

Prime Minister

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RECORD OF A MEETING BETWEEN THE CHANCELLOR AND THE CHINESE FINANCE MINISTER AT 11 AM ON 3 SEPTEMBER 1982 IN THE SHERATON HOTEL, TORONTO

Present:-

Chancellor  
Mr. Frost (ODA)  
Mr. Kerr

H.E. Mr. Wang  
Mr. Fei Lizhi (Ministry of Finance)  
Mr. Chen Hui (Alternate Director,  
IBRD, Washington)  
Mr. Li Miao (Ministry of Finance)

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ANGLO-CHINESE RELATIONS

Mr. Wang said that he had sought a meeting with the Chancellor because Anglo-Chinese relations were good, and because the UK played a particularly important role in IBRD/IMF discussions. The Chancellor said that Anglo-Chinese relations were indeed satisfactory, and should be further strengthened by the Prime Minister's forthcoming visit, to which she greatly looked forward. He himself recalled with great pleasure his own visit in 1978, during which he had been impressed with the scale of the opportunities for greater Anglo-Chinese trade, which would reinforce the ties between the two countries.

2. Mr. Wang said that there were indeed major opportunities for UK firms. By the year 2000 per capita GNP in China should rise from just under \$300 to around \$1,000. (In response to a question he added that population growth was expected to be from 1 billion to 1.2 billion: gross GNP should therefore quadruple.) Up to 1990 the main task would be to correct the consequences of history, readjusting the balance between different sectors of the economy and laying the foundations for more rapid development in the last decade of the century. China would use her own resources for the most part, but she hoped for some outside assistance, and her current per capita GNP gave her a strong claim for favourable treatment, e.g. from IBRD. She also hoped for expanded commercial credit facilities from western

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industrialised countries. There was talk of under-utilisation of existing credit facilities: this was because projects had in the past been inadequately prepared. This mistake would not be repeated. Opportunities for western firms would lie in two areas - major infrastructure projects (e.g. in energy and transport), and the renovation and re-equipment of China's 370,000 industrial enterprises. For the former, assistance from governments might be sought; for the latter, co-operation with fairly small enterprises in the West might be feasible.

3. The Chancellor, thanking Mr. Wang for this exposition, thought that there was indeed no lack of credit facilities for UK trade with China. The full range of such facilities was available, and in addition two-thirds of a special "deposit facility" of \$1.2 billion remained undrawn. He welcomed the idea of links with medium and small firms in the UK. Governments could set the tone and affect the climate of relations; but there was no substitute for direct contacts between individual enterprises. Mr. Wang said that in the past there had been some tax disincentives: he was determined to eliminate them. He hoped that good progress on developing Anglo-Chinese commercial relations would be made during the Prime Minister's forthcoming visit. She would be warmly welcomed.

IBRD Issues

4. Mr. Wang said that China's relations with IBRD had been satisfactory since her IBRD/IMF seat had been restored in May 1980. Having not participated in the IDA 6 negotiations, China's access to IBRD funds had however so far been on an ad hoc basis. It was now clear that IDA 7 would be delayed, and that financial year 1984 would be treated as an independent transitory period. It would be right that China should get a fair share of 1984 funds. And in the negotiations for IDA 7, China would ask for a fair and reasonable allocation, and would hope for support on this from the UK, whose voice counted for much in such discussions.

5. Mr. Wang added that comparisons were being drawn, in the context of IDA 7 shares, between India and China. It was being suggested


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that India had in the past received massive IDA funds, and that China had a rather larger population. Such comparisons were not however sensible. China had no intention of trying to vie with India. He accepted that India's share of IDA 7 would be larger than China's. He wished only to say that the difference should not be unreasonably large, and that China's share should be fair and reasonable. It would be valuable if the UK, as a major donor with a positive record of honouring its commitments in IDA 6, would support China's position on IDA 7.

6. The Chancellor said that this explanation of China's position was most helpful. The claim for a "fair and reasonable" share was fairly put and struck him as eminently reasonable. The UK did indeed have some influence in discussions on these matters - though it was worth noting that our share of contributions to IDA was no longer entirely "fair and reasonable" in relation to our relative economic weight. In discussions on IDA 7, the US position would be crucial. As the history of IDA 6 showed, US opinion required careful handling. Strident funding demands, or calls for major institutional changes, would be counter-productive; but it was clear that this would not be the Chinese approach.

7. Mr. Wang said that he was grateful for the Chancellor's understanding. He suggested that the Chancellor might like to pay a further visit to China before long; and he looked forward to further exchanges during the forthcoming Toronto Meetings.



J.O. KERR

4 September 1982

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