

Subject

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Copies to Master Ser

China: Defence Sales etc to China

Hong Kong: Future of H Kong June 1979

RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND
PREMIER HUA GUOFENG AT 10 DOWNING STREET ON 1 NOVEMBER 1979
AT 1600 HOURS

Present:

The Prime Minister	Premier Hua Guofeng
The Foreign and Commonwealth Secretary	Vice-Premier Yu Qiuli
The Secretary of State for Industry	Foreign Minister Huang Hua
The Secretary of State for Defence	Ambassador Ke Hua
The Secretary of State for Trade	Vice-Minister Zhang Wenjin
Mr. Peter Blaker, MP	Vice-Minister Gan Ziyu
Sir Robert Armstrong	Vice-Minister Cui Qun
Sir Michael Palliser	Mr. Pu Shouchang
Mr. Percy Cradock	Mr. Wei Yongqing
Mr. Hugh Cortazzi	Mr. Qian Qichen
Mr. Michael Alexander	Mr. Wang Benzuo
Mr. Christopher Roberts	Interpreter
Mr. Richard Samuel	Notetaker
Mr. Richard Fursland	
Mr. James Richards	

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The Prime Minister welcomed Premier Hua to their second session of talks, and expressed the hope that he had enjoyed his programme the previous day in Derby. Their present session of talks would cover bilateral issues. The Prime Minister was keen to do everything possible to ensure that Premier Hua should get everything he could out of his visit to Britain.

Hong Kong

On Hong Kong, the British Government wished to work as closely as possible with the Chinese Government. She was pleased our relations over Hong Kong were now so good. There were two particular points she wanted to raise.

The first, which was of immediate concern, was the very high rate of immigration across the border. About 250,000 immigrants from China had entered Hong Kong in the past 18 months and the

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rate had at one point reached 1,000 a day. The British Government had increased the Hong Kong garrison to deal with the situation. She would also be grateful for maximum cooperation on the Chinese side of the border. There had been some improvement in the situation earlier in the year, following reinforcement of the forces on the Chinese side. But the British Government were not sure if this had been maintained. The situation had suddenly got worse. The British Government did not understand the reasons for this.

Premier Hua first expressed his thanks for the excellent arrangements made by the Prime Minister for his visit to Derby. He had spent a very pleasant time there. Vice-Premier Yu had visited Manchester. In both places, the Chinese delegation had had very good talks on ways of expanding Sino-British economic cooperation. The Chinese Government were very pleased with the development of their bilateral relations with Britain and attached great importance to their further improvement.

The Prime Minister had raised some particular questions with regard to Hong Kong. Premier Hua had just received news from Peking about the increased rate of immigration over the past few days. There had been some speculation that he might sign some agreement on the subject during his visit to Britain. Perhaps some people had been afraid that it might not be possible thereafter to leave China for Hong Kong.

The problem of immigration had come up when the Governor of Hong Kong visited Peking earlier in the year. In the first half of the year the rate had risen. The State Council had then ordered the Guangdong Authorities to take effective measures against this, and the rate had dropped. But it had risen again in the last few days. Premier Hua wished to assure the Prime Minister that the Chinese Government had taken note of this, and would take measures to deal with it.

The Prime Minister thanked Premier Hua for this assurance. Too much movement across the border would cause difficulties for both sides. The British Government would do what they could, and knew that the Chinese would do the same.

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Premier Hua said that he wished the Prime Minister to know that the Chinese Government had decided to treat Guangdong Province in a special way, to allow its economy to develop quicker. Several counties bordering on Hong Kong had been designated special areas, in the hope that this would cause production and incomes to increase and the differentials with Hong Kong to narrow. Two counties, Baoan and Zhuhai, had already been designated, and Chaozhou would follow. These counties would have powers to develop their own foreign trade.

The Secretary of State for Foreign and Commonwealth Affairs said that when he had seen the Governor of Hong Kong in London, and in Hong Kong, the Governor had been full of gratitude for the reception he had received on his visit to China, and the extent of Chinese economic collaboration with Hong Kong. Lord Carrington had seen for himself some of the problems caused by the illegal immigrants in Hong Kong. The numbers were very large by Hong Kong standards, if not by the standards of China, especially when added to the nearly 70,000 boat people in Hong Kong. Only the Chinese in Hong Kong could have coped as well as they had.

