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PREM 19/1797

PART TWO

SECRET

Confidential Filing

The Prime Minister's meetings & correspondence with Sir Yue-kong PAO, a shipping magnate.

HONG KONG

Part 1: May 1979

Part 2: Feb: 1982

19/1797

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
30.12.85							
7.3.86							
20.3.86							
21.3.86							
3.6.86							
6.6.86							
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18.9.86							
15.10.86							
24.10.86							
29.10.86							
PREM 19/1797							
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PART 2 ends:-

CDP to fco 29/10/86

PART 3 begins:-

fco to CDP 4/11/86

Sir Y.K. Pao
atn

file



cf

DA
09

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

29 October 1986

I enclose ^{ON FILE 8/10/86.} a copy of a letter to the Prime Minister from Sir Y.K. Pao conveying a formal invitation to HMG to be represented at the inauguration of the Ningbo University on 26 November. The letter has taken nearly three weeks to arrive but only confirms the invitation which Sir Y.K. issued orally during his meeting with the Prime Minister.

I understand that Mr. Walden, Parliamentary Under-Secretary in the DES, has agreed to represent the Government on this occasion. I should be grateful for confirmation of this and a draft reply to Sir Y.K. Pao which conveys any other points about Mr. Walden's programme which may be appropriate.

I am copying this letter to Cathy Roberts (Department of Education and Science).

(Charles Powell)

R.N. Culshaw, Esq.,
Foreign and Commonwealth Office.

BM



DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
TELEPHONE 01-934 9000

FROM THE PARLIAMENTARY UNDER-SECRETARY OF STATE

R N Culshaw Esq
Private Secretary to
Secretary of State
Foreign and Commonwealth Office
LONDON SW1A 0AH

24 October 1986

Dear Robert

INAUGURATION OF NINGBO UNIVERSITY, CHINA: 26 NOVEMBER 1986

Mr Walden has seen your letter of 14 October to Miss Roberts and, as you know, is content to undertake a visit to China for the inauguration of Ningbo University. He has my Secretary of State's permission to be abroad from 24-30 November.

He would be happy to meet Chinese Vice Premier Wan Li, and to pay a visit on the State Education Commission in Peking, if his programme allowed. He would also hope to visit Hong Kong and its University, towards the end of his stay.

I would be grateful if you could provide briefing for the visit, and liase with the Embassy in Peking and Consulate-general in Shanghai, to arrange the programme. I look forward to hearing from you, or from them, direct.

I am copying this to the Prime Minister's Private Secretary and the Government Whip's Office.

Yours ever

Rosemary

MRS ROSEMARY HUSSAIN
Assistant Private
Secretary

②
Prime Minister
CDP
26/11



DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH II, YORK ROAD, LONDON SE17 7RN
TELEPHONE 81344000

FROM THE PARLIAMENTARY UNDER SECRETARY OF STATE
R. H. CULSHAW Esq.
Private Secretary to
Secretary of State
Foreign and Commonwealth Office
LONDON SW1A 0LN

27 October 1958

Dear Sir,

INVITATION OF NINGBO UNIVERSITY, CHINA: 28 NOVEMBER 1958

Mr. Walden has seen your letter of 14 October to Miss Roberts and, as you know, is content to undertake a visit to China for the inauguration of Ningbo University. He has my secretary at Home's permission to be absent from 24-30 November.

He would be happy to meet Chinese Vice Premier Wan Li, and to pay a visit to the State Education Commission in Peking, if his programme allowed. He would also hope to visit Hong Kong and the University towards the end of his stay.

I would be grateful if you could provide details for the visit, and liaise with the Embassy in Peking and Consulate-General in Shanghai, to arrange the programme. I look forward to hearing from you, or from Miss direct.

I am copying this to the Prime Minister's Private Secretary and the Government Whip's Office.

Yours ever
Kesteven

MRS ROSEMARY BURDICK
Assistant Secretary



Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 01-215 7877

15 October 1986

Charles Powell
Private Secretary to the Prime Minister
10 Downing Street
Whitehall
London SW1A 2AA

Dear Charles,

MEETING WITH SIR Y K PAO : 14 OCTOBER 1986

Following his meeting on Monday with the Prime Minister, Sir Y K Pao met my Secretary of State yesterday evening, and I attach a note of this meeting.

I am copying this letter and attachment to Colin Budd (FCO) and Jill Rutter (Chief Secretary's office).

Yours ever,

Michael

MICHAEL GILBERTSON
Private Secretary

Prime Minister
Apparently Sir Yk
was quite satisfied
with this meeting.

COP
15/x - m6

SECRETARY OF STATE'S MEETING WITH SIR Y K PAO :
14 OCTOBER 1986

Present: Secretary of State Sir Y K Pao
 Mr Benjamin PEP
 Mr Formstone PEP

SUMMARY

Discussion of the Ningbo Steelworks project, following Sir Y K Pao's meeting with the Prime Minister the previous day. The Secretary of State explained that it might be possible to produce a financing package at 7% without recourse to soft finance. Sir Y K Pao would explore this possibility.

DETAIL

Sir Y K Pao said that he had briefly discussed the project with Premier Zhao in Peking. The Chinese Government were now prepared to guarantee the purchase of steel from the mill for a 30 year period, rather than 20 years. They were also prepared to put up 25% of the equity. Sir Y K Pao was prepared to contribute 5%, leaving Davy and other offshore interests to provide the remaining 70%. Davy were resisting this and the Chinese view was that their attitude towards majority foreign equity participation had changed. Sir Y K Pao had explained to the Chinese authorities (Li Peng?) that as no return on equity was expected for 15 years it was not realistic to expect substantial foreign participation. This remained a problem which was to be left for future negotiation. Another major sticking point was concessionary finance. The Chinese Government wanted the entire project to be financed at an average interest rate of 7% including commercial loans. Sir Y K Pao suggested that in order to achieve this, soft finance would be necessary and he had been pressed by the Chinese Government to find a way of obtaining aid.

The Secretary of State explained that, given OECD rules, the minimum amount of aid the UK Government would be required to provide on the basis of £1bn UK content would be £250 million (25%). This was a huge sum which simply could not be accommodated within the aid budget. However, he suggested that it ought to be possible for a financing package with an interest rate of 7% to be constructed using export credits and

commercial facilities, including a mix of currencies, eg Yen and DM. Mr Benjamin suggested that Sir Y K Pao's own team at Standard Chartered ought to be able draw up such a package.

Sir Y K Pao gave the impression he had not considered this option. Premier Zhao had not mentioned to him the possibility of using currencies other than sterling. He said that he would now explore this route, and agreed to mention it to Standard Chartered.

Sir Y K Pao raised briefly the problem of guaranteeing loans for the project. Premier Zhao had suggested to him that the Hong Kong & Shanghai Bank (nominated by Davy consortium) and the Bank of China could guarantee a loan jointly. Sir Y K Pao had told Premier Zhao that Hong Kong & Shanghai would probably not find this very attractive, although the Chinese commitment to purchase steel from the mill for 30 years would obviously help. Mr Benjamin said that no doubt ECGD would require a Bank of China Guarantee.

Sir Y K Pao said that the parties were now continuing their negotiations in Peking and hoped to sign a memorandum as a basis for proceeding, leaving difficult issues to be resolved. This was important in order to maintain momentum.

He also said that he understood that the Japanese were prepared to finance and build a steelworks without guarantees, taking their return from the project over a period of 15 years, after which the project would be handed over to the Chinese.



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 Sir Y K Pao's own team at Standard Chartered ought to
 be able to bring up such a package.
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 a loan jointly. Sir Y K Pao had told President Zhao that
 Hong Kong & Shanghai would probably not find this very
 attractive, although the Chinese commitment to purchase
 steel from the mill for 30 years would obviously help.
 Mr. Benjamin said that no doubt ECDB would require a
 Bank of China guarantee.
 Sir Y K Pao said that the parties were now continuing
 their negotiations in Beijing and hoped to sign a
 memorandum as a basis for proceeding, leaving difficult
 issues to be resolved. This was important in order to
 maintain momentum.
 He also said that he understood that the Japanese were
 prepared to finance and build a steelworks without
 guarantee, taking their return from the project over a
 period of 15 years, after which the project would be
 handed over to the Chinese.

subject cc master.

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file SKWAKG
cc PE
meeting record.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

13 October 1986

Dear Colin,

PRIME MINISTER'S MEETING WITH SIR Y. K. PAO

Sir Y.K. came to see the Prime Minister this evening at his own request.

Ningbo Steel Works

Sir Y.K. said that he had come direct from talks with the Chinese Prime Minister in Peking about the Ningbo steel works. Prior to his visit, there had been deadlock on three points: the capital ratio, bank guarantees and the length of the period for which the Chinese Government would guarantee to purchase the steel works' output. As a result of his visit, all three of these problems were well on the way to a solution. The capital structure had been revised as described in paragraph 2 of Peking telegram no. 1969. The Chinese Government were now prepared to extend the period during which they would guarantee purchases from 20 to 30 years. The main outstanding problem concerned concessionary finance. Zhao Ziyang had made clear that the Chinese Government would want to see the project financed at an average rate of interest of under 7 per cent. He had charged Sir Y.K. with urging the Prime Minister to make available soft loans for the British share of the steel works project in order to bring the average rate of interest below that figure. Sir Y.K. stressed the importance of the project. He recognised that the sums involved were considerable. He suggested that Ningbo should be treated as a special case. He urged the Prime Minister to give favourable consideration to the proposal.

The Prime Minister said that the sums involved were very large indeed and well beyond the scope of our ATP programme. Indeed, they would amount to four years of total ATP grant allocation for the whole world. She did not see how we could possibly provide concessionary finance on this scale. She would ask Mr. Channon to go through the figures with Sir Y.K. and discuss whether there were other ways in which we might be able to help. But she repeated that she could see no way in which we could provide a soft loan of the scale which the Chinese Government were seeking. Sir Y.K. Pao expressed considerable disappointment at this reply and recalled that he was ready to put a considerable amount of his own money into the project. He would like to take up the Prime Minister's

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suggestion of a meeting with Mr. Channon.

High Level Meetings

Sir Y.K. Pao said that, while in Peking, he had put to Zhao Ziyang the Prime Minister's proposal that British and Chinese leaders should have private meetings each year. Zhao Ziyang had responded positively. The Prime Minister said that she thought there might be some misunderstanding. She was not aware of any such proposal though she knew that it had been suggested that meetings on the model of the Ditchley Park Conferences, involving officials and other leading citizens from many walks of life, could play a helpful role in Anglo-Chinese relations. While there would no doubt be some Ministerial participation, these would not be primarily meetings of Ministers, let alone Prime Ministers. It might be possible to arrange for such meetings to take place in the context of Ministerial visits between Britain and China. Sir Y.K. Pao expressed interest in this suggestion though it clearly differed from that which he put on his own authority to Zhao Ziyang.

You will no doubt want to consider how best to put the record straight with the Chinese.

Ningbo University

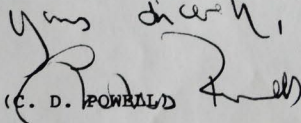
Sir Y.K. said that the university would be inaugurated on 26 November. He would very much welcome it if the Prime Minister were able to nominate a representative to attend the opening ceremonies. The Prime Minister said that she thought this was a good idea. She would nominate one of her Ministerial colleagues. Mr. Walden, as Minister with responsibility for universities and as a Chinese speaker, would be an ideal choice. She would approach him.

511 I should be grateful if you could follow this up with Mr. Walden's office.

China Internal

Sir Y.K. said that he had recently seen Deng Xiaoping's son. He had received the impression that it was now most unlikely that Deng Xiaoping would retire from his remaining posts next year.

I am copying this letter to Michael Gilbertson (Department of Trade and Industry) and Jill Rutter (Chief Secretary's Office).

Yours sincerely,

(C. D. POWELL)

Colin Budd, Esq.,
Foreign and Commonwealth Office.

CCPC

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Foreign and Commonwealth Office

London SW1A 2AH

13 October 1986

CDP/13/x.

Don Carlos,

Y K Pao

Sir Y K Pao has asked the Foreign Secretary in Hong Kong to transmit a letter from him to the Prime Minister. The text is as follows :

"You may like to know that the inauguration of the Ningbo University, an institution donated solely by my family to our native city of Ningbo in Zhejiang Province, is scheduled on Wednesday 26 November 1986. As this is the city's first ever tertiary educational institution and as the central government has earmarked the city as a major out-looking industrial and trade region, a large contingent of the country's leadership led by Vice Premier Wan Li will be present on this occasion.

I am writing in the hope that in view of the recent strengthening of Sino-British cooperation in the education sphere, you may deem it appropriate to nominate a member of your administration to be my honoured guest to represent you on this significant occasion. I would of course be only too pleased to provide the air passages and accommodation required for the trip.

May I have the pleasure of hearing from you at an early date.

With kindest regards, Yours Sincerely"

/Y K Pao



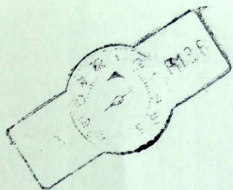
Y K Pao made clear to Sir Geoffrey Howe that he was thinking of a representative at Ministerial or junior Ministerial level; the Foreign Secretary's response was that this may be difficult at such short notice, especially during our EC Presidency. We shall consider this point and offer further advice on a draft reply by the end of this week, so that the Foreign Secretary can pass it to Y K Pao when he sees him in China towards the end of The Queen's Visit.

Yours ever

(R N Culshaw)

(R N Culshaw)
Private Secretary

C D Powell Esq
No 10 Downing St



W.R.
PRIME MINISTER ✓ CDP 13/x

MEETING WITH SIR Y K PAO

1. You will want to thank him for the champagne which he has sent you for your birthday.
2. He has asked for the Government to be represented at the inauguration of Ningbo University (which he has financed) on 26 November. It might be difficult to provide an FCO minister because of Presidency commitments. But you could offer to see what you can do. [George Walden might be a candidate. He's responsible for universities and speaks Chinese.]
3. Y K will also raise the subject of the Ningbo steel works. He will tell you that the Chinese are ready to increase their shareholding to 25 per cent and that the main outstanding problem is concessionary finance. We think that soft finance is simply not feasible for the whole project. [25 per cent ATP would cost us £¹/₄ billion, four times our total annual ATP allocation.] ECGD cover will of course be available.
4. He may also say that the Chinese government are ready to agree to "your proposal" for a private meeting between British and Chinese leaders once a year. This in fact is a garbled version of a personal proposal put to Sir Y K by Percy Cradock for a sort of Anglo-Chinese Ditchly Conference.

CDP.

CHARLES POWELL
13 October 1986

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cc pd
cc [unclear]



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1-19 VICTORIA STREET
LONDON SW1H 0ET

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Secretary of State for Trade and Industry

PS/

13 October 1986

Charles Powell
Private Secretary to the
Prime Minister
10 Downing Street
Whitehall
London SW1

CDP
13/X

Dear Charles,

CHINA: PRIME MINISTER'S MEETING WITH SIR Y K PAO - 13 OCTOBER 1986
: NINGBO STEELWORKS

As requested, I attach a short line to take on the availability of
concessionary finance for this project.

I am copying this letter and attachment to Robert Culshaw (FCO).

Yours ever,
Michael

MICHAEL GILBERTSON
Private Secretary

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BOARD OF TRADE
BICENTENARY



BRIEF FOR PRIME MINISTER'S MEETING WITH SIR Y K PAO 13TH OCTOBER 1986.

CHINA - NINGBO STEELWORKS

The Project

Davy McKee consortium pursuing £3 billion contract (£1 billion UK content) to build an integrated steelworks at Ningbo, Sir Y K Pao's birthplace.

Aid Finance

The Chinese have pressed Davy for aid. DTI have consistently resisted because scale of support not feasible. An ATP 25% grant would be £250 million - equal to four years of total ATP grant allocation, and if soft loan this would effectively absorb all outstanding allocation agreed by Ministers last August.

Line to Take

- A. No problem in principle to ECGD cover for the total subject to normal conditions. [But Chinese, as with Guangdong, will negotiate hard for the finest ECGD terms and the high level of ECGD premium will be a major obstacle].
- B. Equity participation is for commercial parties to negotiate. [Chinese negotiating for majority foreign equity - Davy want minority].



BRITISH PRIME MINISTER'S MEETING WITH SIR Y K PAO 13TH OCTOBER 1986.

CHINA - KINGBO STEELWORKS

The Project

Davy McKee consortium pursuing £3 billion contract (£1 billion UK contract) to build an integrated steelworks at Ningbo, Sir Y K Pao's dispatch.

Aid Finance

The Chinese have pressed Davy for aid. D11 have consistently resisted requests for support not feasible. An A1P 252 grant would be £350 million - equal to four years of total A1P grant allocation, and it soft loan this would effectively absorb all outstanding allocation agreed by Ministers last August.

Line to take



A. No problem in principle to ECDD cover the total subject to normal conditions. [But Chinese, as with Guangdong, will negotiate hard for the finest ECDD terms and the high level of ECDD presence will be a major obstacle].
B. Joint participation in the construction is for commercial parties to negotiate. [Chinese negotiating for majority foreign equity - Davy want minority].

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MR POWELL

13 October 1986

SIR Y K PAO

*Robt you
CDP 13/x.*

1. You may wish to have background to Y K Pao's reported proposal to the Chinese of annual meetings between British and Chinese leaders.

2. In August I attended a lunch with Lord Denman (Saudi/British Bank) and Lord Greenhill. Denman suggested that if Sino/British relations were to remain at their present level, arrangements would have to be made for regular informal contact between Chinese and British leaders, including up and coming figures and senior officials. In other words a Chinese Ditchley. Both Denis Greenhill and I pointed out some of the obvious problems, eg the distance, the greater formality of the Chinese system, the unwillingness of their leaders to leave the country except for specific official visits, or to depart from their briefs; but both of us agreed that it was in principle a good idea. As regards the venue, we felt that a dedicated site would not be needed; a suitable conference centre, including Ditchley itself could be hired for a particular occasion and once a year would probably be as much traffic as the bridge could bear. There was naturally much talk about sources of finance and the name of Y K Pao cropped up.

3. When I had drinks with Y K Pao during his most recent visit here I thought aloud to him about how to keep Sino/British relations in good trim and asked what he thought about a Chinese-type Ditchley. He thought this would be difficult for the Chinese and that the only thing they might accept would be regular formal meetings of Ministers on the Sino/Japanese pattern (a group of Chinese and Japanese Ministers meet twice a year). I said this was all very well for the Chinese and Japanese, who live next

- 1 -

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door, but would not do in our case. There the matter rested. I made it clear to Y K that I was talking personally but he seems nonetheless to have picked up the idea and presented it to the Chinese as one coming from the Prime Minister.

4. When the Prime Minister sees Y K later today she will not want to be too cool to the possibility of more money to advance Sino/British relations, but she will want to point out the difficulties in the way of regular Ministerial travelling. The Foreign Secretary is being briefed to take the line of welcoming closer relations, referring to Parliamentary pressures on Ministerial time, but saying that we would welcome another high level Chinese visit here next year, perhaps by a Vice-Premier. He will also speak encouragingly about the value of Ditchley-type meetings. Comment of this kind might also be appropriate with Y K Pao.



PERCY CRADOCK

ADVANCE COPY

ZCZC
HPLNAN 5857 PEHPAN 0472
RESTRICTED
DD 130800Z FCOLN
FM PEKIN TO FCOLN
121245Z OCT
GRS 300

No. 10 BARRING ST

RESTRICTED
FM PEKING
TO DESKBY 130800Z FCO
TELNO 1969
OF 121245Z OCTOBER 86

FOLLOWING FOR PRIVATE OFFICE FROM PRIVATE SECRETARY

Y K PAO

1. THE SECRETARY OF STATE SAW SIR Y K PAO BRIEFLY AT THE AIRPORT THIS MORNING. HE SAID THAT HE WAS DUE TO SEE THE PRIME MINISTER IN LONDON AT 6.30 PM ON MONDAY 13 OCTOBER. HE HAD JUST RETURNED FROM PEKING, WHERE HE HAD SEEN ZHAO ZIYANG.
2. HE SAID THERE HAD BEEN A CONSIDERABLE SHIFT IN THE CHINESE POSITION ON THE NINGBO STEEL WORKS PROJECT. THE CHINESE HAD NOW AGREED TO RAISE THEIR OWN PROPOSED SHAREHOLDING TO 25% FROM 5%; Y K PAO WOULD HOLD 5%, THUS LEAVING 70% FOR THE BRITISH SIDE INSTEAD OF 90%.
3. THE MAIN OUTSTANDING PROBLEM CONCERNED THE PROVISION OF CONCESSIONARY FINANCE. ZHAO HAD SAID THAT THE CHINESE HAD SET A TARGET FOR AN AVERAGE RATE OF 7% OR LESS. IF THIS COULD BE ACHIEVED, THEN THE PROBLEM OF A BANK OF CHINA GUARANTEE WOULD BE "SOLVED".

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4. SIR Y K INTENDS TO RAISE THIS QUESTION WITH THE PRIME MINISTER TOMORROW. HE WAS A LITTLE VAGUE ABOUT THE DETAILS, BUT DTI WILL PRESUMABLY BE FAMILIAR WITH THEM. HE SAID THAT HE WOULD BE IN TOUCH WITH THE BRITISH SIDE OF THE PROPOSED PROJECT DURING THE COURSE OF TODAY.

5. SIR Y K PAO ALSO SAID THAT ZHAO WAS PREPARED TO AGREE IN PRINCIPLE TO THE PRIME MINISTER'S "PROPOSAL FOR A PRIVATE MEETING BETWEEN BRITISH AND CHINESE LEADERS ONCE A YEAR". (COMMENT: WE KNOW OF NO SUCH FORMAL PROPOSAL, BUT THE SECRETARY OF STATE BELIEVES THAT THE PRIME MINISTER MAY HAVE SAID ALMOST JOCULARLY TO HU YAOBANG THAT THE HABIT SEEMED TO HAVE BEEN ESTABLISHED OF MEETINGS ABOUT ONCE A YEAR. GRATEFUL FOR URGENT ADVICE IN CASE ZHAO REVERTS TO THIS WITH THE SECRETARY OF STATE.)

6. SIR Y K PAO WILL ALSO RAISE WITH THE PRIME MINISTER THE QUESTION OF THE NINGBO UNIVERSITY INAUGURATION RAISED IN HONG KONG TELNO 3360. THE SECRETARY OF STATE SPOKE AS THEREIN INDICATED.

EVANS

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PEHPAN 0472

NNNN

PRIME MINISTER

MEETING WITH SIR Y. K. PAO

Sir Y K telephoned to say that he had just come back from Peking with some urgent and important information which he needed to pass on to you. We have therefore put him in the diary for 1830 hours on Monday, given the imminence of The Queen's visit.

C.P.

m

Charles Powell

10 October 1986

00
Sir Yue-Kong Pao C.B.E., LL.D., J.P.

ccpk
WORLD-WIDE SHIPPING GROUP
24th Floor, Wheelock House
20 Pedder Street
Hong Kong Tel.: 5-8442288
Telex: HX73247 Fax: 5-8100617

8th October, 1986.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
No. 10 Downing Street
London SW1
ENGLAND

Dear Prime Minister,

You may like to know that the Inauguration of the Ningbo University, an institution donated solely by my family to our native city of Ningbo in Zhejiang Province, is scheduled on Wednesday, 26th November, 1986. As this is the city's first ever tertiary educational institution and as the Central Government has earmarked the city as a major out-looking industrial and trade region, a large contingent of the country's leadership led by Vice Premier Wan Li will be present on the occasion.

I am writing in the hope that in view of the recent strengthening of Sino-British co-operation in the educational sphere, you may deem it appropriate to nominate a member of your Administration to be my honoured guest to represent you on this significant occasion. I would of course be only too pleased to provide the air passages and accommodation required for the trip.

May I have the pleasure of hearing from you at an early date.

With kindest regards,

Yours sincerely
Y. K. Pao

PRIME MINISTER

MEETING WITH SIR Y K PAO

Sir Y K is coming to see you tomorrow. One subject which he is likely to raise is his involvement in Standard and Chartered. I attach a note by the Treasury.

Tony Barber telephoned to say that Standard and Chartered were very pleased to have Sir Y K's participation, and it would be helpful if you could tell Y K this.

C.D.P.

ms

CHARLES POWELL

18 September 1986

STRICTLY PERSONAL
COVERING SECRET



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Charles Powell Esq
10 Downing Street
London
SW1

16 September 1986

Dear Charles,

Thank you for your letter of 15 ^{at 11.45} September.

The Prime Minister might like to know that the Chancellor, Chief Secretary and Economic Secretary all had separate meetings with Sir Y K Pao recently. Standard Chartered was discussed at these meetings, but there were no substantive points raised. Sir Y K Pao was particularly cagey about his own intentions regarding the Bank.

The Prime Minister might find it useful to see the attached briefing on Standard Chartered Bank which was prepared for the Economic Secretary's meeting.

Yours sincerely,
Cathy Ryding

CATHY RYDING

SIR YUE-KONG PAO'S COURTESY CALL ON THE ECONOMIC SECRETARY
ON THURSDAY 11 SEPTEMBER

NOTE ON STANDARD CHARTERED

The Economic Secretary does not need to be reminded that Sir Yue-Kong Pao, with Tan Sri Khoo Teck Puat, another Hong Kong businessman, and the Australian Robert Holmes à Court by together acquiring a 27.3% shareholding in Standard Chartered in July were instrumental in forestalling the £1.3 billion takeover bid by Lloyds. These three are now directors on the Standard Chartered Board and it was reported in the press on 4 September that the first board meeting including them would be held on Tuesday this week. The attached article extracted from The Times of 4.9.86 reports this and Standard's continuing hostility to any Lloyds overtures.

2. There has been much speculation about the motives of Sir Yue Pao and the others in taking this action beyond preventing the Lloyds bid from succeeding. Sir Yue Pao stopped short (at 14.9%) of acquiring a 15% shareholding which under the Banking Act is deemed to be a controlling interest (for which the Bank of England's permission is required). The attached article from the Financial Times of 14 July speculates on Sir Yue's motives and among other things the possible implications of the episode for the Bank of England's policies and powers in relation to bank takeovers.

3. The Bank of England's position on the Lloyds' bid was neutral and, before it failed, the Mergers Panel had recommended that it should not be referred to the Monopolies and Mergers Commission for investigation.

11/20/85
11/20/85

Go home, Standard tells Lloyds Bank

From Stephen Leather, Hong Kong

Mr Michael McWilliam, group managing director of Standard Chartered Bank, yesterday hit out at Lloyds Bank's bid to acquire up to 29.9 per cent of Standard's shares.

Lloyds has applied to the United States Federal Reserve Board for permission to buy the stake in Standard Chartered after it lost its £1.3 billion takeover bid in July.

Under British takeover rules, Lloyds cannot make another full bid for the next 12 months - unless it is an agreed takeover or a third party makes an offer. But its application to the Fed shows that Lloyds has not given up.

Lloyds needs American approval to increase its 4.7 per cent stake because Standard owns the Union Bank of California.

Mr McWilliam, speaking in Hong Kong, criticized Lloyds' persistence and said Standard had "protested strongly" to the regulatory authorities in London and the US.

"We have protested because

we think this development is harassing. We know this move is inhibiting the proper management of Standard Chartered's business and we would like Lloyds to absorb this clear message - they were unwanted when they made their bid, they failed, and we would like them to go home and get on with their business."

Mr McWilliam said the group was considering the possibility of floating off its Hong Kong banking side as a unit with its own listing. They also needed to improve Standard Chartered's results.

Business had improved in the crown colony since the start of the year, he said, but he gave warning that local results would not appear very good because of the impact of two big shipping problems.

● The first Standard Chartered board meeting to include the new directors Sir Y K Pao, Tan Sri Khoo and Mr Robert Holmes à Court will be held on Tuesday.

SECRET

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OCMIAN 8702
SECRET
PP HOKON
FM FCOLN TO HOKON
271630Z AUG
GRS 259

SECRET
FM FCO
TO PRIORITY HONG KONG
TELNO 1823
OF 271630Z AUGUST 86

YOUR TELNO 2448: STANDARD CHARTERED

1. WE HAVE CONSULTED THE BANK OF ENGLAND, WHO TELL US THAT SIR Y K PAO CALLED ON THE GOVERNOR OF THE BANK ON 29 JULY. NEITHER IN HIS CONVERSATION THEN (NOR IT WOULD SEEM IN CONVERSATIONS WITH STANDARD CHARTERED) DID SIR Y K PAO INDICATE THAT HE HAD STRONG VIEWS ABOUT A MAJOR RESTRUCTURING. HE INDICATED THAT HE COULD BE REGARDED AS A LONG-TERM INVESTOR AND THAT UNTIL HE HAD TAKEN UP HIS SEAT ON THE BOARD, HE WAS IN NO POSITION TO MAKE JUDGMENTS ABOUT THE STRATEGY WHICH STANDARD CHARTERED MIGHT NOW OR IN THE FUTURE BE FOLLOWING. HE WILL, HOWEVER BE RETURNING AT HIS REQUEST ON 10 SEPTEMBER TO SEE THE GOVERNOR OF THE BANK AGAIN: SHOULD ANY FIRMER INDICATIONS OF HIS INTENTIONS BE REVEALED AT THAT MEETING WE SHALL INFORM YOU.

2. THE SCENARIO PAINTED IN YOUR CABLE IS, AS YOU POINT OUT, SPECULATIVE. WHILE UNDERSTANDING THE PROBLEMS WHICH SUCH A DEVELOPMENT MIGHT GIVE RISE TO IN HONG KONG THE BANK OF ENGLAND SAY THEY ARE IN NO POSITION TO COMMENT ON IT UNTIL THEY HAVE SOME DETAIL OF WHAT MAY BE PROPOSED BY THE STANDARD CHARTERED BOARD NOT JUST IN RELATION TO HONG KONG BUT ALSO MORE GENERALLY FOR THEIR BUSINESS WORLDWIDE. UNTIL HARD FACTS AND PROPOSALS ARE AVAILABLE IT IS DIFFICULT TO REACT AT ALL SENSIBLY TO WHAT MAY BE ONLY ONE OF A NUMBER OF HYPOTHETICAL SITUATIONS - AND ONE WHICH

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IS PERHAPS UNLIKELY TO ARISE IN ISOLATION.

YOUNG

OCMIAN 8702

LIMITED
HKD
FED
ECONOMIC ADVISERS
PS/MR RENTON
SIR W HARDING
DR WILSON

COPIES TO:

~~MR C KELLY~~ MR TESSY
~~MR P KENT~~ B/E

2
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OFFICE OF THE ATTORNEY GENERAL
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GRS 500

SECRET
FROM HONG KONG
TO PRIORITY FCO
TELNO 2448
OF 290600Z JULY 86

HKK 10011

STANDARD CHARTERED

7/8/86

THERE IS STILL MORE SPECULATION THAN HARD FACT FOLLOWING SIR Y K PAO'S ACQUISITION OF SHARES IN THIS BANK.

2. THE HONGKONG BANK AT ALL LEVELS DENY ANY IMPLICATION IN THE DEAL AND I ACCEPT THIS. SIMILARLY BROWN OF STANDARD CHARTERED HAS TOLD ME CATEGORICALLY THAT HIS BANK HAS NOT ASSISTED SIR Y K IN ANY WAY. WHATEVER HIS SOURCE OF FUNDS (AND SOME SOURCES HAVE SUGGESTED WE SHOULD NOT RULE OUT THE FORAY AS A PERSONAL VENTURE), SIR Y K CLEARLY BELIEVES HIS NEAR 15 PER CENT STAKE GIVES HIM CONSIDERABLE LEVERAGE IN STANDARD CHARTERED ALMOST IN A SENSE OF BOARD ROOM CONTROL WITHOUT HAVING NECESSARILY TO GAIN EQUITY CONTROL. YOU SHOULD BE AWARE THAT SIR Y K TOLD ME THAT HIS NEXT STEP WAS TO VISIT THE GOVERNOR OF THE BANK OF ENGLAND AND THE PRIME MINISTER FOR DISCUSSIONS ABOUT FUTURE POSSIBILITIES.

