking forward to seeing you then, but given the situation over Iraq, I am sure that you will understand. I very much hope that I will be able to visit ~~before the end of the summer~~, if it is convenient for you.

^{was} I am very grateful for the clear statement you made on 18 March about Japan's support for our decision to launch military action in Iraq, and also for your agreement on the legal authority for the use of force. I draw much encouragement from having our allies expressing such public and unequivocal solidarity.

and friends

TONY BLAIR
[Jonathan Walters
CHKD
020 7008 2953]

Our Embassy in Tokyo will pursue this with your officials.

in late July

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Draft Letter from Prime Minister to President Hu Jintao

~~Mr~~ Mr
HE President Hu Jintao
Zhongnanhai
Beijing
P.R. China

DR PREMIER Z HU
PRESIDENT

that had been planned for

I regret to inform you that, because of the current international situation, I have concluded that I must postpone my ~~planned visit~~^{visit} to China ~~in~~ⁱⁿ late April. I very much regret having to make this decision, as I was looking forward to the visit and to meeting you again, and to congratulating you in person on your new position.

I have warm memories of my last visit to China in 1998, and of your visit to the UK in November 2001. Our bilateral relations are excellent, and I ~~hope~~^{trust} to use my visit to build on this platform ~~to~~^{and} promote even closer contacts between our two countries. With this in mind, I should like to re-schedule my visit for late July if this is convenient. Our Embassy in Beijing will pursue this with your officials. X

TONY BLAIR
[Jonathan Walters
CHKD
020 7008 2953]

RESTRICTED

RESTRICTED

Draft Letter from Prime Minister to Premier Wen Jiabao

Mr
HE Premier Wen Jiabao
Zhongnanhai
Beijing
P.R. China

7 PREMIER WEN

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TONY BLAIR
[Jonathan Walters
CHKD
020 7008 2953]

RESTRICTED

RESTRICTED

Draft Letter from Prime Minister to Tung Chee Hwa

C H TUNG

The Hon ~~Tung Chee Hwa~~
Chief Executive
The Hong Kong Special Administrative Region Government
5/F East Wing
Central Government Offices
Lower Albert Road
Hong Kong

because of the international situation,

I am sorry to have to tell you that I have decided I must postpone my planned visit to the Far East, including Hong Kong, in April. This is a real regret for me. I was very much looking forward to seeing you again and to catching up on developments in Hong Kong. ~~But I have concluded that the situation over Iraq necessitates this postponement.~~ I was grateful to you for agreeing to the visit on the original dates. I hope to reschedule my visit as soon as possible, at a time convenient to both of us. Looking further ahead, I believe you are planning to visit London ~~yourself~~ in the autumn and very much hope there will be a chance for us to meet then.

TONY BLAIR
[Jonathan Walters
CHKD
020 7008 2953]

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10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

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The Honourable C H Tung



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

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I was very grateful for the clear statement you made on 18 March about Japan's support for our decision to launch military action in Iraq, and also for your agreement on the legal authority for the use of force. I draw much encouragement from having our allies and friends expressing such public and unequivocal solidarity.

His Excellency Mr Junichiro Koizumi



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

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His Excellency President Mr Hu Jintao



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

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His Excellency Mr Wen Jiabao

File
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in Dec 1/2/03



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

18 March 2003

Dear Kara

PRIME MINISTER'S VISIT TO EAST ASIA: POSTPONEMENT

Thank you for your letters of 12 and 14 March to Liz Lloyd. The Prime Minister has decided to postpone his visit to the Far East. I should be grateful if Embassies could inform host governments, making clear that the Prime Minister still intends to visit all three countries and proposing 26-31 July as alternative dates. I suggest telling the Embassies here in London in parallel. Please could you also advise the CBI so they can inform the China business delegation.

As we are proposing new dates in the near future I wonder if it is necessary for the Prime Minister to write to the Chinese leadership. Please advise if you think so.

The Prime Minister is grateful for the work that has been done so far on the visit. Clearly work on a revised programme will need to take account of the high temperatures and humidity in July.

I am copying this to Erica Zimmer (DTI) and to Anna Bewes (DFID).

Yours ever

David Hallam

Kara Owen
Foreign and Commonwealth Office

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LT

From: TOM DODD
Tel: 7276 0469

NO. 0102

~~DAVID HALLAM~~

17 March 2003

CHINA

This records the main points from yesterday's meeting of the China group.

Political and Economic Update

2. China is making sweeping changes to its leadership from Politbureau to more junior ministerial positions, but the thrust of current policy will continue. The new ministerial list is likely to be completed by April. The FCO will send a complete list to the Cabinet Office who will then circulate to the group for information. **Action FCO.** The Chinese economy continues to grow rapidly, with strong trade flows and a record level of foreign direct investment last year. But as China becomes more integrated into the world economy it becomes more vulnerable to external economic shocks. Rapid growth also hides structural problems such a weak banking sector and high levels of public debt.

Prime Minister's and Other Ministerial Visits

3. The Prime Minister's visit planned for April is increasingly likely to be postponed. Options to revive it later this year are being explored. The FCO tabled a list of objectives for the visit. These need to include DFID and DFES input. **Action DFID and DFES to liaise with FCO.** Some events timed for an April visit, such as Think UK, will have to go ahead regardless, others can be postponed. The heads of HEFCE and the British Council still plan to visit in April. The FCO is considering whether to send other dignitaries to launch some of the April events.

4. The likely postponement of the PM's visit and the need to influence the new leadership makes it more important for other ministers to visit China this year. Inward Chinese ministerial visits should also be encouraged. DFES already has visits by the new Chinese education ministers in hand. The FCO tabled a list of scheduled outward ministerial visits: -

- The Chancellor is unlikely to visit until 2004, if then. Given the growing importance of the Chinese economy, HMT should consider whether a Treasury minister could travel to China in 2003, perhaps the Chief Secretary who visited in 2002;
- the Foreign Secretary still plans to visit in July;
- the Development Secretary now plans to visit at the end of this year;

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- Margaret Hodge has just visited. Given the importance of education to our relationship, DFES should consider sending another minister later this year, if the Education Secretary is unavailable; and
- given the importance of immigration, the Home Office should consider whether Beverly Hughes could travel to China again in 2003.

Action Plan

5. We agreed that the Action Plan needed to be more forward-looking and demonstrate progress more clearly. One option would be to draw out progress made and cross-cutting themes in a short covering document. Two main points were made in discussion:

- Chevening Scholars. China has the largest programme. The Foreign Secretary has written to ministerial colleagues asking for their further financial support for the scheme; and
- illegal immigration This continues to be a problem, although Chinese asylum applications fell last year. Ninety-five percent were refused. The secondment of a Chinese police officer to the Immigration Service should help improve the rate of return of failed asylum seekers. A Home Office study showed 18 per cent of a sample of student visa applications to be fraudulent. A Home Office intelligence section has been established in BE Beijing to improve the profiling of visa applicants. The Home Office has been exploring the possibility of fingerprinting visa applicants. The scheme was to be trialled in China. It is now clear that the Chinese Government will not co-operate with it.

Future work

6. We agreed that three areas could benefit from closer inter-departmental working: immigration; education, science and technology; and the Chinese economy. Accordingly:

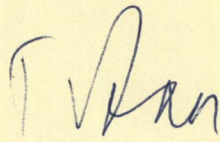
- the Home Office would lead a sub-group of DFES, HEFCE, TPUK, the British Council and FCO to discuss how to reduce the number of fraudulent student and business visa applications and how, using information held by education institutions, visa holders could be better tracked on entering the UK;
- DFES would lead a sub-group to explore the synergies possible in education, training, science and technology. This would include DTI and its agencies, MOD, DEFRA and DoH; and
- the Cabinet Office will be in touch with HMT to commission inter-departmental work on integrating China into the global economy.

7. The Foreign Secretary has indicated that he would like to chair a ministerial meeting on China in June, before his planned visit. The China strategy will need to be reviewed prior to the meeting. We will also need to demonstrate to ministers that progress has been made against it. The Cabinet Office will consider how this can best be done but papers on current and future joined up activities from the three sub-groups would form a useful part. The Cabinet Office will be in touch with departmental leads to

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discuss progress in due in course. In the meantime, further suggestions or amendments to the Action Plan should be sent to Anthea Dolman (7276 0407 or Anthea.dolman@cabinet-office.x.gsi.gov.uk)

8. I am copying this to Desmond Bowen, Christopher Hum (Beijing, by secure fax) and the Group.

A handwritten signature in blue ink, appearing to read 'Tom Dodd', is centered on the page.

TOM DODD

RESTRICTED

Be

CONFIDENTIAL



Foreign &
Commonwealth
Office

London SW1A 2AA

14 March 2003

David Walker

Dear Sir,

LL

*DM
JP
AC
JFH
KL
SICP
FM*

Prime Minister's Visit to East Asia: Possible Postponement

You asked for preliminary advice on whether 19-27 July might be a suitable period for a rescheduled visit by the Prime Minister to East Asia.

The dates would not be ideal for several country-specific reasons, which are outlined below, but there is no obvious reason why these dates would be problematic. In each country there would be the probability of hot and humid weather, which may mean we would need to rethink some of the original programme elements:

Japan

- The summer holiday period will begin to put a question mark over people's availability to turn out for events/meetings. But we could **probably** rely on people to change plans to be around for a Prime Ministerial visit. The doubts get stronger the later in July we leave it.
- 21 July is a public holiday.
- The Diet (Parliament) will almost certainly not be in session (hence no opportunity for a Diet speech, and thinning in the ranks of available parliamentarians).

Korea

- It remains the case that to visit Japan and China but not Korea would be badly received and would risk damaging our interests in Korea. As with the April visit, we would not **need** to envisage the PM spending more than a few hours in Korea. (Although it would be excellent and worthwhile if he could stretch to a day).
- There is a major celebration of the 50th anniversary of the Korean War Armistice on 27 July, which may be attended by the Australian and NZ Prime Ministers. A British commemorative event will be held on 26 July.

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China

- no major problems, apart from the weather, which can reach 40 degrees in high summer, and the possible absence of some key interlocutors on travel/leave

Hong Kong

- The Legislative Council goes into recess on 9 July. Some senior figures may already have started their summer break.
- July is the typhoon season

But none of these problems is insurmountable and host governments would probably welcome the fact the visit was not being postponed for too long. The timing would still allow relatively early contact with the new Chinese leadership and enable the Prime Minister to be involved in our two major public diplomacy campaigns: Innovation UK in Japan and Think UK in China. The sooner new dates could be passed to host governments the better chance we have of securing the key interlocutors (we will need to move especially fast for dates falling in the summer holiday period). We would welcome it if the new dates could be given in any letters which the Prime Minister might send (or telephone calls he might make) about the postponement. If this were possible, we would be happy to provide drafts.

(Kara Owen)
Private Secretary

Ms Liz Lloyd
10 Downing Street

CONFIDENTIAL

14 March 2003

file
David Hallan see others + 10
I have given the go ahead for Sunday. Liz.



Foreign & Commonwealth Office

London SW1A 2AH

LL

e: JB

DM

DFH

AC

Dear Liz

China: Messages of Congratulation

X
... The Chinese National People's Congress will announce the new Chinese State leadership on 16 March. We expect Premier Zhu Rongji to retire and be succeeded by current Vice-Premier Wen Jiabao. It is customary for the Prime Minister to send messages to the incoming and outgoing Premiers. I enclose draft messages, which we plan to forward to Sir Christopher Hum in Beijing to deliver once the announcements are made. The Prime Minister has met Zhu Rongji on a number of occasions and exchanged correspondence on a variety of issues. The Prime Minister has not met Wen Jiabao but will do so during his visit to China from 24-28 April.

The Deputy Prime Minister, who has visited China five times since 1997 and plans to do so again later this year, wishes to send his own congratulatory messages. We recommend he write to Wu Bangguo, the new Chairman of the National People's Congress (whom he has met). We also recommend he send short personal messages to the new and outgoing Premiers, with whom he has forged a close and warm working relationship. We would not expect the Chinese to consider it strange for messages to be sent from both the Prime Minister and the Deputy Prime Minister.

We have recommended in addition messages from HM The Queen to outgoing President Jiang Zemin and his likely successor, Vice-President Hu Jintao.

We shall submit a considered analysis of the leadership changes once the National People's Congress has ended on 18 March.

Kara Owen
Ked

(Kara Owen)
Private Secretary

Ms Liz Lloyd
10 Downing Street

DRAFT MESSAGES FROM THE PRIME MINISTER

To Zhu Rongji

I should like to send you my very best wishes on your retirement as Premier. You have served as Premier during a critical time for China and the international community and have shown great skill in handling the challenges of reform and development that face us all. You have made an enormous contribution to the development of a prosperous and successful China. I should like to thank you for your personal commitment to strengthening UK-China relations. You have been ready to listen to the concerns of British businesses investing in China and shown willingness to meet British delegations when they have visited China. I hope you have a happy and enjoyable retirement.

To Wen Jiabao

I should like to congratulate you on your appointment as Premier. You take on your new position at a time of great challenge to the international community. We greatly value the active role China is playing in international affairs. We also value highly the strong development in relations between Britain and China in recent years. I look forward to working with you on these issues in the years ahead.

Wle

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Foreign & Commonwealth Office

London SW1A 2AH

12 March 2003

+ cc SA
AU
EM

+ btm pls also

✓ c: DM
JP.
DRH
DCO
DIP/press

Dear Liz,

Prime Minister's Visit to East Asia: Possible Postponement

You asked for advice on whether postponing the Prime Minister's planned visit to East Asia would be manageable with respect to the host governments concerned. We have concluded that while there would be some downsides, particularly in relation to China and Japan, this should be manageable as long as: we are able to notify the governments concerned rapidly; and we can confirm that the visit is being postponed (to later this year) rather than cancelled. It would also help if the Prime Minister were willing to send personal messages to the key interlocutors. I give below more detailed considerations for each of the countries concerned.

Japan

There would be serious disappointment in Tokyo. But the Japanese have stayed close to us on Iraq and would be understanding, if that was the reason the visit had to be postponed. Postponement would seriously diminish the public impact of our launch of "Innovation UK", a major campaign showcasing Britain's strengths in science and technology. It would help reduce the damage if the Prime Minister could agree to a personal or video message for the launch. We would also miss the opportunity for some timely top-level lobbying on substantial defence sales prospects and on environmental issues.

In limiting the damage to our interests it would be important:

- for the Prime Minister to be in personal contact with Koizumi to explain the background
- to give a strong commitment to fit a visit in later during the year
- to make clear that the whole trip, not just the Japan leg, had had to be shelved.

There is an argument for making a decision sooner rather than later. Prolonging the uncertainty over the visit may increase the depth of disappointment/irritation in Japan if the postponement comes at short notice. If we believe there remains a realistic chance the Prime Minister may still be able to go, we can and should sustain the preparations. But if we think the prospects are already poor, we will limit damage if we postpone now.

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Korea

We have yet to put a formal proposal to the Koreans. But they were aware of the possibility of a Prime Ministerial visit, and of its likely timing, and would be disappointed to learn that it was ruled out. Their expectations have been raised, and we have had several strong signals from the new President of his admiration for Mr Blair and his hope that they might soon meet. It would be useful if we could give some commitment to a Prime Ministerial visit to Seoul in the near future.

There would be a much greater risk to our interests and impact in Seoul if it were clear that other legs of the Asian visit were going ahead, but that Seoul had been missed out. The same point will apply in to any plans to reinstate the East Asia visit in the future.