Sino-British Trade

The Prime Minister asked what assistance the British Government could give the Chinese Government in the commercial field. The British Government were ready to supply China with a wide range of defence equipment, including Harrier. At Prime Minister's Questions in the House of Commons, she had just been accused of causing trouble between China and the Soviet Union. When she had responded by affirming her readiness to supply Harriers to China, to further the expansion of Sino-British commercial relations, great cheers had gone up. Pravda had apparently yesterday warned her against this. She understood that a Chinese delegation would shortly be visiting Britain. In this field the Chinese Government would be given every facility and help possible. She wished Premier Hua to know that this policy came from the top.

/ Premier Hua

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Premier Hua said that he wished to thank the British Government, and the Prime Minister. He thought that the Prime Minister was taking a far sighted political view of the problem. If the Chinese Government achieved modernisation of their national defence, they would be in a better position to serve as a restraint on the Soviet Union. They were ready to take on this burden.

Premier Hua wished to inform the Prime Minister of two points which he had made to the French and German Governments. Firstly, he had said that a friend had told him that Mr. Brezhnev had threatened to exert pressure to stop the supply of arms to China. But the country which sold the most weapons internationally was of course the Soviet Union. His second point had been about the distinction between offensive and defensive weapons. As he had told President Giscard, long range missiles must be considered offensive; but French missiles had to be considered defensive, because it was inconceivable that France would use them to attack anyone. Rifles, as short range weapons, must be considered defensive; but it was rifles that the Vietnamese were using. Premier Hua had told President Giscard that the range of a weapon should not be the sole criterion of whether it was offensive or defensive. ^{The only criterion was the country which possessed them.} / No-one believed that Britain had nuclear weapons in order to mount an attack on the Soviet Union. The Prime Minister commented that British missiles were for a second strike, as a deterrent. Premier Hua observed that they were for defence against blackmail. The Chinese Government were in favour of the Japanese having the means to defend themselves.

The Secretary of State for Defence expressed pleasure that the first two contracts for British defence sales to China had just been signed. The British defence industry was ready to discuss other sales, and some negotiations were already in hand. Premier Hua noted that a British friend had told him that Britain had advanced technology in this field, and that its munitions industry could produce more advanced equipment than Britain needed. Britain could go into joint production with China, whose needs were greater. The Chinese Government took a positive attitude towards production of weapons with Britain.

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There were no inhibitions on China's part about importing advanced weapons. They were not afraid of Soviet comment. But they had of course to take into account the position of certain countries. One way out would be to have cooperation in civil industries, which would serve as a cover for cooperation in the military field.

Premier Hua's delegation had had very good discussions with Rolls Royce, after their visit to the Rolls Royce plant on the previous day. Collaboration would not be limited to the Spey engine, but would continue in other fields such as marine turbines. This was why, in his remarks at dinner at Rolls Royce, he had used a metaphor about the progress of Sino-British relations being like a steamship with modern engines. Sir Kenneth Keith had said that Rolls Royce were maintaining contacts with the Third and Sixth Machine Building Ministries. Premier Hua had seen Rolls Royce's tank engine. Rolls Royce were aware of what the Chinese could do in their Xian plant, and Sir Kenneth Keith had suggested that some parts of engines could be manufactured in Xian, and others in Britain. This would help China to pay for her imports. China had purchased 3 Boeing 747s. It was now too late for these to be fitted with Rolls Royce engines, but in her future purchases of wide-bodied planes, China could cooperate with Rolls Royce by using RB 211s partly produced in China.

The Prime Minister said that she was concerned that the Chinese Government should receive all cooperation possible on the development of commercial relations, including those with Rolls Royce, and for example in coal mining, and power generation. She knew that the Chinese Government would want to make their decisions after the delegation got back to Peking. She had therefore arranged to have her Secretaries of State for Defence, Trade and Industry, as well as her Secretary of State for Foreign and Commonwealth Affairs, present at this meeting.