3. BOTH SIR Y K AND BROWN HAVE TALKED ABOUT MAJOR RESTRUCTURING. THIS APPEARS TO INVOLVE PUTTING TOGETHER THE BANK'S FAR EASTERN OPERATIONS INTO A LOCAL ENTITY AND POSSIBLY THE ACQUISITION OF SOME SMALLER HONG KONG BANKS TO BROADEN THE BASE HERE. GRANTING A LICENCE TO ESTABLISH A BANK HERE IS A MATTER FOR THE EXECUTIVE COUNCIL BUT ANY LIKELY REGIONAL PART OF STANDARD CHARTERED SHOULD EASILY MEET THE LEGAL AND FINANCIAL REQUIREMENTS OF THE BANKING ORDINANCE. THE MAJOR DIFFICULTIES SEEM TO US TO BE IN LONDON SINCE IT IS NOT AT ALL CLEAR WHAT BENEFITS WOULD ACCRUE TO THE ORDINARY SHAREHOLDER FROM SUCH A RESTRUCTURING.

4. IN THE IMMEDIATE FUTURE, WE APPEAR TO HAVE NO PROBLEMS IN THAT STANDARD CHARTERED REMAINS AN ENTITY AS OUR SECOND NOTE-ISSUING BANK. BUT LONGER TERM - AND PERHAPS SOONER RATHER THAN LATER - ANY RESTRUCTURING IN THE PAO SENSE WOULD HAVE A LOOSENING EFFECT ON OUR MARKET BY ENCOURAGING OTHER BANKS TO CONSIDER THEIR

/positions

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POSITIONS. CURRENTLY, THE HONGKONG BANK GROUP HAS ALMOST 30 PER CENT OF TOTAL DEPOSITS, THE MAINLAND CHINA BANKS HAVE ABOUT 15 PER CENT (SOMEWHAT LARGER IF WE ADD KA WAH AND UNION BANK OF WHICH OTHER CHINESE ENTITIES HAVE ASSUMED CONTROL) AND STANDARD CHARTERED SOMETHING LESS THAN 6 PER CENT, I.E. WELL BELOW THE TWO LEADING GROUPS BUT WELL ABOVE ANY OTHER INDIVIDUAL BANK WHETHER LOCAL OR FOREIGN. A COUPLE OF ACQUISITIONS MIGHT BRING THEM UP TO ABOUT 8 PER CENT BUT, OF COURSE, THEIR POTENTIAL FOR GROWTH WOULD BE SUBSTANTIAL. COMPETITION FOR MARKET SHARE BETWEEN THESE THREE GROUPS PLUS THE THREE LARGEST AMERICAN BANKS AND TWO JAPANESE BANKS WOULD CLEARLY FURTHER SQUEEZE THE REMAINING LOCAL BANKS. THERE COULD ALSO BE TWO FURTHER CONSEQUENCES.

5. A CLEAR GROUPING ON THESE LINES WOULD LEAVE BANK OF EAST ASIA IN AN EXPOSED POSITION. THIS IS A WELL RUN, CONSERVATIVE AND PROFITABLE BANK WITH ITS SHARES TIGHTLY HELD BY THE FOUNDER FAMILIES. IT COULD WELL FIND ITSELF IN THE CLASSIC SQUEEZE ON THE MEDIUM SIZED WHEN THE BIG UNITS BEGIN TO COMPETE. THINKING AHEAD FURTHER, THE HONGKONG BANK WOULD NATURALLY LOOK TO ITS OWN DEFENSIVE STRATEGY GIVING EMPHASIS TO ANY FURTHER THOUGHTS OF OVERSEAS ACQUISITIONS.

6. AS I SAID THERE IS MORE SPECULATION IN ALL THIS THAN HARD FACT. SIR Y K'S VISIT TO LONDON MIGHT GIVE US MORE FACTS AND I WOULD VERY MUCH WELCOME YOUR REACTIONS AND THOSE OF THE BANK OF ENGLAND.

AKERS-JONES

YYYY

HMLNAN 9696

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FED

ECON. ADVISERS

PS/MR RENTON

SIR W. HARDING

DR WILSON

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MR C. KELLY, H. M. TREASURY

MR P. KENT, BANK OF ENGLAND

-2-

SECRET

STANDARD CHARTERED FIGHTS OFF LLOYDS Rescuees at a price

By David Lascelles, Banking Correspondent

STANDARD CHARTERED'S last-minute escape from Lloyds Bank's 11.30n takeover bid on Saturday has just about everything the financial thriller writer could want. The world's biggest attempted bank takeover, fabulously wealthy oriental investors riding to the rescue, hurried meetings at airports, and a nail-biting climax in the City of London.

But dramatic and unexpected as the outcome of the three-month battle was, the real themes of the Standard story will more than make up for the more sobering ones: the case with which a tiny group of well-heeled, determined investors can pick up a controlling stake in a major international bank, and the highly uncertain future which that creates for Standard.

In the UK this could well influence the shape of the new Banking Act which is currently under consideration and will contain a section defining controlling interests in banks. Abroad, particularly in the Far East where Standard is one of the biggest banks in many regional markets, the use of a federal charter is bound to be loosened possibly to the point where bits will be floated off.

As he celebrated his victory on Saturday afternoon, with Schroeders, his former banking adviser, Mr Michael McWilliam, the chief executive, said: "Standard's board will never be the same again."

The tide in Standard's fight for survival began to turn exactly a week ago when Mr McWilliam received a telephone call from Sir Yue-Kong Pao, a Hong Kong shipping magnate, asking what he could do to help. Mr McWilliam told him: "I'd like you to be the shareholder by the end of the week."

The same night, Sir Y. K. who is 68 years old, was on the Cathay Pacific flight to London. At 8 the next morning he boarded Standard at Gatwick Airport, and they swung into action.

By Friday, Sir Y.K. had spent over £100m buying up 15 per cent of Standard's shares. He wiled away Saturday morning playing golf and saw home the night after what must rank as one of history's biggest shopping sprees.

Standard's ability to summon its Far Eastern friends turned out to be crucial. Tan Sri Khoo Teck Pao, the Malaysian businessman, bought 7 per cent. Mr Robert Holmes a Court, a 74 per cent, 40 smaller Hong Kong customers had up to 10 per cent. Even the former island of Lornho got 2 per cent. All told, Standard could count on about 40 per cent of its shares by Friday night, and none of its proceeds yielded to Lloyds' last-minute efforts to turn them round.

But grateful though Standard must be for these rescuees, their motives and intentions are far from clear, particularly since they will all be sitting on large paper losses the moment the London stock market opens this morning — as is widely expected — Standard's share price falls.

In the minds of the Chinese

THE THREE businessmen from Hong Kong and Australia who came to Standard Chartered's aid last week showed that the bank can clear on powerful friends. But their motives are far from clear.

Sir Yue-Kong Pao, who bought 14.9 per cent, is Hong Kong's best known business magnate and one of the world's biggest shipping owners. He is also a banker by training. At 68 he travels the world with a set of skipping ropes to keep fit and has amassed a personal fortune of over HK\$20m.

He would not have invested a fair portion of that in Standard without good reasons: his does not have a reputation as a philanthropist.

Some observers in Hong Kong believe he may have been acting with the interests of the Hongkong and Shanghai Bank in mind, with which he has been associated for many years. By frustrating the takeover, he could have made Lloyds Bank a ripe target for the Hongkong Bank which is look-

ing for a European acquisition.

The alternative view—that he expects parts of Standard to be floated off—is also echoed in the colony.

Tan Sri Khoo Teck Pao, the Malaysian businessman with interests in property, hotels and banking, is a long-time customer of the Standard bank, and since last week a 5 per cent shareholder. He resides in Australia but is believed to want to shift more of his wealth to the UK, where he recently bought a 28 per cent stake in Ecox, the financial services company.

Although Khoo and Pao bought their stakes in Standard separately, the extent to which they might now cooperate as shareholders could affect the bank's future. They have been depicted as bitter rivals after the takeover clash last year over Wheelock Marden, the Hong Kong shipping and trading group, but are probably less hostile than thought. Neither sold his Standard shares on learning of the other's interest.

Mr Robert Holmes a Court, the Australian who has 7.4 per cent, is one of Standard Chartered's largest customers — the bank is financing his attempted takeover of Broken Hill Proprietary with a \$220m credit facility. In Sydney, the view is that he decided to respond to Standard's call for help in order to protect a relationship that could have been jeopardised by a Lloyds victory.

Known as both an opportunist and a masterly financial tactician, Mr Holmes a Court took over Lord Gard's Associated Communications Corp, in 1982 after a protracted struggle and now runs worldwide business from his Perth base.

He has also amassed large profits by dealing in substantial stakes in companies such as Ansett Airlines, Elders IXL and Astarco.

All three men were in London last week and personally directed the acquisition of shares in Standard Chartered.



Sir Yue-Kong Pao at a seat on Standard's board

investors, at least, these appears to have been genuine concern about Standard—which they have known and dealt with for generations—passing into the UK Government which was allowing the bid to go ahead.

But while some motives may be less easy to discern in Hong Kong, the investors' support could also have something to do with a bank-customer relations. Mr McWilliam denies that Hong Kong businessmen have been offered "rummy facilities" in return for their votes. Some of the new shareholders are certainly long-time customers of the bank. Tan Sri Khoo, for instance, has known Standard for more than two decades. Standard Chartered also put up a £25m facility — largest ever according to Mr McWilliam — to help Mr Holmes a Court

finance his bid in May for Broken Hill Proprietary. Lloyds is still in the air. Mr Rowland was virtually set up in business by Standard Chartered in Africa.

Only Sir Y. K. is not a Standard customer, though as a former deputy chairman of the Hongkong and Shanghai Bank, he has a strong interest in the shape of the colony's banking community where Standard ranks No. 2. Although suggestions that he would save Lloyds for a later bid by the Hongkong Bank seem a little far-fetched, he could now end up as the colony's biggest bank owner.

He will be offered a place on Standard's board. Whether the invitation will be extended to any of the other supporters remains to be seen. But Standard is an institution with a dramatically different set of shareholders, some of whose motives and loyalty will be reassessed by the market, but whose taste for good returns on their investments is not.

The most plausible explanation for this sudden show of friendship is that the investors have calculated the value of the many parts that make up Standard's far-flung empire, and aim to realise them through the form of individual flotation. This may be to anything as dramatic as a break-up of Standard, or to the course of the next year. But or so, there are bound to be major developments.

Mr McWilliam has for some time favoured the idea of boosting value for his shareholders by realising some of the group's assets which he believes are not reflected in the share price. So he is likely to be possibly even lead, efforts to sell off parts of what he calls "the

ferederation." "We have to make value," he said, adding that Standard now wants to get its after-tax return on capital up to 15 per cent from 10.5 per cent last year (Lloyds is expected 17.7 per cent in the first half of this year).

To start with, Standard could sell and lease back its new City headquarters in Bishopsgate. The Hong Kong business, which at the moment consists of 116 branches and £2.7bn in assets, serving over 1m customers, could be partially incorporated into Hong Kong Stock Exchange. Sir Y.K. would then have the option of swapping his interest in the group for a major stake in Standard Chartered (Hong Kong).

In the US, Union Bank, the California subsidiary now valued at about \$10m, might issue its own shares to finance its next acquisition rather than draw on the group's cash resources. In Singapore, Malaysia and Australia (where Standard has just been admitted as one of the first batch of 16 foreign banks to be licensed), the corporations would be possible.

However, the drawback to any scheme in which the best parts

of Standard were partially sold off is that it would leave the core of the group with the worst of the business. The bank would also be left holding all of Standard's cross-border lending, which could be risky, and virtually no direct source of retail deposits. Standard would still have to pay its dividends in pounds even though most of its earnings would be overseas. Whether such a scheme would get past Standard's board, many of whose members are still "old empire" as one observer put it, remains to be seen.

A close, though silent observer of last week's events, was the Bank of England. Although the Bank opened the way to the battle over Standard by raising no objection to Lloyds' bid in the first place, the outcome cannot be wholly satisfactory to Three Mile Street. Under the present UK Banking Act, an investor is deemed to have a "controlling interest" if he owns 15 per cent or more. This is why Sir Y.K. stopped at 14.9 per cent (though he was in close touch with the Bank all week) and would be required by the Takeover Code to wait a week before buying more).

However, bank takeovers are particularly sensitive matter because of the danger of a loss of confidence by depositors.

Although confidence in Standard has not been damaged, it must be a matter of public concern in Britain that effect control of a large bank can pass so quickly to investors on the far side of the world, some whom may not be accustomed to investing in delicately run banks.

The White Paper on Banking Supervision published in December proposed that any investor seeking to buy 15 per cent or more of a bank must seek the prior permission of the Bank of England. In the subsequent debate about the White Paper—which will be transformed into a Bill late this year—it has also been suggested that the 15 per cent ceiling be lowered. The Standard episode could reinforce that view, particularly in cases where customers end up owning large stakes in their banks and exposing themselves to possible conflicts of interest.

As Britain's first major hostile bank takeover bid, the Lloyds-Standard tussle has broken new ground by showing that market forces rather than the will of the Bank of England may prevail. Because of that, tougher rules may be necessary.

The final chapter in Standard's story has still to be written, and it may contain some dramatic twists for a once famous institution which straddles Britain's colonial past and some of the world's finest and most modern markets. The outcome will depend on whether the friends Standard called in at 24 hours' notice will turn out to be the catalyst who change a standard which has been built up over nearly one and a half centuries.

COMPONENTS OF THE BANK

	Net assets (£m)	Net assets (£m)	Pre-tax profit (£m)
	(per share) (p)		
North America	407.9	300.8	54 (Hong Kong \$8.9)
Asia Pacific	332	226.3	187.5 (Hong Kong 27.6, Singapore 15 (100s), Malaysia 25.2, Australia 6.6)
Mid East and S. Asia	107.5	36.3	4.4
Tropical Africa	107.5	64.8	4.2
South Africa	136.5	87.7	3.5
Europe	92.8	39.6	4.7
UK	412.2	284.9	106.2

Source: Bid defence documents

Mr Robert Holmes a Court

Bid Saturday in the City

If Saturday afternoon are supposed to be the Takeover Code knows nothing of such observations.

Men and Matters

announced that he was giving up the management of the 4550w Courtauld's pension fund and setting up by himself.

He had been outspokenly rude about the investment

WHICH DEVELOPMENT

STRICTLY PERSONAL



Je v

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

15 September 1986

B/C

Sir Y.K. Pao is to see the Prime Minister on 19 September. There is reason to believe that he may try to discuss, among other things, his interest in the Standard Chartered Bank. Are there particular factors of which the Prime Minister should be aware, or points which the Chancellor would wish her to make?

(CHARLES POWELL)

Alex Allan, Esq.,
HM Treasury.

STRICTLY PERSONAL

PERSONAL IN CONFIDENCE

MR POWELL

12 September 1986

SIR Y K PAO

1. Y K Pao is to see the Prime Minister on 19 September. I had a drink with him earlier this week.
2. He had less to say than usual, made his customary enquiry on how long the Governor was going to remain, but did not raise his idea of a Deputy Governor. He had no messages from Peking. He said that he would mainly want to talk to the Prime Minister about his interest in the Standard Chartered Bank. He hoped she would approve his latest moves which, since the Chartered Bank was British registered, would strengthen his links with the UK and bring him into closer touch with the Government and Party.
3. Following his principle of being wherever the action is, he plans to be in China at the time of The Queen's visit. He said he hoped that it would be possible to sign an agreement on the Ningbo steel mill about that time. I think he is being optimistic.



PERCY CRADOCK

PERSONAL IN CONFIDENCE

B. R.

NOTE FOR THE FILE

BK

Sir Y.K. Pao wishes to come and see the Prime Minister in September. The Prime Minister has agreed and I have offered him Friday 19 September at 0900 hours for 15 minutes.

CR.

CAROLINE RYDER

9 July 1986

Sir Yue-Kong Pao C.S.E. L.L.D., J.P.

WORLD-WIDE SHIPPING GROUP
24th Floor, Wheelock House
20 Pedder Street
Hong Kong
Tel: 5-8442288 Telex: HX73247

20th June, 1986.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
No. 10 Downing Street
London SW1
ENGLAND

Dear Prime Minister,

It was a pleasure to see you again during the week which saw a further tangible strengthening of the ties between Britain and China and I was particularly happy that with your full support, the Sino-British Friendship Scholarship Scheme got off the ground so quickly with the signing of Memorandum of Understanding by the three concerned parties in your office on 9th June.

You were very kind to make such complimentary remarks about me in your welcoming speech at the State dinner in honour of the visiting General Secretary Hu Yaobang and Vice Premier Li Peng. The successful conclusion of the scholarship scheme agreement will no doubt usher in a new era of academic co-operation between the two nations. I hope that you as well as the Chinese visitors found satisfaction in personally witnessing this new link of friendship being forged.

I must also thank you, rather belatedly, for your letter of 6th June in which you kindly advised me of the British Government's agreement to meet the administrative costs the scheme will incur in U.K., in addition to the annual contribution of £700,000 your Government has already agreed to make. This will no doubt indirectly enable more students from China to benefit from the scheme.

For seven years now, you have always found it possible to spare the time to receive me whenever I come to London and, needless to say, I have always considered it a great privilege. I know that though there is still quite sometime to go before

Cont'd. 2/-

WORLD-WIDE SHIPPING GROUP
24th Floor, Wheelock House
20 Pedder Street
Hong Kong
Tel.: 5-8442288 Telex: HX73247

The Rt. Hon. Mrs. Margaret Thatcher, MP
20th June, 1986
Page 2

the next election takes place, every preparation is already being put in hand for your quest for the third term and I just would like you to know that I will continue to give you my fullest personal support as I have always done, even before you assumed your responsibilities as Prime Minister.

With kindest regards,

yours sincerely
J. T. Carr



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

11 June 1986

PRIME MINISTER'S MEETING WITH SIR Y.K. PAO

I don't seem to be doing too well with the misprints at the moment. The penultimate sentence of my letter of 10 June reporting the Prime Minister's meeting with Sir Y.K. Pao said that the question of appointing a Hong Kong Chinese as Deputy Governor of Hong Kong would be a very delicate matter and it would be necessary to move in close consultation with the "Chinese Governor". The phrase should be "Chinese Government".

(Charles Powell)

A.C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.

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cc master

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DG



cc PC

10 DOWNING STREET

From the Private Secretary

10 June 1986

Daw Long,

PRIME MINISTER'S MEETING WITH SIR Y. K. PAO

The Prime Minister saw Sir Y. K. Pao this morning, together with his daughter, Mrs. Anna Sohmen.

The Prime Minister thanked Sir Y. K. Pao warmly for the initiative he had taken to set up the Sino-British Friendship Scholarship Scheme and the speed with which he had brought negotiations to a positive conclusion. She thought it an excellent and far-sighted scheme.

Sir Y. K. Pao said that the dinner for Hu Yaobang the previous evening had clearly been a great success. Hu Yaobang was in excellent form. It was important to have close contacts with him. He was the one member of the Chinese leadership who travelled all round China, and was known to everyone. In his personal view, Hu Yaobang was likely to take over the chairmanship of the Military Commission from Deng Xiaoping next year. He thought Hu Yaobang was also likely to visit the United States fairly soon, probably in early 1987. In general, Hu Yaobang had calmed down quite a bit since his early forays into international diplomacy and was now a rather more dignified figure.

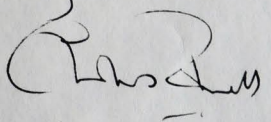
Sir Y. K. Pao said that he had had some discussion with members of the Chinese delegation about the Ningpo steel mill and would be having further contacts later today. The main problem was over price: the Chinese were used to Japanese prices which were significantly lower than European levels. It would also be necessary to provide soft loans. Hu Yaobang had told him that purchases from the Ningpo steel mill would be guaranteed for thirty years. He still hoped for an announcement of a decision to go ahead with the project during The Queen's visit to China in October. In response to the Prime Minister's question, Sir Y. K. Pao said that soft loans might be needed to cover about a quarter of the total cost of the project, that is, \$1 billion. The Prime Minister said that she was not confident that negotiations would proceed rapidly enough to allow any decision to be announced by October. Nor did she think it practicable to think in terms of soft loans on the

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scale suggested by Sir Y. K. Pao. But she would ask for further details of progress in the negotiations and of the proposed financing.

The Prime Minister said that the situation in Hong Kong appeared to be satisfactory. She had spoken the previous evening to Sir S. Y. Chung who seemed pleased with developments. Sir Y. K. Pao said that he wanted to float a personal suggestion with the Prime Minister, namely that we should shortly appoint a Hong Kong Chinese as Deputy Governor of Hong Kong. The Prime Minister said that this would be a very delicate matter in which it would be necessary to move extremely cautiously and in close consultation with the Chinese Governor. She would think about it.

yes sir.


Charles Powell

A. C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.

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Foreign and Commonwealth Office

London SW1A 2AH

9 June 1986

CP
①
Prime Minister
COR 1/6

MS
Dear Charles,

Hong Kong: Sir Y K Pao's Call on the Prime Minister,
10 June 1986

When Sir Y K Pao met the Foreign Secretary over breakfast this morning he said it was now the Chinese view that a Hong Kong Chinese Deputy Governor (ie Chief Secretary) should be appointed before long, perhaps in the next one or two years. Sir Y K later mentioned the same point to me after the signature ceremony at No 10. He added that in the Chinese view the Deputy Governor should be a neutral person. His appointment should be a matter for consultation between Britain and China. I had an impression that Sir Y K might well be thinking of himself. He said he was thinking of raising this with the Prime Minister during his call tomorrow.

We cannot be certain that Sir Y K's assertion accurately represents Chinese thinking, though he has in the past sometimes correctly reflected Chinese views in Hong Kong. We have not heard of this suggestion from any Chinese source. The question of how best to achieve continuity in government structure up to and beyond 1997 (perhaps by the appointment of a Hong Kong Chinese as a Chief Executive some years in advance of that date) is a matter of great sensitivity which we are beginning to discuss with the Executive Council, and will need eventually to discuss with the Chinese. We recommend therefore that the Prime Minister might best take a non-committal line if Sir Y K raises the matter. She might express interest in the idea; agree that there is a need for continuity up to and beyond 1997; and say that we would be giving further thought to how this might best be achieved, and would in due course no doubt need to discuss the matter with the Chinese side.

Yours ever,

(A C Galsworthy)
Private Secretary

C D Powell Esq
PS/10 Downing Street

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cc FK
cc P/UP

Foreign and Commonwealth Office

London SW1A 2AH

9 June 1986

CDP
2/6.

Dear Charles

Sir Y K Pao's Call on the Prime Minister,
Tuesday 10 June, 10.15 am

I attach briefing (points to make and essential facts) on the Sino-British Friendship Scholarship Scheme, for Sir Y K Pao's call on the Prime Minister at 10.15 am on Tuesday 10 June.

The Prime Minister was present at the signature today of the Memorandum of Undertaking establishing the Sino-British Scholarship Scheme. The Prime Minister is, however, unlikely to have had an opportunity to discuss the Scheme with Sir Y K Pao at the brief signature ceremony. It is therefore likely to be among the subjects which Sir Y K Pao will raise on 10 June.

Yours ever

(Signature)

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

PS This supplements the
briefing already sent
(my letter of 6 June)

(Signature)



SINO BRITISH FRIENDSHIP SCHOLARSHIP SCHEME

Points to Make

1. Pleased signature ceremony yesterday went well.
2. Confident scheme will be very successful. Will meet the objectives we have discussed of promoting friendship with China and opportunities for Chinese students here.
3. HMG agreement to pay for UK management service costs means Britain's contribution will be larger than originally proposed. Glad this recognised in the Memorandum.
4. Look forward to scheme being implemented rapidly for 1987/88 academic year.



SIR Y K PAO'S CALL ON PRIME MINISTER, 10.15 AM TUESDAY 10 JUNE
SINO BRITISH FRIENDSHIP SCHOLARSHIP SCHEME

1 In December last year, the Prime Minister agreed in principle that the UK would contribute to a scheme to enable more Chinese students to study in Britain which Sir Y K Pao had proposed to the Prime Minister and Deng Xiaoping. A Memorandum of Understanding (MOU) was negotiated in May with officials of the Chinese State Education Commission (SEDC) and Mr Stephen Pan of Sir Y K Pao's London office. This was signed at 10 Downing Street on 9 June, in the presence of the Prime Minister, and General Secretary Hu Yaobang, by the Secretary of State, Sir Y K Pao and Chinese Vice Premier Li Peng (who is concurrently the Minister in charge of the State Education Commission).

2 The Scheme will cost £35 million (expressed in sterling) over 10 years. The Chinese Government and Sir Y K Pao will each contribute the equivalent of £1.4m pa; we will provide £700,000 pa and, following an approach by Sir Y K Pao to the Prime Minister, the cost of the British Council's management services. Sir Y K Pao's contribution, which will be provided through a foundation he has established for the purpose, will be channelled to either government as required during each year. In practice, most of the foundation's contribution as well as all of HMG's will be spent in the United Kingdom on fees and related costs. The scheme will be called the "Sino British Friendship Scholarship Scheme" (at Sir Y K Pao's suggestion).

3 A Commission which is to be a representational rather than executive body will oversee the scheme. Each party to the MOU is to be represented by two Commissioners, including Sir Y K Pao himself, who is to be the first Chairman. The practical administration of the scheme at the UK end will be by the British Council, who will manage this programme much as they do our conventional training programmes for China.

4 The administrative costs of the British Council (probably around £250,000 pa) were a major difficulty in the negotiations. We had intended that these would be borne from the original UK contribution of £700,000. However, both the Chinese and

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Sir Y K Pao pressed strongly for HMG to cover these separately. Sir Y K telexed the Prime Minister and the Secretary of State and the Prime Minister replied confirming that we will do so. This will allow the scheme to finance around 350, rather than 300, awards each year.

5 More generally, we have been working vigorously for some time to increase the number of Chinese students in Britain. There are currently some 1400 (of whom just under half receive support from HMG), compared with around 800 in 1984/85. The primary channel is ODA. But China is also the greatest beneficiary under the FCO SAS scheme (currently 58 awards).

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Foreign and Commonwealth Office

London SW1A 2AH

6 June 1986

Dear Charles,

Call by Sir Y K Pao: 1015 am on 10 June

Sir Y K Pao is to call on the Prime Minister on 10 June. I enclose briefing as requested, together with a short personality note on Sir Y K Pao. We are providing a separate brief for the signature at No 10 at 4 pm on 9 June of a joint memorandum on Sir Y K Pao's scholarship scheme. This briefing will also cover any questions on the scheme that might arise during his call on the Prime Minister on 10 June.

Yours ever

R N Culshaw

(R N Culshaw)
Private Secretary

C D Powell Esq
10 Downing Street

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SIR Y K PAO'S CALL ON THE PRIME MINISTER: 10 JUNE 1986

HONG KONG

Points to Make

(A) Implementation of Joint Declaration/Joint Liaison Group

1. Making good progress with implementation of Agreement on Hong Kong. JLG has met three times in its first year, and has accomplished a great deal, notably agreement on new GATT status for Hong Kong.

(B) Basic Law/Constitutional Government

2. Chinese consultation with a wide range of Hong Kong people on drafting of the Basic Law is welcome. How do you see progress on drafting so far?

3. Important that we maintain dialogue with Chinese on future development of Hong Kong's political system pre- and post-1997.

4. (Defensive) HMG and Hong Kong Government fully conscious of need to develop government system cautiously, and without endangering stability.

5. (Defensive) HMG and Hong Kong fully committed to 1987 review. Must proceed. Would not wish to prejudice outcome.

(C) Hong Kong Civil Aviation/Dragonair

6. Welcome expansion of civil aviation industry in Hong Kong.

7. (Defensive) Applications for licences for scheduled and charter services out of Hong Kong are in the first instance matters for relevant authorities in Hong Kong.

(D) Possible Application for British Citizenship by

8. (Defensive) A sensitive question, as you will appreciate. Raises real difficulties of principle, which need careful consideration. But essentially a matter for Home Secretary, whom I understand you are to see on 11 June.

(E) Ningbo Steel Project

9. Glad Davy Consortium have submitted preliminary feasibility report to Chinese authorities. Hope Chinese will soon give approval for full study to go ahead.

10. Present Chinese view of project?

11. Enormous scale of project means that only part, at most, could be financed under UK soft loan facility; but prepared to consider this, if it has support of central Chinese authorities.

TEMPORARILY RETAINED G. Gray 29/6/2015

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SIR Y K PAO'S CALL ON THE PRIME MINISTER: 10 JUNE 1986

HONG KONG

Background

1. Sir Y K Pao last called on the Prime Minister on 21 March 1986.

Implementation of the Joint Declaration/Joint Liaison Group

2. The first meeting of the Joint Liaison Group (JLG) took place in London in July 1985; the second in Peking in November 1985; and the third in Hong Kong in March 1986. The fourth is scheduled for London between 22 and 25 July.

3. Following decisions in JLG III we and the Chinese have cooperated in securing Hong Kong's new status as a separate contracting party to GATT.

Basic Law/Constitutional Development

4. The first indirect elections to the Hong Kong Legislative Council took place last September. 24 out of a total of 56 members are now indirectly elected. The other 32 members (officials and unofficials) are appointed by the Governor. A Hong Kong Government review of further developments will take place in 1987.

5. The Chinese remain concerned at the pace and direction of constitutional development in Hong Kong. Sir Y K has periodically voiced these concerns (which he almost certainly shares personally) as an unofficial spokesman for the Chinese. We have been at pains to reassure senior Chinese officials, and Sir Y K himself, that we are proceeding carefully and cautiously, but that we cannot ignore Hong Kong opinion.

6. A particular reason for Chinese concern is that developments in Hong Kong in or after 1987 may preempt their formulation of a Basic Law which will provide for Hong Kong's future political structure after 1997. The Chinese have formed a Basic Law Drafting Committee (BLDC) of which Sir Y K is one of the Vice Chairmen; 23 of the BLDC's 59 members are also from Hong Kong. The BLDC has in turn established a Basic Law Consultative Committee to consult Hong Kong opinion during the drafting process.

7. The second BLDC meeting took place in Peking in April. A draft structure for the Basic Law was approved, following a genuine debate in which Chinese showed responsiveness to Hong Kong views. Detailed drafting proceeds, with the aim of producing a full draft by 1988.

Hong Kong Air Services/Dragonair

8. Dragonair (DAL) was incorporated in Hong Kong in September 1984: it did not then meet the requirement in our Air Service Agreements (ASA) that it should be owned and controlled by HMG, the Hong Kong Government or British Nationals. The company was radically restructured in October 1985, and DAL now claim that 65% of its shares are now owned by British Nationals, with Sir Y K and companies under his control holding 35%. A final view has yet to be taken on whether DAL now meets our ASA criteria.

9. Sir Y K wrote to the Prime Minister last October seeking HMG's support for "this new Hong Kong venture". The Prime Minister's reply was non-committal. DAL now has a licence to operate scheduled services to eight Chinese cities, but it will be for HMG to negotiate traffic rights with the PRC. Its request to operate charter services to London has been refused in Hong Kong in accordance with publicly stated Hong Kong policy.

Temporarily retained @Wayland 7/7/15

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

Possible Application for British Citizenship by

10. [redacted]

and a business associate of Sir Y K. We believe he is one of a small number of very wealthy Chinese businessmen on whose behalf Mr Sandberg, Chairman of the Hong Kong and Shanghai Bank, recently approached the Home Secretary and the Prime Minister in the context of their wish to acquire British citizenship. The issue was discussed by the Prime Minister, the Home Secretary and the Foreign Secretary on 22 April.

11. Since then the Governor of Hong Kong has expressed the firm view that any decision to grant British citizenship to these businessmen would be politically unacceptable in the light of the decision not to grant British citizenship to the ethnic minorities in Hong Kong. The Home Secretary will shortly be consulting both the Foreign Secretary and the Prime Minister again in the light of the Governor's advice. The Home Secretary, who will see Sir Y K on 11 June, will give him a non-committed response, if the matter is raised.

12. [redacted] was named by the Hong Kong Insider Dealing Tribunal report in April as having a high degree of culpability in insider dealing surrounding property transactions completed in 1984.

Ningbo Steel Project

13. Sir Y K outlined this project to build a major steelworks at Ningbo (his native town; near Shanghai), to the Prime Minister in 1984. At current estimates, its total value would be around £4 billion, with a maximum UK content of £2 billion. Davy McKee have formed a consortium to pursue the project and are undertaking a feasibility

study with DTI support. The first part of this was presented to the Chinese Ministry of Metallurgy in March. Davy McKee hope the Chinese will shortly authorise the consortium to proceed with the main study.