China

There would be major downsides to postponement. First among these would be losing the initial early contact with the new Chinese leadership (as far as we know Raffarin is continuing his own plans to visit at around that time). We would also lose an opportunity to discuss with the Chinese at the highest level how to handle Iraq; how to repair the current damage to the Security Council; and the looming dangers from North Korea. The Chinese would be disappointed: President Jiang has said directly to the Prime Minister how welcome he would be.

Despite these downsides postponement should not present an overwhelming difficulty provided we were able to tell the Chinese about it very soon: in practical as well as political terms an early decision to postpone would be far preferable to a rising level of uncertainty between now and the visit itself. It will also be important to make clear that we are proposing postponement rather than cancellation and we recommend that the visit should be re-instated at an early date. We will need to engage the Chinese on post-Iraq reconstruction and on Security Council cooperation. It will also help presentation of this with the new Chinese leadership if the Prime Minister could send personal messages to the key figures expressing his genuine regret at postponement. The new Chinese President (Hu Jintao, whom the Prime Minister met in 2001) and Premier are to be announced within the next few days. It would also be right to send a message to current President Jiang Zemin: although he will have stood down from the Presidency by then he remains a key figure in the Chinese leadership and one whom the Prime Minister would probably have met. I attach draft messages accordingly. We recommend that these should be dispatched early next week. We are advising separately on congratulatory messages from the Prime Minister to the new leadership.

We had as you know planned to use the Prime Ministers visit to launch our Think UK Campaign - our biggest ever public diplomacy campaign, which is central to our strategy of increasing our engagement with China across the board. The

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planning for the campaign is now well advanced with a major programme of events in place and with substantial commercial sponsorship secured. If the visit is postponed we will need to consider urgently whether another Minister might be able to undertake the launch: but hope very much that the Prime Minister will be able to be associated with Think UK at some point during a visit later in the year. If the visit is postponed we will also need to stand down the proposed business delegation; and probably the UK/China Forum which had been timed to coincide with the visit.

Hong Kong

Again while there would be disappointment, C H Tung and the SAR Government are likely to fully understand the reasons for the decision. As with China it will be important to talk of postponement rather than cancellation. And a personal message from the Prime Minister to C H Tung, who has been taking a very close personal interest in the visit, would be welcome. A draft is attached.

I am copying this letter to David Prout (Deputy Prime Minister's Office) and Erica Zimmer (DTI).

A handwritten signature in blue ink, appearing to read 'Kara Owen'.

A handwritten signature in blue ink, appearing to read 'Kara Owen'.

(Kara Owen)
Private Secretary

Ms Liz Lloyd
10 Downing Street

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Did the PM write in
the last draft?
As we are giving dates
do we need to write

Draft Letter from Prime Minister to President Hu Jintao

HE President Hu Jintao
Zhongnanhai
Beijing
P.R. China

I regret to inform you that, because of the current international situation, I must postpone my planned trip to China in late April. I very much regret having to make this decision, as I was looking forward to the visit and to meeting you again, and to congratulate you in person on your new position. I have warm memories of my last visit to China in 1998, and of your visit to the UK in November 2001. Our bilateral relations are excellent, and I hope to use my visit to build on this platform to promote even closer contacts between our two countries. With this in mind, I hope that I can re-schedule the visit at an early opportunity.

TONY BLAIR
[Andrew Seaton
CHKD
020 700 2648]

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Draft Letter from Prime Minister to Jiang Zemin

HE Jiang Zemin
Zhongnanhai
Beijing
P.R. China

I regret to inform you that, because of the current international situation, I must postpone my planned trip to China in late April. I very much regret having to make this decision, as I was looking forward to the visit and to meeting you again. I have warm memories of my last visit to China in 1998, and of your State Visit to the UK in 1999. I also wanted to express my personal thanks to you for your part in promoting our excellent bilateral relations. I hope to use my visit to build on this platform to promote even closer contacts between our two countries. With this in mind, I hope that I can re-schedule the visit at an early opportunity.

TONY BLAIR
*[Andrew Seaton
CHKD
020 700 2648]*

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Draft Letter from Prime Minister to Premier Wen Jiabao

HE Premier Wen Jiabao
Zhongnanhai
Beijing
P.R. China

I regret to inform you that, because of the current international situation, I must postpone my planned trip to China in late April. I very much regret having to make this decision, as I was looking forward to the visit and to meeting you, and to congratulate you, in person, on your new position. I have warm memories of my last visit to China in 1998, and of your visit to the UK in 2000. Our bilateral relations are excellent, and I hope to use my visit to build on this platform to promote even closer contacts between our two countries. With this in mind, I hope that I can re-schedule the visit at an early opportunity.

TONY BLAIR
[Andrew Seaton
CHKD
020 700 2648]

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Draft Letter from Prime Minister to Tung Chee Hwa

The Hon Tung Chee Hwa
Chief Executive
The Hong Kong Special Administrative Region Government
5/F East Wing
Central Government Offices
Lower Albert Road
Hong Kong

I am sorry to have to tell you that I have decided I must postpone my planned visit to the Far East, including Hong Kong in April. This is a real regret for me: I was very much looking forward to seeing you again and to catching up on developments in Hong Kong. But I have concluded that the situation over Iraq necessitates this postponement. I was grateful to you for agreeing to the visit on the original dates. We will be in touch with you separately about new possible dates. I look forward to seeing you at some point later in the year.

TONY BLAIR
[Andrew Seaton
CHKD
020 700 2648]

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4 March 2003

file



Foreign &
Commonwealth
Office

London SW1A 2AH

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KL/SKP

Dear David,

Trip to China and Japan: Business Delegation

The Prime Minister wrote to Sir John Egan, President of the CBI on 3 December 2002 inviting him and Lord Powell, President of the China Britain Business Council to put together a small high-powered business group to accompany the Prime Minister on his visit to China in April this year. They have put together the list at annex A.

We also recommend an accompanying business group to Japan. The list at annex B has been put together by the Embassy in Tokyo and cleared with the CBI. Some of the business group will travel on from Japan to China where they will join the rest of the China business group. Baroness Symons is expected to lead the business group to Japan and China.

I also enclose three draft letters of invitation (annex C) - one for Japan Group, one for China and one for those travelling to Japan and China - and titles and addresses for letters of invitation (annex D).

China Group

There are 18 companies on the priority list covering a wide section of our key sectoral interests in China. This is more than Number 10 have indicated they wish to take part but we do not expect all of those invited to accept. Should the number of acceptances fall below 12 we recommend further invitations issue from the reserve list.

The China list is strong on financial services representatives but other major sectoral interests in China (oil and gas, telecoms, manufacturing, retail, automotive and marine) are also represented. The strong representation from the financial services sector (three banks and four insurers) reflects particular potential in the market following WTO accession. Sir Patrick Gillam of Standard Chartered is also Chairman of RSA and could be asked to represent both companies interests in order to reduce the financial services contingent.

The Football Association (FA) have lobbied the Foreign and Commonwealth Office for inclusion. The FA are organising a management workshop with football clubs and administrators as part of the ThinkUK campaign and there is an argument



that their inclusion would represent the interests of a number of football clubs which have China interests. On balance, however, the Manchester United brand has much wider currency than the FA and should remain on the priority list.

Japan Group

There are 20 names on the priority list for Japan. Again, we do not expect all those invited to accept. If numbers fall below 12 then invitations can be sent to those on the reserve list or to companies who have since signed up as Innovation UK sponsors. We would also like to invite Sir Peter Williams, Chairman of the Japan Business Network and also of the Engineering and Technology Board, to join the business party.

The Japan list represents companies with significant commercial interests across a range of sectors. They cover large blue chips with a long record in the market and some newer entrants that represent UK's high tech, high quality products and services that are having success in the Japanese market. The business party is biased towards sponsors and potential sponsors of Innovation UK: almost all the companies on the list have either signed up or are considering sponsorship. All the companies listed reflect the campaign themes and values of Innovation UK.

The CBI and Trade Partners UK will follow up the letters once they have issued with more practical issues and to begin the process of managing the business delegation's expectations.

(Kara Owen)
Private Secretary

David Hallam Esq
10 Downing Street

ANNEX A
CHINA LIST

Company	Invitee	Notes
CBI	Digby Jones	
China Britain Business Council	Lord Powell	
Shell	Sir Philip Watts	Second largest foreign investor in China
BP	Lord Browne	Largest foreign investor in China
Aviva	Richard Harvey	Recently obtained licence to operate joint venture in China
Vodafone	Sir Christopher Gent	Fifth largest foreign investor in China
HSBC	Sir John Bond	Largest UK banking operation in China
Standard Chartered Bank	Sir Patrick Gillam	Major banking operation
Unilever	Niall FitzGerald	Major operation in China
P&O	Lord Sterling	Completed deal for USD 600m contract for next phase of Qingdao port
GlaxoSmithKline	Sir Christopher Hogg	Major pharmaceutical operation.
MG Rover	Kevin Howe	Progressing plans for automotive joint venture
Rolls Royce	Sir John Rose	Interests in East-West natural gas pipeline and Trent engines for Airbus A340 and A380 sales to China Southern
B&Q (ThinkUK sponsor)	Bill Whiting	5 stores in China with plans to expand to 60+ over next 7 years
Manchester United	Sir Roy Gardner	Massive brand penetration in China
Standard Life	John Trott	Recently obtained licence to operate joint venture
Prudential	Jonathan Bloomer	JV operation in Guangzhou for over a year. Planning to open second office in Beijing during visit.
Royal Sun Alliance	Bob Gunn	First UK insurer in China with office in Shanghai since 1998
Barclays Capital	Sir David Wright (Vice President CBBC)	Very active in treasury bond market. Participated in recent T-bond issue
Lloyds of London	Lord Levene	Possibility of securing operating licence during visit. Lord Leven visited as Lord Mayor in April 1999

Thames Water (ThinkUK sponsor)	Bill Alexander	Major operation in China
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RESERVE LIST

BAE Systems	Mike Turner	Active programme
Severn Water	David Arculus	Actively seeking water joint ventures and environmental projects
BOC	Tony Isaac	Active programme
Willis	Joe Plumeri	Seeking insurance brokerage licence in Beijing
Royal Bank of Scotland	Sir George Matthewson	Representative office in Beijing but planning to set up branch office in Shanghai

ANNEX B

JAPAN LIST

Company	Invitee	Notes
CBI	Digby Jones	
Engineering Technology Board	Sir Peter Williams	Also Chairman of the Japan Business Network
*Johnson Matthey	Chris Clark	Major supplier of auto catalysts and technology to Japan (Innovation UK Sponsor)
*Oxford Instruments	Andrew Macintosh	Medical, analytical equipment and sophisticated magnets (Innovation UK Sponsor)
*HSBC	<i>Sir John Bond</i>	Large presence in Japan (Innovation UK Sponsor)
BNFL	Hugh Collum	Hope to sell MOX fuel to utilities (hundreds of jobs in UK depend entirely on this). Sales partly depend on BNFL being seen as a trustworthy business partner with support of HMG
<i>Vodafone</i>	<i>Sir Christopher Gent</i>	Largest foreign investor in Japan
Cable and Wireless	Richard Laphorne	Japan is only part of C&W meeting its financial targets
*Rolls Royce	<i>Sir John Rose</i>	Chasing new business worth £5.5bn (small Innovation UK supporter)
Celoxica	Phil Bishop	Design and supply sophisticated electronic design automation tools. Opened office in British Industry Centre in 2001 (itself opened by PM in 1998)
Ove Arup	Michael Shears	Most successful UK architect design office in Japan. Involved in Kansai and Chubu airports and skyscrapers in Tokyo. Pitching for Kitakyushu Airport
*Virgin Group	Sir Richard Branson	Retailing and cineplexes throughout Japan. Daily flights by Virgin Atlantic (Innovation UK supporter)
Airbus	Tom Williams	4 active campaigns. Between now and 2023 hope to sell 220 aircraft
*GKN Westland	Kevin Smith	Seeking new business of £2bn (small Innovation UK supporter)
*BAE Systems	Mike Turner	Significant business in Japan (small Innovation UK supporter)
*Jaguar	Micheal Beasley	Only major UK automotive company in Japan, sold 5,000 cars in 2002

<i>GlaxoSmithKline</i>	<i>Sir Christopher Hogg</i>	3,000 employees in Japan, keen to improve collaboration with Japanese pharma companies
<i>BP</i>	<i>Lord Browne</i>	Significant LNG trade with Japan
<i>Shell</i>	<i>Sir Philip Watts</i>	Large presence in Japan. 55% stake in Sakhalin project (its largest worldwide)
<i>AstraZeneca</i>	<i>Sir Tom McKillop</i>	2,400 employees in Japan
<i>BA</i>	<i>Lord Marshall</i>	Flights between London and Tokyo twice daily
<i>Dyson</i>	<i>James Dyson</i>	Set up in Japan 1998, turnover £4.5m in 2002

RESERVE LIST

<i>AMEC</i>	<i>Sir Peter Mason</i>	Vitrification technology and consultancy for land clean up. Active on infrastructure projects with Japanese partners in the developing world.
<i>Bovis Lend Lease</i>	<i>Greg Clarke</i>	Set up in Japan in 1998, first non-Japanese firm to win a public works contract. Project management services for building projects for private clients
<i>BOC</i>	<i>Tony Isaac</i>	Long experience of Japan. Active in gases etc, healthcare, vacuum technology and supply chain solutions.
<i>Datamonitor</i>	<i>Mike Danson</i>	Opened Tokyo office in 2002 to expand healthcare business targeting Japanese pharma companies.
<i>Cambridge Display Technologies</i>	<i>David Fyfe</i>	Flat panel display technology, lighting and photovoltaics. Japanese partners include Toppan Printing and Seiko-Epson
<i>BT</i>	<i>Sir Christopher Bland</i>	Retain a small operation in Japan

* Confirmed Innovation UK sponsor/supporter

Italics denote that company is on China and Japan list

ANNEX C

CHINA LETTER

I am writing to ask you to join me on a visit to China on 24-26 April as part of a wider Far East trip. I will be joined by Baroness Symons, Minister for International Trade and Investment, Digby Jones, Director General of the Confederation of British Industry and Lord Powell of Bayswater, President of the China Britain Business Council.

The visit will provide a timely opportunity for the UK to establish relations with the new Chinese leadership, which should be fully in place following the National People's congress in March. It also marks the launch by the UK Government of a high-profile campaign called "Think UK" whose objective is to showcase the very best of British business, design, science and technology, creativity and culture.

I am keen to ensure there is a strong commercial element to my programme, precise details of which are being finalised. I do hope that you will be able to participate in the business group and in this important visit. The CBI will be in touch with details of the programme and travel arrangements shortly.

JAPAN LETTER

I am writing to ask you to join me on a visit to Japan on the week of 21 April, as part of a wider Far East tour. I will be joined by Baroness Symons, Minister for International Trade and Investment and Digby Jones, Director General of the Confederation of British Industry.

In my talks with Prime Minister Koizumi and the Japanese Government, I want to demonstrate the strength of British trade and investment links with Japan, to which your company has made a considerable contribution. I am looking forward to launching the Innovation UK campaign that aims to highlight the UK's record in scientific excellence and technological innovation. I hope that sponsor companies will join me at the launch event. There will also be a lunch reception with Japanese business and government contacts and a Round Table event led by Baroness Symons.

Gillian Baker at Trade Partners UK will contact you shortly with further details of the programme and travel arrangements.

CHINA AND JAPAN LETTER

I am writing to ask you to join me on a visit to Japan and China on the week of 21 April as part of a wider Far East trip.

I will be joined by Baroness Symons, Minister for International Trade and Investment and Digby Jones, Director General of the Confederation of British Industry.

