

RESTRICTED

SECRETARY OF STATE FOR TRADE OFFICE MINUTE NO: 1714/77

NOTE OF A MEETING WITH THE VICE PREMIER OF THE PEOPLE'S REPUBLIC OF CHINA AT CLARIDGE'S ON TUESDAY 30 OCTOBER 1979

Present: Secretary of State for Industry
Secretary of State for Trade
and officials listed at Annex A

Vice Premier Yu Qiuli
and delegation listed at Annex B

Sir Keith Joseph began by expressing his regret that a meeting with the Prime Minister, to which he was committed, would allow him only 15 minutes at the meeting. He hoped that the Vice Premier would not consider his early departure rude and the meeting would be continued by the Secretary of State for Trade. He went on to say that he welcomed the progress in trade between the UK and China and the move of such a great country towards modernisation. The Economic Co-operation Agreement which had been signed last year defined the scale of trade towards which we were aiming. He entirely understood the timescale which the Chinese were setting and the nature of their modernisation programme, but he would be pleased to hear when decisions would be taken. Companies engaged in trade with China were having to pay large staffs and would like to know how long it would be before negotiations would resume. The Vice Premier said that he would rather comment on all the points raised later in the meeting.

2. Sir Keith Joseph then went on to make the following detailed points:

- i) he noted the mission which was in China to discuss the development of coal mines in the Datong area and he hoped that agreement would be reached on a UK group developing the mines. The UK had great experience in coal mining, and our equipment was already being widely used in Chinese mines. The UK was willing to undertake the development of coal mines with a full transfer of technology and perhaps under joint ventures;
- ii) GEC and NEI had put in bids for two coal fired power stations. It was proving expensive for them to continue technical discussions, and it would be helpful to know when negotiations were to begin;
- iii) he was aware of talks with the Guangdong provincial authorities about the purchase of a nuclear power station, and he was anxious to discover whether Guangdong had the authority to negotiate on this point. The UK was very proud of its nuclear energy technology. Its safety record was second to none, and he had hoped that Premier Hua would be able to visit a UK power station. He understood that the cost of the power station might be helped by offsetting electricity sales to Hong Kong;
- iv) UK companies had made proposals for mineral developments and he wondered whether it was likely that decisions on these proposals would be made soon;

- v) we were looking forward to the visit by the Minister for Railways in November. This was an area in which he felt the UK could be of great assistance to China;
- vi) he recognised that steel was no longer the sector to which very high priority was being attached since the Chinese Government's re-appraisal. BSC were, however, hoping to be involved with modernisation work, and he hoped the Vice Premier might be able to give an indication of the timing of further negotiations;
- vii) he welcomed the BP involvement in exploratory oil work in the Southern Yellow Sea and he hoped that they might be given production rights. He asked whether China had plans for off-shore oil developments;
- viii) he was particularly keen that China should be aware of British skills in the field of telecommunications. System X might be particularly appropriate for China and the companies concerned would welcome an opportunity to make a presentation.

The Secretary of State for Industry had to leave at this point.

3. The Secretary of State for Trade said that he did not wish to duplicate the meeting which had taken place earlier in the day with Premier Hua, but there were a number of particular points, some of which had been mentioned by the businessmen, to which he would like to draw the Vice Premier's attention:

- 1) the UK was a major maritime nation and we were proud of our shipping industry which was still the largest and most successful in the world. He himself had seen the port facilities at Shanghai and he felt that the two countries had a considerable amount to offer each other. He hoped that they would be able to come closer through the conclusion of a maritime agreement. He went on to say that in August British ship-owners had proposed to send a mission to China to discuss the development of commercial contacts, and we would welcome a positive response to the proposal for talks;
- 2) in the meeting earlier in the day, the Chinese had heard of the experience of British consultants. The UK had unrivalled operating and manufacturing experience in aviation and airport equipment, and he wondered whether we could be particularly helpful in this field. Apart from the private companies, public sector bodies such as the BAA and CAA could give advice in this field;
- 3) in the area of port development, British consultants could again be of assistance, and he suggested that a delegation from the National Ports Council might go to China to discuss co-operation;
- 4) he endorsed Sir Keith Joseph's remarks on the possibility of assistance in the telecommunications industry;