14. The Chinese have made clear that financing terms will be crucial. The project is so big that at most a small part of it (eg blast furnaces) might be considered for funding under the recently established £300m UK soft loan facility. The consortium is considering introducing European partners to share the financing burden.

15. On 4 February, Sir Y K told our Senior Trade Commissioner in Hong Kong that he hoped to see agreement on this project in time for the Queen's visit to China in October; but the scale and complexity are such that this is unlikely.

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PERSONALITY NOTE

SIR YUE-KONG PAO CBE LLD JP

Chairman and Chief Executive of the World Wide Shipping Group. In Hong Kong his interests are in property, finance, banking and civil aviation. Born 1918 Zhejiang Province, China.

Educated Shanghai and then went into banking.

Took refuge in Hong Kong in 1949 and entered import/export business. Purchased first ship in 1955 and formed World Wide Shipping Group, now the world's largest independent.

A director of Hong Kong and Shanghai Banking Corporation.

Chairman of Intertanko. Chairman of Wheelock Marden Group. Member of Basic Law Drafting Committee.

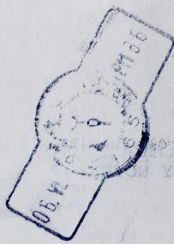
Major shareholder in Dragonair.

Has a joint venture with the Chinese in ship-building and shipping.

Sir Y K Pao visits Peking regularly. He has excellent connections and enjoys considerable access to Chinese leaders. On each of his last two visits - November 1985 and April 1986 - he has called on Deng Xiaoping.

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PERSONALITY

SIR YUE-KWAI PAO CHAIRMAN

Chairman and Chief Executive of the World Wide Shipping Group. In Hong Kong his interests are in property, finance, banking and civil aviation. Born 1918 Shanghai Province, China.

Educated Shanghai and then went into banking.

Took refuge in Hong Kong in 1949 and entered import/export business. Purchased first ship in 1955 and formed World Wide Shipping Group, now the world's largest independent.

A director of Hong Kong and Shanghai Banking Corporation.

Chairman of Interbank. Chairman of Wheelock-Marden Group. Member of Basic Law Drafting Committee.

Major shareholder in Deutsche.

Has a joint venture with the Chinese in ship-building and engineering.

Sir Y K Pao visits Beijing regularly. He has excellent connections and enjoys considerable access to Chinese leaders. On each of his last two visits - November 1985 and April 1986 - he has called on Deng Xiaoping.



10 DOWNING STREET

THE PRIME MINISTER

6 June 1986

Dear Sir Y-k.

Thank you for your telex of 21 May.

I am very pleased that negotiation of the Sino-British Friendship Scholarship Scheme has gone well, and I too hope that the Memorandum of Understanding will be signed during General Secretary Hu Yaobang's visit.

I am sorry to hear of your concern about the administrative costs of the services which will be needed to place and generally look after the students while in British institutions. The administrative demands created by large numbers of students are very considerable, and we have found it is most cost effective in the long run to ensure they are fully covered. The British Council's record of providing management services of this kind is second to none and has gained them many contracts against international competition. However, I agree that the main objective is to enable as many students from China as possible to benefit from the scheme. HMG will therefore agree to meet these costs in addition to the £700,000 per annum we have already agreed to provide. But I am sure you will agree that it will be appropriate that Britain's readiness to meet these costs on behalf of the scheme as a whole should be reflected in the Memorandum of

CAJ

Understanding. Perhaps you would ask your representative in London to discuss this with the Overseas Development Administration with a view to all three parties reaching agreement of the text of the Memorandum giving effect to the scheme.

Warm regards.

Yours sincerely

Margaret Thatcher

Sir Y. K. Pao, C.B.E., J.P.

COPIED FROM
CHINA RELATIONS

Foreign and Commonwealth Office ^{PT3}

London SW1A 2AH

3 June 1986



Dear Mr Pao

You asked in your letter of 21 May for an early reply to Sir Y K Pao's telex to the Prime Minister on the subject of the administrative expenses of the Sino-British Friendship Scheme, which was the subject of negotiation this month with a delegation from the Chinese State Education Commission, Sir Y K Pao's representative in London, and officials from both wings of the FCO. The Memorandum of Understanding is in the final stage of preparation for signature during Hu Yaobang's visit next week.

The draft reply reflects a decision taken by Mr Raison that in addition to our annual £700,000 contribution to the scheme, the administrative expenses of the British Council in managing the scheme should be met from the aid programme. This will allow the full contributions of the Chinese and Sir Y K Pao to be used directly for the costs of scholarships in the UK.

Yours ever

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

DRAFT

* SAVINGRAM

* TELEGRAM

Draft
by

File No.	URGENCY *	Routine	Priority	Immediate	Flash		
Your Ref.	SECURITY *	Unclass.	In Conf.	Restricted	Conf.	Secret	Top Secret
Addressed						Tel. No.	
Sir Y K Pao						To issue on	
Repeated by TELEGRAM / AIR MAIL (ROUTINE UNLESS OTHERWISE STATED)						Tel. No.	
SATAATQ							

SPECIAL INSTRUCTIONS, DISTRIBUTION AND FURTHER ACTION

Return to Room No.

REFERENCES AND
AMENDMENTS

For Use in
Telegraph Branch:— SENT AT (TIME) ON (DATE).....

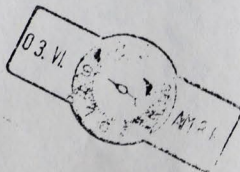
*Tick as appropriate

Thank you for your telex of 21 May.

2 I am very pleased that negotiation of the Sino-British Friendship Scholarship Scheme has gone well, and I too hope that the Memorandum of Understanding will be signed during General Secretary Hu Yaobang's visit.

3 I am sorry to hear of your concern about the administrative costs of the services which will be needed to place and generally look after the students while in British institutions. The administrative demands created by large number of students are very considerable, and we have found it is most cost effective in the long run to ensure they are fully covered. The British Council's record of providing management services of this kind is second to none and has gained them many contracts against international competition. However, I agree that the main objective is to enable as many students from China as possible to benefit from the scheme. HMG will therefore agree to meet these costs in addition to the

£700,000 per annum we have already agreed to provide. But I am sure you will agree that it will be appropriate that Britain's readiness to meet these costs on behalf of the scheme as a whole should be reflected in the Memorandum of Understanding. Perhaps you would ask your representative in London to discuss this with the Overseas Development Administration with a view to all three parties reaching agreement of the text of the Memorandum giving effect to the scheme.



86-5-21

TO: THE RT. HON. MRS MARGARET THATCHER, MP
PRIME MINISTER
10 DOWNING STREET
LONDON S.W.1.

DEAR PRIME MINISTER,

I AM PLEASED TO LEARN THAT NEGOTIATIONS BETWEEN THE OVERSEAS ADMINISTRATION AND THE CHINESE STATE EDUCATION COMMISSION ON THE AGREEMENT FOR IMPLEMENTATION OF THE SINO-BRITISH FRIENDSHIP SCHOLARSHIP SCHEME ARE PROGRESSING WELL INTO THE FINAL STAGES AND OFFICIAL SIGNING OF THE DOCUMENT IS TENTATIVELY SCHEDULED DURING GENERAL SECRETARY HU YAOBANG'S AND VICE PREMIER LI PENG'S VISIT TO LONDON IN EARLY JUNE. IT CAME TO MY KNOWLEDGE HOWEVER THAT THE ADMINISTRATIVE EXPENSES OF THE BRITISH COUNCIL WHO ARE RESPONSIBLE FOR ADMINSTRATING THE SCHEME WITHIN UK WILL BE CONSIDERABLE AND INEVITABLY THIS WILL SERIOUSLY AFFECT THE NUMBER OF CHINESE STUDENTS AND SCHOLARS ACTUALLY BENEFITTING FROM THE SCHEME. SINCE THE OBJECT OF THE SCHEME IS TO ENABLE AS MANY CHINESE STUDENTS AS POSSIBLE TO PURSUE STUDIES IN UK I WOULD VERY MUCH HOPE THAT CONSIDERATION BE GIVEN FOR THE UK GOVERNMENT TO FUND THESE ADMINISTRATIVE EXPENSES SEPARATELY.

KIND REGARDS
Y.K. PAO



TO THE RT. HON. MRS. BARBARA THATCHER,
PRIME MINISTER
10 DOWNING STREET
LONDON SW1A 2AA

DEAR PRIME MINISTER,
I AM PLEASED TO LEARN THAT NEGOTIATIONS BETWEEN THE OVERSEAS
ADMINISTRATION AND THE CHINESE STATE EDUCATION COMMISSION ON THE
AGREEMENT FOR IMPLEMENTATION OF THE SINO-BRITISH FRIENDSHIP
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OFFICIAL SIGNING OF THE DOCUMENT IS TENTATIVELY SCHEDULED DURING
GENERAL SECRETARY YI YIANG'S AND VICE PREMIER LI PENG'S VISIT
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COSTS OF THE SCHEME WILL BE CONSIDERABLE AND
FOR REALIZING THE SCHEME WITHIN UK WILL BE CONSIDERABLE AND
INEVITABLY THIS WILL SERIOUSLY AFFECT THE NUMBER OF CHINESE
STUDENTS AND SCHOLARS ACTUALLY BENEFITTING FROM THE SCHEME. SINCE
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ADMINISTRATIVE EXPENSES SEPARATELY.

KIND REGARDS
Y. K. ZOO

Sir Y. K. PAO

30/5



U.H.
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CHINA RELATIONS
PT 3

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

21 May 1986

I enclose a copy of a telex to the Prime Minister from Sir Y. K. Pao about the Sino-British Friendship Scholarship Scheme. He claims that the administrative expenses of the British Council in operating the Scheme within the UK will seriously affect the number of Chinese students and scholars who can actually benefit from it. He therefore asks that HMG should fund those administrative expenses separately.

I should be grateful for an early draft reply.

(Charles Powell)

A. C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.

Reminder.

Pse also give to me
for phone charge.

JL/30/5

file

BM

1. MR. POWELL
2. PRIME MINISTER

SIR Y K PAO

Sir Y K is coming back the week beginning 9 June (the same week that the Chinese Party Secretary is visiting).

Sir Y K has asked to see you and his Secretary hinted that an invitation to your dinner would be greatly appreciated.

Content to see him and/or put him on the guest list?

(Caroline Ryder)

4 April 1986

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SRW

file

ccpc

SUBJECT cc MASTER

21 March 1986

PRIME MINISTER'S MEETING WITH SIR Y.K. PAO

For the sake of good order and discipline I should record that the Prime Minister had a talk with Sir Y.K. Pao this morning. But very little emerged which warrants recording. Sir Y.K. said that he had had a very useful meeting with Mr. Raison about the scholarship fund and also with the British Council about the supply of English teachers. In a brief reference to the Ningbo steel project, Sir Y.K. said that discussions were going smoothly and he hoped that some sort of agreement could be reached this summer.

(C. D. POWELL)

Robert Culshaw, Esq.,
Foreign and Commonwealth Office.

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PRIME MINISTER

MEETING WITH SIR Y.K. PAO

He has half an hour with you tomorrow morning. He had asked to bring Mr. Li Ka-Shing who is Hong Kong's wealthiest property developer. However, Mr. Li's mother is very ill and he is unable to come.

Sir Y.K. has had a very full programme including staying with the Howes at Chevening and meetings with Paul Channon, David Young, Douglas Hurd, Nicholas Ridley and Timothy Raison among others.

The main piece of business is the scholarship fund. He will have discussed the details of this with Mr. Raison and all is going well. You will recall that he generously put up \$10 million and got the Chinese to do the same. We have matched it with an annual commitment of £700,000 rather than a capital sum.

Sir Y.K. is one of the Vice-Chairmen of the Basic Law Drafting Committee. You may like to ask him how work is coming along. The recent meeting of the Joint Liaison Group in Hong Kong went off very well and the Chinese finally accepted our proposals to preserve Hong Kong's separate status in the GATT.

He may raise the question of the routes for Dragonair, his new airline. Routes are in fact mostly a matter for the Hong Kong authorities themselves though it will be up to us to negotiate with the Chinese authority for services between Hong Kong and points in China.

Sir Y.K. may refer to the Ningbo steel project which he has raised with you in the past. The Davy Consortium have just submitted a preliminary feasibility study to the Chinese and hope to get permission to proceed with a full study shortly. The scale of the project means that we shall not be able to provide soft loans for more than a small part of it.

I doubt that he will raise the nationality of his grandchildren. If he does so, you will want to refer him to Mr. Hurd.

CDP

CDP

20 March 1986

VC3AKC



OVERSEAS DEVELOPMENT ADMINISTRATION
ELAND HOUSE
STAG PLACE LONDON SW1E 5DH

Telephone 01-213 5409

cc PC
AUP

From the Minister

20 March 1986

C D Powell Esq
10 Downing Street
LONDON SW1

Dear Charles

SIR Y K PAO'S CALL ON THE PRIME MINISTER, 21 MARCH

The brief provided by the Diplomatic Wing for Sir Y K Pao's call on the Prime Minister tomorrow morning mentioned that he was due to see Mr Raison today about the Scholarships Fund.

The meeting was a useful one in taking forward the arrangements for the new scheme. Sir Y K Pao said he was generally content with the proposals contained in the ODA paper, and he agreed with Mr Raison on the need to move ahead as quickly as possible, if scholarships were to be awarded from the Fund for academic year 1987/88. Sir Y K Pao said that he would be having further discussions with the Chinese Government in mid-April, and agreed that the British Government should be associated with those talks through our Embassy in Peking. In order to make them as constructive as possible, he suggested ODA should produce a draft Memorandum of Agreement between the three parties to the Fund (ie HMG, the Chinese Government and Sir Y K Pao). We shall turn our attention to this urgently.

I am copying this letter to Robert Culshaw in the Foreign Secretary's office.

Yours sincerely
M J Dinham

(M J Dinham)
Private Secretary

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cc/c
EWP



Foreign and Commonwealth Office

London SW1A 2AH

20 March 1986

mt

Dear Charles,

Sir Y K Pao's Call on the Prime Minister, 21 March

As requested in your letter of 31 January, I enclose
/ briefing for the Prime Minister's meeting with Sir Y K Pao
and Mr Li Ka-Shing on 21 March. This covers the following
subjects:

- A. Sir Y K Pao Scholarship Fund
- B. Hong Kong issues:
 - Basic Law/Constitutional Development
 - Nationality of Sir Y K Pao's grandchildren
 - British Citizenship for Mr Li Ka-Shing
 - Civil Aviation/Drumair Airlines
 - Joint Liaison Group
- C. Ningbo Steel Project
- D. Personality Notes.

Sir Y K Pao spent the weekend of 15-16 March with
Sir Geoffrey and Lady Howe at Chevening and also had a
private dinner with them on 17 March. The briefing takes
account of their exchanges. His itinerary in London
this week also included meetings with Mr Renton (FCO);
Mr Channon, Mr Morison and Mr Clark (DTI); Lord Young;
Mr Hurd; Mr Ridley; Mr Luce and the Director General of
the British Council. We are in addition trying to arrange
a meeting (which Sir Y K Pao has welcomed in principle)
with Mr Raison to discuss detailed aspects of Sir Y K Pao's
scholarship scheme for China. We will let you know as
soon as possible if it turns out that the Prime Minister's
brief requires amendment in the light of any of these
meetings.

Yours ever,

R N Culshaw

(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

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SIR Y K PAO'S CALL ON THE PRIME MINISTER, 21 MARCH

SIR Y K PAO SCHOLARSHIP FUND

Points to Make

1. Delighted with progress towards working out details of your scholarship scheme: glad you have been able to discuss with Sir Geoffrey Howe and others. Remains high priority to attract more Chinese students to Britain. Your scheme can make a major contribution. Imaginative, generous and welcome.
2. Wish to press ahead rapidly towards implementation. Hope you can agree to proceed on basis of paper given to Mr Pan. Draws on considerable ODA and British Council experience of managing Chinese student schemes. Believe it provides best way forward.
3. See particular need for early discussions on details between the three parties.
(Defensive: Why can HMG not provide capital sum?)
4. Precluded by our system of government financing. But annual contribution we envisage would give scheme roughly the same spending power.

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SIR Y K PAO'S CALL ON THE PRIME MINISTER, 21 MARCH

Background

1. When Sir Y K met the Prime Minister in October 1985 he proposed the establishment of a trust fund to enable more Chinese students to study in Britain. He offered to provide a capital sum of US\$10m, and raise a similar amount from his private sector contacts, provided that the Chinese government made a commitment of US\$20m and we put up US\$10m. The fund would operate over 10 years. He said that Deng Xiaoping had already expressed willingness to him to participate in a scheme on these lines.

2. The proposal offered an attractive and cost effective way to bring about a significant increase in the number of Chinese students in Britain. Fortuitously, it came at the time when we were preparing to withdraw from UNESCO. The funds thereby released made it possible to contribute (although Sir Y K should not be made aware of this). The Prime Minister therefore wrote to Sir Y K accepting in principle his invitation to participate, subject to agreement on the details of implementation; but making it clear that we could not provide a capital sum; we envisaged instead making annual grants of £700,000.

3. Subsequently, we have had initial discussions both with Sir Y K's representative in London (Mr Stephen Pan) and with the Chinese authorities. It is not yet clear how the latter intend to contribute: they can be expected to try to minimise their foreign exchange commitment, but appear so far not to have considered the scheme in detail. On our side, the ODA (from whose vote our contribution will come) have recently sent Sir Y K a paper (copy attached) explaining how we would like to see the scheme operate. We hope that we can reach broad agreement with him on its contents during his visit to London.

4. The ODA paper seeks to make clear our wish for rapid implementation of the scheme. It proposes building as far as possible on the well-proven administrative arrangements for the ODA Technical Cooperation Training Scheme, under which some 320 Chinese students are currently in Britain. At the same time, it reflects our requirement of effective control and supervision of the way in which our contribution is spent. The major specific proposals are:

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- i) a Memorandum, to be signed by the British and Chinese governments and by Sir Y K, which would set out the objectives, principles, and administrative arrangements of the scheme. Under this, a separate trust fund could, if Sir Y K wished, be established to manage the private sector capital element;
- ii) a flexible approach to fields, level and duration of study. The major general criterion would be consistency with the priorities of Chinese civil modernisation;
- iii) the Cultural Section of our Embassy in Peking, and the British Council in London would play a major role in processing and placing candidates;
- iv) early discussions in London on the details of implementation. (The Chinese have made clear to us that they would welcome these).

5. We believe that this should be largely acceptable to Sir Y K and, after discussions, to the Chinese. During his visit, Sir Y K has already discussed his scheme in general terms with Sir Geoffrey Howe and agreed that discussions in London between British, Chinese and his own representatives would be desirable. If a suitable time can be arranged, he will also have more detailed discussions with Mr Raison. The British Council will give him a presentation on 20 March outlining the support they provide for students from China.

6. We have been working vigorously for some time to increase the number of Chinese students in Britain. There are currently some 1200 (of whom over 500 receive support from HMG), compared with around 800 in 1984/5. The primary channel is ODA. But China is also the greatest beneficiary under the FCO SAS Scheme (currently 58 awards; although this is outside the special arrangements for Malaysia, Hong Kong and Cyprus). Sir Y K's scheme could provide 300 new one-year awards annually.

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THE SIR Y K PAO SCHOLARSHIP FUND

Purpose

1. The primary aim of the Fund should be to give Chinese students who are going to play a role in the modernisation and development of their country the opportunity of studying in Britain.

Constitution and Financial Arrangements

2. HMG is willing in principle to contribute annual grants of £700,000; it would not be practicable to provide a capital sum. The Chinese Government may have similar difficulties about making their contribution by means of a lump sum payment of US\$20m into the Fund.

3. Under the shared funding arrangements of the UK Technical Co-operation Training Programme (TCTP) the Chinese authorities meet the costs of pre-departure English language training, passage to and from the UK and maintenance; the Overseas Development Administration (ODA) covers all fees, including those for English language testing in China and any additional English language tuition required in the UK, and the administration costs of running the programme through the British Council. The present distribution of costs between the British and Chinese governments is roughly in the ratio of 60:40 respectively.

4. It seems to us sensible to build as far as possible on the successful TCTP arrangements. This would allow the new scheme to be implemented relatively easily and with minimum delay, utilising existing and well-proven machinery. It would also provide an equitable and straightforward method of dividing the cost of the scheme between the parties. The Chinese Government could contribute 40% of the total costs, roughly in line with TCTP. The costs of fees and administration could be met by the British Government and the combined Hong Kong contribution, covering 20% and 40% of the total cost respectively. We hope that this would be regarded by all parties as a sensible basis on which to proceed.

5. If so, we would propose to draft a Memorandum to which the three parties would be signatories and which would form an "umbrella agreement" for the operation of the scholarship fund. This would commit each signatory to provide contributions either in capital or income towards the scheme; and set out the objectives, principles and administrative arrangements on the lines described in this paper. We envisage that some formal machinery would be

/needed



needed to monitor the operation of the scheme and ensure that this is in accordance with the wishes of the signatories. This would best be done by means of a Commission, which could meet at least annually and probably twice yearly. Each party would nominate two representatives to serve on it. On the UK side, we envisage that one representative would probably be a government official, the other a senior academic.

6. It would be for consideration by Sir Y K Pao and the other private sector contributors whether a separate Trust Fund would also need to be established specifically to manage and control the private sector contributions to the scheme. If so, this could be located either in Hong Kong or Britain. If Britain were preferred, the British Government would be pleased to advise on the requirements under British law. The trustees appointed under such a Trust Fund might naturally select the Hong Kong representation to the Commission.

Fields and Level of Study

7. Specific areas of study would be agreed by the three parties. In general, scholarships would be available in a wide range of economic, social and technical subjects consistent with the priorities of the Chinese civil modernisation programme. Scholarships would normally be for postgraduate study and research but could also be offered for industrial training.

Duration and Number of Scholarships

8. Scholarships could last for any period from three months to three years. The scheme could provide at least three hundred one-year awards annually, but the number of new awards each year would be correspondingly reduced if two-year or longer scholarships were provided (and, conversely, increased in proportion to the number of scholarships of less than one year available).

Selection

9. Candidates should be selected on the basis of aptitude and with the intention that on their return to China the knowledge and expertise acquired in Britain should be fully utilised from positions of responsibility to the maximum benefit of Chinese modernisation. Candidates should normally be under the age of 35 years at the time the scholarship begins. The Cultural Section of the British Embassy in Peking would be responsible for receiving, checking and forwarding nominations for individual scholarships. All awards would be subject to satisfactory medical reports.

/10.



10. All candidates would sit the internationally recognised English Language Testing Service (ELTS) tests to determine whether any additional English Language tuition is required. If necessary, additional tuition in the UK could be provided on a pro-rata basis (ie one month tuition for three month scholarship, two months for a six month scholarship, and three months tuition for a one year scholarship).

Administration and Control

11. Applications for scholarships could be processed between the Chinese State Education Commission, and the Cultural Section of the British Embassy in Peking. Thereafter nominations would be forwarded to the British Council in London. The British Council would be responsible for the day-to-day administration of the programme, including the placement of successful candidates in British institutions and, through their network of regional offices in close contact with all major British universities and colleges, for their well-being whilst in Britain.

Next Steps

12. The British Government hopes that the scheme can be brought into effect as rapidly as possible and that detailed arrangements can soon be agreed between the parties on the basis of this paper. We propose that, to this end, discussions be held in London as soon as possible between British and Chinese educational specialists and representatives of Sir Y K Pao.

SIR Y K PAO'S CALL ON THE PRIME MINISTER: 21 MARCH 1986

Points to Make

Basic Law/Constitutional Development

1. How do you see progress on drafting Basic Law?
2. It is important that the informal dialogue we have begun with the Chinese about representative government should be a two-way affair. We need to know as much as possible, and as early as possible, about how Chinese thinking is developing, especially in the context of their drafting of the Basic Law.
3. (Defensive) Hong Kong Government fully conscious of need to avoid any threat to stability in connection with future constitutional development. As I assured Premier Zhao Ziyang last October, we have been moving very cautiously for that reason. These moves entirely consistent with principle of Hong Kong people governing Hong Kong and with Annex 1 of Agreement.
4. (Defensive) HMG and Hong Kong Government committed to a proper review in 1987, but have no preconceived plan for what should emerge from that review.

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Civil Aviation /Dragonair Airlines

7. (Defensive) Welcome the expansion of the Civil Aviation industry in Hong Kong. I understand you are in touch with the aeronautical authorities in Hong Kong about the development of routes for DAL.

8. Understand you saw Nicholas Ridley on 19 March. As I'm sure he explained to you, matters other than the negotiation of traffic rights for scheduled services are, in practice, dealt with by the relevant aeronautical authorities in Hong Kong and by the Hong Kong Government.

Joint Liaison Group

9. Third meeting of group, first to be held in Hong Kong, last week very successful. Constructive, businesslike approach by Chinese side. Agreement on preserving Hong Kong's position in GATT, progress on other issues.

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SIR Y K PAO'S CALL ON THE PRIME MINISTER: 21 MARCH 1986

Essential Facts

1. Sir Y K Pao last called on the Prime Minister on 3 October 1985.

Basic Law

2. Sir Y K Pao was invited by the Chinese to become a Vice-Chairman (one of 8) of the Basic Law Drafting Committee (BLDC) in June 1985. The BLDC has 59 members (23 from Hong Kong) and is chaired by Ji Pengfei, Director of State Council's Hong Kong and Macau Office. The Hong Kong members of the BLDC have established a Basic Law Consultative Committee (BLCC) in the territory. The BLCC has 150 members from a wide cross section of Hong Kong society, including 15 expatriates.

3. We have welcomed the Chinese decision to consult Hong Kong people in a wide basis on the drafting of the Basic Law. The Chinese are trying to deal carefully with Hong Kong opinion but the way they engineered the appointment of the seven office holders of the BLCC against its constitution (probably with Sir Y K's cooperation) shook confidence in their willingness really to consult the people of Hong Kong.

4. We understand the programme for the drafting of the Basic Law to be:-

- (a) BLCC will collect views. Preliminary text will be produced by the drafting committee in early 1988. This will be published in Hong Kong for further consultation by the BLCC;
- (b) Draft Basic Law for submission to the Chinese National People's Congress (NPC) Standing Committee will be produced in late 1988/early 1989. Draft then published in Hong Kong;



- (c) BLDC will then produce revised draft for submission to the NPC Standing Committee in 1990, which will then be promulgated.

We have no standing in the drafting of the Basic Law and the Chinese are very sensitive to any suggestion that we can dictate policies for the Special Administrative Region, which will be part of China after 1 July 1997. We hope however to be able to influence drafting process through informal contacts. The crucial aspect for us is that the Basic Law should accurately reflect the Agreement.

Constitutional Development

5. The first indirect elections to the LEGCO took place on 26 September 1985. 24 members out of a new Council of 56 were chosen, 12 of them by an electoral college of District Board, Urban Council and Regional Council (i.e. local government level) members and 12 by functional constituencies representing main professional, commercial and other groups. The remaining 32 continue to be appointed by the Governor. A review of progress towards representative Government is to be carried out in 1987.

6. In April of last year Sir Y K Pao expressed the view to Sir Percy Cradock that movement towards representative government in Hong Kong was too fast: he indicated that this was the Chinese view. Premier Zhao Ziyang raised this same concern with the Prime Minister in October. Chinese concerns have focussed particularly upon the 1987 review, which will include the question of whether direct elections should be introduced in 1988 to choose some of the legislative Council's members. The Chinese are concerned that this review is an attempt by HMG to introduce far-reaching "democratic reforms" and thus preempt the constitutional arrangements which they are to draft for the territory, and which will not be published (as a draft "Basic Law") until 1988. We have been at pains to explain to the Chinese that we are committed to the 1987 review; but that we

have no prearranged scheme to preempt the Basic Law as they fear; and that our intention is to maintain a dialogue with them as the likely outcome of the 1987 review emerges in order to ensure as far as possible that this "converges" with the plans that they are now formulating in their draft Basic Law. The Chinese have been somewhat reassured by this dialogue, but some of them remain suspicious of our long term intentions on constitutional development. It may well be that Sir Y K seeks to raise these continuing Chinese concerns with the Prime Minister (he did so with senior FCO officials here a year ago).

Joint Liaison Group

[REDACTED]

8. One of the main topics discussed in JLG has been Hong Kong's continued participation in the GATT. We proposed separate contracting party status for Hong Kong; Chinese proposed participation under Chinese umbrella. At JLG III last week, Chinese accepted our proposal, and we are now discussing with them the terms of a joint approach to GATT partners to lobby for general acceptance of this proposal. At JLG III, Chinese also agreed formally on the wording to be inserted in British National (Overseas) (BN(O) passports concerning holders' right of abode in Hong Kong. This will be of help in ensuring wide international recognition of BN(O) passports.

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Dragonair (DAL)

13. Sir Y K Pao is Chairman of DAL. He wrote to the Prime Minister about his recently acquired interest in DAL on 25 October 1985, asking for the support of HMG for "This new Hong Kong venture". The Prime Minister's reply was non-committal, and whilst welcoming the expansion of the civil aviation industry in Hong Kong referred Sir Y K to the aeronautical authorities in Hong Kong and the Hong Kong Government (HKG), who have considerable autonomy in Civil Aviation matters (Mr Ricketts' letter to Charles Powell of 5 November refers).

14. Recently DAL has been granted licences by the Hong Kong authorities to mount scheduled services to various points in the People's Republic of China (PRC). It will fall to the Department of Transport in the UK to negotiate with the PRC Government the basis on which DAL might operate such services and recommendations about this are awaited from the Hong Kong Government (HKG). Applications for licences to serve Peking and



Shanghai, which are already served by Cathay Pacific Airways (CPA) were rejected by the Hong Kong authorities, who have indicated that in general they do not favour allowing more than one Hong Kong airline to serve any one route.

15. DAL would also like to operate scheduled services to the UK (the route is already served by CPA, BA and BCal). If they can obtain a licence for such a service from the Hong Kong authorities, the two Governments will need to consider whether and if so on what basis it should operate.

16. DAL also wish to mount charter services to points in SE Asia, Europe and the UK. Hong Kong has complete autonomy in all charter matters and does not need to refer to HMG. Usually such flights are permitted only if the Hong Kong authorities are satisfied that scheduled services cannot meet the demand. So far DAL's charter activity has been confined to occasional services to Malaysia and Thailand. DAL's application to operate charter services to London was refused by the Hong Kong authorities at the beginning of February 1986. A similar charter application from a London based airline, London Express Aviation, has also been refused by Hong Kong.

17. Recent contacts with senior Chinese officials have confirmed that DAL has the support of influential Chinese in Peking and that the Chinese would be prepared to allow DAL to operate some services to major cities such as Peking and Shanghai. It is expected that a further round of air service talks will be held with the PRC in the coming months when we shall be able to test the basis on which DAL might be accepted on routes between Hong Kong and the Mainland.

18. We understand from the DTI that DAL have expressed an interest in expanding their fleet by purchasing BA146 and Airbus aircraft. We welcome this, but it cannot be linked to any preferential treatment for DAL in the negotiation of traffic rights.



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SIR Y K PAO'S CALL ON THE PRIME MINISTER, 21 MARCH

NINGBO STEEL PROJECT

Points to Make

1. Glad that Davy Consortium have submitted preliminary feasibility report to Chinese authorities. Hope Chinese will soon give approval for full study to go ahead.
2. Present Chinese view of project?
3. Enormous scale of project means that only part of it, at most, could be financed under UK soft loan facility; but HMG prepared to consider this.

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SIR Y K PAO'S CALL ON THE PRIME MINISTER, 21 MARCH
NINGBO STEEL PROJECT

Background

1. Sir Y K Pao, a native of Ningbo, introduced this project (total cost £4 billion; maximum UK content £2 billion) to the Prime Minister in November 1984. The estimated cost has risen substantially since the project was first put forward.
2. Davy McKee have formed a consortium to pursue the project and are undertaking a feasibility study with DTI support. First stage of study was presented to Chinese Ministry of Metallurgy on 3 March. It is hoped that Chinese will authorise consortium to proceed with main study within 2 months or so.
3. Chinese have made clear that financing terms will be crucial. Project is so big that at most a small part of it (eg blast furnaces) might be considered for funding under the recently established £300m UK soft loan facility. The Davy Consortium are considering introducing European partners to share the financing burden.
4. On 4 February, Sir Y K Pao told our Senior Trade Commissioner in Hong Kong that he hoped to see agreement on this project in time for The Queen's visit to China in October; but the scale and complexity are such that this is unlikely.