In my talks with Prime Minister Koizumi and the Japanese Government, I want to demonstrate the strength of British trade and investment links with Japan, to which your company has made a considerable contribution. I am also looking forward to launching the Innovation UK campaign, which aims to highlight the UK's record in scientific excellence and technological innovation. I hope that sponsor companies will join me at the launch event. There will also be a lunch reception with Japanese business and government leaders and a Round Table event led by Baroness Symons.

The visit to China will provide a timely opportunity for the UK to establish relations with the new leadership which should be fully in place following the National People's congress in March. It also marks the launch by the UK Government of a high-profile campaign called "Think UK" whose objective is to showcase the very best of British business, design, science and technology, creativity and culture.

I am keen to ensure there is a strong commercial element to both my programmes. Precise details are being finalised. I attach importance to having a strong business group both in Tokyo and Beijing, and I very much hope that you will be able to participate in this important visit.

The CBI will be in touch with details of the programme and travel arrangements shortly.

Fourth Floor
Berkeley Square House
Berkeley Square
London W1J 6BL
Tel 020 7543 1577
Fax 020 7543 1578

From: LORD POWELL of BAYSWATER KCMG

PERSONAL

28 February 2003

By fax

Sir David Manning KCMG
No.10 Downing Street

cc: Jonathan Powell

Dear David,

China

I can well understand that China is not exactly top of your priorities at the moment. But you may recall that you have indicated in your letter of 12 December last year that it would make a lot of sense for the Prime Minister to follow up his visit to China by making a short introductory speech at the China-Britain Business Council's Conference on Business with China on 13 May. You said you would try to get the Conference into the diary. It will be an opportunity for him to give impressions of his visit and meetings with the new government of China shortly after his return. The Conference will be at the QEII Centre so only moments from No.10 and not too much of a displacement for him. The Prime Minister spoke at the similar Conference following his China visit in 1998.

We need to go out to start marketing the Conference in the near future. While I am not asking for a commitment from the PM, which I know is impracticable at this juncture, can we have permission to say: "The Prime Minister has agreed in principle to speak"? We would not indicate the location of the Conference at this stage, for security reasons.

This would be a tremendous help in boosting attendance at the Conference and thus promoting business with China, and I hope you will feel able to agree.

Yours ever
Charles

00442076299035



File



Foreign &
Commonwealth Office
King Charles Street
London SW1A 2AH

Telephone (020) 7008 3407
Facsimile (020) 7008 3510

DFH
CP
DM

20 February 2003

Mr David Hallam
10 Downing Street
London
SW1A 2AA

Dear David,

PRIME MINISTER'S VISIT TO CHINA

1. I see that you were recently talking to Bill Rammell and David Whineray about the Prime Minister's visit to China. You may be interested in the attached note which I sent to Jack Straw following my own recent visit there. It looks at a number of strategic questions in our relationship with China and may contain some ideas for you to build on.
2. I know that there has been some discussion about whether the Prime Minister should visit Shanghai again. I must say that I think that, although this is not particularly imaginative, it is desirable given the great economic dynamism of Shanghai. But equally, there are other parts of China which are going to be increasingly important to us on wide agenda of foreign policy issues in the years ahead, including asylum, international crime, the environment, urbanisation and competition for resources.



3. If it would be helpful to you, I and Peter Wilson, who is on my staff and used to work in Beijing, would be happy to talk further about this.

*Yours,
Simon.*

Simon Fraser
Director for Strategy and Innovation

020 7008 3407

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From: Simon Fraser

Date: 31 January 2003

Ref:

cc: Michael Jay
FCO Board members
PS/Mr Rammell
Sir Christopher Hum
Sir Nigel Sheinwald
Sir Jeremy Greenstock
Sir David Manning
Sir Stephen Wall
Michael Williams
Ed Owen
Ros Marsden
Andrew Seaton
Tony Brenton
David Richmond
Paul Sizeland
Carma Elliot

Secretary of State

CHINA: ITS PLACE IN OUR STRATEGIC THINKING

1. I visited China from 21-24 January, for talks with the Director General for planning in the Foreign Ministry, and for a reality check in Shanghai and Chongqing. China is key to achieving most of our strategic priorities: in the P5; in the fight against proliferation and terrorism; as a net oil importer which will be a major energy consumer this century; as one of only two major players in East Asia, and the only one on the rise; as home to more than 200 million people below the poverty line, despite being the fastest growing major economy in the world. A clear appreciation of how willing they are to engage is therefore essential. Here are my thoughts after the trip.

China matters for our strategic priorities, and is now keen to engage

2. The Chinese do seem to have recognised that pro-active engagement with the international community is essential. The Foreign Ministry said clearly that their old policy of keeping their heads down would no longer work. WTO entry meant

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that international rules were already starting to affect China. UN action on terrorism had presented them with an opportunity to mend fences with the US (and step up the fight against militant separatists in Xinjiang). Reticence in the region had been replaced by a desire to promote regional co-operation, and engage with their neighbours.

3. But they are not yet sure how to engage. Their 'New Security Concept' is woolly, not that new, and still seems to mean no more than dialogue with their neighbours and a plea for equal treatment. They do not have concrete ideas about how to 'democratise' (their language) international institutions. They may be ready to develop a political role for the G20, but they do not want to join the G8 and lose their developing country status (their economy is now larger than Italy's). For all their talk of multilateralism, on North Korea they still expect the US to sort it out bilaterally and will not put real pressure on the North Koreans. Their ideas for regional co-operation remain highly optimistic and their distrust of Japan makes concrete co-operation with East Asia's only other major player a distant prospect.

4. Economic growth is driving China's desire to engage. Growth rates remain above 7 per cent – even if the figures are not accurate, there is plenty of evidence of very rapid growth. No one I talked to expected this to slow significantly in the next ten years, although bankers expected further growth to require significant financial sector reform and far greater transparency. If China liberalises its capital market within the next ten years (a realistic prospect) they will be exposed to international markets more completely than through WTO entry. The main concerns were about the social impact of uneven growth, widening income disparities and poor job creation.

If we are to engage effectively, we need to understand what the Chinese want

5. US dominance worries the Chinese. This is their key bilateral relationship. Although US/ China relations have improved greatly since September 11, the Chinese remain concerned that they could again be perceived as a strategic threat. Taiwan remains contentious. They keep harping on about US unilateralism. I said I hoped they would remember their present attachment to multilateral institutions when they become more powerful in the future. We should not be naïve about Chinese multilateralism: it suits them now, but it may not later on – all the more reason to lock them in while we have the chance.

6. European integration is popular in China as a balance to US dominance. They want the euro to work for similar reasons: they do not want the value of their considerable foreign exchange reserves to be dependent on the strength of the dollar. But they still perceived the British as being reluctant Europeans, too

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close to the US and at odds with France and Germany on key EU issues. A public diplomacy challenge here.

7. I got a different, and more narrowly focussed, picture in Shanghai. There, the Chinese enjoyed intra-European commercial rivalry. The fact that we saw our main competitors as German and French enabled the Chinese to play us all off against each other. And yet Shanghai is the home of the very successful China/Europe Business School, funded by the Commission. Those I met made a point of saying that Schroeder has visited Shanghai almost every year. I hope the Prime Minister goes back there this April.

8. Education is a huge priority. Young Chinese in their 20s have real choices and a sense of opportunities that their parents or grandparents can hardly comprehend – if they are well educated. And a foreign education is now seen as valuable not just for those who want to work with foreign companies, but for the media or government officials too. I was astonished by the level of English. For linguistic reasons, we are far more popular as a higher education destination than any other European country. Three out of eight Vice Mayors in Shanghai had sent their children to be educated in the UK. The new Politburo contains a Chevening scholar, for the first time – from Shanghai. And educational exchange is happening both ways – 80 secondary schools in the UK now use mainland Chinese teachers to offer courses in Mandarin. We will need these skills.

9. Visas make a difference. Restrictive US visa policies have allowed us to overtake them as the most popular destination for higher education in Southern China. More responsive UK visa policies and a far quicker service have transformed our relationships in Shanghai not just with the Chinese but with UK business in China too. Our new consulate in Chongqing wants to open a visa operation. We should do it now. And we should think carefully about the downside of introducing new fingerprinting procedures unilaterally with the Chinese, when we are not yet doing so anywhere else in the world.

10. Old stereotypes persist. I was struck by out of date perceptions of the UK (the fog and red buses syndrome). This affects the decisions of political and business leaders. We are not helped by the perception that we are not wholehearted partners in Europe. We would surprise the Chinese if we did a bit more with our partners, both politically and commercially. We also have some powerful cultural weapons to change perceptions – for example British football, which enjoys huge popularity across China helped by Beckham and the recruitment of three Chinese players to premier league teams in the UK.

11. China is not likely to develop along the lines of a Western democracy, but needs some of its key components if it is to keep growing. All those we talked to remained sensitive about interference in their 'internal affairs', however freethinking they were personally. But they recognise the need to build the rule

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of law, to separate the party from the state, to reduce corruption, and to incorporate new forces (most recently entrepreneurs) into the fold of the Party. This will not lead in the short term to a multiparty state. But it will probably require greater pluralism and tolerance of alternative points of view within the system. The Party may be all pervasive in the background, but I did not sense that it had much practical relevance to most people and they were more open in political discussion than I had expected.

China's place in our strategic priorities

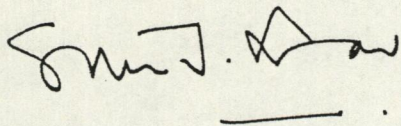
12. We have to be hard-headed about how the Chinese are going to behave and not take the rhetoric at face value. But we need to continue to step up engagement with them across the board, in particular on WMD, crime, trade rules, environmental protection, energy security and international law. Internal reform in China is also essential if we are to achieve our goals of creating a more just international society: this requires sustained commitment on our part. We have powerful instruments to deploy to build a relationship in the medium term, eg:

- Our P5 status in the UN. China has begun to play a slightly more constructive role on the Security Council. They are beginning to search for a new role.
- Our relationship with the US. The US knows more about China, and has more leverage with China, than all other Western powers put together. We need to work with them closely: our sinologists may be as valuable to us in Washington as in Beijing.
- Our investment in China. We invest more than any other European country (but mostly through a handful of big multinationals, such as BP).
- Europe: we need to make sure we play the EU card positively and develop the collective EU/China bilateral relationship in a strategic way.
- Education. Our largest Chevening programme in the world is in China (200 scholarships across the country). It really brings influence. The British Council is now doing extensive work in primary education;
- A network of four posts, as well as our largest Consulate General in Hong Kong. Chongqing shows what can be done relatively cheaply with enthusiastic leadership, co-location with an effective British Council operation, and good local staff. My feeling is that we should back these posts up, before we create new ones;

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- Mandarin language training for our diplomats. We have more speakers than any other European mission. We need them, and need to do more to ensure that Mandarin speakers elsewhere in Whitehall compete for these opportunities (our new Consul General in Shanghai will be a Mandarin speaker from the DTI, from April);
- High level attention. Your visit last July, Mr Rammell's recent visit, and the Prime Minister's visit in April, are important. This is a society that still takes its cue from the top leadership. We need to get our message of engagement across to the new generation that takes over in March.

13. When the Whitehall China Strategy was agreed last year it was proposed that you should chair a Ministerial meeting to review progress in January. I recommend that we follow this up if you can find time.



Simon Fraser
Director for Strategy and Innovation

020 7008 3407

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KL/SKP



From: David Whineray

Date: 11 February 2003

David Hallam
Prime Minister's Private Secretary for Foreign Affairs

LL
DM
JPO
Press
Events

PRIME MINISTER'S VISIT TO CHINA

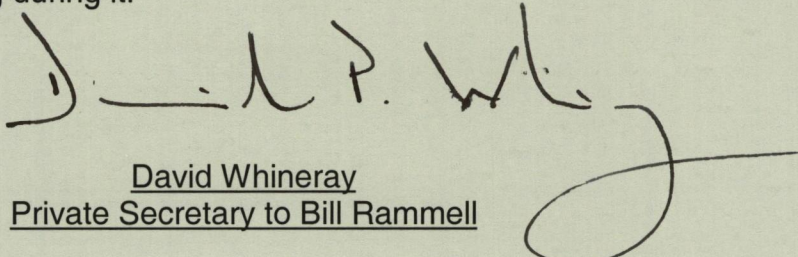
1. You (and Liz Lloyd) came round to see Bill last week. You mentioned that you were in the market for ideas for the Prime Minister's upcoming trip to China and would welcome some thoughts from Bill, in the light of his visit to Beijing, Hong Kong and Shanghai last month.

2. Bill has asked me to pass on the following thoughts (some run past officials here, some not):

- (i) With generally positive **UK/China relations**, there is a good backdrop to the visit. But it comes at a crucial time: getting across our message of engagement with the new Chinese leadership.
- (ii) Although the Prime Minister's personal image is strong, **Chinese perceptions of the UK** are often outdated and negative. Stereotypes of bowler hats and umbrellas dominate. This effects decisions by the political and business class. The *Think UK* campaign is a key element of our strategy to combat this. Its our biggest overseas public diplomacy project this year, amounting to nearly £3m of FCO funds alone (plus British Council and TPUK involvement). It will begin in April and run for six months. The Prime Minister's launch of this will be critical. Given this "perception problem", Bill also hopes they'll be plenty of time in the PM's programme for media. If helpful, Bill would be very happy to do any Chinese media around the visit (interviews, briefings, etc).
- (iii) We should also use the trip to **update British public perceptions**, and knowledge, of China. Whilst China today is very different to the China of ten years ago, public - and in some cases business - opinion hasn't moved. It must. For example, upcoming Chinese WTO membership will open many opportunities for leading UK financial companies. Again, Bill would be happy to do any UK media to promote the visit if helpful.
- (iv) China is central to achieving our strategic priorities. None of today's problems (terrorism, environment, international crime,

etc) can be solved without Chinese co-operation. The Chinese claim they want to **engage** more globally but, as DPRK has again shown (despite the Chinese interests in avoiding a nuclear peninsular they maintain it's a bilateral US-DPRK issue), the Chinese still often lack the will or ideas to do so. The PM should challenge this.

- (v) Time-, and logistics-, permitting, the Prime Minister would find a trip to **Western China** very interesting. As well as the contrast it provides to Shanghai/Beijing, he would have the opportunity to see major development projects the UK (DfID) is funding. Tackling the 'Western China' problem is a significant priority for the new Chinese leadership. So a visit there would also help develop UK-China relations.
- (vi) As Lord Powell pointed out at a meeting with Bill last week, whilst **UK-China trade** continues to rise, HMCE's figures for last year (due in the spring) are likely to show that, after three good years, UK exports to China are down 10%. The PM should give a message that, whilst we don't expect a balanced account ever year, he hopes the Leadership will do more to promote British goods.
- (vii) You will be aware that as part of the strategy for tightening up on illegal immigration, we are pursuing **fingerprinting of visa applicants** from China. We hope to have agreed a way forward with the Chinese before the PM's visit, but this will need careful handling during it.


David Whineray
Private Secretary to Bill Rammell

cc: PS
PS/Baroness Symonds
PS/PUS
Graham Fry
Ros Marsden
Simon Fraser
Andrew Seaton
Kate Ormrod
Michael Williams
Ed Owen
Sir Christopher Hum, BE Beijing
Sir David Manning, No 10
Danny Puce, No 10

WORLD INTELLECTUAL PROPERTY ORGANIZATION

世界知识产权组织

ORGANIZACION MUNDIAL DE LA PROPIEDAD INTELECTUAL



ORGANISATION MONDIALE DE LA PROPRIÉTÉ INTELLECTUELLE

المنظمة العالمية للملكية الفكرية

ВСЕМИРНАЯ ОРГАНИЗАЦИЯ ИНТЕЛЛЕКТУАЛЬНОЙ СОБСТВЕННОСТИ

-08.19 No. It's at the same time. I have asked FCO to check if this will cause any problems. Affairs will be in town & Dear Mr. Prime Minister, Perhaps a joint event?