- 5) in the area of other exports, he wished to emphasise the opportunities in relation to agriculture - in which he was particularly interested as a keen farmer. Although the UK was an urban society, we were considered to have the most efficient agriculture in Europe. The British Agricultural Export Council had sent two teams to China in September and he hoped that this would lead to further co-operation;
 - 6) on defence sales, he confirmed that Great Britain was ready to supply certain types of defence equipment as part of a wider trading relationship. He welcomed the wide-ranging discussions which had taken place between British industry and China, but there had so far been very few concrete results. He was looking forward to orders for the Harrier and other items soon. Terms and price for each item were a matter for negotiation with the companies, but if the Government could do anything to help, he would be pleased to be kept informed;
 - 7) on important areas such as oil exploration, he noted that the Vice Premier would be making a visit to BP;
 - 8) he recognised that trade was a two-way process and compensation trade and counter trade were accepted as necessary in the circumstances of Chinese development. The importance of London as the leading centre for commodity trade in the western world should enable the sale of Chinese products to be pursued.
4. Mr Nott then raised two matters relating to civil aviation which were of importance to the UK. Firstly, he regretted the closing of the Amber One air route which was the principle air route between Hong Kong and Bangkok. He noted that there had been no response to the representations from the ICAO President. He hoped that the danger zone would be modified as soon as possible so that this route could be re-opened. The second point concerned the Air Services Agreement which he was delighted to know had been concluded as a result of several years of hard work on both sides. He would like to see the Agreement implemented and hoped that signature could take place following the second plenary session between the Prime Minister and Premier Hua on Thursday.
5. Vice Premier Yu noted that this was the first time that he had met both Sir Keith Joseph and Mr Nott, and he had been interested in the presentations they had made on co-operation in the economic and trade field. China was satisfied with the proposals for further co-operation. Many questions had been raised by the two Ministers, however, which were not of a general nature and would have to await later answers.
6. Vice Premier Yu then went on to describe the priorities of the present Chinese Government. It had been decided that the focus of future work should be the creation of economic wealth. All energy and efforts would be concentrated on a modernisation programme which would be aimed at achieving objectives by the end of the century. He

accepted that by then some Chinese industries would be the front-runners in the world, while others would be close to advanced levels. Generally speaking the UK already had many advanced industries and China was anxious to compare notes. He had noted the concern expressed by Sir Keith Joseph about when negotiations on a number of issues would be resumed. The re-adjustment of the national economy would have to be carried out in a steady way, and he drew attention to four particular factors which had to be taken into consideration:

- i) China had a population of 900 million people;
- ii) there were 350,000 industries of varying sizes (not including transport, commerce, communications, design and research);
- iii) over the last two decades tens of millions of people had been trained in science and technology;
- iv) China was very rich in natural resources.

The Government would formulate its policies in the light of these considerations.

7. Vice Premier Yu then drew some conclusions from his remarks. Firstly, it was impossible to do away with large numbers of existing enterprises and start anew. China had learnt some hard lessons in the past and could not afford to make similar mistakes in the future. He noted that British companies had largely managed to modernise themselves whilst continuing production, and he thought that this provided a basis for shared experience and co-operation. Secondly, it was fundamental that China had to be able to feed its people. In the last few years they had enjoyed bumper harvests but unless resources were devoted to agriculture, the country would be beaten by its own population. The UK needed to import 40% of its agricultural produce, but China could not even contemplate importing 10% of its needs. No market in the world was as large, and no foreign country could supply it from long distances. Without a firm foundation of agriculture, it would be difficult to build a sound industrial economy. The speed of industrial development would therefore depend on the amount of food which could be provided; if economic re-adjustment was not linked with agricultural development China would be in a state of constant uneasiness. Vice Premier Yu said that he could not hope to achieve the British level of diet, and indeed the Chinese people ate more rice and vegetables, and their stomachs were not adjusted to other food; at one time a great deal of pork was eaten in China but now it was not popular. The investment in agriculture would involve mechanisation. It would also need experience in water control (both irrigation and drainage). There was scope for co-operation in relation to farming equipment, insecticides, weed control, animal husbandry and poultry. In order to assist the development of agriculture, the Government had raised the purchasing price of farm products and had also reduced the price of products which were directly serving agriculture.

8. Vice Premier Yu said that China still had a gap in its textile industry and they were hoping to import some of the technology to develop this kind of light industry. There would also be room for imports in food-stuff manufacture. They would want to buy single equipment, which might not be a large amount for a company but which would add up to a considerable amount over a period.

9. The other essential for economic development was power. There was a world-wide fuel problem and China would learn from the experience of others, but electricity was needed to run industries. The problems of coal extraction would have to be solved but China would also look to hydro-electric power.

10. Vice Premier Yu said that China would need to buy know-how in order to renovate its industry. They needed to send people to the UK to gain experience but, speaking frankly, they could not afford to pay large fees. He accepted, however, that the skills which would be learnt would save foreign currency in the long term. The Vice Premier also stressed the importance of joint ventures. The natural resources of copper, aluminium, lead, tin, tungsten, titanium, molybdenum and nickel could be extracted through joint ventures and there was scope even for co-operation in existing enterprises. China had workshops, electricity, manpower and transport; all that was needed was up-to-date equipment.