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PERSONALITY NOTES

SIR YUE-KONG PAO CBE LLD JP

Chairman and Chief Executive of the World Wide Shipping Group. In Hong Kong his interests are in property, finance, banking and civil aviation. Born 1918 Zhejiang Province, China.

Educated Shanghai and then went into banking.

Took refuge in Hong Kong in 1949 and entered import/export business. Purchased first ship in 1955 and formed World Wide Shipping Group, now the world's largest independent.

A director of Hong Kong and Shanghai Banking Corporation.

Chairman of Intertanko. Chairman of Wheelock Marden Group. Member of Basic Law Drafting Committee.

Chairman and Major shareholder in Dragonair and Director of CPA.

Has a joint venture with the Chinese in ship-building and shipping.

Sir Y K Pao visits Peking regularly. He has excellent connections and enjoys considerable access to Chinese leaders. On each of his last three visits - May and December 1984 and May 1985 - he has called on Deng Xiaoping.

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MR LI KA SHING

Born Chaozhou China 1928. Businessman, and Hong Kong's largest property developer. Managing Director of Cheung Kong (Holdings) Limited. Chairman of Green Island Cement Co. Ltd. Also holds directorships in several other important Hong Kong companies including Hutchison Whampoa Ltd. Director of the Hong Kong-Shanghai Banking Corporation

Shareholder in Dragonair through Cheung Kong (Holdings) Ltd.

Married, 2 sons.

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10 DOWNING STREET
SW1A 2AA

From the Private Secretary

7 March 1986

The Prime Minister has asked me to thank you for your letter of 3 March explaining the reasons why you are unable after all to attend the meeting on 21 March. She was very distressed to hear of your mother's illness and of course fully understands the reasons why you must be with her.

I hope that we shall be able to arrange for you to meet the Prime Minister on another occasion.

(Charles Powell)

Mr. Li Ka-shing.

✓



10 DOWNING STREET
SW1A 2AA

From the Private Secretary

4 March 1986

I am writing to thank you on the Prime Minister's behalf for your telex about the inability of Mr. K. S. Li to attend the meeting on 21 March. The Prime Minister was very sorry to hear of the grave illness of Mr. Li's mother for whom she wishes a speedy recovery. She looks forward to meeting Mr. Li on another occasion.

(Charles Powell)

Sir Y. K. Pao, C.B.E., J.P.

055

MARINE NAVIGATION COMPANY, LTD.

Incorporated 1916

1ST FLOOR, DEWHURST HOUSE,
24 WEST SMITHFIELD,
LONDON, EC1A 9BD

Telephone: 01-236-7771

4-3-86

With Compliments

David Bridger.

PLS DELIVERY FOLLOWING MSG BY HAND TO THE PRIME MINISTER'S
OFFICE AT NO.10 DOWNING STREET

QUOTE

DEAR PRIME MINISTER,

I REGRET TO INFORM YOU THAT DUE TO HIS MOTHER'S GRAVE
ILLNESS, MR. K.S.LI CHAIRMAN OF CHEUNG KONG (HOLDINGS) LTD., WILL
NOT BE ABLE TO MAKE HIS LONDON TRIP AND HE HAS ASKED ME TO CONVEY
TO YOU HIS DEEP APOLOGIES FOR HAVING TO MISS THE PLEASURE OF
MEETING YOU ON 9:00 A.M. ON FRIDAY, 21ST MARCH IN YOUR OFFICE.
I MYSELF WILL LOOK FORWARD TO SEEING YOU THEN.

KINDEST REGARDS

Y.K. PAO WORLDSHIP

UNQUOTE

李嘉誠

Li Ka-shing

Chairman

長江實業(集團)有限公司
Cheung Kong (Holdings) Limited

21st floor, China Building,
Queen's Road, Central,
Hong Kong
Tel. 5-566911

March 3, 1986

Prime Minister Margaret Thatcher
10 Downing Street
London
England

DP
will you
do this?

Dear Prime Minister,

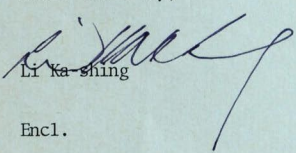
Unfortunately I have to inform you that I will have to postpone my forthcoming visit to England for a very sad and personal reason. The doctors have just told me that my 82 year-old mother, who is suffering from cancer, has now entered the terminal stage, treatment is having no effect and all medication has now been stopped. (See letter attached) - *not present at review*

In these circumstances, as the eldest son in the family and following Chinese tradition, I must be at her bedside.

I was particularly looking forward to meeting with you at 9 a.m. on Friday, March 21, 1986 and I do apologise for having put you to such inconvenience. I hope that you will be kind enough to spare the time to see me when I am able to visit London at a future date.

With deep regret,

Yours sincerely,


Li Ka-shing

Encl.



Je ve
etc

10 DOWNING STREET

From the Private Secretary

11 February 1986

Thank you for your letter of 11 February about the Prime Minister's meeting with Sir Y.K. Pao. You ask how long the Prime Minister expects to spend with Sir Y.K. Pao. Half-an-hour would be normal.

I am copying this letter to Martin Dinham (ODA) and John Mogg (Department of Trade and Industry).

(CHARLES POWELL)

R.N. Culshaw, Esq.,
Foreign and Commonwealth Office.



Je VC
c PC

10 DOWNING STREET

From the Private Secretary

11 February 1986

You sent a telex to the Prime Minister on 31 January asking whether you might introduce Mr. Li Ka-Shing to the Prime Minister when you meet her on 21 March. I am confident that the Prime Minister would agree to this.

The Prime Minister looks forward to seeing you.

(CHARLES POWELL)

Sir Y.K. Pao, C.B.E.



1. CDP.
2. CRTONOTE.

CPK

Foreign and Commonwealth Office

London SW1A 2AH

11 February 1986

Dear Charles,

Thank you for your letter of 31 January about the Prime Minister's forthcoming meeting with Sir Y K Pao. I confirm that we see no objection to Mr Li Ka-Shing attending the meeting. However, the Prime Minister should be aware

[redacted] he is also a shareholder in the new Hong Kong airline, Dragonair, in the inception of which Sir Y K Pao has played a leading role.

We shall let you have briefing in due course. It will cover these aspects, together with other Hong Kong issues; Sir Y K Pao's proposed scholarship fund for Chinese students; and the Ningbo steel works project in China. Meanwhile, it would be helpful to know how long the Prime Minister expects to spend with Sir Y K Pao.

I am copying this letter to Martin Dinham in the Overseas Development Administration and John Mogg in the Department of Trade and Industry.

Yours ever,

(R N Culshaw)
Private Secretary

C D Powell Esq
No.10 Downing Street

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10 DOWNING STREET

From the Private Secretary

31 January 1986

BF (The Prime Minister is to see Sir Y K Pao on 21 March. It would be helpful to have a short brief beforehand. Sir Y K has asked whether he could bring, for part of the meeting at least, Mr. Li Ka-Shing, Chairman of Cheung Kong (Holdings) Ltd and Hutchison Whampoa Ltd. I should be grateful to know whether you see any objection to this.

Charles Powell

Robert Culshaw, Esq.,
Foreign and Commonwealth Office.

SMT

To: Caroline,

MARINE NAVIGATION COMPANY, LTD.

Incorporated 1916

1ST FLOOR, DEWHURST HOUSE,
24 WEST SMITHFIELD,
LONDON, EC1A 9BD

Telephone: 01-236-7771

Charles Farnell

With Compliments

Re our telephone conversation enclosed is
a message from Sir Yue-kong to the Prime
Minister. I also enclose a 'brief' on Mr. Li.
Many thanks + regards, Nancy

31.1.86

THE RT. HON. MRS. MARGARET THATCHER, MP
PRIME MINISTER
10 DOWNING STREET
LONDON SW1

DEAR PRIME MINISTER,

THANK YOU FOR ALLOWING ME TIME AGAIN TO CALL ON YOU IN YOUR OFFICE AT 9:00 A.M. ON FRIDAY, 21 MARCH. MAY I REQUEST YOUR PERMISSION TO BRING WITH ME JUST FOR INTRODUCTORY PURPOSE MR. LI KA-SHING, CHAIRMAN OF THE CHEUNG KONG (HOLDINGS), LTD. AND HUTCHISON WHAMPOA LTD., HONGKONG, WHO WOULD VERY MUCH LIKE TO MEET YOU AND PAY HIS RESPECTS. HE WILL LEAVE AFTER THE INTRODUCTION AND I ALONE WILL HAVE MEETING WITH YOU AND REPORT TO YOU ON VARIOUS ISSUES. A CONFIRMATION OF YOUR KIND AGREEMENT WILL BE MUCH APPRECIATED.

Y.K. PAO

Patented 1918

DEWHURST HOUSE,
SMITHFIELD,
N. E. C. 1 A 8 B D
No. 01 328 1311



[Faint, illegible handwritten text, possibly bleed-through from the reverse side of the page.]



Cheung Kong (Holdings) Limited 長江實業(集團)有限公司

China Building, 20-22 floors, 29 Queen's Road Central, Hong Kong. Tel. 5-266911 (30 Lines) Telex 86209 Fax: 5-296537

January 1986

LI KA-SHING
Chairman and Managing Director
Cheung Kong (Holdings) Ltd
Hong Kong

Li Ka Shing is the founder and Chairman of Cheung Kong (Holdings) Ltd., one of the largest property developers in Hong Kong.

Born in Chiu Chow in the Guangdong Province of China in 1928, Li came to Hong Kong in 1940 to further his studies. In 1942, he lost his father and found himself in the position of having to support his mother, younger brother and sister by seeking a job during the wartime, although he was only 14 years old and had no working experience.

His first job was a junior salesman with a toy manufacturing company. Through diligence and hard work, he was promoted to General Manager of the company in 1946.

The role of employee, however, was not particularly to his liking. In 1950, when the plastics industry was just emerging from the ravages of World War Two, Li started his own factory and named the company Cheung Kong, which means long river and is another name for the world's fourth longest river - the YangtzeKiang.

During the mid-1950's, Li made his debut in the business world and later on enjoyed success as a result of the plastic flower boom. It was in 1958 that he first moved into property, opening his own 12-storey factory where he produced toys and household items together with plastic novelties. This was his first step in a remarkable climb to the top levels of the Hong Kong property market.

In 1972, the company went public, the shares being over-subscribed 65.4 times, making it one of the best-received flotations ever. Through its history, Cheung Kong has played the property field adroitly to acquire some of the most desirable sites, ripe for development. Other moves which have boosted the company's reputation include the acquisition of a controlling interest in Green Island Cement Company and the acquisition of a controlling interest in Hutchison Whampoa Ltd.

..../cont'd



Under his chairmanship, Hutchison has in a few years time become the largest trading and industrial conglomerate in Hong Kong, controlling the Hong Kong Electric Group as well as controlling subsidiaries which account for:

- trading, retailing and supermarkets through a chain of 150 outlets
- a container terminal handling more than 45% of the total container throughput of Hong Kong
- quarrying and concrete mixing
- telecommunications
- China Trading
- other investments in newspaper and hotel business

The combined property developments under construction and planned by the CKH/HWL Groups account for more than 30 million square feet including over 25,000 apartments.

Cheung Kong's acquisition of Hutchison Whampoa in 1979 enabled Li to achieve a landmark in the history of Hong Kong: the first Chinese businessman to take over as taipan of one of the old established hongts, British-owned trading houses. He was officially named "Man of the Year 1980" in an election jointly organized by Radio Television Hong Kong and Citibank Corporation. The major criterion for the Award was the nominee's contribution to the well-beings of the community during the year, and its significance was the election of an outstanding person by free ballot open to all citizens.

Today, Li is also the Chairman of Hutchison Whampoa Ltd, Green Island Cement Co. Ltd, International City Holdings Ltd, and the deputy chairman of the Hongkong and Shanghai Banking Corporation. He was appointed as a director to the board of China International Trust & Investment Corporation in 1979.

Mr. Li now controls a group of companies with a market capitalisation in excess of US\$4,000 million and 1985 combined profits in excess of US\$450 million after tax.

His other appointments are listed on the attached sheet.

During the past few years, he has made numerous contributions towards medical and educational charities located in Hong Kong and the Mainland China.

Li is married with two sons.

Ka-shing LI, born in 1928 in Chiu Chow, Guangdong, China and appointed as an Unofficial Justice of the Peace on May, 1981, is

1. Chairman of the Board & Managing Director of Cheung Kong (Holdings) Ltd.
2. Chairman of the Board of Hutchison Whampoa Ltd.
3. Chairman of the Board & Managing Director of International City Holdings Ltd.
4. Chairman of the Board of Green Island Cement Co. Ltd.
5. Deputy Chairman of the Hongkong and Shanghai Banking Corporation
6. Director of The Kwong Sang Hong, Ltd.
7. Chairman of the Board of Li Ka Shing Foundation Ltd.
8. Director of Island Peninsula Realty & Enterprises Ltd.
9. Director of China International Trust & Investment Corporation

Other appointments include:

1. Honorary President of Local Inspectors' Association, Royal Hong Kong Police
2. Honorary President of Junior Police Officers' Association of the Royal Hong Kong Police Force
3. Honorary President of the Royal Hong Kong Police Old Comrade's Association
4. Vice Patron of the Community Chest of Hong Kong
5. Advisory Council Member of the Hong Kong Red Cross
6. Member of Endowment Fund Appeals Committee of Hong Kong Philharmonic Society
7. Vice Patron of the Hong Kong Academy of Ballet
8. Honorary Councillor of Rehabilitation International
9. Member of Pacific Basin Economic Council Hong Kong Group
10. Member of the Advisory Board of the Three-Year MBA Programme of the Chinese University of Hong Kong
11. Vice Chairman of Advisory Board of Hong Kong-Stanford University Medical Fund
12. Honorary President of the Hong Kong Chiu Chow Chamber of Commerce

Sir Y.K. Pao
19/3



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10 DOWNING STREET

From the Private Secretary

23 January 1986

b/u to
CF

The Prime Minister has agreed to see Sir Y.K. Pao on Friday 21 March at 0900 hours.

Could you please supply us with a brief to reach us by close of play on Wednesday 19 March.

Caroline Ryder

Robert Culshaw Esq
Foreign and Commonwealth Office.

da

Sir Yue-Kong Pao C.S.E., LL.D., J.P.

Prime Minister
CDP
affi

cc fco CFF ②
WORLD-WIDE SHIPPING GROUP
24th Floor, Wheelock House
20 Pedder Street
Hong Kong
Tel.: 5-8442288 Telex: HX73247

23rd January, 1986.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
No. 10 Downing Street
London SW1
ENGLAND

Mr R28/1
PPS

My dear Prime Minister,

May I first apologize for not having replied earlier to your letter of 9th December, 1985 which reached me on 23rd December. My absence for a year-end holiday also contributed to the delay. I would like to thank you again for your enthusiastic response to my scholarship fund proposal intended to open the way for more students from China to pursue higher studies in the United Kingdom.

I have since also had the opportunity of a brief discussion on the project with Lord Young when he passed through Hong Kong after his China trip in December. From a subsequent telex message received yesterday from him, I was glad to know that the U.K. Government officials are now urgently considering the detailed arrangements that will be required in regard to British participation in the scheme. I am pleased to confirm that Mr. Stephen Y.K. Pan of Marine Navigation Co. Ltd., Chairman of this London associate of ours, has been designated as my representative to deal with the matter and is fully authorized to co-ordinate further with your officials on the project.

I myself will be visiting London in mid March and I know Mr. Pan has arranged an appointment for me to visit you on 21st March when I hope we could have further discussions on the scheme.

With kindest regards,

Yours sincerely
Y. K. Pao

HONG KONG
MEETINGS WITH
YK PAO
PTZ

1. MR. ~~POWELL~~ CDP
2. PRIME MINISTER

Sir Y.K. Pao is going to be in London between 19 and 21 March and has asked to see you.

Shall I fit him in? It is Budget week.

Dec

pp (Caroline Ryder)

22 January 1986

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CONFIDENTIAL
OO PEKIN
FM FCOLN TO PEKIN
101400Z DEC
GRS 308

CONFIDENTIAL
FM FCO
TO IMMEDIATE PEKING
TELNO 1057
OF 101400Z DECEMBER 85
AND TO IMMEDIATE HONG KONG

OUR TELNO 1039 (NOT TO HONG KONG): Y K PAO: EDUCATIONAL FUND

1. MIPT CONTAINS TEXT OF PRIME MINISTER'S REPLY, DATED 9 DECEMBER, TO SIR Y K PAO. GRATEFUL IF HONG KONG WOULD CONVEY AN ADVANCE COPY AS SOON AS POSSIBLE TO SIR Y K. FOR PEKING.
2. PLEASE NOTE THAT WHILE THE PRIME MINISTER HAS INDICATED WILLINGNESS IN PRINCIPLE TO PARTICIPATE IN THE SCHEME, THERE ARE STILL MANY DETAILS TO BE DISCUSSED AND AGREED. FOR EXAMPLE, HMG CANNOT (FOR REASONS OF GOVERNMENT FINANCING) CONTRIBUTE A CAPITAL SUM AND THE DETAIL OF A FIRM COMMITMENT TO PROVIDE CONTRIBUTIONS OVER A TEN YEAR PERIOD IN A PARTICULAR FORM WOULD NEED FURTHER CONSIDERATION IN LONDON. THIS IN TURN WILL DEPEND ON THE DISCUSSIONS ENVISAGED WITH THE CHINESE AND SIR Y K'S REPRESENTATIVE.
3. LORD YOUNG WILL BE BRIEFED TO TELL CHINESE LEADERS (MOST APPROPRIATELY DENG IF HE SEES HIM) THAT: WE WELCOME SIR Y K'S SCHEME AND HAVE DECIDED IN PRINCIPLE TO PARTICIPATE IN IT, SUBJECT TO AGREEMENT BETWEEN ALL CONCERNED ON THE DETAILS. ONCE HE HAS DONE SO YOU MAY, IF YOU FIND IT HELPFUL, FOLLOW UP WITH THE STATE EDUCATION COMMISSION. YOU COULD ADD THAT WE CANNOT PROVIDE A CAPITAL SUM BUT WOULD ENVISAGE MAKING ANNUAL

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CONTRIBUTIONS.

4. ON THE DETAIL, WE THINK THAT WE SHOULD ALLOW SIR Y K TIME TO REACT TO OUR SUGGESTION FOR DISCUSSIONS AND WE SUGGEST YOU DO NOT INVITE FURTHER BILATERAL DISCUSSION WITH THE CHINESE UNTIL WE HEAR FROM HIM ALTHOUGH, IF THE CHINESE VOLUNTEER, IT WOULD OF COURSE BE HELPFUL TO KNOW THEIR INITIAL VIEWS.
5. SEE MIPT.

HOWE

OCMIAN 2852

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LIMITED
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PS
PS/MR RAISON
PS/MR RENTON
PS/PUS
SIR W HARDING
DR WILSON
MR BARRINGTON

COPIES TO:

PS/LORD YOUNG, D/EMPLOYMENT
MR P MCLEAN, EAD, ODA

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OO PEKIN
FM FCOLN TO PEKIN
101445Z DEC
GRS 420

CONFIDENTIAL
FM FCO
TO IMMEDIATE PEKING
TELNO 1058
OF 101445Z DECEMBER 85
AND TO IMMEDIATE HONG KONG

MIPT: YK PAO: EDUCATIONAL FUND

DEAR SIR Y K

1. THANK YOU FOR FOLLOWING UP OUR MEETING IN OCTOBER WITH A TELEX AND SUBSEQUENT LETTER ABOUT YOUR IMAGINATIVE AND GENEROUS PROPOSAL TO ESTABLISH A TRUST FUND TO BRING MORE CHINESE STUDENTS TO BRITAIN. I AM PLEASED THAT CHAIRMAN DENG XIAOPING'S REACTION WAS SO POSITIVE.
2. WE TOO ARE ANXIOUS TO SEE MANY MORE CHINESE STUDENTS IN THE UNITED KINGDOM. IN 1984-85 THERE WERE MORE THAN 800 FULL-TIME CHINESE STUDYING HERE. NEARLY 400 OF THEM RECEIVED SUPPORT FROM OFFICIAL FUNDS, COMPARED WITH 118 IN 1983/84. THE COST TO OUR TECHNICAL CO-OPERATION BUDGET WAS POUNDS STERLING 0.8 MILLION, HAVING RISEN FROM POUNDS STERLING 125.000 IN 1983/84. THIS YEAR THE NUMBER OF STUDENTS HAS RISEN TO 1,000, OF WHOM NEARLY 530 RECEIVE SUPPORT FROM THE BRITISH GOVERNMENT. THE GOVERNMENT HAS ALSO BEEN ENCOURAGING THE PRIVATE SECTOR TO PROVIDE SCHOLARSHIPS AND TRAINING. ERIC SHARP AND THE SINO-BRITISH TRADE COUNCIL HAVE MADE A USEFUL START IN TRYING TO STIMULATE AND CO-ORDINATE PRIVATE SECTOR EFFORTS.
3. YOUR SCHEME WILL PROVIDE A MAJOR ADDITIONAL IMPETUS TO THESE

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2847 - 1

EFFORTS. I AM PLEASED TO BE ABLE TO TELL YOU THAT WE WOULD IN PRINCIPLE BE VERY WILLING TO PARTICIPATE IN IT. WE CANNOT, FOR REASONS CONNECTED WITH OUR OWN SYSTEM OF GOVERNMENT FINANCING, OFFER A CAPITAL SUM. OUR IDEA, HOWEVER, WOULD BE TO MAKE AVAILABLE EACH YEAR A SUM OF POUNDS STERLING 700,000, WHICH UNDER PRESENT CONDITIONS WOULD BE ROUGHLY QUIVALENT TO THE ANNUAL INCOME THAT COULD BE EXPECTED FROM THE DOLLARS 10 MILLION YOU HAVE SUGGESTED AS THE UNITED KINGDOM'S SHARE OF THE FUND. THERE WOULD NATURALLY HAVE TO BE DISCUSSION AND AGREEMENT ABOUT THE WAY IN WHICH THE MONEY IS TO BE USED, INCLUDING THE CRITERIA FOR AWARDS, THE DIVISION OF TRAINING COSTS, AND ACCOUNTING FOR ANNUAL EXPENDITURE. I HOPE YOU WILL AGREE THEREFORE THAT THE NEXT STEP SHOULD BE TO CARRY FORWARD IN LONDON OUR DISCUSSIONS ON HOW THE FUND MIGHT BE ESTABLISHED AND ADMINISTERED. WOULD YOU BE ABLE TO NOMINATE A REPRESENTATIVE WITH WHOM THE FOREIGN AND COMMONWEALTH OFFICE COULD MAKE APPROPRIATE ARRANGEMENTS? I UNDERSTAND THAT THEY HAVE ALREADY BEEN IN TOUCH WITH MR STEPHEN PAN ABOUT THE SCHEME. WITH BEST WISHES,
WARM REGARDS
YOURS SINCERELY
MARGARET THATCHER

HOWE

OCMIAN 2847

NNNN
YYYY
LIMITED
FED
HKD
CRD

PS/PUS

PS
PS/MR RAISON
PS/MR RENTON
SIR W. HARDING
MR WILSON
MR BARRINGTON

COPIES TO:

PS/LORD YOUNG D/EMP.
MR P. MCLEAN, EAD, ODA

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CONFIDENTIAL



File
cc FCO
DSG

10 DOWNING STREET

THE PRIME MINISTER

9 December 1985

Dear Sir Yuk.

Thank you for following up our meeting in October with a telex and subsequent letter about your imaginative and generous proposal to establish a trust fund to bring more Chinese students to Britain. I am pleased that Chairman Deng Xiaoping's reaction was so positive.

We too are anxious to see many more Chinese students in the United Kingdom. In 1984/85 there were more than 800 full-time Chinese studying here. Nearly 400 of them received support from official funds, compared with 118 in 1983/84. The cost to our technical co-operation budget was £0.8 million, having risen from £125,000 in 1983/84. This year the number of students has risen to 1,100, of whom nearly 530 receive support from the British Government. The Government has also been encouraging the private sector to provide scholarships and training. Eric Sharp and the Sino-British Trade Council have made a useful start in trying to stimulate and co-ordinate private sector efforts.

Your scheme will provide a major additional impetus to these efforts. I am pleased to be able to tell you that we would in principle be very willing to participate in it. We cannot, for reasons connected with our own system of government financing, offer a capital sum. Our idea, however, would be to make available each year a sum of £700,000, which under present conditions would be roughly equivalent to the annual income that could be expected from

JA

the \$10 million you have suggested as the United Kingdom's share of the Fund. There would naturally have to be discussion and agreement about the way in which the money is to be used, including the criteria for awards, the division of training costs, and accounting for annual expenditure. I hope you will agree therefore that the next step should be to carry forward in London our discussions on how the Fund might be established and administered. Would you be able to nominate a representative with whom the Foreign and Commonwealth Office could make appropriate arrangements? I understand that they have already been in touch with Mr. Stephen Pan about the scheme.

With best wishes,

Warm regards

Yours sincerely

Rayaneshahin

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

6 December 1985

Dear Charles,

Sir Y K Pao: Trust Fund for Chinese Students

I enclose, as requested, a draft letter which the Prime Minister might send to Sir Y K Pao about his proposal to establish a trust fund to enable more Chinese students to study in the United Kingdom. Sir Y K is offering to give US\$10 million himself and to raise another US\$10 million over ten years. He reports that Deng Xiaoping has agreed to match the US\$20 million, and is seeking a US\$10 million contribution from HMG so as to reach a goal of US\$50 million overall.

The Chinese have confirmed to our Embassy in Peking that they support Sir Y K's proposal, although they have not made clear how much new money will be involved. The Ministry of Foreign Affairs has suggested that detailed discussions should now be held.

Sir Y K's proposal is generous and imaginative. We are of course already working vigorously to attract more Chinese students, particularly in technical subjects. The largest official contribution (£800,000 in 1984/85) comes from ODA funds; China is in addition the largest beneficiary of the FCO special awards scheme (£140,000 this year). These figures were already set to rise in the years ahead (although not to the extent of a further US\$10 million over ten years).

We have also been urging the private sector, with some success, to provide funds, rather as the West Germans have begun to do. A number of companies (e.g. Cable and Wireless, Lloyds of London) are already doing so. Sir Eric Sharp has with our encouragement seconded a member of Cable and Wireless to the Sino-British Trade Council to explore the scope for further initiatives by SBTC members. The outgoing Lord Mayor has also spoken of trying to raise funds.

All in all we believe Sir Y K's proposal could make a significant and, for HMG, cost-effective contribution to these efforts and therefore deserves as positive a response as possible. The discussion in OD on 5 December about the implications of withdrawal from UNESCO now provides a way forward. The draft letter therefore offers a contribution along the agreed lines (i.e. an annual input of £0.7 million).

/We

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We cannot however make this an unconditional and binding commitment over the next ten years. We should first need to know more details of what is envisaged. In view of their own proposal for discussions about detail we believe that the Chinese would themselves welcome a response along the lines we have suggested. And in the meantime a representative of Sir Y K in London has also confirmed that Sir Y K understands the need for such discussions.

Sir Geoffrey Howe has been closely involved in efforts to reach this positive conclusion, but I have not been able to show him the text of this present letter. I am confident that he would be content with the general lines of it.

I am copying this letter to Matthew Cocks (Minister for Trade's Office), Rob Smith (DES), Martin Dinham (ODA), Rachel Lomax (HM Treasury) and Leigh Lewis (Department of Employment).

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL



DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Reference

Prime Minister

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

Top Secret
Secret
Confidential
Restricted
Unclassified

Sir Y K Pao CBE, LLD, JP
World-Wide Shipping Group
16th Floor, World Shipping Centre
Harbour City
7 Canton Road
Kowloon
Hong Kong

Copies to:

JMAFJ

PRIVACY MARKING

SUBJECT:

.....In Confidence

Thank you for following up our meeting in October with a telex and subsequent letter about your imaginative and generous proposal to establish a trust fund to bring more Chinese students to Britain. I am ^{pleased} delighted that Chairman Deng Xiaoping's reaction was so positive.

CAVEAT.....

We too are anxious to see many more Chinese students in the United Kingdom. In 1984/85 there were more than 800 full-time Chinese studying here. Nearly 400 of them received support from official funds, compared with 118 in 1983/84. The cost to our technical co-operation budget was £0.8 m, This year having risen from £125,000 in 1983/84. /the number of students has risen to 1100, of whom nearly 530 receive support from the British Government. The Government has also been encouraging the private sector to provide scholarships and training. Eric Sharp and the Sino-British Trade Council have made a useful start in trying to stimulate and co-ordinate private sector efforts.

Enclosures—flag(s).....

Your scheme will ~~I hope~~ provide a major additional impetus to these efforts. I am pleased to be able to tell you that

we would/

Future : Hong Kong / 18.

we would in principle be very willing to participate in it. We cannot, for reasons connected with our own system of government financing, offer a capital sum. Our idea however would be to make available each year a sum of £700,000, which under present conditions would be roughly equivalent to the annual income that could be expected from the \$10 million you have suggested as the United Kingdom's share of the Fund. There would naturally have to be discussion and ^{agreement} /about the way in which the money is to be used, including the criteria for awards, the division of training costs, and accounting for annual expenditure. I hope you will agree therefore that the next step should be to carry forward in London our discussions on how the Fund might be established and administered. Would you be able to nominate a representative with whom the Foreign and Commonwealth Office could make appropriate arrangements? I understand that they have already been in touch with Mr Stephen Pan about the scheme.

With best wishes.

en.



ECL

10 DOWNING STREET

From the Private Secretary

4th December 1985

I enclose a copy of a further letter to the Prime Minister from Sir Y.K. Pao about his proposal to establish an Education Fund aimed at helping more Chinese students to pursue their studies in the United Kingdom.

We really must get an answer off to Sir Y.K. very soon. The deadline should be the end of this week.

(Charles Powell)

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

SRW

Sir Yue-Kong Pao C.B.E., LL.D., J.P.

ccpc R3112
ppp.
WORLD-WIDE SHIPPING GROUP
24th Floor, Wheelock House
20 Pedder Street
Hong Kong
Tel.: 5-8442288 Cable: Worldship

30th Nov., 1985.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
No. 10 Downing Street
London SW 1
ENGLAND

Dear Prime Minister,

I am pleased to refer to your letter of 29th Oct., 1985 and wish to thank you again for your enthusiastic response to my telex of 25th October from Beijing informing you of the Chinese leadership's full support of my proposal to establish an Education Fund aimed at helping more Chinese students to pursue studies in the United Kingdom.

I mentioned the proposal to Mr. Deng Xiaoping personally in Beijing on 25th October. He at that time gave me the honour of attending the opening ceremony of the Zhaolong Hotel, a donation of my family to the China Travel & Tourism Administration Bureau, and he then agreed on the spot that the Chinese Government would contribute the suggested share of US\$20 million to the Fund, to be paid over a 10-year period, and immediately asked Mr. Gu Mu, member of the State Council, to follow up on the matter. Hence my telex to you at that time.

As you are aware, my proposal is for the Fund to be established with a total amount of US\$50 million, of which \$10 million to be contributed by my family over the same period of time, while I will be responsible for raising an additional \$10 million from the private sector in Hong Kong or elsewhere. This will leave a balance of only \$10 million which I sincerely hope your Government will find it possible to provide over the same time scale.

Cont'd. 2/-

The Rt. Hon. Mrs. Margaret Thatcher, MP
Page 2
30th Nov., 1985

The Fund, once set up, would make it possible for 50 to 100 Chinese students to come to the U.K. every year to undertake higher level studies and thus help correct the imbalance in numbers you mentioned to me existed between the number of Chinese students studying in the U.K. and in other countries. I am grateful for your continued support among your colleagues to finalise the project at an early date.