1. David M

January 13, 2003

David H.

We need to consider how to handle. Presumably this is before the PM arrives in China?

DAH
CC DM
JPO
KK

FCO to submit visit ideas this week. Coordinated for any steer on this behalf

I have the honor to refer to the World Intellectual Property Organization (WIPO) Summit on Intellectual Property and the Knowledge Economy, being hosted by the Government of the People's Republic of China in Beijing, from April 24 to 26, 2003.

I would like to extend a formal invitation to you to attend this important event. Participants will include Chinese leaders, Heads of State, senior government officials and leading international Chief Executive Officers.

In this age of rapidly evolving digital technologies and globalization, creativity and innovation are increasingly recognized as fundamental drivers of the world economy. The international intellectual property system constitutes a critical tool for creating wealth from the raw material of ideas and initiatives. The Summit and its accompanying Industry and Private Sector Forum will provide an occasion for high-level reflection on the importance of intellectual property and its protection in the global knowledge economy. A background note on the Summit is attached herewith.

(2) David H. A joint event would be good - What if FCO can come up with an imaginative idea. Is this a major project in China in business field? Is there a big Anglo/French company working in the Chinese market? What about y. JHALES? For keep me in the loop.

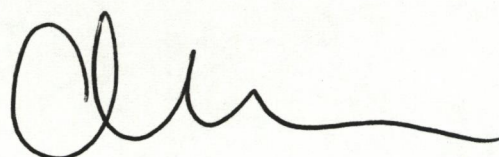
His Excellency Mr. Tony Blair Prime Minister of the United Kingdom of Great Britain and Northern Ireland 10 Downing Street London SW1 United Kingdom

cc: H.E. Mr. Simon W.J. Fuller, Ambassador, Permanent Representative, Permanent Mission of the United Kingdom of Great Britain and Northern Ireland to the United Nations Office and other International Organizations in Geneva

H.E. Mr. Tony Blair, Prime Minister of the United Kingdom of Great Britain and Northern Ireland, London – January 13, 2003

The weight of your voice at the Summit in Beijing would add enormously to efforts to enhance protection of intellectual property around the globe and would be decisive in charting a sound course forward. I earnestly hope, therefore, that you will be able to accept this invitation to attend.

Please accept, Mr. Prime Minister, the assurances of my highest consideration.

A handwritten signature in black ink, appearing to be 'Kamil Idris', with a long horizontal flourish extending to the right.

Kamil Idris
Director General

WIPO SUMMIT
INTELLECTUAL PROPERTY AND THE KNOWLEDGE ECONOMY

Beijing, China
April 24 to 26, 2003

The World Intellectual Property Organization (WIPO) is honored that the Government of the People's Republic of China has agreed to host the WIPO Summit on Intellectual Property and the Knowledge Economy in Beijing next year. Leaders, senior officials of Government as well as leading CEOs and high-level industry policy-makers will meet in the Great Hall of the People for the opening ceremony of this high-profile forum, which will take place from April 24 to 26, 2003. The Summit is a major event on the global agenda, and the Organization is privileged that it will take place in China and will culminate in the celebration of World Intellectual Property Day on April 26. This is a meeting of great significance for governments, industry and the international intellectual property community; and WIPO and the Chinese Government are committed to making it positive, fruitful and memorable.

Premise

Today, it is not enough for a State to be "lucky" – in terms of its possession of land, labor and capital – to succeed. Creativity and innovation are the new drivers of the world economy and national well-being increasingly depends on the strategy a country develops to mine this intellectual capital. An effective intellectual property system is the foundation of such a strategy. It is a dynamic tool for wealth creation – providing an incentive for enterprises and individuals to create and innovate; a fertile environment for the development of, and trade in, intellectual assets; and a stable background that encourages domestic and international investment in such knowledge-based, innovation-driven economies.

Content

The Summit will deal with issues such as the critical importance of meeting the challenges and leveraging the advantages presented to the intellectual property system by cyberspace; the key role of policy programs that encourage entrepreneurs to develop and commercially exploit intellectual capital through strategic intellectual property asset management; the need for intellectual property policies that create a balance between rewarding creators for their efforts and ensuring the general community benefits from their ingenuity; the vital contribution made by an intellectual property culture that respects creativity and innovation; and the need to put in place mechanisms to counter activities that undermine the contribution of the intellectual property system to the well-being of the global community.

Themes for discussion at the Summit include:

- *Intellectual Property Challenges and Opportunities in the New Millennium;*
- *The Contribution of Creativity to Human Progress;*
- *Leveraging the Benefits of Invention in the Real and Virtual Worlds;*
- *Intellectual Property as a Tool for Economic, Social and Cultural Development — Forging Partnerships to Boost Innovation and Wealth Creation;*
- *Promoting Respect for Intellectual Property Rights.*

Objectives

The Summit will serve as a high-profile forum to:

- emphasize the importance of intellectual property on the global agenda;
- highlight the need for concerted international efforts to ensure respect for intellectual property;
- outline WIPO's role in promoting the intellectual property system and ensuring that its benefits are maximized for all countries.

Format

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المنظمة العالمية للملكية الفكرية

ВСЕМИРНАЯ ОРГАНИЗАЦИЯ
ИНТЕЛЛЕКТУАЛЬНОЙ СОБСТВЕННОСТИ

-08.19

January 13, 2003

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His Excellency
Mr. Tony Blair
Prime Minister of the United Kingdom of
Great Britain and Northern Ireland
10 Downing Street
London SW1
United Kingdom

cc: H.E. Mr. Simon W.J. Fuller, Ambassador, Permanent Representative,
Permanent Mission of the United Kingdom of Great Britain and Northern
Ireland to the United Nations Office and other International Organizations
in Geneva


DAN
CC DM
JPO
✓ KK

/...

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Kamil Idris
Director General

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by fax

DFID Department for
International
Development

1 Palace Street, London SW1E 5HE

Telephone: 020-7917 0418
E-mail: v-head@dfid.gov.uk

From the Assistant Private Secretary

David Hallam Esq
10 Downing Street
London SW1A 2AA

cc: DM
JP
Evans

9 January 2003

Dear David,

You requested some ideas for the Prime Minister's proposed visit to China in the spring, to describe in a little more detail the possible poverty focus of the visit.

I now understand from our Beijing Office that the current visit schedule is now confirmed, with half a day (a Sunday morning) allocated for the Prime Minister to spend in Sichuan Province on development issues – he would fly there the previous afternoon. This would potentially allow time for the Prime Minister to travel to a relatively remote part of the province – particularly if private transport arrangements could be made (Jim Wolfensohn, Head of the World Bank, travelled in a military plane on a recent visit – arranged and paid for by the Government of China). Should the timetable be rearranged in the future, and it becomes difficult for the Prime Minister to travel to Sichuan at all, we could certainly organise a good visit for him elsewhere – for example in Liaoning Province, which is quite close to Beijing.

Focus of the visit

As a focus for the visit, I would suggest State Owned Enterprise (SOE) reform and job creation. This is a crucial issue for China and is also very topical at the moment. Following the start of China's leadership transition, Hu Jintao, and Wen Jiabao, the new President and Premier elect, have both spoken on more than one occasion of the importance of continuing and increasing efforts to reduce poverty in the country, and in particular on ensuring that economic growth does not exacerbate the already large problem of inequality between rich and poor. The problem of loss-making state owned enterprises, tied in closely with the need to create new employment opportunities as rapidly as possible, is at the crux of efforts in China to reduce poverty and inequality. Sichuan Province can be considered something of a "national model" for enterprise development and SOE reform, having rolled this out relatively quickly, and in a more market-oriented way than other provinces. DFID has been working for some years on this issue through a £20 million "State Owned Enterprise Reform and Enterprise Development" programme (SOERED), half of which is based in Sichuan, that focuses on providing advice and resources for the start-up of new small and medium sized enterprises, and for the transition that SOEs need to make in terms of business practices as they take the step to becoming autonomous companies. In Sichuan, therefore, the Prime Minister would be able to see economic transformation in action in China, and the UK's ongoing contribution to this, as part also of the Government of China's other big poverty priority – to develop the poor western regions.

/ The impact the Prime Minister

The impact the Prime Minister could have through making this visit would be considerable. DFID's aim in China is to promote development through replication of successful approaches, and the Government of China has a good track record in doing this. The Prime Minister's visit would bring high level attention to some very successful models currently being piloted with funding from DFID in Sichuan (and also Liaoning), ensuring a strong likelihood that these approaches would then be used across the country.

With this focus, and considering the SOERED programme, there is quite a wide range of activities that the Prime Minister could undertake. If he arrives early enough on the Saturday evening, he could meet the provincial governor then, therefore allowing the whole of the Sunday morning for visiting another part of the province. One possibility would be for him to travel to the countryside near a city called Leshan, by car about one and a half hours south of Chengdu, the provincial capital (but much quicker of course if alternative transport can be arranged), to Yongfeng Paper Mill. This is a factory that has been restructured and is relied on for their livelihoods by around 200,000 poor farmers and their families in the locality – around one third of the annual income of these farmers can be directly attributed to the selling of bamboo used by the factory. The factory, moreover, is the single largest taxpayer in its county. The factory is now carrying out innovative and successful environmental, and socially responsible practices, which are impacting very positively on the local people. On arrival at the factory, the Prime Minister could give a short address to assembled leaders, and then spend the remainder of the morning seeing round the factory, and meeting workers and local families. If suitable, some sort of "business to business" event could also be organised which the Prime Minister could open, or give a short address at. The whole visit would provide a very interesting example of the close links between rural and urban poverty in China.

If Yongfeng proves too remote, then there are certainly other former State Owned Enterprises that the Prime Minister would be able to visit nearer to Chengdu, though they may not have quite the same interesting rural/urban mix of Yongfeng. One possible example would be Dujiangyan, which is only a short drive from Chengdu, in a semi-rural area.

As preparations progress, and the precise timetable of the trip as a whole becomes more certain, the DFID China team would be very happy to provide more specific detail on these ideas, and work with you and the FCO to organise the logistics.

I am copying this letter to the FCO.

Yours,

V Head

Vanessa Head
Assistant Private Secretary

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File - Patrick



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

20 December 2002

Dear Patrick

DAVID MANNING'S MEETING WITH THE CHINESE AMBASSADOR

The new Chinese Ambassador, Zha Peixin, called at his request on David Manning yesterday afternoon. He was accompanied by Qin Gang, Counsellor. The meeting lasted an hour. The Ambassador's line of questioning resulted in a tour d'horizon of British foreign policy. At the end of the meeting it was agreed that we should get together early in the New Year to exchange views on the Prime Minister's forthcoming visit.

I am copying this to Erica Zimmer (DTI), Jim Drummond (Cabinet Office) and Christopher Hum (Beijing).

Yours ever

A handwritten signature in black ink, appearing to read 'David Hallam'.

David Hallam

Patrick Davies
Foreign and Commonwealth Office

RESTRICTED

Erica Towsey

From: Rebecca.Toovey@fco.gsi.gov.uk
Sent: 19 December 2002 14:50
To: Michael.Arthur@fco.gsi.gov.uk
Cc: Jonathan.Sinclair@fco.gsi.gov.uk; psbamos@fco.gsi.gov.uk; psmrrammell@fco.gsi.gov.uk; PS.PUS.Info@fco.gsi.gov.uk; Gavin.Scott@bti.dti.x.gsi.gov.uk; Graham.Fry@fco.gsi.gov.uk; William.Ehrman@fco.gsi.gov.uk; Philippa.Drew@fco.gsi.gov.uk; Rosalind.Marsden@fco.gsi.gov.uk; Simon.Fraser@fco.gsi.gov.uk; David.Warren@fco.gsi.gov.uk; Andrew.Seaton@fco.gsi.gov.uk; Robert.Gordon@fco.gsi.gov.uk; Neil.Kenward@fco.gsi.gov.uk; DManning@no10.x.gsi.gov.uk; JHaywood@no10.x.gsi.gov.uk; Andrew.Kilpatrick@hm-treasury.x.gsi.gov.uk; A-Wood@dfid.x.gsi.gov.uk; Simon.Featherstone@fco.gsi.gov.uk; Adam.Noble@fco.gsi.gov.uk; Simon.Smith@fco.gsi.gov.uk; Graham.Minter@fco.gsi.gov.uk; Tim.Cole@fco.gsi.gov.uk; Gregor.Lusty@fco.gsi.gov.uk; richard.lindsay@fco.gsi.gov.uk; lan.Richards@fco.gsi.gov.uk
Subject: Restricted: China Paper



Alternate Body Parts containin...



China Economic Report - 19 Dec...

~~1 Copy for 6 Jonathan
Matthew
David.~~
By email

19/12

A big question is whether political stability can be maintained alongside breakneck economic growth.

1 Copy for

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19.12.02

From: Creon Butler, Chief Economist

Copies to: see end of note

Mr Arthur

CAN CHINA'S ECONOMIC MIRACLE BE SUSTAINED?

Summary

After more than a decade of spectacular economic growth, and with the Communist Party targeting a further quadrupling of GDP by 2020, we face the nagging question: can it all be for real – or is China headed for a crash? To get a better sense of how to answer this question, I visited Hong Kong, Shanghai and Beijing during 2-7 December with Andrew Kilpatrick (HMT).

Overall, the trip confirmed the scale of the challenges facing the Chinese authorities, but I left feeling more optimistic than I had expected that the government would be able to keep the economy on track. There are three main reasons for this:

- The **high quality of policy makers** in the central government and at the top of the state banks. There was no sign of ideological baggage, but instead a mix of pragmatism, caution, and determination. Their key concern was to find policies that worked – and they had no hang-ups about using market mechanisms when they met this test.
- The government's success to date in **using the remaining controls** on the economy (e.g. on sale of agricultural land, on migration to coastal cities and on capital mobility) to maintain stability as the economy evolves, while minimising the obvious pitfalls (distortions to growth or a boost for vested interests).
- The **continental scale of China's economy**, which means that overheating in one sector or region (such as the Shanghai property market) need not derail the economy's overall progress.

Several other points are worth highlighting:

- Although the **scale of China's economic transformation** is unprecedented, the process itself is not unique. The post-war development of Japan and South Korea has strong similarities (although the deal that took China into the WTO will also

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create some significant differences). It is important therefore not to get overwhelmed by the numbers – provided the economic model is right, there is no reason why it cannot work, even on a very large scale.