Premier Hua said that he had had commercial discussions with the West Germans and the French, and had told them that China now had total offers of 20 to 30 billion dollars of credit. Some friends of China wanted her to use these funds as quickly as possible, but it was necessary to be prudent, and to consider China's ability to

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pay for what she bought, and means of increasing her ability to pay. In some fields this was not a matter for concern. For example, Britain had had great success in opening up the North Sea oil fields and, as he had told the Chancellor of the Exchequer earlier that day, this had helped Britain to save very large sums of money. West Germany and France were not in a comparable position. But he wished to suggest that the British Government should undertake exploitation of their oil reserves in a planned way, to ensure that some reserves remained. Some US oil fields had been plundered, since, after their discovery, a number of companies had rushed in to get rich quick. He was raising this point because he knew from earlier remarks by the Prime Minister that she had noted the Soviet Union's attempts to outflank Western Europe through its soft under-belly. Britain therefore needed to hold on to some oil reserves.

Premier Hua said that he had diverted the conversation to this topic because he wished to express interest in Britain's oil industry. But the principal point he wished to make was about operations in the Yellow Sea by BP. He had seen data about a section some 5,000 meters square, which BP considered promising, although they had not yet undertaken analysis. Of course, they would need luck. (The Prime Minister interjected that skill was needed as well.) Premier Hua thought BP would be lucky. Oil had already been struck in the Bohai Gulf. American companies were very keen to explore some areas, like the mouth of the Pearl River. The Chinese Sea was called 'Pacific' and was not so stormy or deep as the North Sea, and should therefore be easier to exploit. The Chinese Government were optimistic about the potential. They had reached agreement with the French on cooperation on Chinese continental fields. Cooperation with Britain in the future on this was a possibility. There would be no question about China's ability to repay, since the oil produced would simply be divided according to contract. The same went for coal, of which China had abundant reserves. The long term estimate of the coal reserves in Premier Hua's home province of Shani was 500,000 million tonnes. This would allow for 500 million tonnes a year to be mined for a thousand years.

The Prime Minister commented that a lot of machinery would be needed. Premier Hua said that the current problem was lack of

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rail transport. Five railways ran into the province, but this was still not enough to get all the coal out. The Japanese wanted to cooperate on an integrated basis, involving mining, and the development of China's railways and deep sea ports. Deep sea ports were needed to ship coal to Western Europe, in 50,000 tonne, or even better 100,000 tonne vessels. The French had said they would also cooperate in selling Chinese coal elsewhere. There were also abundant coal reserves in Shandong province.

Air Services Agreement

The Prime Minister intervened to suggest that, before continuing on this subject, she wished to invite her Secretary of State for Trade to speak about the Air Services Agreement. Mr. Nott said that he understood that the Chinese Government might be prepared to sign this Agreement. He wished first to give them two firm assurances:- firstly, that Gatwick, now London's most modern airport, would continue to be developed as such, and to grow; and secondly, that if Heathrow were opened up to new airlines, the British Government would do their best to get CAAC in. However, Gatwick was the better airport, and most people preferred to use it. If the Agreement was signed, the British Government hoped that services would be able to start not later than April 1980.

Vice-Minister of Foreign Affairs Zhang Wenjin said that CAAC hoped that, if Heathrow was opened to new airlines, CAAC would be the first on the list. The Secretary of State for Trade replied that the British Government would look at this as favourably as possible. Premier Hua noted that the Agreement had already been initialled, and his Vice-Minister of Foreign Affairs had been in contact with the British Ambassador. The Prime Minister said that the Agreement would be signed at the end of the meeting. (In informal conversation after the meeting, and before signature, the Secretary of State for Trade and Vice-Minister of Foreign Affairs agreed that the Agreement would be signed on the understanding that, if Heathrow was opened to new airlines, CAAC would be given priority; but that this would not be a formal condition of signature, and that the British Government could not commit themselves to putting China top of the list.)