With kindest regards,

Yours sincerely
J. H. Tao

GRS 300

CONFIDENTIAL
FM PEKING
TO PRIORITY FCO
TELNO 1719
OF 250408Z NOVEMBER 85
INFO PRIORITY HONG KONG

MY TELNO 1670: SIR Y K PAO: EDUCATIONAL FUND

1. DURING THE COURSE OF A CALL I MADE ON JIANG ENZHU, DEPUTY DIRECTOR OF WESTERN EUROPEAN DEPARTMENT AT THE MFA, ON 22 NOVEMBER, JIANG REFERRED TO EARLIER CONTACT BETWEEN HIMSELF AND THOMSON ON THE SUBJECT OF SIR Y K PAO'S FUND (MY TELNO 1571) AND SAID THAT HE WOULD LIKE TO STATE THE FORMAL CHINESE POSITION ON THIS SUBJECT.

2. THE CHINESE GOVERNMENT WELCOMED SIR Y K PAO'S PROPOSAL FOR THE CHINESE AND BRITISH GOVERNMENTS AND SIR Y K PAO HIMSELF TO SET UP A JOINT SCHOLARSHIP FUND TO ASSIST CHINESE STUDENTS TO STUDY IN BRITAIN. THE CHINESE GOVERNMENT ACTIVELY SUPPORTED THIS PROPOSAL, WHICH THEY THOUGHT WOULD ENABLE MORE CHINESE STUDENTS TO STUDY AND PURSUE RESEARCH IN BRITAIN. THAT WOULD BE HELPFUL NOT ONLY IN INCREASING SCIENTIFIC, CULTURAL AND TECHNOLOGICAL EXCHANGES BETWEEN US BUT WOULD ALSO BE HELPFUL IN DEVELOPING BILATERAL RELATIONS IN GENERAL. THE CHINESE GOVERNMENT WAS READY TO MAKE JOINT EFFORTS SO THAT THE SCHOLARSHIP FUND COULD BE ESTABLISHED AT AN EARLY DATE. THE SPECIFIC QUESTIONS THOMSON HAD PUT TO HIM (SEE PARAGRAPH 2 OF YOUR TELNO 920) HAD ALREADY BEEN REFERRED TO THE STATE EDUCATION COMMISSION, WITH WHOM THE SHOULD GET IN TOUCH TO PURSUE THE MATTER.

COMMENT

3. IN SUBSTANCE, THIS RESPONSE IS THE SAME AS THAT ALREADY CONVEYED TO US BY THE STATE EDUCATION COMMISSION (TUR REFERS). THE MFA CLEARLY INTEND, HOWEVER, THAT MORE DETAILED DISCUSSION SHOULD NOW BE CONDUCTED BETWEEN THE MEBASSY AND THE EDUCATION COMMISSION.

EVANS

LIMITED

FED
HKD
CRD
PS
PS/MR RENTON
SIR W. HARDING
DR WILSON
MR BARRINGTON

COPIES TO:

PS/NO. 10
MR P. McLEAN, ODA
MISS J. MOLE, SPD, DTI
MR D. TIMMS, INT DIV, D.E.S.

CONFIDENTIAL

csp



Foreign and Commonwealth Office

London SW1A 2AH

5 November 1985

Dear Charles,

Letter from Sir Y K Pao to the Prime Minister about
Dragon Airlines

I attach a draft reply from the Prime Minister to Sir Y K Pao's message on Dragon Airlines as requested in your letter of 25 October. It is agreed with Hong Kong, Peking and the Department of Transport.

Dragonair was incorporated in Hong Kong in September 1984 following the conclusion of the Sino-British Joint Declaration. Its origins are shrouded in mystery but it appears that up to now it has been substantially owned and controlled by Chinese interests. It has therefore not hitherto met the requirement for designation to operate international scheduled services (resulting from most of our bilateral air services agreements) that it should be substantially owned and effectively controlled by HMG or by British (including Hong Kong) nationals. Sir Y K Pao appears to have been invited to take a 30% shareholding in Dragonair so that the airline can meet this requirement. It is not however yet clear whether the new arrangements will achieve this objective.

It has applied to the Hong Kong Air Transport Licensing Authority (ATLA) to operate scheduled services to 10 points in China. This application has been contested by Cathay Pacific Airways and must go to a public hearing, which will take place on 2 December. If ATLA decides to issue Dragonair with a licence to operate such scheduled services, the Hong Kong Government in consultation with HMG will have to decide whether and if so how we should seek to obtain Chinese agreement for the airline to operate such services.

Dragonair clearly has powerful backers in Peking, and we believe that disagreement between them and the Chinese airline CAAC, which appears to favour Cathay Pacific being the sole Hong Kong Airline to operate regional routes to China, may have contributed to the failure of the first round of our consultations with the Chinese in September. We shall be pressing Cathay's interests in serving Beijing and Shanghai again during the second round of talks which is due to take place from 13-15 November but it seems unlikely that at that stage we shall be able to persuade the Chinese to allow any Hong Kong-based airline (whether Cathay or Dragonair) to serve other Chinese cities.

/The



The Hong Kong ATLA and Civil Aviation Department are at present responsible for licensing Hong Kong-based airlines and for handling applications from foreign airlines to operate charter flights to and from Hong Kong. HMG remains responsible for negotiating traffic rights for Hong Kong-based airlines to operate international scheduled services. In the lead up to 1997 we propose to make new arrangements so that progressively the Hong Kong Government will be able to take over responsibility for the latter international negotiations. It is not clear whether and if so how we shall be able to transfer to Hong Kong responsibility for making arrangements with the Chinese for services between Hong Kong and the Mainland. For the next few years at least we shall need to continue to exercise this responsibility and shall naturally seek to meet the Hong Kong Government's wish to press Cathay's case for routes to major Chinese cities while at the same time not appearing to reject Dragonair's claims unfairly.

At this sensitive stage it is therefore important to avoid giving Sir Y K Pao any reason to suppose that HMG will support Dragonair at the expense of any other Hong Kong airline.

I am copying this letter to Richard Allen at the Department of Transport.

Ye ever,

Pete Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:
Prime Minister

Reference
[ME2AEO]

DEPARTMENT:

TEL. NO.:

SECURITY CLASSIFICATION

TO:
Sir Y K Pao

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

World Wide Shipping
HONG KONG

Copies to:

Handwritten initials and circled number 62

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

Thank you for your message informing me of your intention to invest in Dragonair. I am pleased to see that the Civil Aviation industry in Hong Kong is continuing to expand. I understand that Dragonair has already obtained an airline operators certificate and has mounted a number of charter services to Malaysia and Korea, a good start for a new airline.

As I am sure you know, although the ultimate responsibility for civil aviation matters in Hong Kong lies with HMG, matters other than international negotiation of traffic rights for scheduled services are in practice dealt with by the relevant aeronautical authorities in Hong Kong and the Hong Kong Government. I am, however, grateful to you for telling me of your plans. We shall follow the development of the civil aviation industry in Hong Kong with interest.

Enclosures—flag(s).....

Handwritten signature

Handwritten text at the top of the page, possibly a name or title.

PM'S
MEETINGS
PTZ





ccFCO

10 DOWNING STREET

THE PRIME MINISTER

28 October 1985

Dear Y.K.

Thank you so much for your telegram of 25 October containing your generous offer to establish an Education Fund to enable Chinese students to study in the United Kingdom. I have just returned from the Commonwealth Heads of Government Meeting in the Bahamas and from New York and shall discuss this with my colleagues as soon as possible.

Yours sincerely
Margaret Thatcher

Sir Y.K. Pao, C.B.E., LL.D., J.P.

EU

DEAR PRIME MINISTER

HAVING DISCUSSED THE EDUCATION FUND WITH MR. DENG XIAO PING
TODAY I AM PLEASED TO ADVISE THAT THE CHINESE GOVERNMENT WILL COMMIT
US\$ 20 MILLION OVER A 10 YEAR PERIOD. I WILL SIMILARLY CONTRIBUTE
US\$ 10 MILLION AND BE PREPARED TO RAISE ANOTHER US\$ 10 MILLION IN
DONATION OVER THIS PERIOD. I HOPE THE BRITISH GOVERNMENT CAN PROVIDE
US\$ 10 MILLION ON THE SAME BASIS TO REACH THE GOAL OF US\$ 50 MILLION
OVERALL.


I PROPOSE THAT THE FUND BE ESTABLISHED "IN RECOGNITION OF THE SINO-
BRITISH JOINT DECLARATION ON THE FUTURE OF HONGKONG" AND HOPE THIS
WILL ALSO HAVE YOUR FULL SUPPORT.

WITH KIND REGARDS,

Y.K. PAO

TO ZHAOLONG HOTEL, BEIJING

25 October, 1985





10 DOWNING STREET

From the Private Secretary

25 October 1985

SINO-BRITISH JOINT DECLARATION: EDUCATION FUND

I enclose a copy of a telegram to the Prime Minister from Sir Y.K. Pao, despatched from Peking, in which he says that he has discussed the proposed Education Fund to enable young Chinese to study in the United Kingdom with Deng Xiao Ping. The letter is favourably disposed and the Chinese Government are ready to commit US \$20 million over 10 years. Sir Y.K. himself is ready to raise another \$20 million and looks to HMG for \$10 million.

((I should be grateful for a very early draft reply.

I am copying this letter to Rachel Lomax (HM Treasury), John Mogg (Department of Trade and Industry), Leigh Lewis (Department of Employment) and Rob Smith (Department of Education and Science).

(C. D. POWELL)

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

85-10-25 11:07

* 888425 WOSHIP B

210219 ZLH CN

NF002/10/25

ATT. S.PAN

PLS RELAY FOLLOWING MESSAGE TO NO. 10 TODAY

QUOTE

DEAR PRIME MINISTER

HAVING DISCUSSED THE EDUCATION FUND WITH MR. DENG XIAO PING TODAY I AM PLEASED TO ADVISE THAT THE CHINESE GOVERNMENT WILL COMMIT USD 20 MILLION OVER A 10 YEAR PERIOD. I WILL SIMILARLY CONTRIBUTE USD 10 MILLION AND BE PREPARED TO RAISE ANOTHER USD 10 MILLION IN DONATIONS OVER THIS PERIOD. I HOPE THE BRITISH GOVERNMENT CAN PROVIDE USD 10 MILLION ON THE SAME BASIS TO REACH THE GOAL OF USD 50 MILLION OVERALL.

I PROPOSE THAT THE FUND BE ESTABLISHED "IN RECOGNITION OF THE SINO-BRITISH JOINT DECLARATION ON THE FUTURE OF HONGKONG" AND HOPE THIS WILL ALSO HAVE YOUR FULL SUPPORT.

WITH KIND REGARDS,

Y.K.PAO

TO ZHAOLONG HOTEL, BEIJING

UNQUOTE*

888425 WOSHIP 8XXXXX*

72
FL

85-10-25 11:07

888425 WQBHP B

210219 ZLH CN

NF002/10/25

ATT. S. PAN

PLS RELAY FOLLOWING MESSAGE TO NO. 10 TODAY

QUOTE

DEAR PRIME MINISTER

HAVING DISCUSSED THE EDUCATION FUND WITH MR. DENG XIAO PING TODAY I AM PLEASED TO ADVISE THAT THE CHINESE GOVERNMENT WILL COMMIT USD 20 MILLION OVER A 10 YEAR PERIOD. I WILL SIMILARLY CONTRIBUTE USD 10 MILLION AND BE PREPARED TO RAISE ANOTHER USD 10 MILLION IN DONATIONS OVER THIS PERIOD. I HOPE THE BRITISH GOVERNMENT CAN PROVIDE USD 10 MILLION ON THE SAME BASIS TO REACH THE GOAL OF USD 50 MILLION OVERALL.

I PROPOSE THAT THE FUND BE ESTABLISHED "IN RECOGNITION OF THE SINO-BRITISH JOINT DECLARATION ON THE FUTURE OF HONGKONG" AND HOPE THIS WILL ALSO HAVE YOUR FULL SUPPORT.

WITH KIND REGARDS,

Y.K. PAO

TO ZHAOLONG HOTEL, BEIJING

UNQUOTE

888425 WQBHP BKKKKK

7
fd



10 DOWNING STREET

From the Private Secretary

25 October 1985

6 I enclose a copy of a telegram to the Prime Minister from Sir Y.K. Pao about his group's investment in Hong Kong Dragon Airlines Ltd. The last sentence of this looks for HMG's support for this new Hong Kong venture. I should be grateful for a draft reply.

I am copying this letter and enclosure to John Mogg (Department of Trade and Industry).

(Charles Powell)

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

MARINE NAVIGATION COMPANY LTD.

Incorporated 1914

1ST FLOOR, DEWHURST HOUSE,
24, WEST SMITHFIELD,
LONDON, EC1A 9BD

Cables: Woship London EC1
Telex: London 888425 & 8883023
Telephone: 01-236-7771

TO: Mrs. C. Ryder

DATE: 25.10.85

YOUR REF:

OUR REF:

FOR YOUR:-

- INFORMATION/FILE
 APPROVAL/COMMENT
 RETENTION

PLEASE:-

- FOLLOW UP
 SIGN AND RETURN
 RETURN

RETURNED WITH THANKS

COMMENTS:-

Dear Caroline,

given to C.S.P.

Enclosed is a message from Sir Yue-Kong Pao from Beijing today which we would very much appreciate if you could kindly pass on to the Prime Minister. I have typed out the message for your easy reference.

I hope you have had a very pleasant trip and look forward to talking to you again soon.

Kind regards,

Nancy

WITH COMPLIMENTS

Nancy Chu



10 DOWNING STREET

CDP (0/1)

Ms Chen rang me, before
she had received my
acknowledgment, and I
got the impression YICP
was after some kind of
substitute response. You
may ... will be
forwarded to Pw.

MSA 28/10



FILE

69

10 DOWNING STREET

From the Private Secretary

23 October, 1985

As you know, the Prime Minister is not in fact in this country at present. I shall ensure that the message from Sir Y.K. Pao is passed to her on her return.

(Mark Addison)

Miss Nancy Chu.

ecu

Mr. M.E. Addison

MARINE NAVIGATION COMPANY, LTD.

Incorporated 1916

**1ST FLOOR, DEWHURST HOUSE,
24 WEST SMITHFIELD,
LONDON, EC1A 9BD**

Telephone: 01-236-7771

File now

With Compliments

We would very much appreciate if you could kindly pass on the attached message to the Prime Minister on behalf of our Group Chairman Sir Yue-Kong Pao.

Thank you for your assistance.

Nancy Chu

CP PC



DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH

TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

*// Await PCO response
MAY 22/10*

22 October 1985

Dear Charles,

We have read with interest your letter of 3 October 1985 to Peter Ricketts at the FCO about the Prime Minister's meeting that day with Sir Y K Pao.

You and other recipients of this letter may be interested to know that Sir Y K Pao met Sir Keith Joseph on 1 October and showed considerable interest in obtaining information about postgraduate students in the UK from the People's Republic of China. We have since provided him with some factual data on such students and more general information about numbers of students in higher education in Great Britain.

The Secretary of State wishes to be kept closely in touch with developments and will of course be very interested to see what the FCO thinks of Sir Y K Pao's proposal.

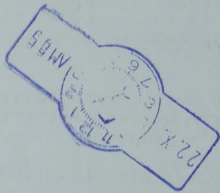
I am copying this letter to Peter Ricketts (FCO), Matthew Cocks (DTI) and Martin Dinham (ODA).

*Yours sincerely,
R L Smith*

R L SMITH
Private Secretary

Charles Powell Esq
Private Secretary
10 Downing Street
LONDON SW1

PM's mtgs with Yk Pao: Hong Kong #2





SUBJECT
cc MASTER

DS9

10 DOWNING STREET

From the Private Secretary

3 October 1985

Dear Peter,

PRIME MINISTER'S MEETING WITH SIR Y. K. PAO

The Prime Minister had a very short meeting with Sir Yue-Kong Pao this afternoon.

Sir Yue-Kong raised the Ning-bo steel project, saying that the early phases were going well. He himself had met with the British consultants and they would shortly be visiting Ning-bo to talk to the local authorities. The way would soon be clear for a feasibility study to start. The Chinese Government would want to send a delegation to London to discuss details.

The main subject which Sir Yue-Kong wanted to raise was his proposal to establish a trust fund to enable more Chinese students to study in the United Kingdom. He himself was prepared to put up US \$10 million for this purpose provided that the Chinese and British Governments were ready to do likewise. He would hope also for private sector support. If the Prime Minister was agreeable in principle, he would put his proposal to Deng Xiaoping. The Prime Minister said that she thought it an interesting idea, but she would like to get the advice of her Ministerial colleagues before committing herself.

Sir Yue-Kong gave the Prime Minister an account of his activities as Vice Chairman of the Basic Law Drafting Group and told her that he had been invited to become Chairman of the Basic Law Consultative Committee in Hong Kong. He was reluctant to take on this latter task which would be very time-consuming.

I would be grateful for early advice on Sir Yue-Kong's proposal about students. There is some risk that he will take the Prime Minister's definition of it as an interesting idea as endorsement. It might be best to have a draft letter which the Prime Minister could send him.

CONFIDENTIAL

Bm

I am copying this letter to Matthew Cocks (Minister for Trade's Office), Rob Smith (Department of Education and Science) and Martin Dinham (Overseas Development Administration).

Yours sincerely,

Charles Powell

Charles Powell

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

SIR Y K PAO'S CALL ON THE PRIME MINISTER:

3 OCTOBER 1985

Our Objectives

1. (a) To give Sir Y K appropriate face.
- (b) To hear anything he may wish to say about the process of drafting the Basic Law for Hong Kong.

Points to Make

2. Welcome his nomination as a Vice Chairman of Basic Law Drafting Committee (BLDC). Understand first meeting on 1 July in Peking went well. How do you see progress?

His Objectives

3. (a) To be seen meeting the Prime Minister again;
- (b) To be briefed on progress in discussions with Chinese about future of Hong Kong;
- (c) Possibly to pass on points made to him by Chinese eg constitutional development in Hong Kong; and

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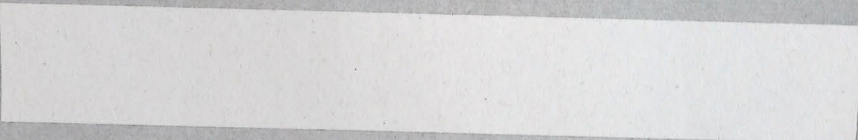
CONFIDENTIAL

Your Response

4. First meeting of Joint Liaison Group held in London in July. Encouraging start. Next meeting in Peking in November. Hope question of Hong Kong's participation in GATT can be resolved soon.

(Defensive)

6. Hong Kong Government fully conscious of need to avoid any threat to stability in connection with future constitutional development. Have been moving very cautiously. These moves entirely consistent with principle of Hong Kong people governing Hong Kong and with Annex 1 of Agreement.



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BACKGROUND

1. Sir Y K Pao last called on the Prime Minister on 30 April 1985.

Basic Law

2. Sir Y K was invited by the Chinese to become a Vice Chairman (one of 8) of the Basic Law Drafting Committee (BLDC) in June 1985. The BLDC has 59 members, 23 from Hong Kong and is chaired by Ji Pengfei, Director of State Council's Hong Kong and Macau Office. The first full session was held in Peking on 1 July 1985.

3. The Hong Kong members of the BLDC are now engaged in establishing a Basic Law Consultative Committee (BLCC) in the territory. A constitution was adopted on 7 September. The membership will be not less than 120 and not more than 200 and open to wide cross section of community including civil servants and foreigners of at least 7 years residence.

Joint Liaison Group

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Ningbo Steel Project

5. Sir Y K has a specific and helpful interest in UK/China trade. Following a meeting he had with the Prime Minister in November last year he wrote to her about a Chinese proposal to build a steel mill at Ningbo on the East Coast of China. A consortium of UK companies led by Davy McKee supported by Sir Y K has since been established to pursue the project. The Chinese authorities have, since this project was first proposed, expressed the hope that HMG would provide financial support, and we expect it to feature on the list of projects we have asked the Chinese to prepare for the ATP/Soft Loan talks due to start in Peking in early October.

Constitutional Development

6. The first elections to LEGCO will take place on 26 September; they will be indirect. 24 members out, of a new Council of 56, will be chosen, 12 of them by an electoral college of District Board, Urban Council and Regional Council (ie local government level) members and 12 by functional constituencies representing main professional, commercial and other groups. The remaining 32 members will continue to be appointed by the Governor. 64 candidates have been nominated for election to the 24 seats and as a result the elections will be keenly contested.

7. A review of progress towards representative Government will be carried out in 1987. In April of this year, Sir Y K Pao expressed the view to Sir Percy Cradock that movement towards representative government in Hong Kong was too fast: he indicated that this was the Chinese view. We have also received similar expressions of concern from the Chinese Government through a variety of official and unofficial sources. It appears to be aimed more at the electoral process to be inaugurated on 26

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September rather than as an early warning of Chinese views in anticipation of the Hong Kong Government's review in 1987.

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PERSONALITY NOTE

SIR YUE-KONG PAO CBE LLD JP

Chairman and Chief Executive of the World Wide Shipping Group. In Hong Kong his interests are in property, finance and banking. Born 1918 Zhejiang Province, China.

Educated Shanghai and then went into banking.

Took refuge in Hong Kong in 1949 and entered import/export business. Purchased first ship in 1955 and formed World Wide shipping group, now the world's largest independent.

A director of Hong Kong and Shanghai Banking Corporation.

Chairman of Intertanko. Chairman of Wheelock Marden Group. Member of Basic Law Drafting Committee.

Has a joint venture with the Chinese in ship-building and shipping.

Sir Y K Pao visits Peking regularly. He has excellent connections and enjoys considerable access to Chinese leaders. On each of his last three visits - May and December 1984 and May 1985 - he has called on Deng Xiaoping.

CONFIDENTIAL

dia

cc STOP



From the Minister for Trade

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5144

GTN 215

(Switchboard) 215 7877

Paul Haston
cc

Charles Powell Esq
Private Secretary to the
Prime Minister
No. 10 Downing Street
LONDON SW1

3 October 1985

Dear Charles,

PM's MEETING WITH SIR Y K PAO

You confirmed when we spoke yesterday evening that Sir Y K Pao is to meet the Prime Minister at 4.15 pm today. You agreed that we should provide briefing on the Ningbo steel project - the principle subject of Sir Pao's discussion with Mr Channon yesterday. This I attach.

I am copying this letter to Colin Budd at FCO.

Yours sincerely

Paul Haston

PAUL HASTON
Assistant Private Secretary

J20AMF



PRIME MINISTER'S MEETING WITH SIR Y K PAO - THURSDAY, 3
OCTOBER 1985

NINGBO STEELWORKS

Line to Take

Potentially an important project for UK trade with China - grateful to Sir Y K Pao for drawing it to our attention. Pleased that consortium lead by Davy McKee is undertaking feasibility study.

2 Financing a project of this size (£3 billion) will be a major consideration. To what extent will Chinese Government provide finance?

3 HMG has recently agreed in principle that China should be eligible for aid - form and volume now being discussed with Chinese authorities. Parts of Ningbo project could be candidates for aid support.

Background

4 Sir Y K Pao (a native of Ningbo with a keen interest in its development) introduced this project to the Prime Minister in November 1984. This was followed up by Lord Young's mission to China and return visit to the UK by Vice Minister (now Minister) for Metallurgy. Davy McKee have formed a consortium to pursue the project and are now undertaking a feasibility study with full co-operation of Chinese authorities (DTI considering supporting cost). Total project cost £3 billion with maximum UK content £1.5 billion.



5 Sir Y K Pao confirmed to Mr Channon on 2 October that this is a priority project for Chinese authorities; that the UK should play a lead role in implementation and that self-financing will be required as part of financing package (also to include equity and loans). The sheer size of this project gives rise to serious problems in terms of the quantum of aid. It may be possible to provide aid to discrete equipment packages (eg blast furnaces). Davy consortium is considering introducing European partners to share financing burden - DTI encouraging this.

6 Ningbo could provide major opportunity for UK exporters. It is important that we should make clear our interest in the project and willingness to at least consider a measure of soft-finance support, if the apparently preferred position of UK companies is to be maintained.



to Mr Cannon on 2 October that this is a
 priority project for Chinese authorities; that the UK should play a lead role
 in implementation and that self-financing will be required as part of
 financing package (also to include equity and loans). The great size of this
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 furnaces). Gov consortium is considering introducing European partners to
 share financing burden - DTI encouraging this.

It is
 important that we should make clear our interest in the project and
 willingness to at least consider a measure of self-finance support, if the
 apparently preferred position of UK companies is to be maintained.

PRIME MINISTER

MEETING WITH SIR Y.K.

He has only 15 minutes in the diary.

He may say we are moving too fast towards representative government in Hong Kong. We are actually moving very cautiously and shall review progress in 1987.

You could welcome his appointment as Vice-Chairman of the Basic Law Drafting Committee (and as Chairman of the Basic Law Consultative Committee in Hong Kong, if he mentions this).

On the Ning-bo Steel Project, the Chinese are likely to seek a soft loan. Talks with them start soon.

You could thank him for his generous benefactions to the Arts. For the future, the performing arts are those most in need. And Glyndebourne need some help for their visit to China.

C.D.P.

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C.D. Powell
2 October 1985



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OFFICE OF ARTS AND LIBRARIES
Great George Street
London SW1P 3AL
Telephone 01-233 8610

From the Minister for the Arts

Timothy Flesher Esq
Private Secretary
10 Downing Street

2 October 1985

Dear Tim,

PRIME MINISTER'S MEETING WITH SIR YUE-KONG PAO ON THURSDAY
3 OCTOBER 1985

When my Minister lunched with Sir Yue-Kong Pao yesterday he learned that Sir Yue-Kong would be meeting the Prime Minister tomorrow, Thursday 3 October. He therefore asked if you would incorporate in the Prime Minister's briefing material the following points concerning Sir Yue-Kong's cultural interests and the possibility of encouraging him to continue his generosity to the arts in Britain and of steering this in particular directions.

Sir Yue-Kong has been a generous benefactor of the arts in Britain. In recent years he has given £2m to the British Film Institute for its Museum of the Moving Image and he is also understood to have given similar sums to the Imperial War Museum. At his lunch with our Minister yesterday Sir Yue-Kong indicated that he would probably continue to support the arts in Britain. The question of what Sir Yue-Kong should support is ultimately up to him, but my Minister feels there may be some scope for steering him towards areas of greatest need. If a suitable opportunity arises, it would be very helpful if the Prime Minister could steer Sir Yue-Kong towards the following possibilities:

1. **UK performing arts** This would be our first choice: The performing arts find it more difficult than the museums and galleries to attract wealthy private patrons and it would be very helpful to the Government's strategy of encouraging arts bodies to seek plural funding if we could point to a success in the performing arts to set alongside the Sainsburys and Mr Getty in the museums and galleries field. There are

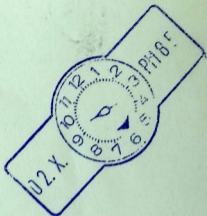
numerous possibilities, for instance support for touring in the regions by a national company such as the Royal Shakespeare, or aid to particular theatres or orchestras to enable them to develop their educational work and links with unemployed youngsters, particularly in inner city areas.

2. Museums and galleries conservation The Museums and Galleries Commission would like to set up a conservation unit (costing upwards of £100,000 per annum) to improve conservation and display of exhibits in British museums and galleries. This would be suitable for an endowment.
3. Glyndebourne tour of Hong Kong and China Glyndebourne Opera will be visiting Hong Kong in early 1986. They also hope to visit China but need an extra £150,000 in order to enable them to do so. (This of course would be more in the interests of FCO and the British Council than of Office of Arts and Libraries but is an obvious candidate if Sir Yue-Kong is looking for something with a marked Hong Kong connection.)

I would be grateful if you would let me know in due course whether it proves possible for the Prime Minister to raise any of these topics and whether there are any points we need to follow up from the meeting. We shall in any event be keeping in touch with Sir Yue-Kong and taking all possible opportunities to encourage him to continue his generosity towards the arts and to steer it in the above directions.

Yours ever
Paul Thomas

PAUL THOMAS
Private Secretary



various possibilities, for instance support for
work in the region by a national company such as
Royal Shakespeare, or aid to particular theatres or
theatres to enable them to develop their educational
work and links with unemployed youngsters, particularly
inner city areas.

... and ...
... would like to set up a
... of £100,000 per
... and display of exhibits
... This would be
... for an endowment.

... and China
... they
... in
... in
... to do so.



CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-233-8370

Percy Goddard's
account of his
meeting with Y.K.
COP
2/x

Jp.081

27 September 1985

Dear Tony,

As I told you on the telephone, I had lunch with Y K Pao today. The following points arose.

2. He expressed concern about the movement towards representative Government, concentrating on the introduction of elections to LEGCO. He thought we were going too fast. What would happen when there was a fully elected Council? How would it be controlled? Would there not be a risk from Taiwan elements? The Hong Kong electorate was still naive. He made it plain that he was expressing not only his own concern but that of the Chinese.
3. On the Basic Law, he took me to one side to tell me that the Chinese would like him to be Chairman of the Basic Law Consultative Committee. Though professing indifference, he was obviously interested. He would be consulting his friends, including the Prime Minister, Foreign Secretary and the Governor about his response. He would be visiting China again in late October.
4. I put our case on GATT, stressing the confidential nature of our talk. He listened and I am sure understood. At the end he said that he was optimistic and thought the Chinese would eventually take a pragmatic view. I am sure he will report to them, but cannot be sure he will give it as his own view.
5. He said he would like to see Sino-British relations made even better, and suggested we might take more Chinese students. The Chinese would be ready to take more of ours in return. Again he intimated that he was speaking with the knowledge and support of the Chinese. He may raise this point also with the Prime Minister next week. I said more contracts would help the cause.

A C Galsworthy Esq
Hong Kong Department
Foreign and Commonwealth Office
London SW1

CONFIDENTIAL

6. On the Chinese leadership, he thought Deng was following his normal strategy of moving forward, pausing to consolidate and then moving on. Li Xiannian might be moved next. He thought Zhao Ziyang would eventually become President in Li's place and Zhao would in turn be succeeded by Li Peng. I may be out of date but have not heard of this particular story. In any event it seems we ought to be having Li Peng on visits to this country and to Hong Kong. Y K Pao said he had already suggested to Li Peng that he visit Hong Kong, but Li had replied that his wife would go first. She apparently has some post in the nuclear industry.

7. The grandchildren were not mentioned.

Yours sincerely

Percy
PERCY CRADOCK

Copy to: Mr C D Powell
10 Downing Street

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File No

10 DOWNING STREET

From the Private Secretary

9 August 1985

As I was away when you rang, I thought I would confirm that the Prime Minister is looking forward to seeing Sir Y. K. Pao at 1615 on Thursday, 3 October at 10 Downing Street.

CAROLINE RYDER

Miss Nancy Chu.

slw

Miss Nancy Chu,
Marine Navigation Co. Ltd.,
1st Floor,
Dewhurst House,
20/24 West Smithfield,
London EC1A 9BD



10 DOWNING STREET

CR

Nancy Cho (?) say.

I gave hi 7.K.P. 15

miss after E(A) on

Thursday 30 October.

Would you let Pro know
pl?

MLA 5/8

10.13.

① Mr. Powell ^{CR}

② Prime Minister

Y.K. PAs

Sir Y.K. will be here
the week before the
Party Conference &
has asked to see you.
The diary is filling
up!

Do you wish to
see him?

Yes ^{no} CR.
29/7.

Sir Yue-Kong Pao C.B.E., L.L.D., J.P.

CF PPS. (2)
WORLD-WIDE SHIPPING GROUP
16th Floor, World Shipping Centre
Harbour City
7, Canton Road, Kowloon
Hong Kong
Tel.: 3-7327333 Telex: HX43247

10th June, 1985.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
No. 10 Downing Street
London SW1

Prime Minister RUT

Dear Prime Minister,

CSP 17/6.

I am ever grateful for the time you invariably gave me during my past visits to London and wish to thank you for receiving me again this time in spite of your very busy schedule.

Premier Zhao Ziyang's U.K. visit was seen as a very successful one from any angle, thanks to the warm and extremely well laid-out reception your Administration accorded him and his party. Allow me to say again how much I appreciate your including me in the State Dinner last Monday.