- But a great deal hangs on the **maintenance of a high growth rate**. While Chinese officials may be able to manage the domestic economic threats to this, a much harsher external economic environment, or a domestic political shock, which hit business confidence and/or interfered with government infrastructure spending could yet through them into a viscous downwards spiral.
- On the most **high-profile domestic economic risks** – non-performing loans in state banks, the fiscal deficit, restructuring of state-owned enterprises (SOEs) – the government has made significant progress. They are certainly not out of the woods yet, but compared, for example, with the prospects for dealing with the banking/government debt problem in Japan, the political dynamics in China look relatively promising.
- But growing **income inequality** is an increasingly stark problem, which the government is only just beginning to address. The framework for tackling this is reasonably clear – promotion of urbanisation and employment through SMEs, but the detail is still vague.
- On two big decisions – further steps to **liberalise the capital account**, and **financing the social security net** – the government appears to feel it has time to proceed slowly. So we should expect further gradual steps rather than a big bang. But in the circumstances, it is hard to argue with this approach.
- For the time being China appears to have only modest ambitions to expand its **international economic role** in line with its growing economic weight. This is partly to avoid any distraction from its domestic priorities; partly to preserve a role as a representative of developing countries (particularly in relation to the G8); and also because of the belief that there is always a price to pay when one joins a club. But it is equally clear that in some areas - global financial stability, environment, energy security, corporate social responsibility etc. - the rest of the world will press hard for increasing Chinese engagement and burden sharing. The best way to sell this to the Chinese is to point out the direct bearing of these issues on their domestic policy priorities, rather than trying to gain their interest with the vision of a seat at the “economic top table”.
- While DFID has a large and expanding programme in China, this remains tightly focussed on poverty reduction. So there is plenty of scope for the FCO to add value through the **Global Opportunities Fund**. One example (under the economic good governance theme) is banking supervision, where the HKMA trains 30 supervisors per year, but the demand from the central bank (PBOC) is far higher. In view of the positive policy environment, the returns to GoF spending in China are likely to be high. But the experience of DFID, OECD and World Bank that they can only do

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precisely what the Chinese authorities decide to invite them to do, is likely to be just as relevant to the GOF.

- Hong Kong still has a considerable lead over other mainland Chinese cities – in the strength of its governance (including the English legal system), quality of life, infrastructure and international links. But mainland **China is catching up** faster than anyone might have imagined, even a few years ago. And further hits to Hong Kong's comparative advantage are possible in the next few years (e.g. full convertibility of the Chinese currency, the RMB, and direct transport links between Taiwan and the mainland). If Hong Kong wishes to maintain its position as one of greater China's top tier cities, it needs to work harder to maintain its lead (e.g. by creating a leading edge corporate governance structure) and take more risk (e.g. in liberalising cross-border movements of people with the mainland). While some steps in this direction are being taken, it is far from clear that the present political leadership is up to this challenge.

The attached paper provides a fuller account of these and other issues. I am most grateful to all three posts we visited for their hospitality, and in particular to Kate Harrison, John Edwards and Nick Bridge, for the excellent programme they put on.

Creon Butler
Chief Economist

CC: PS
PS/Baroness Symons
PS/Mr Rammell
PS/PUS
PS/Mr Brown
Mr Fry
Mr Erman
Ms Drew
Ms Marsden
Mr Fraser
Mr Warren, BTI
Heads CHKD, NEAPD, SEAD,
EUD(E), Research Analysts
Mr Kenward, EcPol

HMA Beijing
BCG Hong Kong
BCG Shanghai
Mr Bridge, BE Beijing
Ms Harrison, BCG Hong Kong
Mr Edwards, BCG Shanghai

Mr King, BoE
Sir David Manning No10
Mr Heywood, No 10
Mr Wood, DFID
Mr Kilpatrick, HMT

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CAN CHINA'S ECONOMIC MIRACLE BE SUSTAINED?

1. Introduction

If China maintains its present rate of growth, it will surpass Germany to become the world's third largest economy (in market value terms) by 2010. China already accounts for just under 4% of world trade (5% if Hong Kong is included) and will be the largest single destination for FDI this year. With \$260bn, China has the second largest foreign exchange reserves in the World after Japan, and the Chinese stock market is the second largest in Asia (by market cap).

China's growing economic weight creates both an opportunity and a risk for the rest of the world economy. The opportunity is pretty clear – a rapidly expanding domestic market, and source of cheap manufactures for the global economy. The risk is that China's economy will exceed the limits of sustainable growth leading to a sharp economic downturn. The economic repercussions in Asia would be widespread (adding to the risk already posed by Japan) and there could be intense pressure on China's political stability. This downside risk is harder to judge, but no less real.

This paper first looks at **where Chinese growth has come from** since 1989 (section 2). It then discusses the **main domestic economic threats to China's ability to maintain a similar performance** over the next decade, and the ways in which the government is attempting to mitigate these threats (sections 3 and 4). Section 5 considers four issues on which the government faces **key policy decisions in the next few years** (the exchange rate regime, funding social security, agriculture reform and strengthening the rule of law). We then look at three ways China's economic transformation will **impact on the wider world** - via Hong Kong; by intensifying global competitive pressures generally; and through an expanding role in global economic governance (sections 6 and 7). Conclusions follow in section 8.

2. What has driven China's growth?

According to the official data China's growth has averaged over 9% for the past thirteen years. China's statistics are questionable, but even the more conservative estimates would only knock some 2% points off the official figure. The physical evidence is all too apparent in the coastal areas – in new roads, residential housing, commercial property and plant and equipment. Beijing expects to complete no less than 11 subway lines between now and 2010.

Three things have made this possible:

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- **Abundant capital** (both internally generated and imported from abroad, particularly from Taiwan and Hong Kong). China will top the FDI league table this year, attracting \$50 bn. Domestic personal savings exceed 40% of GDP.
- **A highly elastic supply of labour.** Demographics, movement of people off the land (as agricultural productivity rises), and the restructuring of State Owned Enterprises (SOEs) means that private industry and services will need to find jobs for up to 400 million people over the next ten years.
- **Enormous potential for catching up with advanced country productivity levels.** China's human capital is also growing fast – schools and colleges produce 8 million graduates every year (a high proportion specialising in science). This should enable China to adopt the latest technology and organisational methods with little delay.

Although the scale of this economic transformation is unprecedented, the process itself is not unique. Previous examples include Japan, South Korea, and most recently Ireland. Like China, these economies thrived on the back of ample supplies of capital and labour, and the scope for technology catch up through the deployment of skilled high school graduates. In all three cases, high growth was sustained for long periods, but eventually came unstuck - in Japan in 1990, Korea in 1998 and in Ireland after the US high tech bust.

The Chinese government is committed to maintaining the pace – announcing at the 16th Party Congress its intention to quadruple output by 2010. But this raises the question as to whether such performance can be sustained, and how far China can learn from the experiences of the other “miracle” economies.

3. The risks to future growth

There are four main domestic economic risks to the government's growth target:

(i) That the government's fiscal position will become unsustainable

China's formal public debt/GDP ratio is a low 24%, with a deficit running at 3.2% of GDP in 2001. But contingent liabilities for non-performing loans (NPLs) in state-owned banks and unfunded social security obligations (see below) could add as much as 70 percentage points to this debt figure (some private sector estimates are even higher). On the other hand, capital controls and a very high savings rate make it relatively easy to fund the deficit at present. And provided growth remains at present levels and the amount of NPLs/contingent liabilities does not increase, the government's true debt/GDP ratio should fall systematically over time.

Nonetheless government officials appear well aware of the risks of getting into an unsustainable debt position. We were told by Li Yong (Assistant Finance Minister, MoF) that there would be a spending freeze in most areas next year. This should ensure

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that the deficit is reduced slightly from the current level.

(ii) That the high level of non-performing loans (NPLs) in the state-owned banks will trigger a financial crisis

Bank NPLs can be divided into three categories: those already transferred from the state-owned banks to workout vehicles (equivalent to about 15% of GDP); additional NPLs in the state owned banks created up to 1998 (3% of GDP according to MoF estimates, but some private estimates are much higher); and new NPLs created since 1998 (when lending practices were tightened). There are two additional uncertainties. How much can be recovered from the second category (the official estimate is 30-40%), and what is the quality of lending since 1998? The latter will reflect the continuing demands of SOE customers on the downside, and the rising share of higher quality retail mortgage debt on the upside. An IMF team was in Beijing undertaking an assessment of these issues during our visit.

All the bank representatives we met (from ICBC, Bank of China, and Agricultural Bank) were adamant that lending quality had improved dramatically since 1998. At the same time, the MoF and PBOC officials we met readily accepted that the government would eventually need to inject further funds to re-capitalise the banks. But for the time being the authorities wished to keep the maximum pressure on the banks, both to maximise recoveries from the second category of NPLs, and to use their own retained earnings to write the remaining bad debts off.

Zhu Min (Adviser to the President of the Bank of China) argued that the NPL problem was increasingly under control. And that the real issue for the Chinese banks was the pressing need to build better staff management and reward mechanisms.

(iii) That rising income inequality will create social discontent

Most officials we met were confident that the government would be able to manage its public debt and the NPLs problem, but dealing with rising income inequality was seen as a more formidable challenge. It has various forms: inequality between Western China and the coastal areas; inequality between city and rural areas and inequality within cities. The extent of inequality can be enormous – we met a finance professor on US\$80,000 at Peking University, who said the security guards in his university were paid around 1% of his salary. Zhu Min (at Bank of China) claimed that China's Gini coefficient was already over 50, making it one of the most unequal societies in the world.

Rising inequality reflects a variety of factors: the concentration of FDI and new employment opportunities in the coastal areas; a dysfunctional system for sharing fiscal revenue between regions which currently allocates revenue from the centre in direct proportion to the revenue collected in each region; the loss of jobs as SOEs restructure and agriculture productivity improves; and corruption. The World Bank's Chief Economist in China (Deepak Bhattachali) argued that intra-urban inequality could prove the most dangerous for the China's stability. Some 17-25mn single male migrants are

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moving to the cities each year. And initially life is far from easy – indeed city migrants typically receive remittances from their families for the first nine months of their stay.

The government's response has five key elements:

- Promote job creation in private sector services and manufacturing to absorb those laid off from SOEs as well as others coming out of schools and from agriculture. So far the government claims that 60% of the 25 million workers who have lost their jobs in SOEs have found new ones. A key policy response (sanctioned in the 16th Party Congress) will be to increase the supply of finance to SMEs from regional banks (ideally in partnership with foreign banks), other private sector banks and the state banks. Another key factor will be the ability of the education system to deliver people with the necessary skills to find jobs easily. Surprisingly, Yi Gang (DG in the PBOC), expressed concern at the number of graduates coming out of the Chinese education system and whether they would be ready to take the kind of jobs the economy could offer. By contrast Deepack Bhattasali (World Bank) argued that the returns to education in China remained very high – particularly in the tertiary sector.
- Develop infrastructure. The State Development and Planning Commission (SDPC), which oversees the government's \$75bn annual infrastructure budget, has as priorities basic infrastructure, rural development and the environment. Under this comes measures to improve wastewater treatment and energy efficiency, and there is a very heavy focus on the West. In other sectors, the SDPC expect private sector investment increasingly to meet China's needs (particularly in the coastal areas). Gao Guangsheng (Deputy Director General in the SDPC) was well aware that the initial returns on infrastructure spending in the West could prove to be low, but he argued that there was little choice given the need to boost development in that region. Given China's shortage of infrastructure and population growth, the investment could have more reasonable returns over the longer term.
- Urbanisation. The government accepts that rising agricultural productivity will force many to leave the land. But it is encouraging those that do to settle in large regional cities, rather than to move to the three large Eastern economic centres – Beijing; Shanghai; and the Pearl River Delta (PRD). Residence controls help them achieve this, while the family responsibility system (under which land is allocated to a family and cannot be sold on the market) helps slow, for the time being at least, the emergence of a landless agricultural class.
- Fiscal reform. The government recognises that the fiscal transfer system needs to be reformed, to reduce the pressure on the rural poor, with low incomes and increased user fees for health, education etc. DFID is advising on how to reform the system.
- Limited democracy. The poor quality of officials in the rural and Western areas is a major problem. Since the most able people tend to leave for the cities, those that remain are often incompetent or corrupt, and often both. To tackle this, the central government

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has encouraged experiments in limited rural democracy, allowing villagers to pick their own leaders. The hope is that this very limited form of democracy will result in more able and less corrupt officials.

(iv) That a bubble economy may emerge and then crash

Prices in China are currently falling at a rate of 0.8% pa, so it is rather odd to be talking about the risk of a bubble economy. But experience with other fast growing countries illustrates the potential problem. Can China maintain its present rate of growth without seeing the kind of distortions that led to the Asian economic crisis in 1998 - over-investment in manufacturing; asset price bubbles in commercial property or residential property; wasteful or poor quality government infrastructure?

Our visit suggested that in some regions the risks are there already. The Bank of China told us that the vacancy rate on commercial property in China is about 20%, and 17% on residential property. In Shanghai, we met Liu Yong Xing, one of the richest men in China and Chairman of the East Hope Group, which is linked to a larger group of companies which started in agribusiness (chicken feed) and has diversified into aluminium smelting and financial services. The group is building two new state of the art aluminium smelters (each one takes a fraction of the time to build compared with 3 years in the West). Liu took it for granted (a) that there would be a market for his new output, and (b) that even if his new output forced down the aluminium price, he would remain the lowest cost producer and profitable to boot. He was also clearly relying on future financing from two private sector banks in which his group had a stake.

The parallels with business development in Korea and Thailand pre-1998 crash are clear (though interestingly Liu seemed well aware of these too). It also illustrates the critical role of confidence in China's development. It is because people like Mr Liu believe China's present rate of growth will continue that they are prepared to invest at the rate they do, helping to fulfil their own expectations.

However, the overheating/crash scenario may be avoided for three reasons. First, China's evolving **monetary policy regime**. Although this is formally based on a target of 15% pa M2 growth, there is also an implicit inflation target. We were told that deflation of -0.8% was just about tolerable, but the authorities would resist anything more. Second, there is the government's determination to take a **graduated approach to liberalisation**, whether on capital mobility (where they fear short-term speculative inflows) or on private ownership of agricultural land. Clearly such gradualism can also create distortions, but so far at least the authorities appear to have managed the process pretty well. Thirdly, there is the **continental scale** of the Chinese economy, which should mean that the bursting of a property bubble in, say, Shanghai need not put the whole economy into a downturn (the US is a more relevant model than Bangkok-dominated Thailand in this respect).

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But while the authorities may be able to manage the domestic economic threats to the high growth rate, a much harsher international environment or domestic political crisis could yet tip the economy into a viscous downward spiral.

4. Government Economic Strategy

While the Communist Party's political control remains intact, as do many of the traditional institutions of a Communist State (including a Party school and turgid political statements), it is striking how policy in the **economic sphere** at least appears to me made on an essentially pragmatic basis. In our discussions with policy makers there were no discernible signs of ideological baggage. Indeed the responses to the economic risks described above reflect well the four key themes in the government's economic strategy:

- The overriding importance attached to maintaining **political and social stability**.
- The belief that a **high growth rate** is essential to deliver this (although precisely how high is the subject of debate – some officials would be more comfortable with 5-6%, rather than 7-8%).
- The presumption that **market mechanisms** will eventually provide most, if not all, the answers to China's economic problems. Time and again when we tested this - e.g. on when China should move to full convertibility on the capital account, or the potential role of the private sector (rather than the state) in providing water infrastructure - the answer was essentially pragmatic. On water, for example, we were told that the SDPC liked the idea of privately financing improvements in water infrastructure, but at present they judged that water users would not be able to afford the increase in rates.
- A combination of **caution and momentum** in policy making. There is a strong preference to "feel the way" with new policies. This might mean experimenting with a new policy in a single region first. There is also plenty of demand from officials for academic advice. But, in contrast to several other emerging markets, this caution has not become an excuse for inaction in the face of vested interests or lack of political will. WTO membership, and the constant external pressure for reform it creates, may take part of the credit for this.

5. Challenges Ahead

Whereas the outlines of government policy on fiscal consolidation and handling the NPL problem are pretty clear, there is less clarity on how the government will deal with a number of other emerging issues. I look at four of these below:

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- **Liberalising the Capital Account**

China's current account transactions are free, as are flows of foreign direct investment. MoF officials argue that other elements of the capital account are also becoming increasingly free (e.g. through the latest announcement of a scheme for Qualified Foreign Institutional Investors (QFII)), with the only substantial constraint now applying to short-term portfolio flows. At the same time the RMB remains pegged to the US dollar.