11. Mr Nott said that he had been most interested to hear the survey of China's economic development given by the Vice Premier. Sir Keith Joseph and he would convey the detailed points which had been raised in writing to him. He wished, however, to raise one final point which he felt it important that the Vice Premier should hear from himself. As he had already remarked, he hoped that air services between China and the UK could begin immediately, but he was unable to change all the Government's stated policies about airports; it was the Government's firm rule that no new services were allowed to use Heathrow, and he regretted that this must apply to China as well as to every other country in the world. He was pleased to hear that one of the Chinese delegation (Mr Zhang) had visited Gatwick the previous day, and he would like Mr Roberts to have further discussions with him. The Vice Premier said that the ASA had been initialled, and he hoped that the UK could consider opening the use of Heathrow. He added in conclusion that he would welcome a delegation of ship-owners to Peking, and he would consider the point the Secretary of State for Trade had raised on aviation route Amber One.

12. Mr Nott handed to Vice Premier Yu an aide memoire on shipping relations.

13. Finally, the Vice Premier said that he would welcome a visit to China by the Secretary of State for Industry or the Secretary of State for Trade.

S Hampson
S HAMPSON
PS/SOS/TRADE
Rm 805 V/S
30 October 1979

cc Mr Alexander No 10 ✓
PS/Secretary of State/FCO
PS/Secretary of State/Industry
PS/Secretary of State/Energy
PS/All Ministers (DoT)
PS/Secretary
Mr Knighton
Mr Gray
Mr Steele
Mr Roberts
Mr Browning
Mr Allen
Mr Garrod
Mr Wilks
Mr Royce



ANNEX A

OFFICIALS ATTENDING THE MEETING BETWEEN THE SECRETARIES
OF STATE FOR INDUSTRY AND TRADE AND VICE PREMIER YU QIULI

HE Mr Cradock

HM Ambassador, Peking

Mr Dearing)
Mr Loughead)

Department of Industry

Mr Browning)
Mr Roberts)
Mr Allen)
Mr Royce)

Department of Trade



f.a. Pms

From the Secretary of State

no

M O'B Alexander Esq
Private Secretary
10 Downing Street
London SW1

31 October 1979

Dear Michael

VISIT OF PREMIER HUA: TRADE TALKS, TUESDAY 30 OCTOBER

The Prime Minister may like to see a short report on two meetings dealing with UK/China trade with Premier Hua and his colleagues.

The first meeting was between Premier Hua and a group of 10 senior British businessmen led by Mr Nott. The time was short and the businessmen had been strictly enjoined not to exceed their allotment of time. Unfortunately the timing was upset by Premier Hua arriving late, then making a statement himself and questioning some of the businessmen on their presentations. Nevertheless all the businessmen were able to make their main points.

Premier Hua showed himself alert, interested and quick to follow up particular points. His own statement was couched in fairly general terms and, while encouraging about the possibilities of expanding Sino-British trade, emphasised the need for the Chinese to be certain that they could pay for the technology they bought from abroad. He emphasised the importance of co-operation in developing economic relations, by which he meant such devices as joint production and compensation trade.

The second meeting was between Sir Keith Joseph (who had to leave early for a meeting of E Committee), Mr Nott and Yu Qiuli, Vice Premier of the State Council and head of the State Planning Commission. At this meeting Sir Keith and Mr Nott raised a considerable number of specific trade and industrial issues; in particular they asked when commercial negotiations were likely to be resumed or when further discussions in certain fields would take place. Yu Qiuli declined to reply to each point as it was made and at the conclusion of the presentation by Ministers contented himself with a very general statement. He outlined the economic priorities of the present government, and the emphasis on agriculture; the Chinese needed



From the Secretary of State

to modernise industry while continuing production rather than starting again, and in this process the Vice Premier felt that British companies had a good deal of experience to offer. He accepted that China would need to buy know-how but said that they could not afford to pay large fees. This appeared to be a reference both to the contribution which British consultants could make, on which both Ministers had commented, and to the costs of sending Chinese students to the UK. His message seemed to be that, in order to create goodwill, we should be prepared to provide these services free. He referred to China's natural resources in the minerals and metals field and said that there could be joint ventures in their extraction. The specific points raised by the two Ministers could, he said, be discussed further with the Vice Ministers of the State Planning Commission and Foreign Trade, who were present at the meeting, and we are following this suggestion up.

Mr Nott did not consider that this meeting had been very fruitful, but we hope to learn more from discussions with the Vice Ministers.

I am writing separately about the discussions on the Air Services Agreement, and the use by the Chinese airline of Gatwick.

I am sending copies of this letter to Paul Lever (FCO), Ian Ellison (Industry), Bill Burroughs (Energy) and Martin Vile (Cabinet Office).

Yours sincerely,

Stuart Hampson

S HAMPSON
Private Secretary