The wide-ranging and successful talks you and your Ministers had with the Premier's party will no doubt result in Sino-British co-operations on a much more substantial and broader basis. Your Administration's agreement on the grant of soft loans in financing joint ventures between the two countries is, I believe, a move particularly welcome to the Chinese side and I hope the Ningbo steel works will be the first major project to benefit from this arrangement and that this will clear the way for the all important first step of a feasibility study to get ahead.

About the proposal the Chinese side put to me earlier to play a part on Hong Kong's Basic Law Drafting Committee to which you kindly agreed, I am now pleased to note that my appointment as one of the four Vice Chairmen on the Hong Kong side has been made public. As the Basic Law will be most crucial to ensure the region's continued stability and prosperity, I have agreed to accept the role and thank you for your support. |

With kindest regards,

Yours sincerely
Y.K. Pao

mt

SUBJECT
cc Master

10 DOWNING STREET

From the Private Secretary

5 June 1985

PRIME MINISTER'S MEETING WITH SIR Y.K. PAO

The Prime Minister saw Sir Y.K. Pao briefly this morning.

Sir Y.K. said that he thought that the Chinese would press us strongly for soft loans to finance major projects including the Ningbo steel plant. They need not be very soft. He thought that our prospects of getting business depended crucially upon this.

Sir Y.K. said that he had recently - about a week ago - had dinner with Deng Xiaoping and his family. He had found Deng Xiaoping on good form.

Sir Y.K. pressed the Prime Minister hard on whether Zhao Ziyang had given any commitment to include Hong Kong people in the drafting committee for the Basic Law and whether he had mentioned the establishment of a consultative committee in Hong Kong. The Prime Minister said that Zhao Ziyang had made plain that ways would be found to take account of opinion in Hong Kong but had said that it was for the Standing Committee of the National People's Congress to decide on the precise mechanism. Sir Y.K. said that he had offered to serve on any appropriate committee.

(Charles Powell)

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

CST

MR POWELL

He is coming to the dinner for
Zhao Ziyang & you will have a chance
to speak to him then.

PRIME MINISTER

Agree otherwise to
divert him to
Percy Cradock (its a
very busy week for
you)?

SIR Y K PAO

Y K will be in London from 3-7 June. The same
week as the Chinese premier. Y K would like
to see you to tell you about his recent trip
to China.

C.D.P.
20/5

Content that I find him half an hour?

CR Yes
C.F.
awarded me
for Wed 5 June

Caroline Ryder
20 May 1985

CR,
21/5

Dear Caroline,

MARINE NAVIGATION COMPANY, LTD.

Incorporated 1916

**1ST FLOOR, DEWHURST HOUSE,
24 WEST SMITHFIELD,
LONDON, EC1A 9BD**

Telephone: 01-236-7771

With Compliments

Reference our telephone conversation
this morning. The enclosed message
is from Sir Yw-long Pao to The
Prime Minister. Most grateful for all
your help. Kindest regards, Mary

20/5/85

09:48

YKP

THE RT. HON. MRS. MARGARET THATCHER, PC, MP
PRIME MINISTER
10 DOWNING STREET
LONDON S.W.1.

DEAR PRIME MINISTER,

FURTHER TO MY LETTER OF 14TH MAY I WISH TO INFORM YOU THAT DURING MY TRIP 20TH MAY TO BEIJING IN CONNECTION WITH THE NINGBO STEEL MILL PROJECT MR. DENG XIAOPING WILL RECEIVE ME AT 11:30 21ST AT DIAO YU TAI FOLLOWED BY LUNCH. I WILL ALSO HAVE MEETING OVER DINNER WITH MR. LI DONGYE, MINISTER OF METALLURGICAL INDUSTRY THAT EVENING. IN ADDITION THERE WILL BE MEETINGS WITH VICE PREMIER TIAN JIYUN, FORMER VICE PREMIER GU MU AND OTHER GOVERNMENT MINISTERS CONCERNED WITH THE PROJECT. I DO HOPE THAT DURING MY VISIT THEREAFTER TO LONDON BETWEEN 3RD AND 7TH JUNE YOU COULD SPARE A LITTLE TIME FROM YOUR BUSY SCHEDULE TO RECEIVE ME SO THAT I COULD MAKE A REPORT TO YOU IN PERSON KIND REGARDS

Y.K.PAO WORLDSHIP

070
Sir Yue-Kong Pao C.B.E., LL.D., J.P.

218/5
WORLD-WIDE SHIPPING GROUP
16th Floor, World Shipping Centre
Harbour City
7, Canton Road, Kowloon
Hong Kong
Tel: 3-7327333 Telex: HX43247

14th May, 1985

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
No. 10 Downing Street
London SW1
ENGLAND

Prime Minister

Dear Prime Minister,

CRP
19/5

Allow me to thank you again for giving me time for a pleasant talk in your office during my London visit last week. I was gratified to see the keen interest you personally showed in the Ningbo steel mill project and I hope it can be developed, as you know, like with the shiporders my Group placed with British Shipbuilders a few years back. I am always keen to help with the British export effort!

I am going to Peking on the 20th of this month for further discussions with the top level of the Ministry of Metallurgical Industry. I would then like to make report to you when I come to London at the beginning of June during Premier Zhao Ziyang's visit. No doubt this project will be one of the subjects you may wish to raise with him.

May I thank you for your kind invitation to participate in the dinner on the 3rd June for the Premier to which I am much looking forward. Should there be any other functions in which you might consider it convenient or useful to have me included, I would be available and of course pleased to join.

With kindest regards,

Yours sincerely
Y. K. Pao

CONFIDENTIAL

File SRW



u MASTER SET

10 DOWNING STREET

From the Private Secretary

30 April 1985

Sir Y K Pao

The Prime Minister saw Sir Y K Pao this morning. Sir Y K was accompanied by his daughter, Doreen Cheng.

Sir Y K described the Ningbo steel mill project. He was in touch with Davy Corporation and other British companies and would be seeing the Trade and Industry Secretary to discuss how much the UK was prepared to put into the project. He stressed that the Chinese Government were ready to purchase a second-hand steel mill. Their interest was to get the production quickly. There were likely to be other projects of interest to British firms, including a container terminal at Ningbo and the Ningbo-Shanghai Highway.

Sir Y K said that he would be in London at the time of Zhao Ziyang's visit. The Prime Minister said that this was useful to know.

The Prime Minister thanked Sir Y K for demonstrating his confidence in the future of Hong Kong by his purchase of the Wheelock Marden Group.

Sir Y K urged the Prime Minister to slow down the pace of constitutional change in Hong Kong particularly progress towards representative government. (He implied but did not state directly that this was the Chinese Government's view.) It was best to take matters steadily and not try to achieve too much in the first four years.

There was some discussion of developments within China. Sir Y K Pao mentioned that there was a problem of army pay rates which had fallen relative to those in the civilian sector. This could affect army support for Deng unless remedied.

I am copying this letter to John Mogg (Department of Trade and Industry).

C D POWELL

P F Ricketts Esq
Foreign and Commonwealth Office

SRW



10 DOWNING STREET

~~COP~~

Mr Y.K. Lee is bringing
his daughter Mrs
Doreen Cheng to no.10
with him!

Margo

3074

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

✓

Dear Charles,

Sir Y K Pao's Call on the Prime Minister, 30 April 1985

I enclose a short brief for Sir Y K Pao's call on the Prime Minister on 30 April, as requested in your letter of 26 February.

I am copying this letter to Hugh Taylor (Home Office), and to Sir Percy Cradock.

Yours,

(P F Ricketts)
Private Secretary

Peter Ricketts

C D Powell Esq
No 10 Downing Street

CONFIDENTIAL

*Prime Minister
You will want to
look at paras. 6-7*

SIR Y K PAO'S CALL ON THE PRIME MINISTER: 30 APRIL 1985

of the background,

FUTURE OF HONG KONG

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*CSJ
24/4*

OUR OBJECTIVES

1. No objective but to thank Sir Y K for his efforts in connection with the Ningbo steel mill.

HIS OBJECTIVES

2. To be seen meeting the Prime Minister.
3. To be briefed on progress in discussions with the Chinese about the future of Hong Kong.
4. To seek to participate in the visit of Premier Zhao Ziyang to the UK.
5. Possibly to raise the nationality status of his grandchildren with the Prime Minister.

YOUR RESPONSE

6. Glad to note that economic indicators show that confidence has returned to Hong Kong economy since signing of the agreement. Noted Sir Y K Pao's recent takeover of the Wheelock Marden group in Hong Kong. A helpful expression of confidence in the future of Hong Kong. Grateful for your efforts in connection with the Ningbo steel mill project, and for the assistance you have given to Davy MacKee.

7. Hong Kong Act has now received Royal Assent. Precise date of ratification not yet fixed but must be before 30 June.

8. Joint Liaison Group and Land Commission will be established once agreement has come into force. Details relating to their establishment under discussion with the Chinese. Composition will be announced in due course.

[Defensive] Hong Kong Government Officials will certainly take part. Speculation about individuals who might be members of the Group remains no more than that.

[If asked about visit of Governor of Hong Kong from 22-24 April].

CONFIDENTIAL

9. Short routine visit to brief HMG on recent developments in Hong Kong.

VISIT OF ZHAO ZIYANG

[If asked about possibility of Sir Y K participating in the visit of Premier Zhao Ziyang to the UK]

10. Although it has yet to be announced, dates for Premier Zhao's visit will be 2 - 8 June. Programme planning is still at an early stage. Your interest in the visit is being borne in mind and there will certainly be an occasion at which Premier Zhao will be present and in which you will be able to participate.

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BACKGROUND: FUTURE OF HONG KONG

1. Sir Y K Pao last called on the Prime Minister on 16 November 1984. He attended the signature of the Hong Kong agreement in Peking on 19 December as a guest of the Chinese Government.
2. The Prime Minister is aware of the background on the Joint Liaison Group.
3. After an intense battle lasting over four weeks, Sir Y K Pao gained control of the Wheelock Marden Group in March this year. He defeated Singapore based financier Mr Kheo Teck Puat. Sir Y K Pao's final offer values the Wheelock Marden group at about Hong Kong \$2.5 billion - 23% higher than the original takeover offer. This has been seen as an expression of confidence in Hong Kong and its future.
4. Sir Y K wrote to Lady Howe in January saying that he intended to visit the UK in June during Premier Zhao's visit and would welcome the chance of participating in it. His name is being borne in mind for inclusion in suitable occasions during the visit (eg a call by Lord Young with prominent businessmen on Premier Zhao and/or a social event).
5. Sir Y K has a specific and helpful interest in UK-China trade. Following his meeting with the Prime Minister in November last year he wrote to her about a Chinese proposal to build a steel mill at Ningbo on the East Coast of China. A consortium of UK companies led by Davy McKee has since been established to pursue the project, with support from HMG. Sir Y K has been closely involved and arranged for Davy McKee to hold discussions in mid-April in Hong Kong with a Vice Minister from the Chinese Ministry of Metallurgy, the Mayor of Ningbo and the Deputy Governor of Zhejiang province. Mr Roger Kingdon, Chairman of Davy McKee, who accompanied Lord Young to China has also entertained a delegation last week from the Ministry of Metallurgy, led by a Vice Minister. The Ningbo project figured largely in discussions and Sir Y K will doubtless wish to brief the Prime Minister on these.

CONFIDENTIAL

Temporarily Retained

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OF THE PUBLIC RECORDS ACT

CONFIDENTIAL



PERSONALITY NOTE

SIR YUE-KONG PAO CBE LLD JP

Chairman and Chief Executive of the World Wide Shipping Group. In Hong Kong his interests in property, finance and banking. Born 1918 Zhajiang Province, China.

Educated Shanghai and then went into banking.

Took refuge in Hong Kong in 1949 and entered import/export business. Purchased first ship in 1955 and formed World Wide shipping Group, now the world's largest independent.

A director of Hong Kong and Shanghai Banking Corporation.

Chairman of Intertanko. Chairman of Wheelock Marden Group.

Has a joint venture with the Chinese in ship-building and shipping.

Although Sir Y K Pao does not visit Peking frequently, he has excellent connections and enjoys considerable access to Chinese leaders. He visited Peking in May last year when he called on Chairman Deng Xiaoping. He was also in Peking in December last year when the Prime Minister signed the Hong Kong Agreement. He called on Chairman Deng Xiaoping again at that time.

CONFIDENTIAL

DA



10 DOWNING STREET

From the Private Secretary

26 February 1985

Sir Y.K. Pao

The Prime Minister is to see Sir Y.K. Pao briefly on Tuesday 30 April. I should be grateful for briefing shortly beforehand.

Handwritten initials or mark on the left margin.

(Charles Powell)

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

Handwritten initials or mark in the bottom right corner.

1. MR POWELL ✓ CDP 25/2
2. PRIME MINISTER

CDP
9.30-9.45
on TVE 30
April. Pl.
ask PLO
for briefing
CR
26/2

Sir Y K Pao

Sir Y K is coming to this country between 27 April and 3 May - just before you go to the Economic Summit which starts on Wednesday 1 May. You have a pretty busy diary before you go which includes talks and dinner with King Fahd of Saudi Arabia.

What would you like me to say to Sir Y K?

CR . 20 mins out

25 February 1985



hml

67

ec: fco

10 DOWNING STREET

From the Private Secretary

22 February, 1985

PERSONAL AND CONFIDENTIAL

Many thanks for your letters of 8 and 16 February about the idea that the Chinese University of Hong Kong should confer an Honorary Degree on the Prime Minister.

I had taken no action on the first letter so no harm done. I am sure it is best to proceed very cautiously on this.

(C D Powell)

His Excellency Sir Edward Youde, GCMG, MBE

881

PERSONAL & CONFIDENTIAL



香港總督府

GOVERNMENT HOUSE
HONG KONG

16 February 1985

Dear Charles,

In my telegram no 335 of 13 February I asked you to suspend action on my letter of 8 February 1985 about the idea that the Chinese University of Hong Kong should confer an Honorary Degree on the Prime Minister.

The telegram was prompted by a further call which Q W Lee paid on me to tell me that the Vice Chancellor of the University took a somewhat different view from his other colleagues who had been in favour of the idea. The Chancellor was nervous on two counts. One was the links of some of the senior faculty with Oxford; the second was the general feeling among the staff, and also student body, about nationality and related issues. The Vice Chancellor's judgment was therefore that the award, at least at this time, could be controversial. I have therefore told Q W Lee that to pursue the idea would be to get the worst of both worlds. Unless you have any further comment we will not take things any further here.

John
Edby
Governor

Mr Charles Powell
Private Secretary to the Prime Minister
No 10 Downing Street
London

PERSONAL & CONFIDENTIAL

Charles

Alas, no trace of it
in GR or CF - wait letter?

✓ per.

Kay

18/2



Not in GR?

CF

not in CF

Where is it?

I haven't yet seen
CDD

ADVANCE COPY

DD/0248/01

HKFP 010/13

NO DISTRIBUTION

Mr C Powell
PS / No 10. DST

DD 130900Z F C O

GRS 60

CONFIDENTIAL

DESKBY 130900Z

FM HONG KONG 130440Z FEB 85

TO IMMEDIATE F C O

TELEGRAM NUMBER 335 OF 13 FEBRUARY

IMMEDIATE

FOLLOWING PERSONAL FOR CHARLES POWELL, PERSONAL SECRETARY, NO 10
DOWNING STREET

MY LETTER OF 8 FEBRUARY : HONORARY DEGREES.

1. PLEASE SUSPEND ACTION, FURTHER LETTER FOLLOWS.

YOUDE

NNNN

HKFP 010/13

DD 130900Z F C O

GRS 60

CONFIDENTIAL

DESKBY 130900Z

FM HONG KONG 130440Z FEB 85

TO IMMEDIATE F C O

TELEGRAM NUMBER 335 OF 13 FEBRUARY

FOLLOWING PERSONAL FOR CHARLES POWELL, PERSONAL SECRETARY, NO 10
DOWNING STREET

MY LETTER OF 8 FEBRUARY : HONORARY DEGREES.

1. PLEASE SUSPEND ACTION, FURTHER LETTER FOLLOWS.

YOUDE

NNNN

Sir Yue-Kong Pao C.B.E., L.L.D., J.P.

WORLD-WIDE SHIPPING GROUP
16th Floor, World Shipping Centre
Harbour City
7, Canton Road, Kowloon
Hong Kong
Tel.: 3-7327333 Telex: HX43247

cc/cf
④
Prime Minister
CDP
22/1

14th January, 1985.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
10 Downing Street
London W1
ENGLAND

R22
aps.?

Dear Prime Minister,

[manuscript: no record]

Thank you very much for your letter of 29th December, 1984 and once again, may I say what a pleasure it was for me and my family to see you in Beijing and share in such historical occasion.

During the remainder of my stay in the Chinese capital, Mr. Deng Xiaoping kindly received me and my family on the 20th December for lunch, during which we had a pleasant and wide-ranging talk. He reconfirmed that China considered the Agreement on Hong Kong as internationally binding and fully understood the implications thereof for the country.

In the afternoon of the same day I was able to also see Mr. Hu Yaobang, and again the talk was congenial and interesting.

I trust you had a good Holiday Season and I look forward to an opportunity of seeing you again on my next visit to London in May or June.

With all best wishes to you, Denis and the family for the New Year,

Yours sincerely
J. H. Tiao

mt

HONG KONG: PM Meetings Sir Y-K Pao.

Pt 2.



10 DOWNING STREET

THE PRIME MINISTER

6 December 1984

ms
c/f co
DTI

Dear Sir - Y.K.

Thank you for your letter of 21 November.

I was most interested to hear that China is thinking of building a steel mill at Ningbo with the help of foreign investors. You kindly offered to provide more information about the project if needed. This would indeed be most helpful, and we would naturally want to explore most carefully the possible opportunities for British companies.

I am asking the British Trade Commission in Hong Kong (which has responsibilities in relation to trade with China as well as Hong Kong) to get in touch with you to arrange a first discussion. Our Embassy in Peking would also be very interested to hear more about the project next time you are there.

Warm regards,

Yours sincerely

Ronald Reagan

Sir Yue-Kong Pao, CBE, JP.

—
6



DEPARTMENT OF TRADE AND INDUSTRY
 1-19 VICTORIA STREET
 LONDON SW1H 0ET 5422
 TELEPHONE DIRECT LINE 01-215
 SWITCHBOARD 01-215 7877

CC

PS/

Secretary of State for Trade and Industry

30 November 1984

Charles Powell Esq
 Private Secretary to the
 Prime Minister
 10 Downing Street
 London SW1

GR
Re type.
Jim
4/12

Dear Charles,

PRIME MINISTER'S MEETING WITH SIR Y K PAO

We have agreed with the FCO that this Department would let you have a draft reply to Sir Y K Pao's letter of 21 November, about which you wrote to them on 27 November. A draft reply is attached.
 ...

2 We have no previous information on the Ningbo steel mill project. The draft therefore suggests that the British Trade Commission in Hong Kong should get in touch with Sir Y K to take up his offer of further information. The British Embassy in Peking and the British Trade Commission in Hong Kong, are in agreement with this proposal.

3 I am sending a copy of this letter to Peter Ricketts (FCO).

Yours ever

Colin

M C McCARTHY
 Private Secretary

PHX

JH5ALZ

DRAFT FOR SIGNATURE BY THE PRIME MINISTER

Sir Yue-Kong Pao CBE LL.D JP
World-Wide Shipping Group
16th Floor
World Shipping Centre
Harbour City
7 Canton Road
Kowloon
HONG KONG

Thank you for your letter of 21 November.

I was most interested to hear that China is thinking of building a steel mill at Ningbo with the help of foreign investors. You kindly offered to provide more information about the project if needed. This would be most helpful, and we would ^{naturally} want to explore ^{most} carefully the possible opportunities for British companies. ^{indeed} to be involved in this project. ~~It may be most convenient for it to be discussed in the first instance with the British Trade Commission in Hong Kong (which has responsibilities in relation to trade with China as well as Hong Kong) and I am asking them to get in touch with you to arrange this. Our Embassy in Peking would also be very interested to hear more about the project next time you are there.~~

P1 ^{the possibilities} ~~It may be most convenient for it to be discussed in the first instance with the~~ ^{am asking the} ~~British Trade Commission in Hong Kong (which has~~ ^{a not discussion.} ~~responsibilities in relation to trade with China as well as Hong Kong) and I am asking them to get in touch with you to arrange this. Our Embassy in Peking would also be very interested to hear more about the project next time you are there.~~

Hong Kong: PM meeting with Sir Y.K. PAO: Pt 2

DRAFT FOR SIGNATURE BY THE PRIME MINISTER

Sir Yee-Kong
World-Asia Shipping Group
18th Floor
World Shipping Centre
Harbour City
7 Canton Road
Kowloon
HONG KONG

Thank you for your letter of 21 November.

I was most interested to hear that China is thinking of
building a steel mill at Ningbo with the help of



Foreign and Commonwealth Office

London SW1A 2AH

28 November 1984

Dear Charles,

OWP
D/W

Prime Minister's Meeting with Sir Y K Pao

Thank you for your letter of 27 November, enclosing a copy of Sir Y K Pao's letter to the Prime Minister of 24 November. We have agreed with the Department of Trade and Industry that this falls within their parish rather than ours; they will therefore provide a draft reply for the Prime Minister.

I am copying this letter to Callum McCarthy in the DTI.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street



10 DOWNING STREET

From the Private Secretary

27 November 1984

PRIME MINISTER'S MEETING WITH SIR Y K PAO

I wrote to you on 16 November to record the Prime Minister's meeting with Sir Y K Pao.

Sir Y K has subsequently written to the Prime Minister. I enclose a copy of his letter. This provides more details of the steel mill project which he mentioned to the Prime Minister and offers further reflection.

I should be grateful for a draft reply by 30 November.

I am copying this letter and enclosure to Callum McCarthy (Department of Trade and Industry).

OK now with DTI

(Charles Powell)

Peter Ricketts Esq
Foreign and Commonwealth Office

10

Sir Yue-Kong Pao C.B.E., LL.D., J.P.

WORLD-WIDE SHIPPING GROUP
16th Floor, World Shipping Centre
Harbour City
7, Canton Road, Kowloon
Hong Kong
Tel.: 3-7327333 Telex: HX43247

21st November, 1984.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
10 Downing Street
London W1

Dear Prime Minister,

It was very kind of you to take the time to receive me when I was in London last week, and as always, I am thankful for the useful and enlightening talk that we had.

The "opening up" of fourteen coastal cities is a move China is pursuing with genuine vigour and drive and I personally see this as an excellent opportunity for Britain and other Western countries to seek an involvement both on a governmental and private sector basis. It is already noticeable that the cities are vying with each other in trying to attract investment from abroad and I think interested investors should therefore make direct approaches to the municipal authorities themselves rather than to the Central Government.

Beilun Harbour, the natural deep water port I mentioned, is situated near the city of Ningbo in the East Coastal Province of Zhejiang and has a very broad sea channel capable of handling a good number of vessels of 150,000 deadweight tons or over with a draft of 21 meters. As the city is shaping up as one of China's important gateways for international trade, the harbour should have great development potentials. One of the major plans which are already being considered is to build a steel mill in the area with a projected annual output of 1 to 2 million tons, with the assistance of foreign investors. I have mentioned the project also to Mr. Norman Lamont from the Department of Industry at Geoffrey Howe's lunch and he seemed to be quite interested. If required, I would be more than glad to provide further information on the project and be of assistance in whatever way I can to your Government.

Thank you again and with kind regards,

Yours sincerely
J. K. Pao

SUBJECT
Master Set



10 DOWNING STREET

file to
So Acy
cc Sir Peacock

From the Private Secretary

16 November 1984

PRIME MINISTER'S MEETING WITH SIR Y. K. PAO

Sir Y. K. Pao called on the Prime Minister this morning for a talk. I think four points are worth recording.

Sir Y. K. Pao said that Deng had told him that he intended to visit Hong Kong for the Chinese New Year in 1986.

The Chinese Government had invited him (Sir Y. K.) to come to Peking for the signing of the Hong Kong Agreement.

We should invite a number of younger Chinese Ministers to visit Britain. There were some bright young men in the second echelon who needed to be exposed to Western society.

Finally, he had it on good authority that the Chinese Government intended to build a major steel mill at Lian Yong Gang (I think this is what he said but the Department should check it. The place in question was a port which had been badly planned by the Chinese and was not deep enough to admit the biggest ships). This would be an excellent opportunity for British firms.

CHARLES POWELL

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

✓

Y.K.P.

TO DOWN

PRIME MINISTER

Mr. Y. K. P. Rao

COVERING CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister
CDP 15/11

15 November 1984

Dear Charles,

Call by Sir Y K Pao on the Prime Minister: 16 November

Please refer to your letter of 24 October. I enclose, as requested, a brief for Sir Y K Pao's call on the Prime Minister on 16 November. On the subject of Sir Y K's possible participation in the ceremony in Peking when the Hong Kong Agreement is signed we have prepared a line to take in the light of the Prime Minister's view, as recorded in your letter to me of 9 November.

Temporarily Retained

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

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

COVERING CONFIDENTIAL



SIR Y K PAO'S CALL ON THE PRIME MINISTER, FRIDAY 16 NOVEMBER
HONG KONG

POINT TO MAKE

FUTURE OF HONG KONG

1. Believe draft agreement is a good one. Provides sound framework for Hong Kong's continuing stability, prosperity and way of life.
2. Reactions to draft agreement encouraging both within Hong Kong and internationally. Glad you were able to welcome agreement.
3. We hope that all those businessmen who operate from Hong Kong or visit there will now be encouraged to maintain and expand their activities. Commercial confidence seems to be picking up. What are your impressions? What are your own plans for your Hong Kong operations?
4. Expect reports of Assessment Office and independent Monitoring Team by end of month. Parliament will wish to take these reports into account when it debates agreement in early December. I hope to go to Peking to sign agreement before end of the year. Shall also visit Hong Kong. Not yet announced.

(DEFENSIVE)

SIR Y K'S ATTENDANCE AT SIGNATURE CEREMONY.

5. For Chinese to issue invitations, though would expect them to consult us. We are quite willing to see appropriate Hong Kong figures attend, including yourself. Obviously Unofficial members of EXCO and LEGCO who have been so closely involved in the negotiations have a very strong claim and would need to be treated in accordance with their position in Hong Kong.

HONG KONG DEPARTMENT

14 November 1984



BACKGROUND

FUTURE OF HONG KONG

1. After the draft agreement on Hong Kong's future was published Sir Y K Pao was reported in the Hong Kong press as saying that the agreement was a good one, which would help improve investment.

SIGNATURE CEREMONY

2. Sir Y K has indicated to the Governor of Hong Kong that he would like to be invited to the signature ceremony of the agreement in Peking, and has said he would raise this matter with the Prime Minister. The Prime Minister has commented that we shall not succeed in keeping Sir Y K away, and should concentrate on ensuring that he is one of a number of Hong Kong figures invited. The Chinese have now asked whether we think it would be appropriate for some Hong Kong figures to attend, though they have not mentioned Sir Y K Pao specifically. It has been recommended in separate correspondence with No 10 that we should agree that a group of Hong Kong people should be present as observers; insist that the group shall be properly representative; and make it clear that we would expect to be consulted on the list of those to be represented. The aim would be to ensure that Unofficial members of EXCO and LEGCO would be given an appropriate status, and that overall there would be balanced representation from Hong Kong.

3. The Prime Minister last saw Sir Y K Pao on 10 July.

4. A personality note on Sir Y K Pao is attached.

HONG KONG DEPARTMENT

14 November 1984

CONFIDENTIAL



PERSONALITY NOTE

Sir Yue-Kong Pao CBE LLD JP

Chairman and Chief Executive of the World Wide Shipping Group. In Hong Kong has interests in property, finance and banking. Born 1918 Zhejiang Province, China.

Educated Shanghai and then went into banking.

Took refuge in Hong Kong in 1949 and entered import/export business. Purchased first ship in 1955 and formed World-Wide Shipping Group, now the world's largest independent shipping company.

A director of Hong Kong and Shanghai Banking Corporation.

Chairman of Intertanko.

Has a joint venture with the Chinese in ship-building and shipping.

Although Sir Y K Pao does not visit Peking frequently, he has excellent connections and enjoys considerable access to Chinese leaders. He visited Peking in May of this year and called on Chairman Deng Xiaoping. To the best of our knowledge his previous visit was in September 1982, during the Prime Minister's visit.

Sir Y K last called on the Chancellor 21 February 1984. During this visit to the UK, Sir Y K will be seeing the Foreign and Commonwealth Secretary and the Minister of State for Foreign and Commonwealth Affairs, Mr Richard Luce.

CONFIDENTIAL

15 NOV 1984

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

CF

BY

SP

b.c.c.



10 DOWNING STREET

From the Private Secretary

24 October 1984

The Prime Minister has agreed to see Sir Y.K. Pao on Friday 16 November. I should be grateful for a brief note of any particular points which you think the Prime Minister should make to him.

(C.D. POWELL)

P.F. Ricketts, Esq.,
Foreign and Commonwealth Office.

SP

B. R.

Mr Powell
Home Minister

✓ C.D.P. -

M. Powell

Have fixed for
09.30. 0 -
Fri. 16 Nov.
F.C.O. for Briefing
please

Sir Y K Pao

He will be here on 15-16 November
and wishes to see you. The 15th is a
Thursday with Cabinet, Questions, etc.
The Friday is being kept free for the
Carlton Lecture.

Do you wish to see Sir Y K this time?

CR

Yes - Friday

236.7771

morning

23 October 1984

Y.K. Pao may
bring a Mr Pan
with him who is
Chairman of
Panhe Navigation
London CR.

Mr Yue-Kong Pao C.B.E., L.L.D., J.P.

WORLD-WIDE SHIPPING GROUP
16th Floor, World Shipping Centre
Harbour City
7, Canton Road, Kowloon
Hong Kong
Tel.: 8-7327333 Telex: HX43247

1st August, 1984.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
10 Downing Street
London W1
ENGLAND

Prime Minister

R10

pps.

Dear Prime Minister,

Jr
10/8

MT

I must apologize for writing so late to thank you for the time you spared to receive me on 10th July when I was in London.

It was, as always, a pleasure to discuss current affairs with you and on my return to Hong Kong I immediately conveyed your ideas to the authorities in Beijing on the Hong Kong issue, and found them quite receptive to your views. You have no doubt by now had a full report from the Foreign Secretary on the outcome of his successful negotiations with the Chinese leadership and the way should now be free of major obstacles for the final stage of the talks. Your Government will, I am sure, lose no time in pushing ahead immediately with what is left to be done to bring the whole matter to completion and remove the anxieties which have been building up locally in the recent past.

I personally also believe that with sincere co-operation and understanding on both sides, there are many opportunities opening up for further developing the long-term relationship between the two countries in both political and economic terms. Please do not hesitate to call on me if you felt I could render assistance in this context.

With renewed thanks and warmest regards,

yours sincerely
Y. K. Pao

Wishing you a nice summer holiday.

subject a master

CONFIDENTIAL

DCA ADH

FIG DA

cc: SIR P. CRADOCK



10 DOWNING STREET

From the Private Secretary

10 July 1984

Prime Minister's Meeting with Sir Y.K. Pao

The Prime Minister met Sir Y.K. Pao for a brief discussion this morning.

Sir Y.K. Pao said that he had seen Deng Xiaoping in May. Deng was getting old and inflexible. He would be 80 in August. He was worried about the Hong Kong negotiations and wanted to get it all settled as quickly as possible. Deng thought very highly of Sir Geoffrey Howe. In reply to a question from the Prime Minister Sir Y.K. Pao said that he was confident that China's aim was to keep Hong Kong prosperous. If the effect of her assuming control of Hong Kong was the collapse of Hong Kong's economy China would lose face. In answer to a further question from the Prime Minister, Sir Y.K. Pao said that he believed Deng wanted the Hong Kong Government to be able to continue to develop Hong Kong over the next 13 years. This would make the post 1997 situation easier.

As regards opinion in Hong Kong itself, Sir Y.K. Pao said that people used to worry about what would happen after 1997. Now they were worrying about the period up to 1997. The proposed Joint Group was a point of particular concern.

The Prime Minister asked who Sir Y.K. Pao thought would succeed Deng. Sir Y.K. Pao said he thought it would be Hu Yaobang. He added that the key post was that of Chairman of the Military Commission. He thought that Deng would hang on to that until the very last moment. He also commented that Deng's daughter had been for sometime at the Chinese Embassy in Washington without the US authorities being aware of this.