Some officials accepted that the RMB may now be slightly undervalued, but not by much, taking account of the substantial devaluations in the exchange rates of many Asian trading partners since 1998. They also accepted that the gradual process of capital account liberalisation would eventually lead to an exchange rate float, but by implication this would not be for another 2-3 years at least. They sighted the weakness of the Chinese banking system, and the scope for speculative inflows as a reason for caution. The dollar peg also has the advantage of simplicity for investors and traders. Ahead of full capital mobility the government has to decide whether to widen the band within which the RMB is allowed to move against the dollar, and whether to change the peg to a basket rather than the dollar. Research on both issues is underway

It is hard to see that much advantage would be gained from even more rapid capital account liberalisation as long as the exchange rate remains broadly in line with fundamentals, and there are plenty of downside risks. One particular concern is the impact on share prices in the mainland. With P/E ratios of 30-40 compared with 10-20 for similar assets in Hong Kong, Chinese equities appear considerably over-valued. If Chinese portfolio investors were given the opportunity to invest abroad, the result could be a crash in domestic share prices. The government appears to recognise the need to bring domestic and international equity valuations into line, but wishes to approach this through gradual liberalisation of the Shanghai market.

I am also sceptical about the benefit of introducing wider fluctuation bands ahead of a full float. On the one hand it might give the authorities some more information about the true market value of the RMB, but at the risk of igniting speculative interest in the currency. And even with \$260bn in foreign exchange reserves, this could prove hard to control.

- **Funding Social Security Provision**

Life expectancy in China has improved dramatically over the past ten years to near Western standards, but so have the future demands on the social security system, while China remains considerably poorer than OECD economies. The strain is evident from the fact that 25 out of 31 provinces are unable to meet their current social security obligations in full.

To tackle this problem, the government has established a social security fund, and plans to endow this in part through the direct transfer of part of its remaining shareholdings in

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SOEs. But there is considerable uncertainty as to how much these holdings are worth, both because of doubts about the assets themselves, and about their likely valuation in the market after China's capital account is fully open. On the other hand, officials and some analysts argued that the government has some time to tackle the problem. If present growth rates are maintained, it should be possible for the government to build up the future funding basis for the social security system at the same time as meeting current needs. A vibrant private sector should also be able to contribute to meeting this burden through private pension arrangements (although government policy on this was unclear).

- **Boosting Agricultural Productivity**

Agriculture now accounts for less than 20% of China's GDP. But there remains a massive gap between productivity in agriculture and that in other sectors - the World Bank estimates value added in agriculture at \$300 per head, compared with \$900 in services and \$3000 in manufacturing. China therefore faces the same challenge on agriculture as Europe and Japan faced after the second world war. How to raise agricultural incomes without removing the incentive for people to move off the land into other jobs, or for those that remain to boost productivity.

Fortunately, the Chinese authorities appear to have turned away from CAP-style protection as a way of limiting the gap between agricultural living standards and those of urban dwellers. This is partly because of the cost and partly because of the lessons learnt elsewhere - forcing city dwellers to pay more than necessary for food would slow the growth in personal incomes and hence the development of domestic demand.

But what a cheap food policy will mean for agricultural areas in the longer-term is hard to assess. The next big step will be to allow a market in agricultural land. This would boost agricultural productivity by allowing the consolidation of plots, but would also accelerate the movement of people off the land. The key will be to ensure they can acquire the skills they need to make a success of the move, as well as dealing with the inevitable alienation.

- **Strengthening the Rule of Law**

Corruption and weak rule of law, continues to be a major drag on the economy's development. But there are signs of improvement. Even in Hong Kong, it was accepted that the corruption problem facing multinationals in the coastal mainland cities (particularly Shanghai) had reduced. If you made clear you would not pay bribes, you would be left alone. (It's still a different story inland). At an ICI paint factory in Shanghai we were told that counterfeits ran at about 30% of total sales. But the general manager saw signs that as major local Chinese brand owners faced the same problem, the government was being more responsive in tackling it.

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6. Hong Kong

With a fiscal deficit over 5% of GDP, unemployment at 7.2% (in an economy more used to 1-2%), deflation running at 3% pa, and residential property prices some 60% below their peak, one does not have to look far to explain the gloom pervading Hong Kong, even though the growth in Q3 was running at 3% pa.

The SARG economic strategy has three main elements

- Focusing public attention on the need to address the **structural component of the fiscal deficit** through cuts in civil service pay and by requiring contributions to the social security and healthcare system (remarkably they are currently free).
- Maintaining **infrastructure spending** to preserve Hong Kong's competitive advantage in the Pearl River Delta (PRD) as a focus for container traffic and logistics - if necessary by drawing on the government's fiscal reserve (equivalent to 25% of GDP!).
- Addressing the "**Gore-Tex**" **frontier** under which capital, entrepreneurial expertise and skilled labour can flow readily into mainland China from Hong Kong, but does not so easily pass in the reverse direction. Potential steps include making it easier for mainland Chinese businessmen to obtain multiple visas to visit Hong Kong.
- Maintaining the **exchange rate peg** to preserve financial market confidence, while achieving improvements in competitiveness by exploiting Hong Kong's flexible wages and prices.

Given these steps and Hong Kong's existing strengths - rule of law, competent and honest civil service, quality of life, international links, financial strength, infrastructure, and English language - Hong Kong officials argue that Hong Kong can maintain its position as one of greater China's three leading cities along side Beijing and Shanghai. They see Hong Kong's role as (a) providing an international financial window for the whole of China (while Shanghai develops as domestic financial/services centre), and (b) acting as the focus for development of the PRD (30-40 mn people) as Shanghai focuses on the 100mn living along the Yangtze.

However, some analysts (e.g. Andy Xie at Morgan Stanley) have argued that this stance is too complacent, and that Hong Kong has to be prepared to be more radical and take larger risks if it is to maintain its position. There are three reasons:

- China as a whole is catching up much faster than anyone expected a few years back in infrastructure, quality of business services, and attractiveness to expatriates.
- The major cities of the Pearl River Delta (PRD) are increasingly competing directly with Hong Kong as a place to shop, study and live. (Indeed one possible reason for the weakness in Hong Kong's retail sector could be the ease with which Hong Kong

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Chinese can shop across the border).

- Direct transport links between Taiwan and the mainland (which now seem more likely) would have a major impact on business traffic through Hong Kong's airport. A move to full convertibility of the RMB would enable Shanghai to compete with Hong Kong for international business. There is also the possibility of "repatriation" of the listings of some of China's major SOEs, which would take a major slice out of Hong Kong's market's business.

Against this background, Hong Kong does not seem to be doing enough to maintain its lead. For example, it does not, apparently, have world class lawyers working on WTO disputes. Efforts to improve the regulation of the accounting profession to match the best in the world have been delayed by Hong Kong's small accountants. Hong Kong urgently needs far reaching corporate law reform (this partly explains why 70% of Hong Kong companies are registered outside Hong Kong). And Hong Kong's ability to collaborate with other PRD cities on infrastructure and air transport are made less straightforward by Hong Kong's sensitivity over retaining its separate status. This sometimes forces Hong Kong to rely on local businessmen to bring about the necessary co-ordination, but the latter have increasing interests in the mainland and cannot always be relied on to put Hong Kong first.

Andy Xie has proposed the most radical response to this challenge. He argues that Hong Kong should:

- open its borders fully to the mainland – quickly bringing Hong Kong's cost base down to mainland Chinese levels;
- use its cumulated public sector wealth to promote infrastructure on the mainland which will secure Hong Kong's strategic position going beyond the PRD; and
- float the Hong Kong Dollar, again to help restore competitiveness and bring an end to deflation as quickly as possible.

This approach would directly challenge the SARG's desire to preserve the "one country two systems" model. And it is easy to understand why the government would be cautious about embracing such a radical approach. But as a result the government may miss a critical window of opportunity, while Hong Kong's bargaining position is still very strong. The result would not be disastrous - but as one analyst put it - Hong Kong would then have to settle for being greater China's Boston rather than its New York.

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7. China's regional and global role

Hong Kong is in the eye of the storm of China's economic transformation, but the impact on the global economy obviously goes very much wider - through the development of trade, FDI, and financial integration. Three key issues are:

- **Is China contributing to global deflationary pressures?** An example of the forces at work was provided by a Taiwanese-owned OEM of laptops we visited in one of Shanghai's industrial export zones. We saw a vast plant with \$100mn investment. The Finance Director told us that eight more plants exactly like it were planned, leading to total investment of \$1bn. But at present the value added in China is limited, with components shipped in from the Asian region, assembled and then shipped out again to customers in the US, Ireland etc. The factory has plans to increase domestic content and develop a local supply chain, but so far local quality issues have limited the scope for this. However, Japan and Korea both showed the scope for rapid movement up the quality chain, when human capital is available. Given the flood of graduates leaving China's universities, there are good grounds for assuming the same will happen in China. If so, this should provide a further strong impetus for lower global prices of manufactures.
- **How far will China contribute to global demand?** The terms of China's WTO accession means China's market will be much more open during its high growth catch up phase than was the case in Korea and Japan. Both visible tariffs and non-tariff barriers will come down faster. And the contribution to demand in other economies should therefore kick in earlier. For example, there have already been sharp tariff reductions in the auto industry, with more planned - the result so far is booming domestic production as well as higher imports, and the prospect that the Chinese car industry will quickly consolidate around three main manufacturers.
- **How big a risk will China pose to global macro-financial stability?** At present the risks associated with China's public debt, NPLs and exchange rate policy look to be under control. But the situation could change quickly, particularly if growth were to slow.

The obvious reaction to the projections for Chinese growth is to assume that China would want to engage even more actively in the forums for global economic management. But the officials we met were uniformly cautious on how China would respond to its growing economic weight. Their response had three main elements:

- First, that China's priority was to develop its domestic economy. It wanted to be on good terms with its main economic partners and play a responsible role in such forums as the IMFC, G20 Finance Ministers, World Bank Development Committee and WTO. But it was unlikely China would press to take a strong lead.

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- In the case of the proposed ASEAN/China free trade agreement, Yi Xiaozhun (Director General, Trade and Economic Affairs, MOFTEC) was hopeful that a deal could be reached in the next 2-3 years, before the conclusion of the Doha round. He volunteered that China might need to be generous to pull this off (note the apparent contrast with India's tight fist approach to economic co-operation with its smaller neighbours). The other proposed free-trade agreements with Korea and Japan would take longer, not least because of the obstacle posed by agriculture. It was likely that the Doha Round would be completed first.
- Zhang Jun (Deputy Director General, MFA) said the MFA was currently looking again at China's relationship with the G8. In the past, China had not identified with the group because it was a rich country club - Russia's membership changed that somewhat. And outreach events with a number of emerging market economies would also be less problematic. However, other officials quoted Deng's advice that there is always a price to joining a new club.

But an exception to this generally cautious approach can be seen in China's (successful) efforts to secure the Olympics for Beijing in 2008 and the World Expo for Shanghai in 2010. This no doubt partly reflects the prestige of being host. But there are also relatively strong economic arguments for holding such events in an emerging market like China compared with a more developed country, since the infrastructure is more likely to be needed and the benefit from increased tourist recognition should be greater. We were told that the Shanghai Expo would involve total investments of the order of \$10-\$15 bn.

The most likely outcome is that China's involvement in the management of the global economy will continue to grow, but will lag its economic size for some time (as indeed was the case with Japan). It will be a co-operative partner when it perceives a direct benefit to its domestic economic priorities.

8. Conclusions

There are three kinds of threat to China's continued rapid economic expansion: domestic economic imbalances, external economic shocks, and domestic or international political shocks. Following the visit, I am more confident than before that China will be able to manage the first category of threats, and that sustained high growth itself need not bring about a crash.

If China does maintain its present performance for a further ten or even twenty years, its impact on the global economy will be tremendous, probably even more important than the emergence of Japan in the 1970s-80s. In particular we should see:

- Increasing Chinese dominance of the East Asian economic region (particularly if Japan continues to stagnate).

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- And in line with this, the development of even stronger economic interdependence between Taiwan and the mainland – which will have a major bearing on the scope for and nature of an eventual settlement.
- China taking an increasing role in global economic management (even if reluctantly), because it will increasingly see this as necessary to preserve the conditions for its domestic expansion. Trade may well fall as a share of GDP as China's domestic economy expands, but China's increasing integration into world financial markets will dominate this.
- An increasing role for Chinese multinationals and financial institutions globally.

SUBJECT
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Filed.



Foreign &
Commonwealth
Office

London SW1A 2AH

Matthew Rycroft
No10

MR

DM
DHa
AW
DCU

17 December 2002

Dear Matthew,

Please find enclosed a letter from the Chinese Premier Zhu Rongji which we have been asked to forward on to the Prime Minister.

James Morrison
PS/Mr Rammell
Foreign and Commonwealth Office
K196

cc. Jonathan Walters, CHKD



RECEIVED IN THE
OFFICE OF
MR. RAMMELL
17 DEC 2002

Embassy of the People's Republic of China

49-51 Portland Place
London W1B 1JL
Telephone: 020 7299 4035
Facsimile: 020 7636 2981

Ambassador

Mr. Bill Rammell MP
Parliamentary Under-Secretary
Foreign and Commonwealth Office
London

12 Dec. 2002

Dear Mr. Rammell,

I have the pleasure in enclosing a message from the Chinese Premier Zhu Rongji to Prime Minister Tony Blair.

I will appreciate if you can arrange to forward it to its high destination.

✓ RB 17/12

Yours sincerely,

Zha Peixin

(Translation)

Message from Premier Zhu Rongji to Prime Minister Tony Blair

World Expo 2010, Shanghai China

Your Excellency Prime Minister Blair,

The 132nd Assembly of Bureau International des Expositions(BIE), held at Monte Carlo, Monaco on 3rd December 2002, decided by a majority vote that the World Expo 2010 be held in Shanghai, China. I would like to, on behalf of the Government and people of China, express our sincere gratitude to you and your government for Britain's valuable support to Shanghai's bidding. The vote cast for Shanghai is another demonstration of the friendly relationship and cooperation between China and Britain. I believe that the World Expo 2010 in Shanghai will bring more opportunities for further economic cooperation between our two countries.

The Government and people of China cherish very much the opportunity to hold the World Expo 2010 in Shanghai, and will honour the commitments by making thoughtful arrangements and providing best-equipped facilities and high-quality services for participating countries. With the active participation and strong support of the BIE and participating countries, we have full confidence in making a successful, spectacular and impressive world exposition in Shanghai, and thus making our contributions to the common development and prosperity of all participating countries.

We look forward to welcoming Britain to the World Expo, Shanghai in 2010.

Zhu Rongji,

Premier of the State Council of People's Republic of China

Ms file



10 DOWNING STREET
LONDON SW1A 2AA

Foreign Policy Adviser to the Prime Minister,
and Head of the Defence and Overseas Secretariat

12 December 2002

Dear Charles,

CHINA

Many thanks for your letters of 8 November and 5 December.

I like the suggestion that we should focus on the West-East pipeline during the Prime Minister's visit. Shell have briefed the Prime Minister in the past, and I am sure he will want to support the project.

As far as the business delegation is concerned, it is very useful that you are in touch with Digby Jones. I agree that 10-12 top level people is about right. Our plan at present is to link up with the business team in China rather than fly them out with us since we shall almost certainly be visiting Japan first. We should therefore be able to avoid difficulties over aircraft seating!

It makes a lot of sense, too, for the Prime Minister to follow up his visit with the CBBC event. I very much hope he will be able to do this. We shall try to get it into the diary.