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Sino-British Trade (continued)

At the Prime Minister's invitation, the Secretary of State for Industry resumed the discussion of industrial cooperation. On the previous day, Premier Hua had seen the British Rail Centre, and the Chinese Minister of Railways would be visiting Britain soon. The British Government hoped to cooperate with the Chinese in this field. Premier Hua said that, as he had made clear when he had been shown an advanced passenger train in Derby, China's principal transport requirement was for freight, particularly coal, which comprised a third of the freight carried. The Chinese Minister of Railways would be able to have detailed discussions during his visit. The Secretary of State for Industry observed that British Rail's technology enabled the best possible use to be made of already existing track, and therefore could speed up transport on China's present railway system.

Sir Keith Joseph went on to note that China had huge mineral wealth, eg in tin, lead, tungsten and cobalt. Proposals had been made by a number of British companies, particularly John Brown Constructors, which were so arranged that the Chinese would have to pay out nothing, as the interest would be deferred. The Secretary of State for Trade commented that the Chairman of John Brown Constructors had been one of the businessmen who had accompanied him on his call on Premier Hua on Tuesday. The Secretary of State for Industry noted that there was a lot of tin in Yunnan, lead and zinc in Qinghai and Gansu, tungsten in Hunan, cobalt in Hainan Island and copper in Jiangxi. Premier Hua said that the Chinese Government would look at these proposals. A joint venture with the British at Yangzhou in Shandong, were work by the Chinese side was already half-way to completion, could be considered.

Hong Kong

The Prime Minister then invited the Secretary of State for Foreign and Commonwealth Affairs to make a further point about Hong Kong. Lord Carrington said that Premier Hua would remember, or (if he did not), Minister of Foreign Affairs Huang Hua would remember, that when the Governor of Hong Kong had visited China, he had raised the question of the New Territories leases. The

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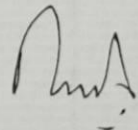
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problem was that, as 1997 approached, uncertainty about new leases grew. The Governor had later made some proposals which the Chinese Government had found unacceptable. The British Government would not pursue these, since any proposals had to be acceptable to both sides. But he would be grateful if Premier Hua could give thought, or cause thought to be given, to the problem of maintaining confidence in Hong Kong's future. It was not in the interests of China, or of Hong Kong, that uncertainties about this should put the future of Hong Kong into jeopardy, and affect investment confidence there. The Prime Minister said that the British Government did not expect an answer on the spot, but were asking the Chinese Government to give thought to the question.

Premier Hua replied that the Chinese Government had given serious thought to this question, and had given their reply to the British Government. They had to be very careful about what was said about Chinese territory. On the other hand, the Chinese Government had very good relations with the British Government, and with the British authorities in Hong Kong. At his press conference before his departure from China for Western Europe, he had answered questions on Hong Kong, and, so far as he was aware, the reaction had been favourable. It had been noted that the Chinese Government would keep in touch with the British Government and would take account of the anxieties of investors even after the problem had been resolved.

The talks concluded at 1710. In the presence of the Prime Minister and Premier Hua, the Cultural Agreement was then signed by the Secretary of State for Foreign and Commonwealth Affairs and the Chinese Minister of Foreign Affairs; and the Air Services Agreement by the Secretary of State for Trade and Vice-Premier Yu Qiuli.



5 November 1979

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PS/Secretary of State for Industry

1 November 1979

Michael Alexander Esq
Private Secretary to the
Prime Minister
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For [Signature]

Dear Michael,

VISIT OF PREMIER HUA

To help focus discussion at this afternoon's meeting with Premier Hua, we thought it would be useful to list the main points in the industrial areas on which we should like to have some acknowledgement from the Premier that they are areas which the Chinese view as particularly suitable for our industry. In view of the defence and other implications of further sales of the Rolls Royce Spey engine we are also enclosing a further background note. The attached notes therefore summarise the main topics, and have been agreed with the Department of Trade but we are leaving the Secretary of State for Defence to suggest priority topics in his area.

I am copying this letter to the Private Secretaries to the Secretaries of State for Foreign & Commonwealth Affairs, Defence and Trade.

*Yours sincerely,
Pete*

PETER STREDDER
Private Secretary