I am sending a copy of this letter to Richard Hatfield (Cabinet Office).

Charles Powell

Len Appleyard, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

SBT

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

9 July 1984

mf
Dear Charles,

Sir Y K Pao's Call on the Prime Minister: 10 July

Sir Yue-Kong Pao will call on the Prime Minister on 10 July. I enclose a short brief in case Sir Y K Pao raises the subject of the future of Hong Kong.

Sir Y K Pao is not privy to information about our talks with the Chinese on Hong Kong's future, and it would not be appropriate to discuss the content of our negotiations with him.

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

Yours ever,
Len Appleyard
(L V Appleyard)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

CONFIDENTIAL



SIR Y K PAO'S CALL ON THE PRIME MINISTER:

10 JULY 1984

FUTURE OF HONG KONG

POINTS TO MAKE

1. Talks with Chinese Government continuing through diplomatic channels in Peking with agreed common aim of maintaining Hong Kong's stability and prosperity. Last round 27/28 June. Next round 11/12 July. Content confidential.
2. Working group has been established to consider documents submitted by the two sides in pursuit of their objective of reaching agreement as soon as possible on the question of Hong Kong. Group meeting full time. British side led by Dr David Wilson, Assistant Under Secretary, Foreign and Commonwealth Office.
3. On 20 April Secretary of State announced in Hong Kong that it was not realistic to think of an agreement providing for continued British administration in Hong Kong after 1997. We are therefore examining with Chinese Government how it might be possible to arrive at arrangements that would secure for Hong Kong, after 1997, a high degree of autonomy under Chinese sovereignty and that would preserve the way of life in Hong Kong, together with the essentials of the present systems.
4. Continuous process of consultation with people of Hong Kong. Wide range of channels has evolved in Hong Kong through which people make their views known. Value our discussions with Governor and Unofficials.
5. Substantial progress made towards an agreement, but some important points remain to be resolved. It is of importance that an agreement shall set out clearly and in binding form the arrangements that will be in force in Hong Kong after 1997. This is essential if the confidence of the Hong Kong people and of those who invest and trade there is to be retained.

DEFENSIVE

CONFIDENTIAL

CONFIDENTIAL



WHEN WILL DRAFT BE PUBLISHED?

6. It is too soon to say precisely but we are working to a timetable in the talks which takes account of Chinese wishes and of all our own requirements.

WHAT IF NO AGREEMENT CAN BE REVEALED?

7. That is a hypothetical question. We are working for a successful conclusion of the negotiations.

TRANSITIONAL PERIOD UP TO 1997

8. We shall continue to fulfil our responsibilities in the period up to 1997 and continue to provide the framework within which the Hong Kong Government can administer the territory and plan for its future.

Hong Kong Department
9 July 1984

CONFIDENTIAL

CONFIDENTIAL



ESSENTIAL FACTS

FUTURE OF HONG KONG

1. The Prime Minister is aware of the background.

SIR Y K PAO

2. Sir Y K Pao is not privy to information about our talks with the Chinese on Hong Kong's future, although he will be aware that meetings are continuing through diplomatic channels in Peking. It would not be appropriate to discuss the content and progress of our negotiations with them.

3. Sir Y K Pao last called on the Prime Minister in February 1984. He also saw the Secretary of State, Mr Luce and the Chancellor of the Exchequer.

Hong Kong Department
9 July 1984.

CONFIDENTIAL

CONFIDENTIAL



PERSONALITY NOTE

Sir Yue-Kong Pao CBE LLD JP

Chairman and Chief Executive of the World Wide Shipping Group. In Hong Kong his interests in property, finance and banking. Born 1918 Zhejiang Province, China.

Educated Shanghai and then went into banking.

Took refuge in Hong Kong in 1949 and entered import/export business. Purchased first ship in 1955 and formed World-Wide Shipping Group, now the world's largest independent.

A director of Hong Kong and Shanghai Banking Corporation.

Chairman of Intertanko.

Has a joint venture with the Chinese in ship-building and shipping.

Although Sir Y K Pao does not visit Peking frequently, he has excellent connections and enjoys considerable access to Chinese leaders. He visited Peking in May of this year when he called on Chairman Deng Xiaoping. To the best of our knowledge, his visit before the one in May was in September 1982, during the Prime Minister's visit.

CONFIDENTIAL



10 DOWNING STREET

THE PRIME MINISTER

20 June 1984

file RM
Dear Sir Y.K.

Thank you for your letter and for your kind words about the conduct of the London Economic Summit.

I look forward to hearing more about your visit to Beijing and your meeting with Mr. Deng Xiaoping when we meet on 10 July. I am glad that he has such a high opinion of Geoffrey Howe.

Very good with.

Yours sincerely

Royal and Shaker

Sir Yue-Kong Pao, CBE, JP.

888

070
CF
1034

Sir Yue-Kong Pao CBE, LL.D., JP.

WORLD-WIDE SHIPPING GROUP
16th Floor, World Shipping Centre
Harbour City
7, Canton Road, Kowloon
Hong Kong
Tel: 3-7827333 Telex: HX43247

13th June, 1984.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
10 Downing Street
London W1
ENGLAND

Dear Prime Minister,

It was a pleasure to learn from media reports that under your chairmanship the latest Economic Summit in London seemed to have been smooth and successful. Allow me to send you warm congratulations; a better understanding of the problems we face in the world can only assist in finding speedier solutions.

I was in Beijing recently in connection with a scholarship fund I have established in the memory of my late father (a similar foundation was created also in Hong Kong) to provide graduate scholarships for students from China and Hong Kong to study abroad. While in Beijing I had the pleasure of seeing Mr. Deng Xiaoping again also. We had a chat on my Group's joint shipping ventures with China, and the global economic situation (he commented that he felt the fundamental problem was that the rich countries were getting richer and the poor ones poorer) but he also said he had been very happy to meet Sir Geoffrey in Beijing in April and was most impressed by his personal sincerity and knowledge.

I look forward greatly to the opportunity to meet with you in London in July, and in the meantime, would like to send you and Denis my best regards.

Yours Sincerely
J. K. Pao

10. R.

1. John Coles ✓ *AA 29/3*
2. Prime Minister

CF.
Approved for
0930 on
TUE 10th July
CR.
30/3.

Sir Y K Pao will be in London, the week beginning 9 July and has asked to see you. It is already a bad week. You have two cocktail parties for Members and wives; you have the European Atlantic Group dinner which involves a major speech; you will be in Liverpool all day on Friday and you have the Garden Party.

Could we say no to Y.K. this time?

~~Answered~~
 I don't think we
 can. There may *CF*
 be an H-K debate at that time
 and he would take it badly if
 we did not see him.

CAROLINE RYDER

28 March 1984

ms
 236.7771.

With the Compliments of

Sir Yue-Kong Pao

A-J.C. 12/3

P.A.

WORLD-WIDE SHIPPING GROUP
16TH FLOOR, WORLD SHIPPING CENTRE,
HARBOUR CITY,
7, CANTON ROAD, KOWLOON,
HONG KONG

TEL. 3-7327333

The 1984 Institute of Directors Annual Convention

(21st February, 1984)

'Nothing Succeeds Like Success'

by

Sir Yue-Kong Pao, C.B.E., LL.D., J.P.

Chairman, World-Wide Shipping Group, Hong Kong

R 12/13

Mr. Chairman, My Lords, Ladies and Gentlemen,

I am both pleased and honoured to have been invited to take part in your convention and to find myself in the company of so many distinguished political and business leaders. The fact that I see so many members of government present at today's convention indicates how strong an influence government policies exert on business today. Indeed, some of us on the commercial side believe influence has become interference, and has often gone too far. We believe consequently that it is important for us to reaffirm the principles of free enterprise as the best way to create wealth; and to seek to maintain, or to re-establish an environment in which free enterprise may best flourish.

Ever since the last World War we have witnessed a gradual enlargement of the scope of the welfare state in most developed countries. Indeed, the very notion of development today is often seen as being bound up with the involvement by government in the details of economic affairs, through the mechanisms of social legislation and subvention. The result of such involvement has been consistently increased public spending, higher rates of taxation, a more complex regulatory framework, and expensive administrative bureaucracies. These bureaucracies did seem affordable during the amazing growth years following the War, and before

the first oil crisis of 1973. But the recession that then commenced made one thing abundantly clear - that it is disadvantageous to centre political priorities on the distribution of wealth, and to relegate the creation of wealth only to a secondary position. It is now evident that the efforts made to distribute wealth over the years, by way of excessive taxation, and by way of the 'safety nets' of welfare legislation and subsidies to both individuals and corporations, have had as their main result the lessening of individual and corporate incentives, a reduction in productivity and, most importantly, the elimination of what should be a healthy fear of failure and its consequences.

Now, when governments intervene in the market place, they are often thinking in the short term, no doubt prompted by a need for voter appeal. The resulting distortions and the delays created for needed adjustment have more than short-term consequences, however. We are now discovering how yesterday's easy options have damaged the medium-term outlook for today's enterprises. We see uncompetitive firms shored up, and outdated industries made havens of job protection, because of a failure to redeploy capital into new products and services, and because of a relative lack of earlier action in reallocation of manpower and resources. All this was neatly summarised by a Scandinavian business leader recently who said that 'We are prolonging the pains and postponing deaths, and are preventing new dynamic structures from being created when others die.'

Another characteristic feature of the years of surplus was the belief they encouraged that things would 'always get better'. How great then was the shock after 1973, when this easy belief was shown to be false. Naturally, it was the less developed countries, not so readily able to move into alternative sources of energy, that suffered the most from the sudden increase in crude oil prices. Yet the OECD countries also experienced problems, because their high labour costs made it increasingly difficult for them to compete with developing and newly industrialised nations, especially those in the Far East. OPEC cash surpluses, either spent on major capital investment programmes or recycled through the banking system, assisted in fuelling inflation; the growing foreign debt of the developing countries eager to try to continue to finance necessary oil imports produced time-bombs which have only recently exploded. As a consequence, confidence in the international financial system has been badly undermined. In the late 1970's and early 1980's we have encountered very high inflation and unemployment rates, together with reduced investment in the industrialised countries, a fall in commodity prices, a shrinking world trade, and a world-wide increase in protectionism. The speculative movement of large funds has put pressure on individual currencies and on the fiscal and financial policies of individual governments; the resultant instability of exchange rates has made the business environment even more uncertain. Political tensions in strategic areas and a cooling of superpower relations continue to fuel economic anxiety, and have encouraged a surge of funds in the direction of apparent political havens.

The declines in productivity and enterprise that I touched on earlier are being worsened by a stagnation that spells reduced rates of profit, disincentive to save, and a slowdown in productive investments. Structural unemployment has begun to emerge in most industrialised countries as a result of capital replacing expensive labour, and if we are to return to more acceptable levels of unemployment, we must not only stimulate productive investment in the private sector, but also practise wage restraint, preferably in co-operation with organised labour who must also be made to face up to the fundamental problem.

I have outlined some of the factors contributing to the prevailing gloom, but I wish to stress that much of the gloom comes from attitudes that are unhealthy, rather than from precise circumstances. The world can fairly be described as having talked itself into its present pessimism, and it is thus to the renewal of a spirit of confidence, to a redeveloped optimism, that we must now attend. A recession cannot be ended by undertaking short-term experiments, political or economic, and a fundamental change of outlook is, I am convinced, of the greatest importance for us all, North and South, East and West. We must return to the belief that whatever we may attempt in the areas of economics and politics, it is only through regained motivation that we can hope to rejuvenate performance. This is a truth that applies to nations just as clearly as it does to individuals.

Of course, you say, it is very easy for someone from Hong Kong to lecture about what the whole of the rest of the world should do. Hong Kong is different! Hong Kong is Hong Kong! Let me point out first that although Hong Kong can lay

claim to many unique features, it has never been able to depend on anything like a guarantee of success. It has never been able to rest on easy assumptions. You all know about its tiny area, its total lack of raw materials; and you are probably aware that it ranks among the twenty largest trading nations of the world, has the world's third largest container throughput volume, one of the world's largest beneficially-owned merchant fleets, and is a major financial centre and an operations base for many international concerns, besides being a nerve centre for transportation and communications in the region. True, this eminence has been achieved in part thanks to a favourable location and an excellent harbour, through an industrious population and through the way its administration works. But none of these factors constitute guarantees of success, let alone the prodigious success that Hong Kong has achieved.

What has been crucial is the fact that the people had and have incentives to perform better. They have been able to keep and enjoy more of what they earn. They know that if they fail to perform, the consequences, both economic and social, will be extremely unpleasant. The strongly capitalist system we operate in Hong Kong is different - some say that it is unique in the world - but our pride in it rests not on its rarity, but on the accomplishments that it has encouraged, for these are the truly outstanding features of our economic and individual lives. It is true that every barrel has a few bad apples, and the flaws that the system contains are of great concern to the Government of Hong Kong and to the people at large, but you do not throw out a barrel of fruit for the sake of those few bad apples. Hong Kong's barrel is packed with free enterprise which has amply

demonstrated that it is inherently superior, more resilient and more flexible than any other. It is the key factor in Hong Kong's achievement on all fronts, particularly in the past two decades, despite the pressures that have been placed on it by sudden surges in population and by the protectionist measures of other countries. And we must not forget to add the particularly useful values of oriental philosophy and oriental self-reliance!

It is well known that Hong Kong is a gateway to China, a major market for Chinese products in its own right, as well as serving as a conduit for Chinese goods to other world markets. It contributes significantly to China's development - commercially and financially. Hong Kong's role with respect to China has become increasingly relevant and recognised since the announcement of the 'Four Modernisations' policy in China, for it provides professional expertise, trains and teaches personnel, affords technical know-how, services Chinese firms conducting international business from its shores, and contributes to financial arrangements to assist China in developing her infrastructure. The interaction between Hong Kong's economic environment and China's socialist system is certainly complex but is progressing quite successfully.

Particularly interesting, in view of my argument today, is the fact that for the Chinese leadership and people it is also motivation that has emerged as a major objective even under their system of government. There are already signs that success has attended the introduction of individual incentives in agricultural and industrial production, and progress made in agriculture is particularly significant. Other hallmarks of real enterprise which I mentioned earlier are beginning to appear. There is an increasing effort to streamline

bureaucratic structures, a starting up of long-term capital projects, such as new port facilities, nuclear power generation plants, offshore oil exploration and production; and there is encouragement of scientific research and of improved professional training.

Ten years ago, many people would have doubted that China could reach the economic goals she has achieved today. But the targets of the current 5-year plan appear to have been reached after only three years, with an economic growth rate of 7% a year, as against the projected 4-5%. On that scale, the aim of quadrupling the nation's output by the year 2000 (over the level of 1982) should be achieved. Such a development will also be of significance to Hong Kong's future, and help to back up the stated intentions of the Chinese leadership to maintain Hong Kong as a stable and prosperous oasis, essentially enjoying the life style to which it is accustomed. Much needs to be done in China, of course, and the country will need to further adjust her administrative structure to create additional improvement in the productive processes as she moves forward towards her targets; but I have no doubt that this can and will be successfully accomplished.

Hong Kong's role in all these developments is not merely to supply capital opportunities and know-how; it can bend its spirit of enterprise to the task, coupling to its international commercial and financial contacts the example it has so vividly given the world of the way in which sheer hard work, real incentives, efficient regulation and administration can transcend most difficulties. We must of course keep things

in perspective and not erroneously assume that China's progress is only dependent on Hong Kong - that would be mistaking the louse for the elephant - but Hong Kong has, and is, helping even by example.

As I have been at pains to suggest, confidence in success itself is one of the strongest motivators. Hong Kong's recent history shows this even more clearly than does its early post-war history. The effects of global recession, itself prompted by the second wave of oil price increases in 1978/9, finally hit Hong Kong in early 1982, at the very moment when the overheated property market collapsed, when talks about the territory's long-term future were beginning, when a budget deficit loomed, when exports were slowing down and when much publicity was being given to the failure of several commercial and financial enterprises. Hong Kong's usual optimism, its normal ability to face up to the toughest challenges, did, I must confess, begin to wear a more uncertain face. We too began to generate gloom and doom by talking about it, although it did not start in that way. Over the past two years economic activity contracted, particularly in property and construction; profitability became increasingly difficult for a wider range of businesses; the stock market was listless; the local currency weakened at first steadily, then quite dramatically. It took a judicious intervention by the administration - a linking of the Hong Kong dollar to its United States counterpart in October, 1983 - to penetrate that particular gloom. But it is noteworthy that this shift of attitude can already be shown to have been a temporary one. The latest export figures show a strong industry

and one that knows how to sell its products; the banking system is essentially sound and poised for further growth at home and abroad; trade with and investment in China is expanding well; the talks on the territory's future are apparently making some progress. Senior Chinese leaders have repeatedly stressed that they wish to see Hong Kong's prosperity and stability undisturbed. Especially in comparison with most other places in the world we have no reason to be despondent, and although we remain conscious of the need to clarify the issues relative to our future, we are equally conscious of the futility of sitting around holding our breath and waiting for everything to be settled before making new investment decisions. We know that nothing succeeds like success, and that it is this spirit that can save us from being left behind by our competitors.

If we do have any serious fears in the Hong Kong commercial world, they are fears that are just as prevalent in other countries. We fear that protectionism may become yet more widespread. We all must argue as best we can against any protectionist stance, no matter how plausible may sound the specific reasons given to support it. Cargo sharing in shipping, domestic content legislation, subsidies, quantitative import controls, 'voluntary' agreements to restrain exports - all these result in the elimination of competition and in fewer, not more, opportunities for better employment and better economic growth. This is the message I wish to convey - we all must convey it - to our friends in politics and government, as well as to the people at large. We must argue our case vigorously so that there will again emerge a true awareness of market processes and a better understanding and conviction of the real reasons for economic success, or conversely for economic collapse. We must emphasise that none of our current problems can be solved by running away from them, by burying our heads in the sand, or by

creating more barriers to trade or to entry into specific industries. Such reactions are precisely those which condition us to a recession mentality.

Today there is no real shortage of entrepreneurial talent in the world, but it must be allowed to apply itself, to be properly channelled into achievement-oriented and productive courses. For this to happen, we must exert every effort to fostering systems which provide appropriate incentives and rewards. For it is to these that human beings respond, whether they live and work in China, Hong Kong, or the United Kingdom. Thank you.

HONG KONG : Y K Pao

pr2

CONFIDENTIAL

PC Sir PC

2



Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

28 February 1984

A. J. C. 29/2

Dear John,

Hong Kong: Sir Y K Pao

Thank you for your letter of 21 February recording Sir Y K Pao's call on the Prime Minister.

You may recall that Sir Y K Pao has spoken before to the Prime Minister about the Everbright Corporation and its Chairman, Wang Guangyiong. (Your letter of 6 May 1983 to John Holmes refers.) I enclose a factual note on Wang, his company and his activities in Hong Kong.

We doubt whether the Everbright Corporation can formally be described as controlled by the State Council. Nonetheless Wang Guangyiong does claim to be directly answerable to Zhao Ziyang. We know of no reason to doubt this.

In a recent speech Wang said that the main purpose of setting up companies in Hong Kong funded by China was to learn the capitalist way of doing business as well as to develop economic cooperation and to import advanced technology into China. His involvement in property development was not designed to rescue the Hong Kong property market with Chinese funds: the main purpose of his company was to make a profit. Nonetheless the Company's activities do seem to be intended as a demonstration of China's commitment to the future economic prosperity of Hong Kong. It is widely believed in Hong Kong that Wang's well-publicised involvement in property is in part designed to instil some confidence into that sector of the market. This may well be at least a subsidiary objective.

There is also a connection between Dr Henry Kissinger and Everbright. We understand that there are contacts between his consultancy company and Everbright concerning the transfer of advanced technology to China.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

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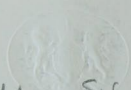
The Everbright Industrial Corporation is the first wholly Chinese non-governmental corporation to have its headquarters in Hong Kong. It was formally inaugurated in Peking in April 1983, and its Hong Kong office was opened in August 1983. It plans to open further branches in China and overseas.

The Chairman of Everbright is Wang Guangying, a former Deputy Mayor of Tianjin and brother-in-law of the former President of China Liu Shaoyi. Wang has described the Corporation's chief tasks as absorbing foreign funds, introducing advanced technology and equipment, engaging in capital investment abroad and co-operation with foreign businessmen in joint ventures at home and abroad, in order to step up the pace of Chinese economic development, promote structural reform of the Chinese economy and contribute to Hong Kong's prosperity. In its first four months of operation Everbright has imported into China technology worth \$48 million, and plans to expand its volume of imports to \$150 million this year. In Hong Kong it has invested nearly 1 billion Hong Kong dollars in a residential building project on Hong Kong island; it owns 10% of a new stock broking company Chung Mao Securities (set up by a consortium of Chinese owned companies and banks in Hong Kong); and is involved in other projects including the development of tourism. Most recently Wang is reported to have taken a 15% share in the Consortium which bought a prime commercial site in Hong Kong.

Everbright is officially a non-governmental organisation, and, according to the Chinese press, it was started by "a group of well-known patriotic industrialists and businessmen". In formal terms therefore it should not be described as being directly controlled by the State Council. It has no connection with the Foreign Trade Corporations which are the official channel for handling China's foreign trade. However Wang Guangying does claim to be directly answerable to Zhao Ziyang; he has said: "Premier Zhao Ziyang agreed to my plan to set up the corporation in Hong Kong. I have powerful backing". There is no reason to disbelieve this.

Hong Kong PT 2

PM's meetings with Sir Yue - King PAO



18 FEB 1984

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SUBJECT -
c Master.

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10 DOWNING STREET

From the Private Secretary

21 February 1984

HONG KONG

Sir Y K Pao called on the Prime Minister this morning for thirty minutes (your letter of 20 February refers).

He said that he intended to visit China in April, though mainly on business matters. He enquired whether the Prime Minister wished him to convey any message to the Chinese Leaders. The Prime Minister said that she did not. We were negotiating steadily to achieve the best result possible for the people of Hong Kong and for relations between Britain and China. We found it hard to persuade the Chinese that we did not derive great economic advantage from Hong Kong. Our motive in negotiating was to fulfil our moral responsibility towards the people of Hong Kong. We were negotiating in good faith to secure the maximum continuity of systems and the minimum change. Sir Y K pointed out that the notion of British moral responsibility fell oddly on Chinese ears. Peking took the view that the people of Hong Kong were Chinese and that they were the Government of China.

Sir Y K Pao then described the activities of a company which had recently been established in Hong Kong and to which he clearly attached considerable significance. Apparently the Chinese Government owns the company which is called "Everbright" and had sent a Mr. Wong, a person with powerful political connections, to Hong Kong six months ago to run the company. Sir Y K had lunched with Mr. Wong and had derived the clear impression that the objective of the Chinese Government was to use this company to maintain property values in Hong Kong as the basis of the colony's stability. Mr. Wong had negotiated one agreement involving an investment of one billion Hong Kong dollars in new buildings. He had also taken 15% of another property investment of over three hundred million dollars. The company was directly controlled by the State Council under Premier Zhao Ziyang.

I should be grateful for any information you may have about this company and any comment you wish to offer on its significance.

ajc

Peter Ricketts, Esq.,
Foreign and Commonwealth Office
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Foreign and Commonwealth Office

London SW1A 2AH

20 February 1984

Dear John,

Sir Y K Pao's call on the Prime Minister:
21 February

Sir Yue-Kong Pao will call on the Prime Minister on 21 February. I enclose a short brief in case Sir Y K Pao raises the subject of the future of Hong Kong.

Sir Y K Pao is not privy to information about our talks with the Chinese on Hong Kong's future, and we therefore suggest that the Prime Minister should not discuss the content of our negotiations with him.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

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SIR Y K PAO'S CALL ON THE PRIME MINISTER: 21 FEBRUARY 1984

POINTS TO MAKE

1. Talks with Chinese Government continuing through diplomatic channels in Peking with common aim of maintaining Hong Kong's stability and prosperity. Last round 25/26 January. Constructive and useful. Good atmosphere. Next round starts 22/23 February. Content confidential.
2. Want to find a solution acceptable to Parliament, China and people of Hong Kong. Willing to discuss any measures which ensure stability/prosperity.
3. Stability and prosperity best insured by:
 - (a) continuity of systems and;
 - (b) minimum interference.
4. In close touch with Hong Kong opinion. Governor and EXCO in London in January. Extensive talks. Identity of views.

DEFENSIVE

ACCEPTABILITY TO HONG KONG OF ANY PROPOSED ARRANGEMENTS

5. Will continue to keep in close touch with Hong Kong views and review ways in which these might best be gauged. But too early to say how acceptability of any specific arrangements might best be tested.

PRESS SPECULATION

6. Much speculation on course of talks, nature and likely timing of agreement. Inappropriate to comment publicly. Getting on with talks as quickly as we can. No set timetable. Chinese mention September 1984. But this does not rule out a continuation of talks thereafter.

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BRITISH SELL OUT

7. Any such suggestions harmful and untrue. We have a commitment to Hong Kong and to the search for a settlement acceptable to Parliament, China and Hong Kong people. Must judge package as a whole.

ACCEPTABILITY TO HONG KONG OF ANY PROPOSED ARRANGEMENTS

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Hong Kong Department
February 1984

CONFIDENTIAL



ESSENTIAL FACTS

FUTURE OF HONG KONG

1. The Prime Minister is aware of the background.

SIR Y K PAO

2. Sir Y K Pao is not privy to information about our talks with the Chinese on Hong Kong's future, although he will be aware that meetings are continuing through diplomatic channels in Peking. It would not be appropriate to discuss the content and progress of our negotiations with him.

3. Sir Y K Pao last called on the Secretary of State in June 1983. During this visit he will also see the Prime Minister and the Chancellor of the Exchequer.

- / 4. A personality note is attached.

Hong Kong Department
February 1984

CONFIDENTIAL



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Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

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PERSONALITY NOTE

Sir Yue-Kong Pao CBE LLD JP

Chairman and Chief Executive of the World Wide Shipping Group.

Born 1918 Zhejiang Province, China.

Educated Shanghai and then went into banking.

Took refuge in Hong Kong in 1949 and entered import/export business. Purchased first ship in 1955 and formed World-Wide Shipping Group, now the world's largest independent.

A director of Hong Kong and Shanghai Banking Corporation.

Chairman of Intertanko.

Sir Y K has access to Chinese leaders. His cousin was until recently a Vice Minister in the Chinese Government. He has travelled regularly to Peking which to our knowledge he last visited in September 1982 during the Prime Minister's visit. He was in the United States for Premier Zhao's visit and may have attended one of the social occasions in Washington.

Sir Y K Pao is a frequent visitor to London and has enjoyed access to Ministers (including the Prime Minister) regularly in the past.

CONFIDENTIAL



20 JAN 1984



①

10 DOWNING STREET

From the Private Secretary

- ① Mr. Clegg A.S.C. 14/11.
② Prime Minister

Sir Y.K. PAO

He is coming to London
in February (20021) &
would like to pay a
courtesy call on you.

Would you like
to see him?

Yes
OK

Have offered
him 9.30-1000
on Tuesday 21
Feb. CR/16/12

14/12.

The Rt. Hon. Mrs. Margaret Thatcher, PC, MP

R 3/10.

010

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LONDON, EC4A 3TB

Telephone: 01-583 1510

Handwritten initials and a date: "R 3/10" and "h-a."

With Compliments

We have been requested by Sir Yue-Kong Pao to pass on the attached message to you.

83-10-03 15:41

Msg 413 Title : +P

THE RT. HON. MRS. MARGARET THATCHER, PC. MP
PRIME MINISTER
10 DOWNING STREET
LONDON S.W.1

I AM EXTREMELY SORRY THAT MY WIFE'S ILLNESS HAS MADE IT
NECESSARY FOR ME TO CANCEL MY LONDON TRIP AT THE LAST MOMENT
AND I AM THEREFORE UNABLE TO MEET WITH YOU AT 1130 ON TUESDAY
4TH OCTOBER AS SCHEDULED. I DO HOPE YOU COULD ACCEPT MY
SINCERE APOLOGIES FOR THE INCONVENIENCE THIS MUST HAVE CAUSED
YOU AND MAY I LOOK FORWARD TO THE PLEASURE OF VISITING YOU
AT ANOTHER OPPORTUNITY IN THE NOT DISTANT FUTURE.

KINDEST REGARDS

Y.K. PAO WORLDSHIP

DEPARTMENT/SERIES <i>PREM 19</i>	Date and sign
PIECE/ITEM <i>1797</i> (one piece/item number)	
Extract/Item details: <i>Taylor to Holmes dated 15 August 1983</i>	
CLOSED FOR YEARS UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
TEMPORARILY RETAINED	<i>29/6/2005</i> <i>G. Gray</i>
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DEPARTMENT/SERIES <i>MEM 19</i>	Date and sign
PIECE/ITEM <i>1797</i> (one piece/item number)	
Extract/Item details: <i>Holmes to Coles dated 29 July 1983 with attachments</i>	
CLOSED FOR YEARS UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
TEMPORARILY RETAINED	<i>24/6/2015 S. Gray</i>
MISSING AT TRANSFER	
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NUMBER NOT USED	

Instructions for completion of Dummy Card

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Enter the Department, Series and Piece/Item references clearly
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DEPARTMENT/SERIES <i>GRA 168</i>
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Sir Yue-Kong Pao C.B.E., LL.D., J.P.

C.F. (4)
WORLD-WIDE SHIPPING GROUP
16th Floor, World Shipping Centre
Harbour City
7, Canton Road, Kowloon
Hong Kong
Tel: 3-7827333 Telex: HX43247

4th July, 1983.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
10 Downing Street
London W1
ENGLAND

Prime Minister
R.12.
mt Ad. C. 13/7.

Dear Prime Minister,

You were again most kind to spare me time on the 27th June, especially while you were occupied with forming a new Cabinet. I greatly appreciated the opportunity for an enlightening and useful talk.

Needless to say, I was greatly pleased with you and your Party's election victory; you know that you can count me among your staunchest supporters and I have every confidence that your second term in office will provide you with even greater personal success and the country and the Western World with continued strong political leadership. Your Government will still face the formidable task of further strengthening the nation's economy, of cutting back public expenditures, maintain a low rate of inflation and a strong currency. Your own example will, I am sure, inspire the British people to make a better effort to work harder and to become more self-reliant.

You have both the courage and the ability to achieve your objectives both at home and abroad and I am already looking forward to an even more resounding victory at the next elections.

Thank you again & with kindest regards

Yours sincerely
Y. K. Pao

H-k Sir YK P+2

83-06-10 09:39

262 Title : TAPED MSG

QU LDN/HKGWW

RT. HON. MRS. MARGARET THATCHER, PC, MP
PRIME MINISTER
NO. 10 DOWNING STREET
LONDON S.W.1

DEAR PRIME MINISTER,

WHAT A TREMENDOUS VICTORY STOP THE PEOPLE OF GREAT BRITAIN HAVE
DEMONSTRATED IN THE MOST IMPRESSIVE WAY THEIR CONFIDENCE IN SOUND AND
WELL THOUGHT OUT POLICIES APPLIED THROUGH GOOD GOVERNMENT
UNDER YOUR PERSONAL LEADERSHIP STOP I AM CERTAIN THAT BRITAIN WITH
YOU AT THE HELM WILL ACHIEVE AN EVEN GREATER PROMINENCE IN WORLD
AFFAIRS IN THE YEARS AHEAD STOP IF YOU AGREE I WILL BE IN LONDON IN
LATE JUNE AND WISH VERY MUCH TO HAVE THE PLEASURE OF VISITING YOU
ON 27TH OR 28TH TO OFFER YOU MY WARMEST CONGRATULATIONS IN PERSON
STOP IF THIS PROVES CONVENIENT I WOULD APPRECIATE YOUR OFFICE FIXING
A DATE AND TIME
WITH KINDEST REGARDS ALSO TO DENIS

Y.K.PAO

NNNN

Handwritten notes:
B/F
D.
Hoy King
Prime Minister
to Lee
Ahn - 14/6
5/7
Yes please
Would you like to see
Y. K. Pao for 20
minutes on 27 June?
Yes not
A.D.C. 176

Handwritten notes:
arranged for 27th June
ES. 13/6.