Best wishes

as ever,

DAVID MANNING *DM*

PS You will have seen that Shanghai got on L'Oréal's list.

Lord Powell of Bayswater KCMG

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7276 0071

E-mail: jdrummond@cabinet-office.x.gsi.gov.uk

NO.0401

Andrew Seaton
China and Hong Kong Department
FCO

11 December 2002

CHINA ACTION PLAN

Please find enclosed the revised China Action Plan, which I think is now better organised and more accurate. Thanks to all who have contributed and to Jonathan Walters and Anthea Dolman for editing.

2. We are still expecting to arrange a ministerial in February and an official's meeting in mid January. Progress reports on the Action Plan welcome before then. Please circulate the draft note on objectives for the PM's visit to the group, when it is ready.

3. Copies of this go to the group and Anna Wechsberg (No 10).

JIM DRUMMOND

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UK STRATEGY TOWARDS CHINA ACTION PLAN – December 2002

KEY OBJECTIVES	ACTIONS	LEAD DEP'T	TIMING	PROGRESS
Step up engagement at the highest level to underpin HMG objectives.	Visit by Prime Minister	No 10	April 2003	[Draft objectives circulated]
	Possible visit by Deputy PM (Britain as a partner; climate change)	ODPM	Autumn 2003?	
A. INTEGRATING CHINA INTO THE WORLD ECONOMY				
AO. Step up ministerial engagement in China.	A0.1 Minister of Trade, Baroness Symons, visit. (also to promote trade)	FCO	May/June 03	
	A0.2 Possible visit: Chancellor of the Exchequer (also to promote reform)	HMT	June/July 03?	
A1. Integrate China into international economic institutions and decision-making.	A1.1 Consult G8 colleagues regarding potential steps for increasing China's interaction with this group.	HMT/FCO	Aug 02-Aug 03	Discussion initiated on China chairing in 2005.
	A1.2 Encourage China to take an active role in the G20 through official level contacts.	HMT	Ongoing	
	A1.3 Encourage China to implement accession agreements on time; address areas including enforcement of Intellectual Property Rights (IPR), investment and competition, financial infrastructure; and to actively participate in the WTO and the new WTO round.	DTI	Ongoing. Focus on next WTO Trade Round.	
A2. Help China meet its domestic economic challenges through wider adoption of international trade rules and technical standards.	A2.1 Establish a joint project with Chinese Ministry of Finance on budget issues.	HMT	2 nd half 2003	Informal discussions with officials ongoing.
	A2.2 New Trade and Environment/standards dialogue to follow trade policy dialogue.	DTI	Mar 2003	
	A2.3 Promote further dialogue and exchanges with Ministry Of Foreign Trade and Economic Co-operation (MOFTEC) officials (and other Ministries/Embassy where appropriate).	DTI	Ongoing. Focus on next WTO Trade Round.	
A3. Engage China in constructive international and multinational economic relations.	A3.1 Trade Policy dialogue (inc. trade/development agenda and WTO). Possible input from Baroness Symons.	DTI/FCO	Mar 03	
	A3.2 Build and maintain relations in the run-up to Cancun WTO Trade Round	DTI	Sept 03	

B. DRAWING CHINA INTO THE WORLD COMMUNITY				
B0. Step up ministerial engagement in China.	B0.1 Possible visit: Defence Secretary	MOD	June/Jul 2003?	
B1. Encourage EU to engage more seriously in China.	B1.1 Raise China in EU in order to encourage GAC debate on EU policy towards China annually.	FCO	Ongoing	Gymnich discussion in early 03 agreed.
	B1.2 Chinese S&T collaboration with EU countries: Chinese participation in Sixth Framework and OST plans to liaise further with Research Councils and MOST to identify concrete opportunities	OST	Ongoing	
B2. Encourage constructive US engagement.	B2.1 Visit by Rosalind Marsden (Director, Asia/Pacific) to Washington	FCO	Nov 03	Complete
B3. Engage China in Peace Support Operations.	B3.1 Police training (Continuation of current civpol training activity.) Funding of £120k from GCPP.	FCO	Ongoing	
	B3.2 PSO training (military personnel):	MOD	Late 2002	
	<ul style="list-style-type: none"> Deployment of Land Warfare Centre Scoping Team to China to evaluate the PLA's current PSO training levels and facilities. (From GCPP allocation. Cost £20k). Command Training in UK to develop command skills of selected PLA Senior Commanders. (Cost £120k based on 12 students at £10K each)* Deployment of Short Term Training Team to China to conduct unit level 'train the trainer' assistance. (Cost £62k - 4 week deployment of 6 personnel)* 		2003	
	<ul style="list-style-type: none"> Deployment of Short Term Training Team to China to conduct unit level 'train the trainer' assistance. (Cost £62k - 4 week deployment of 6 personnel)* 		2003/04	
B4. Stop Chinese WMD proliferation.	B3.3 PSO briefing (military personnel), e.g.	MOD	2003	New Chinese Export Control regulations on chemical and biological weapons issued end Oct 02.
	<ul style="list-style-type: none"> Joint Doctrine and Concepts Centre to brief Chinese on UK's approach to PSOs and to continue dialogue on PSO doctrine. (Cost £30k)* *GCPP Strategy Steering Group to consider funding		Jan 03	
B4.1 Next round of biannual arms control talks, London.		FCO	18 Nov 03	
B5. Work constructively with China bilaterally and in international regimes to reduce environmental degradation and loss of biodiversity.	B5.1 Delegation of Climate Change Officials to China. Strengthened contacts.	DEFRA/FCO/DTI	Sept 02	Complete. Valuable insights into China's position
	B5.2 Emission targets: Continue dialogue with China in run-up to UN Climate Change Convention (COP9) in December 2003.	DEFRA	2002/2003	
	B5.3 Encourage China to implement decisions of the Convention on International Trade in Endangered Species (CITES) at COP 12 (Conference of Parties) in Santiago in November 2002, especially those proposed by UK	DEFRA/FCO	from end 2002	

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	B5.4 Work with China towards WSSD implementation plan objective of slowing rate of loss of bio-diversity by 2010	DEFRA/FCO	Ongoing	Bid made to Environment Fund for 2003/2004.
	B5.5 Work with China to promote Sustainable Forest Management and reduce illegal logging	DEFRA (Forestry Commission)/DfID/FCO	Ongoing	UK-China MOU on Forestry signed 30 Aug 02. UK a partner in the Asian Forest Partnership.
B6. Engage China more closely in international energy regimes.	B6.1 Encourage Chinese participation in energy Charter Treaty and non-member country outreach programmes of the IEA.	FCO/DTI	20 Sept 02	Brian Wilson bilateral with SDPC Chair Zhang Peiyang at the recent Osaka International Energy Forum
C. PROMOTING REFORM				
C0. Step up ministerial engagement in China.	C0.1 PUSS DWP, Mr Wicks (Promoting Reform; Britain as a Partner). Attending China Employment Forum.	DWP	Apr 03	
	C0.2 Possible visit: Secretary of State/Minister DfID (Promoting Reform; Britain as a Partner)	DfID	Nov 03?	
	C0.3 Possible visit: Secretary of State, DEFRA (Promoting Reform – Climate Change, Eco-tourism; Britain as a Partner – agriculture, food safety, water and trade/environment)	DEFRA	Nov 03?	
	C0.4 Possible visit: Lord Chancellor	LCD	03?	
C1. Achieve the Millennium Development Goals.	DFID will increase its annual programme to £60m. Key activities are:	DFID (all)		
	C1.1 China Country Strategy Paper (CSP) published.		Oct 02	Complete
	C1.2 High level international conference on poverty co-hosted by WB and GoC. Opportunity for ministerial attendance.		Oct 03	
C2. Support economic reform through sharing experience on fiscal issues, privatisation, regulation and labour market reform.	C1.3 Open new DFID Beijing office		Mar/Apr 03	
	C2.1 Host a third UK-China Financial Dialogue in London	HMT	Summer 03	
	C2.2 Various projects in Education and training to support the development of international legal and economic practice (oil and gas industry, financial services, aerospace, etc).	LCD/TPUK/BC		
	C2.3 UK-China fora:	TPUK		

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	<ul style="list-style-type: none"> • Re-Launch of China-Britain Industrial Consortium (CBIC) • UK-China Joint Commission • UK-China Forum - <ul style="list-style-type: none"> - Automotive Working Group - Natural Gas Working Group - Power Working Group - Chemical Working Group <p>C2.4 Promoting water sector reform, in particular effective regulation through:</p> <ul style="list-style-type: none"> • sponsored outward mission • water sector strategy paper for China to be completed by Mar 03 in China <p>C2.5 China Employment Forum. To be attended by Malcolm Wicks, PUSS, DWP. Follow-up activities to strengthen UK-China co-operation on employment issues.</p>	FCO/ TPUK	October 2002 Q1/Q2 2003 Q1/2003 Dec 2002 Q1/2003 Q3/2003	
		DEFRA	Oct 2003	
		DWP	Apr 03 and after	Complete
C3. Encourage China to address Human Rights issues.	C3.1 Private dialogue at ministerial and official level on human rights and public statements as appropriate. C3.2 Human rights scholarships and joint seminars/colloquia to support Chinese human rights reform.	FCO FCO/BC	Ongoing Ongoing	UK/China and EU/China bilaterals held Nov 02.
C4. Support legal and administrative reform programmes to achieve:	C4.1 Political engagement: Continuing high-level dialogue between Ministry of Personnel and Cabinet Office to be marked by Memorandum of Understanding. C4.2 Training and awareness	CMPS CMPS LCD	Feb 2004 Autumn 2003 Ongoing	
C5. Press China to take advantage of the Clean Development Mechanism and to improve energy efficiency within China.	C5.1 Joint UK-China project on the effects of climate change on Chinese agriculture. Workshop of the Climate Change Impacts Research project in Beijing in September 2002, followed by a study tour to the UK by Chinese scientists. A full international workshop will be held in China, probably in April 2003. C5.2 Greater engagement on: • Technology transfer; environment trade agenda; energy renewables and efficiency; • Environmental democracy - UK will encourage China's participation the Access Initiative, an NGO promoting environment democracy. C5.3 Joint UK-China project on capacity building for provincial decision-makers. C5.4 Promoting Agenda 21 in China, through work with NGOs across the country.	DEFRA DEFRA/ TPUK FCO FCO	Ongoing 2002/2003 Ongoing	Beijing workshop successfully completed. Trade/environment dialogue scheduled for March 03. First training course 4-6 Dec 02. NGO delegation attended WSSD

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	<p>C5.6 Clean and renewable energy joint projects between DTI and Chinese organisations, including MOST. Officials to review progress and further opportunities.</p> <p>C5.7 Support China Council on International Co-operation for Environment and Development.</p> <p>C5.8 DFID support for World Bank/GEF End Use Efficiency Project</p>	<p>DTI/ TPUK</p> <p>FCO/ DFID</p> <p>DFID</p>	<p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p>	<p>and generated significant press coverage on return. Follow-up workshops Oct-Nov 02.</p> <p>Evaluation mission Nov 02.</p>
C6. Use the Chevening scheme to influence the emerging generation of leaders.	C6.1 Chevening scheme to continue. Currently funded to £2m p.a. 192 students accepted for AY (Academic Year) 2002/03	FCO	Ongoing	Bid made for increased funding for 2003/04.
C7. Share best practise in Healthcare.	<p>C7.1 Journalists' training project with focus on public health issues</p> <p>C7.2 A range of activities under the MOU on Medicine and Public Health; also on Complimentary and Alternative Medicine, and mental health. Examples include:</p> <ul style="list-style-type: none"> • Officials attending an International Conference and Exhibition on the Modernisation of Traditional Chinese Medicine in China, Chengdu • Chinese officials to visit UK to study the reform of hospitals, the health system and the GP system. • Visit to Shanghai to build up links between universities and their spin-off companies, with a focus on life sciences. <p>C7.3 Healthcare scoping mission to China.</p>	<p>FCO</p> <p>DoH</p> <p>DoH</p> <p>FCO</p> <p>S.E. England Devel't Agency TPUK</p>	<p>Spring 2003</p> <p>end 2002</p> <p>Q2/2003</p>	
D. BRITAIN AS A PARTNER				
D0. Step up ministerial engagement in China.	<p>D0.1 PUSS, FCO, Bill Rammell</p> <p>D0.2 Minister of Education (Britain as a partner (University co-operation)</p> <p>D0.3 PUS DWP, Mr Wicks (Promoting Reform; Britain as a Partner)</p> <p>D0.4 Possible visit: Foreign Secretary (Think UK)</p> <p>D0.5 Possible visit: Defence Secretary (Britain as a partner; Drawing China in to the</p>	<p>FCO</p> <p>DfES</p> <p>DWP</p> <p>FCO</p> <p>MOD</p>	<p>20-24 Jan 03</p> <p>Feb 03</p> <p>Early Apr 03</p> <p>June/July03?</p> <p>June/July03?</p>	

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	World community – peacekeeping)			
	D0.6 Possible visit: Minister, Home Office (Britain as a partner – migration)	HO	Sept 03?	
	D0.7 Possible visit: Secretary of State, DEFRA (Britain as a Partner – agriculture, food safety, water and trade/environment; Promoting Reform – Climate Change, Eco-tourism)	DEFRA	Nov 03?	
	D0.8 Possible visit: Education Secretary (Britain as a Partner; Promoting Reform)	DfES	Late 03?	
	D0.9 Possible visit: Secretary of State, Trade and Industry + Lord Sainsbury + Mr Timms and Wilson (Britain as a partner – trade and investment)	DTI	?	
	D0.10 Possible visit: Minister from a Devolved Administration	Tbd	?	
	D0.11 Possible visit: DCMS Minister		?	
	D0.12 Possible visit: Minister, Department of Health	DoH	?	
D1. Launch a major public diplomacy campaign in China in 2002/3 to update and improve perception of the UK in China.	D1.1 Britain at the Leading Edge <ul style="list-style-type: none"> Weeklong programme of events held in Shanghai to showcase the best of modern British industry, science and culture. Included top level visitors from the UK including Secretary of State for Trade & Industry, Minister for Science and Innovation, Secretary of State for Culture Media and Sport. 	TPUK	20-27 October 02	
	D1.2 'Think UK' <ul style="list-style-type: none"> Major public diplomacy campaign to promote British innovation and creativity. Target audience: young educated Chinese in Beijing, Shanghai, Guangzhou and Chongqing. 	FCO/BC/ TPUK	May – Oct 03	£800k secured for this FY; £1.5m for next FY; £1.25m British Council funding over 2 yrs.
	Events targeted at business sector: D1.3 Seminars: financial services; environment; Invest UK ICT D1.4 Support for specific UK business sectors: <ul style="list-style-type: none"> UK Fund managers seeking entry to Chinese Markets Oil and Gas: support for UK exporters from UK and foreign oil companies which have a commercial and industrial interest in China 	TPUK		
	D1.5 CEO Roundtable	TPUK/ FCO	Q2/2003	
D2. Aim to make the UK the international study destination of choice for young Chinese and international education partner of choice for the	D2.1 Education reform in China , including <ul style="list-style-type: none"> Work to be a key partner of the Chinese Ministry of Education in support of education reform. Higher education strategic collaboration in: funding; leadership; e-learning (up to £3m funding to e-universities); and, industry-education links. Improve access to and quality of basic education and increasing participation of 	DFES, BC HEFCE, BC DFID	Ongoing Ongoing Ongoing	Note: * AY = Academic Year

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<p>Ministry of Education in educational reform.</p>	<p>girls in the education system.</p> <ul style="list-style-type: none"> Broadband and connection between academic networks (£97 k p.a.) <p>D2.2 Attract more Chinese students (an additional 30,000) to the UK and maintain beneficial links with alumni.</p> <p>D2.3 UK Education in China, including</p> <ul style="list-style-type: none"> Promotion of UK courses and qualifications (vocational and professional) within China. Some to be delivered jointly with Chinese institutions. Support UK education equipment suppliers in the Chinese market through trade missions and exhibitions Promote UK professional qualifications and membership of professional bodies <p>D2.4 Promoting Chinese language in UK:</p> <ul style="list-style-type: none"> Encourage Chinese language teaching in secondary schools with GCSE in Chinese (to be examined from 2003); increased Chinese language assistants (from 15 to 50); and increased number of school links with China (up to 50). Chinese Review Studies in higher education (funded for £4.5m over 5 years) Professional Chinese language development led by University of Westminster (funded for £300k over 3 years from 2002). <p>D2.5 Expand English Language Teaching (ELT) in China</p> <ul style="list-style-type: none"> Through e-learning and teacher-training projects (all stages of education). Collaboration on mutual recognition of qualifications with agreement on a mechanism. 	<p>HEFCE DfES, BC</p> <p>BC</p> <p>TPUK/ British Council</p> <p>TPUK</p> <p>TPUK</p> <p>DFES, EdExcel, BC</p> <p>HEFCE HEFCE</p> <p>BC, BBC, HEFCE</p> <p>BC & UK NARIC</p>	<p>By AY* 2004/05</p> <p>Ongoing. 1st courses delivered AY* 2004/05</p> <p>Ongoing</p> <p>Ongoing</p> <p>2002-2006</p> <p>to 2004 to 2005</p> <p>Mar 06</p> <p>Mar 03</p>	
<p>D3. Position the UK as China's partner of choice on Science and Technology. Promote UK as an active trade and investment partner.</p>	<p>D3.1 Implementation of TPUK Business Plan for China. Includes:</p> <ul style="list-style-type: none"> 27 trade missions to China covering wide range of sectors and locations number of seminars under Support for Exhibitions and Seminars Abroad (SESA) Programme inward missions to the UK comprehensive (approx £2m) commercial promotion programme delivered by CBBC on behalf of TPUK (part funded by TPUK via a Service Level Agreement) <p>D3.2 Establishment of a new fund for networking between Chinese and UK scientists renegotiated by Lord Sainsbury, October 2002. (UK contribution £100k p.a.)</p> <p>D3.3 Develop closer relations between the UK Research Councils and the UK DTI</p>	<p>TPUK</p> <p>OST</p> <p>OST</p>	<p>Ongoing</p> <p>Mar 03 onwards</p> <p>Ongoing</p>	<p>CE of NERC visited</p>

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	with Chinese Ministry of Science and Technology (MOST) with a view to developing more contacts between UK and Chinese scientists and companies in priority areas.			China Aug 20
	D3.4 Invest UK and China to conduct a feasibility study for the establishment of Chinese small research and development companies on a UK science park.	DTI	Ongoing	
	D3.5 UK venture capital in China and Chinese High Tech exhibition in the UK in 2003 (proposed by MOST) to be discussed in the UK-China High Tech Forum in Shanghai. Next High Tech Forum to be held in UK in October 2003.	DTI/TPUK	Oct 02	
	D3.6 Establishment of a joint research project in the field of intelligent transport systems.	DTI	Ongoing	
	D3.7 E-Science co-operation between MOST and the UK Biotechnology and Biological Sciences Research Council.	OST	Ongoing	
	D3.8 Target to develop UK participation in aerospace events in light of China's proposals for foreign partnerships.	TPUK	Ongoing	
	D3.9 Exploit opportunities such as Xiamen Investment Fair, Shenzhen Hi-Tech Fair, Support for Exhibitions and seminars Abroad (SESA), Beijing Olympic Task Force.	TPUK	Ongoing	
	D3.10 Create networks of young scientists and promote UK innovation in Science and Technology to wider young public.	BC	Ongoing	
D4. Position ourselves as China's gateway to Europe by encouraging inward investment, stressing financial services and other commercial strengths.	D4.1 Wide ranging programme of outward missions, seminars and targeted company approaches to encourage inward investment to the UK by key Chinese companies	Invest UK	Ongoing	
	D4.2 Work with MOST to prepare the next UK-China High Technology Forum to coincide with Exhibition of Chinese Technology and Chinese Minister's visit to the UK.	DTI/TPUK	Sept/Oct 03	
D5. Persuade China to address people smuggling and drug exporting including accepting responsibility for return.	D5.1 Increase dialogue with China on organised crime and counterfeiting. Encourage China to take steps to combat organised crime that impacts on UK.	HO/NCIS	Ongoing	
	D5.2 Strengthen existing bilateral contacts and co-operation by e.g. providing appropriate training and visits to the UK.	HO (FCO)	Ongoing, with visits to China every 3 mths.	MOU on Police Co-operation signed 21 Oct 02. Dedicated HO team working on China asylum issues.

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	D5.3 EU-China readmission agreement negotiating mandate to be agreed by JHA.	FCO/HO	Nov 02.	Agreement reached 28 Nov 02.
	D5.4 Implementation of MOU on combating crime.	NCIS	Oct 02 onwards.	MOU signed on 21 Oct 02.
	D5.5 Complete negotiation of MOU on seconding MPS officers to the Immigration Service (conditional on invitation from Chinese authorities).	HO	End 2002	HO officials visiting Beijing early December to negotiate MOU text.
	D5.6 Appointment of Crime Liaison Officer to Beijing.	NCIS/FCO	Summer 2003	Candidate interviews planned for Dec 02.
D6. Use bilateral and EU mechanisms to encourage greater efforts to combat illegal migration from China.	D6.1 EU-China co-operation programme on migration (EU National Indicative Programme). (10 million Euros funding for implementation agreed).	FCO/HO	Autumn 2002	Agreed in EU June 02. Awaiting reply.
	D6.2 Integrate JHA objectives (migration in particular), more effectively into wider China strategy.	HO/FCO/NCIS	Ongoing	
	D6.3 Stress at all levels, particularly Ministerial, the priority we accord to China improving its migration and asylum efforts, as part of a deepening relationship with EU and UK.	HO/FCO	Ongoing	
	D6.4 Immigration Service Airline Liaison Officer (ALO) in Beijing to take part in intelligence led co-operation with other EU liaison officers.	HO NCIS	Autumn 2002	
	D6.5 Tighten the system with regard to educational institutions and associated migration risks.	HO/DFES	End of 2002	
D7. Make our visa system more open and accessible for students, tourists and business visitors.	D7.1 Investigation into possible visa application abuse. Plan to fund a scoping study from the Reflex budget. First step is an analysis into scale of problem.	HO	Dec 2002	Requirements relaxed in Jul 02 for referring postgrad' visa applications.
	D7.2 New Visa Section in Chongqing.			New 5yr multiple-entry business visas and fast-track processing for certain categories of businessmen and students. 90% of straightforward applications issued within 24 hours.

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Mike Williams

From: Anna Wechsberg
Sent: 11 December 2002 19:07
To: David Hallam
Cc: Duty Clerks
Subject: FW: China Action Plan



NO.0401.doc



China 10.12ACTION
PLANv3.3.doc...

David fi - Jim can brief you on this.

DCO for file.

-----Original Message-----

From: McCarthy Janet - Secretariat A -
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Subject: RE: China Action Plan

Janet McCarthy
PS to Jim Drummond
Overseas and Defence Secretariat
Cabinet Office
Tel. 020 7276 0456
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China-Britain
Business Council
英中贸易协会

From: Lord Powell of Bayswater KCMG

9 December 2002

By fax

Sir David Manning KCMG
No.10 Downing Street

Abford House
15 Wilton Road
London SW1V 1LT

Tel: +44 (0)20 7828 5176

Fax: +44 (0)20 7630 5780

DM

cc: AW
JPO

Dear David,

Prime Minister's Visit to China

The Prime Minister's visit to China probably still seems comfortably far away! But there is one aspect which you may like to have in mind. Shell - in consortium with Exxon and Gazprom - are negotiating a contract to participate in the huge West-East gas pipe-line project. The negotiations are not going very well at present: but the prospect of the Prime Minister's visit and a potential signing ceremony then may exert leverage for a solution. There are two aspects which could involve No.10:

- (i) Shell may approach you at some stage in the near future for a Prime Ministerial message to Zhu Rong-ji to support their negotiating efforts;
- (ii) if the negotiations succeed, a signing ceremony could be a commercial centre-piece of the PM's visit. Indeed it is the only major prospect which I can currently identify.

Incidentally, on the commercial aspects of the visit, I am talking to Digby Jones at the CBI on the composition of a business delegation and we shall submit a list through TPUK and the FCO in due course. Our view is that the delegation should be fairly small and at Chairman/CEO level. The main caudate companies are:

Shell	HSBC
BP	Standard Chartered
BAe Systems	Unilever
Vodafone	P&O
Thames Water	Glaxo Smith Kline
B&Q	MGRover

We would probably recommend adding a couple of SMEs. Not all those listed would necessarily want to come, so the total would probably be 10/12.

No one has yet been approached, but we are already getting calls from some of the more notoriously self-important on the lines of: we're not going to be relegated to steerage while a bunch of civil servants travel first-class! I happily leave the politics of aircraft seating to No.10. I suppose the answer is: if they don't like what's on offer, they can make their own way.

you are
Chris

Fourth Floor
Berkeley Square House
Berkeley Square
London W1J 6BL
Tel 020 7543 1577
Fax 020 7543 1578

① *cc Jonathan
Mather*

From: LORD POWELL of BAYSWATER KCMG
8 November 2002

By fax

Sir David Manning KCMG
No. 10 Downing Street

Dear David,

China

② *Anne. I favour both
Expo for Shanghai; and
his attendance
at the May CBBE
Conference - if his
visiting allows.
Liz's views*

This is just an *aide-memoire* on a couple of issues concerning China which I mentioned to you over lunch.

➤ China and EXPO 2010

I explained that Shanghai is bidding to hold EXPO 2010. A personal Representative of Zhu Rong-ji is in town to lobby and is seeing Liz Symons. He also came to see me; and the probable next Premier Wen Jiabao lobbied me in Beijing in September. It is a major issue for the Chinese. The competition comes from Moscow, Warsaw, Seoul, Mexico City and one other which I cannot recall;

Shanghai has a very strong claim. It is the fastest-growing commercial centre in the fastest-growing economy in the world. There is a major British trade and investment stake in China in general and Shanghai in particular. Shanghai has an enviable infrastructure, is easily capable of the organisational effort required, and has a splendid EXPO site on the river. All these factors will of course be even more evident in eight years time. There is also the conjuncture of the Prime Minister's visit to China: a vote in Shanghai's favour in December - when the decision is to be taken - will still be resonating in April.

The argument is sometimes made that China cannot expect to have both the 2008 Olympics and the 2010 EXPO. I am not sure there is any great logic to that. China is the great emerging nation of the first part of the 21st century. Hosting these events will be as significant in binding China into the world community as is membership of WTO. The choice of Shanghai for EXPO would increase the incentive for further economic modernisation and opening up to the outside world which is both desirable in itself and advantageous for Britain's commercial interests. And anyway Spain had the Olympics and EXPO in the same year.

*Strong
agreement
his.*

*We're done
not recently
for Putin -
NAW/Russia
Commit; help
with WTO.
Attendance
at St Petersburg
300 annu.
etc.*

I understand the Trade & Industry Secretary is likely to minute No.10 and colleagues shortly: she was of course recently in Shanghai and is said to be sympathetic to its claim. However others in Whitehall are said to keen to avoid casting our vote at all, so as not to offend anyone. Just ducking does not sound a very Blair-like stance.

*I am against ducking. We
must get credit with no-one.*

I hope very much that the Prime Minister will come down robustly in favour of casting the UK's vote in favour of Shanghai.

➤ CBBC Conference

I recalled to you that, following his last visit to China, the Prime Minister spoke at a follow-up CBBC conference to enthuse the British business community about the prospects in China and leverage the success of his visit. There were some 300 businessmen present and the PM's participation was about 20 minutes.

We are planning a similar event for next year and have a provisional reservation on the QEII Conference Centre – a short step from No.10 – for 13 May. Our ideal would be for the Prime Minister to open the Conference with a 15-minute speech at 0900 or 0930 (we would help with the speech). Could you look kindly on our invitation and enter a preliminary bid for the Prime Minister's attendance (it would of course have to be rescheduled if his China visit were to be postponed to the Easter recess)? An appearance would maximise the return on investment represented by his China visit.

*Thank you for a delightful
lunch.*

*Yours truly,
Charles*

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LONDON SW1A 2AA

*Cite added to
In Box*

From the Private Secretary

6 December 2002

Dear Patrick

CHINA: CALL BY CHINESE AMBASSADOR

The new Chinese Ambassador, accompanied by his (even newer) Political Counsellor, called on Jonathan Powell, David Manning and me this morning.

Bilateral relations

The Ambassador said bilateral relations were in good shape. There had been a welcome series of high level visits. UK/China trade was growing. The UK was still the No1 European investor in China. Cultural and educational exchanges were also expanding. But there was potential to do much more. Jonathan agreed. Amongst other issues, he was struck by the success of **Chinese universities**. We might look at how to strengthen relationships between British and Chinese universities.

Jonathan said we remained interested in progress in **Hong Kong**. The Ambassador said China was implementing "one country, two systems" rigorously. Hong Kong's main challenge now was not political but economic. There would have to be some economic restructuring. But once that was over, he expected Hong Kong to grow faster than ever.

The Ambassador added that the **Chinese economy** was doing well, growing at 7.9%. Trade and investment had both increased following WTO accession. But big challenges remained – in particular in finding employment for new entrants to the labour market and for those who had been made redundant as a result of restructuring of state-owned enterprises.

The Ambassador thanked us warmly for the UK's support for Shanghai's bid for **Expo 2010**.

Global issues

David said we were keen to deepen our dialogue with China on global issues, including the new threats of **terrorism and WMD proliferation**. The

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Prime Minister's clear view was that the international community could only counter these threats effectively if it worked together. As fellow members of the P5, we should ensure we consulted closely. David welcomed our dialogue on **North Korea** in this context. The Ambassador said China wanted peace and stability on the Korean peninsula. China was against any proliferation of WMD on the peninsula, and wanted it to be nuclear free. China continued to think the 1994 Agreed Framework was the right approach, and that it should be adhered to.

There was a brief exchange on **Iraq**. The Ambassador welcomed UNSCR 1441. China was clear that Iraq had to comply fully with UNSCRs. David agreed. 1441 had been a triumph for the Security Council and the UN. The UN now had to live up to its responsibilities.

Prime Minister's visit to China

The Ambassador asked what the Prime Minister hoped to get of his visit. Jonathan and David said he would want to talk to the new leadership about global issues, economic issues, and give a boost to UK/China trade and investment - we planned to take some senior business people with us. But the top priority was to build on the Prime Minister's earlier contacts with Hu Jintao and Wen Jiabao, and establish **strong personal relationships** which would allow the two leaderships to pick up the phone to each other more often. David added that the Prime Minister would also be interested in Chinese perceptions of developments in Asia. The Ambassador said he stood ready to help in any way he could with the Prime Minister's visit.

I am copying this to Erica Zimmer (DTI), Chris Wormald (DfES), Peter Watkins (MOD), Mark Bowman (HMT), Anna Bewes (DFID), Sir Stephen Brown (BTI), Jim Drummond and John Scarlett (Cabinet Office) and Christopher Hum (Beijing).

Anna Wechsberg

ANNA WECHSBERG

Patrick Davies
FCO