R. HON. MRS. MARGARET THATCHER, P.M.
PRIME MINISTER
NO. 10 DOWNING STREET
LONDON S.W.1

10 JUN 1982



DEAR PRIME MINISTER,

WHAT A TREMENDOUS VICTORY STOP THE PEOPLE OF GREAT BRITAIN HAVE
DEMONSTRATED IN THE MOST IMPRESSIVE WAY THEIR CONFIDENCE IN SOUND AN
WELL THOUGHT OUT POLICIES APPLIED THROUGH GOOD GOVERNMENT
UNDER YOUR PERSONAL LEADERSHIP STOP I AM CERTAIN THAT BRITAIN WITH
YOU AT THE HELM WILL ACHIEVE AN EVEN GREATER PROMINENCE IN WORLD
AFFAIRS IN THE YEARS AHEAD STOP IF YOU AGREE I WILL BE IN LONDON IN
LATE JUNE AND WISH VERY MUCH TO HAVE THE PLEASURE OF VISITING YOU
ON 27TH OR 28TH TO OFFER YOU MY WARMEST CONGRATULATIONS IN PERSON
STOP IF THIS PROVES CONVENIENT I WOULD APPRECIATE YOUR OFFICE FIXING
A DATE AND TIME
WITH kindest regards also to Denis

on 27th or 28th

A.B.C.

Wish you see to
Y.K. too for so
night or 15 June
W. M. J.

Private Secretary



10 DOWNING STREET

Mr. Fleyler

Can you give me a provisional
time for Y. K. Pao to call
(20 minutes) on 27 ~ 28 June?

A.S.C. $\frac{10.}{6}$

John

11.40 on 27 June?

J.



Hong Kong 38

10 DOWNING STREET

From the Private Secretary

20 December 1982

Y.K. PAO

The Prime Minister has noted the contents
of your letter of 16 December.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.



Foreign and Commonwealth Office

London SW1A 2AH

16 December 1982

*Prime Minister**For information.**A-JC 9/12.*

Dear John,

Thank you for your letter of 8 December about Sir Y-K Pao's call on the Prime Minister on 7 December. You may be interested to know that we do not agree with Sir Y-K Pao's account of the reasons for Huang Hua's retirement as Chinese Foreign Minister. Both Huang's retirement and that of the Defence Minister, Geng Bial, (linked by Pao with Huang's exit) had been expected for some time.

Both men have been in poor health. Aged 69 and 73 respectively, they survived the May streamlining and rejuvenation of the Chinese state machinery probably only because of the difficulty of finding acceptable successors at the time. It is a mark of Deng's steady political success this year that he has now been able to instal one of his own men as Defence Minister and another, a close associate of Hu Yaobang, as Foreign Minister.

It is true that an article in the army newspaper in late August was critical of some current policies and that since the Party Congress in September, Deng and his supporters have been able to move to neutralise obstructionist elements in the military leadership, but Geng Biao probably has not played a crucial role in this debate. He was a stop-gap Minister of Defence when appointed in 1981 and in China the Minister of Defence is one of the least influential of a group of military leaders.

As for Huang Hua's being out of line about the prospects for Sino-Soviet realtions, he does seem to have spoken with an unusual lack of caution at Peking Airport on his return from Moscow when in answer to a reporter's question he agreed that he was optimistic. But his attendance at Brezhnev's funeral and the tone of official statements

/will have

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will have been decided at the top level of the Chinese leadership. For tactical reasons the Chinese wish to suggest that there are some prospects of improvement in Sino-Soviet relations, but, as Zhao Ziyang made clear to the Prime Minister in September (and has repeated to other foreign leaders since), substantial Soviet concessions will be needed if there is to be real progress. Since Huang's return from Moscow, the Chinese have again been publicly emphasising the seriousness of the obstacles: Soviet troops on China's borders, Cambodia and Afghanistan. Another round of Sino-Soviet talks is unlikely to take place before the visit to Peking by the US Secretary of State Mr Shultz, probably in early February.

Yours ever

A handwritten signature in dark ink, appearing to read 'J E Holmes', written in a cursive style.

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

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176 DEC 1002

DEPARTMENT/SERIES <i>PREM 19</i>	Date and sign
PIECE/ITEM <i>1797</i> (one piece/item number)	
Extract/Item details: <i>Minute to Armstrong dated 13 December 1982</i>	
CLOSED FOR YEARS UNDER FOI EXEMPTION	
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Instructions for completion of Dummy Card

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Use the card for one piece/item number only

Enter the Department, Series and Piece/Item references clearly
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DEPARTMENT/SERIES <i>PREM 19</i>	Date and sign
PIECE/ITEM <i>1797</i> (one piece/item number)	
Extract/Item details: <i>Armstrong to Coles dated 10 December 1982</i>	
CLOSED FOR YEARS UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	<i>29/6/2015</i> <i>G. Gray</i>
TEMPORARILY RETAINED	
MISSING AT TRANSFER	
MISSING	
NUMBER NOT USED	

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copied on
Hong Kong - Future

HONG KONG

HZ

SUBJECT



cc MASTER

10 DOWNING STREET

From the Private Secretary

8 December 1982

Dear Sir,

China/Hong Kong

Sir Y.K. Pao called on the Prime Minister on 7 December. Among the points he made were the following.

He thought that there were two reasons for the dismissal of the previous Chinese Foreign Minister. The first was that Deng Xiaoping had been angered by an article, inspired by the Chinese military, which had attacked the present Chinese Government. He had therefore decided to sack the Defence Minister but, in order to save the latter's face to some extent, had dismissed Huang Hua as well. Secondly, Huang Hua had taken too optimistic a view in public of a possible rapprochement between the Soviet Union and China.

Sir Y.K. Pao had just come from Brazil where he had had some contact with President Reagan's visiting delegation. He had urged that President Reagan should visit China soon. But Deaver from the White House had said that Reagan would not visit China in 1983, though he might go in 1984. Much would depend on the assessment made by Mr. Shultz when he visited Peking in January.

The Chinese had asked Sir Y.K. Pao recently to announce his support for the Chinese "Plan" for the future of Hong Kong. He had replied that, given his connections with both Britain and China, he had to be very careful. He had stressed that China would need British co-operation over Hong Kong in the future if international confidence was to be maintained. The Chinese had attempted to rebut the argument that they could not maintain the prosperity of Hong Kong without British administration by saying that they ran Shanghai with success, despite earlier predictions that they would not be able to do so.

The Prime Minister said that she found the latter remark most revealing. The Chinese had not made a success of running Shanghai and the state of that city could not be compared with the situation in Hong Kong. The Chinese had clearly not appreciated

/ the

CONFIDENTIAL

- 2 -

the fundamental point that prosperity in Hong Kong depended on British administration. Sir Y.K. Pao stated that he had made this point in an interview with the New China News Agency when he was last in Hong Kong and had stressed the necessity of maintaining the confidence not just of local Hong Kong opinion but of international opinion. But the Agency had not published these remarks.

I should be grateful if this letter could be given the usual very limited circulation.

*Yours ever
John Cole.*

John Holmes, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

HONG KONG PPS. (2)

Sir Yue-Kong Pao C.B.E., L.L.D., J.P.

WORLD-WIDE SHIPPING GROUP
16th Floor, World Shipping Centre
Harbour City
7, Canton Road, Kowloon
Hong Kong
Tel: 3-7327333 Telex: HX43247

R 30 · 25th November, 1982.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
10 Downing Street
London W1
ENGLAND

Prime Minister

mt

A.T.C. 20/11

His steps to see.

already averaged

Dear Prime Minister,

Thank you so very much for your kind letter of 12th November on the passing of my beloved father.

Your warm sentiments brought such consolation to myself and my family during this period of sorrow and we are all deeply grateful.

You were kind to indicate that you could see me again when I am next in London and I have already asked my London associate to approach your office to request an appointment on 6th or 7th December.

With kindest regards,

yours sincerely
Y. K. Pao

G. R.

B/K

Hong Kong

table

any special
briefing
required?

1. MR. COLES ^{10/24}
2. PRIME MINISTER

please file - Carlina
Cl. No.

Cl.
25/11

A & C. 25/11

Sir Y.K. Pao is coming back to London
at the end of November/beginning of December.

Shall I make time for you to see him?

Dec →

Cl.

Yes

~~Mr. Sherman
wants to come in
before he goes to the
U.S. - 2 - Monday
not~~

23 November 1982

Miss Nancy CHU

HL

22/11

18 November 1982

Many thanks for your letter of 17 November.

I will ask the Prime Minister over the weekend about a meeting with Sir Y.K. Pao and be in touch with you on Monday.

CAROLINE STEPHENS

Mr. Carter

What news on
this one?

CS.

Miss Nancy Chu

LCU

510

MARINE NAVIGATION COMPANY LTD

Incorporated 1916.

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1, LITTLE NEW STREET,
LONDON, EC4A 3TB

TELEPHONE: 01-583 1510
CABLES: WOSHIP LONDON EC4
TELEX: 888425 WOSHIP G
883023 WOSHIP G

17th November, 1982

Miss Caroline Stephens
Personal Assistant to the Prime Minister
No. 10 Downing Street
London S.W.1.

Dear Caroline,

Sir Yue-Kong Pao was very disappointed for not being able to come and see the Prime Minister on Thursday, 11th November as arranged. To make up for that he is now planning to come this way on either Monday, 29th and Tuesday, 30th November (departing London at 6 p.m.) or from Friday, 3rd to around Tuesday, the 7th December depending on the Prime Minister's programme. I know Sir Yue-Kong would very much like to see the Prime Minister if she could spare a few minutes from her very busy schedule.

I thought I better drop you a line this time as we have two sets of possible dates and I would be very grateful if you could render me your usual kind assistance and give me a ring at your earliest convenience as to the Prime Minister's availability.

With kind regards,

Yours sincerely,
Nancy

Nancy Chu



Re: DS4

Hong Kong

10 DOWNING STREET

THE PRIME MINISTER

12 November 1982

Dear Sir Y.K.

I learnt with extreme sadness of the death of your father. I know how deeply you will feel the loss and I send you my profound sympathy.

Please be sure to call on me when you are next able to travel to London.

Yours sincerely
Margaret Thatcher

Sir Y. K. Pao.

B

R/2

11 November 1982

TELEMESSAGE
THE RT. HON. MRS. MARGARET THATCHER MP
NO. 10 DOWNING STREET
LONDON
SW1

Dear Prime Minister,

With deep regret I wish to inform you that my beloved father Mr. S.L. Pao, passed away peacefully on 11th November in Hong Kong at the age of 91 after a short illness.

The devoted support and contributions he made towards Hong Kong's educational and health causes during his lifetime will always remain a source of inspiration for me. Kindest regards, sincerely,

Y.K. Pao, Worldship.

TELEMESSAGE – A British Telecommunications service.

– Accepted by telephone or telex and forwarded electronically to a Royal Mail sorting centre for delivery with the next day's first class post.

TO REPLY BY

TELEMESSAGE – Telephone – dial 100 (in London 190) and ask for the Telemesssage service.

– Telex – consult your telex directory.

Telemesssages received by British Telecom before 8pm (6pm on Sundays) are normally delivered with the next day's first class post; if they are not we will refund your money. Telemesssages for delivery in the London postal districts are accepted up to 9pm (6pm on Sundays).

For special occasions a selection of attractive cards is available. For further information and a leaflet illustrating the choice of cards, call the Telemesssage service.

Hong Kong



10 DOWNING STREET

~~SECRET~~
Y. K. Pao's
father has died.
Will you do
letter for P.M. to
Prgh - if
necessary.

Cf.



10 DOWNING STREET

PRIME MINISTER

cc John Coles

Sir Yue Kong Pao has cancelled
his visit tomorrow as his father
is gravely ill and he does not
want to leave Hong Kong.

cs.

10 November 1982

Note for file

Meeting with Sir Y K Rao
fixed for 11th November 1982.
has been cancelled.

Steve

10/11/82

Box

CP

10 November 1982

TELEMESSAGE
THE RT. HON MRS. MARGARET THATCHER, MP
PRIME MINISTER
NO. 10 DOWNING STREET
LONDON S.W.1

*Mr Y.K.'s father
has died.
CP
11/11*

Dear Prime Minister,
I am extremely sorry I will not be able to keep my appointment with you on 11th November as my ailing father has suddenly lapsed into a coma indicating the end may be near and this prevents me from making the trip. Please accept my deep apologies and may I look forward to seeing you on my next trip over when I will approach you for a new appointment. Kindest regards
Y.K. Pao Worldship

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For special occasions a selection of attractive cards is available. For further information and a leaflet illustrating the choice of cards, call the Telemesssage service.

FILE

da

FRONT DOOR

MR. TAYLOR

B/F

Sir Y.K. Pao is coming to have tea
with Mr. Thatcher prior to his meeting
with the Prime Minister at 1715 on
11 November.

CAROLINE STEPHENS

Meeting with P.M. now at
17.45. told Joy to tell D.T.

CS, 9/11

21 October 1982

CAROLINE

20.10.82

Just to let you know that
YK Pao will be having tea
with DT in the flat on 11.11.82
before he sees the Prime Minister
at 1715. He will arrive between
1615 and 1630. Could you let
the Door know.

Jo



10 DOWNING STREET

MR. COLES

The Prime Minister has agreed to see Y.K. Pao and I have fitted him in on 11 November.

Any special briefing required?

CF

Caroline

15 October 1982

No.

15/10

CF
please file.
CF



10 DOWNING STREET

1. MR BUTLER *Some time after Her Lord Mayor's banquet, I suggest*
2. PRIME MINISTER *FERB*

cc:- Mr COLES

14.10

Sir Y K Pao is coming to London in November and wishes to see you either before the 7th or after the 11th. Do you want to see him?

JS

Yes

14 October, 1982

Box

Sir Yue-Kong Pao C.B.E., L.L.D., J.P.

WORLD-WIDE SHIPPING GROUP
16th Floor, World Shipping Centre
Harbour City
7, Canton Road, Kowloon
Hong Kong
Tel.: 3-7827333 Telex: HX43247

5th October, 1982.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
10 Downing Street
London W1
ENGLAND

*P. H. T. only
Sunday 1 day
about XI?*

*1 shall have Ch.
do re-hum. 11/16
mt.*

Dear Prime Minister,

Thank you very much for your letter of 28th September, 1982.

It had been a pleasure indeed for me to be a part of the welcoming party during your visit to China and may I congratulate you again on a good and fruitful trip.

I am also glad that the "World Goodwill" Launch went off so successfully and impressively as expected and this was no doubt due mainly to your distinguished presence on the occasion. Once again, may I convey to you my grateful thanks for the honour given me.

X)

I am planning a short U.K. trip in November and though a definite schedule is yet to be worked out, I expect to be in London probably on 11th and 12th. I do hope to have the pleasure of visiting you then and once my schedule becomes definite I will write again to request an appointment.

With kind regards,

*Yours sincerely
Y. K. Pao*

Sir Yue-Kong Pao C.B.E., L.L.D., J.P.

WORLD-WIDE SHIPPING GROUP
16th Floor, World Shipping Centre
Harbour City
7, Canton Road, Kowloon
Hong Kong
Tel: 8-7327333

20th July, 1982.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
10 Downing Street
London W1
ENGLAND

Prime Minister

A.J.C. $\frac{26}{7}$

Dear Prime Minister,

It was such a pleasure to visit you in your office on 13th July and I wish to thank you again for the amount of time you were kind enough to spare for me in a most interesting talk.

I thoroughly understood the problems you brought up and I was fully aware of their implications. Being issues of vital importance, they will no doubt require a good deal of further study and deliberations and my belief is that it may be useful for you to have views and opinions of those who are really close to or have deep involvements with these problems. You have displayed your foresight, wisdom and quality of leadership in the past two years in office and I am confident that in time your administration will be able to work out sensible and tactful solutions.

Being privileged to maintain good friendly relations on a personal basis with both sides, I will of course be more than glad to do what I can to help. I am however also conscious of my status as a private person and must emphasize that what I am able to play is an unofficial and background role although I will strive to be of as much assistance as I possibly can.

If I do not have the pleasure of seeing you again before you leave for your China trip, I will look forward to welcoming you personally in Beijing, Shanghai and Hong Kong.

May I thank you also for including me and my daughter Anna in the dinner for Prime Minister Lee Kuan Yew. We both enjoyed the evening immensely.

With kindest regards,

yours Sincerely
Y. K. Pao

of MASTER

SECRET

FILE

Hong Kong file
1

SUBJECT



10 DOWNING STREET

From the Private Secretary

13 July 1982

Call by Sir Y.K. Pao

The above called on the Prime Minister this morning. He said that when the Chinese Prime Minister had recently visited Japan, he had been invited to call on him there. At a reception given during the visit, Huang Hua had taken him aside and said that the Chinese Government had worked out its terms in relation to the Hong Kong problem. These were that (a) sovereignty must pass to China; (b) Article 30 or 31 (Pao was not sure which) of the new constitution, giving the Government discretion to establish special administrative zones, would be relevant; (c) it would also be possible to apply the principles of China's policy towards Taiwan.

Huang Hua had said that he hoped that the future administration of Hong Kong could include friends of China who were there at present. In this connection, he mentioned Mr. Dick Lee. Sir Y.K. Pao thought it no coincidence that a week later an article by Lee had appeared in the Financial Times. He had referred to the possibility of alternating Chinese and British chairmanship of a future administration and also to the need for the present provision for recourse to English courts to be abandoned.

The Prime Minister said that after her dinner with the Chinese Ambassador the previous evening, the latter had said to her privately that sovereignty over Hong Kong must pass to China. The Prime Minister had enquired whether the Ambassador was referring to Hong Kong and Kowloon or to the New Territories. The reply had been that sovereignty over the whole area must be transferred. Mr. Ke Hua had then said that China did not wish to disturb the present arrangements. The Prime Minister replied that a statement of that kind would not be sufficient to give the people of Hong Kong confidence in the future. Something more precise would be needed. The Ambassador's last point was that Hong Kong could be administered as a special region. There could be a role for Britons or Hong Kong citizens in the administration alongside Chinese. The Prime Minister said that the well-being of Hong Kong rested on a unique co-operation between the United Kingdom and China. But unless British administration continued, confidence would not survive. Mrs. Thatcher told Sir Y.K. Pao that she had been rather alarmed by this conversation.

SECRET

/ Sir Y.K. Pao

9

SECRET

Sir Y.K. Pao then said he had mentioned to Deng the idea of extending the lease of the New Territories. The reply had been that one billion people would refuse to agree to such a move. It was an emotional matter. Asked whether the existing position could be frozen, Deng had replied that it was very important that such a solution was not discussed. Sir Y.K. Pao said that the Chinese Government clearly wanted to retain the existing economic advantages of Hong Kong but it was not clear how they could achieve this unless the Administration was left in British hands. The Prime Minister agreed. Continued British administration was essential. She was worried by the attitude adopted by the Chinese Ambassador. She had said to him that she understood the sensitivity of the problem for the Chinese Government. It might be necessary to find a suitable form of words to help them but there must be no doubt as to the meaning of any formula. She had tentatively suggested to the Ambassador that there should be some further discussion between us and the Chinese about the problem before her visit to China. But we were not yet clear as to the solution we should go for. Our sovereignty over Hong Kong and Kowloon was clear. The question was whether we should retain the New Territories. She had been inclined to think in terms of extending the lease. Sir Y.K. Pao said that the Chinese Government could not accept that solution. But they must see the advantages of continued British administration. His advice was that we should be patient. The problem had to be settled but we could take two or three years to settle it.

Sir Y.K. Pao then described a recent talk he had had with Mr. Ku Mu, a former Vice-Premier. He was now in charge of a special economic zone abutting on to Hong Kong. He had apologised because he had not been able to take up the invitation to him to visit the United Kingdom. He was now not very popular with the Chinese leadership who questioned the need for special economic zones. Sir Y.K. Pao described in some detail the arrangements which now applied inside the zones. He said that, without Hong Kong's prosperity, the zones would become meaningless.

Reverting to the problem of Hong Kong, the Prime Minister said that she found this very worrying, given the Chinese attitude. She did not see how we could concede sovereignty over Hong Kong and Kowloon. Clearly, the problem was not going to be solved by the device of a soft loan which Sir Y.K. Pao had referred to on an earlier visit. Nor could a solution be worked out during the course of her visit to the Far East. It might be important to dampen down expectations, especially in Hong Kong.

AJC

John Holmes, Esq.,
Foreign and Commonwealth Office

SECRET

14 JUL 1982



Please file these
two pieces of
paper on the
PAO file.

Norway Nadehok
is coming in on
Friday 9: July as
requested by J.C.
Cf.

18/6.

8/7/02. in diary as T.K.Poo 13/7/02 @ 1100.

MR. COLES

The Prime Minister has agreed to see Mr. Y.K. Pao when he is over here in July. He has recently met Chinese leaders, and would like to report to her about his meetings.

Is any special briefing required for this meeting?

es.

① Sir Murray
Maclehole
before July 13:

② $\frac{3}{4}$:-

18 June, 1982.

B. N.

PRIME MINISTER

Sir Y.K. Pao

I explained to Sir Y.K.'s office that you could not see him next week. But he will be back in July and they have put in a further request for a meeting on Monday 12 July or Tuesday 13 July. I can manage half-an-hour on either of these dates.

Do you wish to see Sir Y.K.?

Yes mt

el

mt

17 June 1982

Sir Yue-Kong Pao C.B.E., LL.D., J.P.

CF?

Hong Kong

2

WORLD-WIDE SHIPPING GROUP
20/21ST FLOORS, PRINCE'S BLDG.
HONG KONG
TEL: H-242111

226/4

20th April, 1982.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
10 Downing Street
London W1

Prime Minister

To be aware.

MS

MS 16/4

~~PE. COPY TO FIC O.~~
(N. Holmes)

MS 27/4

Dear Prime Minister,

Due to yet another trip to England for the "United Drive" Launch, I must apologize for the delay in replying to your kind letter of 1st April, 1982 and may I thank you again for giving me the honour of playing Godmother to the "united Effort" on that memorable day.

You were so kind to assure me of your continued interest in launching my Group's vessel in Shanghai in September. Everything is in fact planned on our side and only the date of ceremony is left to be worked out to suit your convenience and that of all concerned. It is our intention to use "World Goodwill" as name of the vessel as it seems to us to embody friendliness and a spirit of co-operation. Should you have other suggestions, I would be grateful if you could let me know.

I realize how preoccupied you are with the Falkland Islands issue and send you all good wishes for a successful solution to the situation.

Yours sincerely
J. K. Pao

Key
Min this is over please
Thanks return to me
Key 2/84

FILE

Hong Kong RM



~~then~~
cfo

10 DOWNING STREET

THE PRIME MINISTER

1 April 1982

Dear Sir Y-K

Thank you for your letter of 23 March. I too was sorry not to be able to see "United Effort" actually launched. But one can never trust the weather in this country. And it has been especially bad this winter. I did enjoy the naming, however, and I hope the ship has a happy future.

I-am afraid I still cannot give you a definite answer on the launching in Shanghai. As know, I want to do it. But I cannot make a firm commitment until a draft of the whole programme for my visit is available, and until the Chinese Government have had a chance to comment.

With best wishes.

Yours sincerely
Margaret Thatcher

Sir Yue-Kong Pao, C.B.E., J.P.,

ds

Hong Kong



10 DOWNING STREET

W. R.

Your minute underneath.

2. I'll see the P.R.'s letter of

24 February (attached). We cannot go further than para. 1 of that.

Suggest "As you know, I want to do it, but I cannot make a firm commitment until a draft of the whole programme for my visit is available and the ~~view of the~~ Chinese government about its ^{have had a} ~~change in interest~~ contents we know."

31.
A.T.C. - 3



10 DOWNING STREET

John ✓

Is there anything we can
or should say in reply to YK Pao's
third paragraph? Are the plans
still fixed, and should the PM
simply say "I hope to let
you know soon whether I
can ~~possibly~~ ~~possibly~~ perform
the landing in Shanghai"?

WN

29/3

Can I see earlier H. P.
about the P. N.'s visit to the
Far East?

29/3.

Thanks. I ~~was~~ ~~was~~ sorry not to ~~be~~ be able to see United ~~off~~ actually launched. But ~~the weather is~~ we can never trust the weather in this country, ~~and~~ and it has been especially bad this winter. I did enjoy the launch, however, and I hope the ship has a happy future.

I am afraid I still cannot give you a definite answer on the launching in Shenyang.

Sir Yue-Kong Pao C.B.E., LL.D., J.P.

WORLD-WIDE SHIPPING GROUP
20/21ST FLOORS, PRINCE'S BLDG.
HONG KONG
TEL: H-242111

23rd March, 1982.

The Rt. Hon. Mrs Margaret Thatcher, MP
Prime Minister
10 Downing Street
London W1

Dear Prime Minister,

May I write to thank you again for taking the trouble of travelling to Sunderland on the 12th March to name the "United Effort" for my Group. Although the unforeseen winds interfered with the launching plans, your presence lent great significance to the occasion and, I am sure, will be a good omen for the vessel's future. Our Chinese friends from Beijing were especially happy to have had the opportunity of meeting you on the day.

Thank you also for sparing the time after the ceremony to talk with me at the shipyard. I also had a few words later with Sir Edward Youde, and Sir Geoffrey Howe who may have mentioned our conversation to you.

I am keeping my fingers crossed that the possibility we discussed of having the honour of your sponsorship for our vessel in Shanghai in September can be confirmed, although there are still a few uncertainties to be resolved. This is a pleasure I have long been looking forward to and, if it can be realized, will no doubt give a further boost to the friendship between the United Kingdom and the People's Republic of China and add another memorable event to your important visit.

The name of our Group's fourth Austin & Pickersgill vessel unfortunately slipped my mind during our conversation and, for your information, she will be called "United Spirit".

With renewed thanks and kindest regards,

yours sincerely
J. Pao



Foreign and Commonwealth Office

London SW1A 2AH

11 March 1982

M.P.

Cd. you pl. show to the
Prime Minister en route to
Sunderland.

A.F.C. 11/3

Dear John,

Sir Y-K Pao

During the Prime Minister's visit to Sunderland on 12 March to launch a ship built for Sir Y-K Pao, he may use the occasion to raise again the question of the proposed visit to Britain by one of the Chinese Vice Premiers, Gu Mu, who has had overall responsibility for certain foreign trade and investment questions. This is one of a number of outstanding invitations to Chinese leaders on which, as I explained in my letter of 22 February, the ball is in the Chinese court. One reason why Sir Y-K Pao seems to be particularly eager that Gu Mu should visit Britain in May is so that Gu's wife can launch another of Pao's ships. HM Ambassador in Peking has recently recommended that we should not at present specifically renew the invitation to Gu Mu, partly because he may prove to be a victim of the current pruning of the Chinese Government machinery. Some of his functions have already been transferred away from him and his future remains unclear.

If Sir Y-K Pao raises the matter, the Prime Minister might wish to take the line that we have already repeated the invitation more than once, and that we would not want to interfere in the internal discussions within the Chinese leadership about when this and other outstanding invitations to the UK should be taken up.

Yours ever
J. F. Holmes
(J F Holmes)
Private Secretary

A J Coles Esq
10 Downing Street



10 DOWNING STREET

THE PRIME MINISTER

24 February, 1982

Dear Sir Y.K.

Thank you for your letter of 8 February. Peter Carrington has told me of your recent meeting in Manila. I am afraid it is still too early to say whether or not I shall be able to launch the ship you are building in Shanghai when I visit China in September. As you know I would like to do so if it can fit in with the rest of the programme. But planning is still at an early stage, and we do not yet know what the Chinese will want to include - I shall be their guest and of course do not wish to presume on their hospitality. Let us keep in touch on this. *I will do it if I possibly can.*

As for the invitation to Vice-Premier Gu Mu, Peter Rees, Minister for Trade, renewed this when he saw the Vice-Premier on 12 December. Humphrey Atkins also mentioned it to Vice Foreign Minister Zhang Canming when he was in Peking last month. We now wait to hear what dates the Chinese will propose.

I look forward to seeing you in Sunderland on 12 March.

Be very good with

Yours sincerely

Margaret Thatcher

Sir Yue-Kong Pao, C.B.E., J.P.

RM



Foreign and Commonwealth Office

London SW1A 2AH

2

22 February 1982

Type letter pl.

AR $\frac{23}{2}$

Dear John,

Thank you for your letter of 15 February. I attach a self-explanatory draft reply from the Prime Minister to Sir Y-K Pao's letter of 8 February.

I shall be writing soon with some ideas for the Prime Minister's visit to the Far East in September. Until we know the Prime Minister's views on these and until we have cleared our lines with the host governments, there is little we can say firmly about the Shanghai ship-launching proposal.

On Gu Mu, the ball is in the Chinese court. Even if we were anxious for an early visit (and we still have the difficulty of a possible request for soft loans, mentioned in Roderic Lyne's letter to you of 4 January), there is not much we could now do to stimulate the Chinese to propose dates earlier than they would otherwise intend.

Yours ever

John Holmes

(J E Holmes Esq)
Private Secretary

A J Coles Esq
10 Downing Street

DRAFT: ~~minute/letter/teleletter/despatch/note~~

TYPE: Draft/Final 1+

FROM: Prime Minister

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO: Sir Yue-Kong Pao CBE LLD JP
World Wide Shipping Group
20/21st floors, Prince's Building
HONG KONG

Your Reference

~~Top Secret~~
~~Secret~~
~~Confidential~~
~~Restricted~~
Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

Thank you for your letter of 8 February. Peter Carrington has told me of your recent meeting in Manila. I am afraid it is still too early to say whether or not I shall be able to launch the ship you are building in Shanghai when I visit China in September. As you know I would like to do so if it can fit in with the rest of the programme. But planning is still at an early stage, and we do not yet know what the Chinese will want to include - I shall be their guest and of course do not wish to presume on their hospitality. Let us keep in touch on this.

As for the invitation to Vice-Premier Gu Mu, Peter Rees, Minister for Trade, renewed this when he saw the Vice-Premier on 12 December. Humphrey Atkins also mentioned it to Vice Foreign Minister Zhang Canming when he was in Peking last month. We now wait to hear what dates the Chinese will propose.

Enclosures—flag(s).....

I look forward to seeing you in Sunderland on 12 March.

23 FEB 1963



FILE

SW

15 February, 1982

China

I enclose a copy of a further letter which the Prime Minister has received from Sir Y. K. Pao. I should be grateful if you would let me have by 22 February a draft reply for the Prime Minister's signature covering, in particular, the suggestion that the Prime Minister might launch a ship in Shanghai during her visit to China and also covering, in the light of Y. K. Pao's fourth paragraph, the current situation about an invitation fo Mr. Gu Mu to visit this country.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office

JKO

Sir Yue-Kong Pao C.B.E., LL.D., J.P.

WORLD-WIDE SHIPPING GROUP
20/21ST FLOORS, PRINCE'S BLDG.
HONG KONG
TEL: H-242111

8th February, 1982.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
10 Downing Street
London W1

Dear Prime Minister,

Thank you so much for your letter of the 25th January. I am indeed honoured by your kind agreement to sponsor my ship at Sunderland (to be called "United Effort") and, needless to say, I look forward to the 12th March with the greatest pleasure.

I am of course also still hoping that during your forthcoming visit to China, you will be able to perform a similar ceremony in Shanghai - thus demonstrating in a symbolic manner the recognition by Her Majesty's Government of the great strides made by China during the past few years to modernize her industrial base. I have had the opportunity of speaking to Lord Carrington in Manila recently and he indicated to me that your presence in Shanghai for such an occasion should indeed be possible.

Your advice regarding arrangements for an official visit by Vice Premier and Mrs. Gu Mu to the United Kingdom have given me hope that it can still take place sometime soon this year. I believe he is probably one of the most (if not the most) important personalities in China today with whom increased economic and financial relationships between China and the United Kingdom could be constructively discussed.

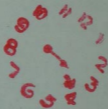
Lord Carrington was also so kind as to say he thought a renewed invitation to Mr. Gu Mu was in fact on its way, and I look forward to learning of a successful conclusion.

Official launching invitations will be mailed by Austin & Pickersgill Shipyard shortly, and of course we will be delighted to see Mr. Thatcher and your children in Sunderland as well if they can possibly come.

May I remain with all good wishes,

Yours Sincerely
Y. K. Pao

4-5 FEB 1982



PART 1 ends:-

Pm to Sir YK Pao 25.1.82.

PART 2 begins:-

Sir YK Pao to Pm 8/2/82