



*From the Secretary of State*

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John Coles Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London, SW1

28 March 1983

*Dear John*

VISIT BY MADAME CHEN

The Prime Minister will be meeting Madame Chen, the Chinese Minister for Economic Relations and Trade, later this week. I am, therefore, sending you a note of the Secretary of State's meeting with Madame Chen last Friday, 25 March.

Copies go to Roger Bone (FCO), Richard Mottram (Defence), Julian West (Energy) and to Jonathen Spencer (Industry).

*Yours sincerely,*

JOHN RHODES  
Private Secretary

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SECRETARY OF STATE FOR TRADE OFFICE MINUTE NUMBER: 497/83.

MEETING BETWEEN THE SECRETARY OF STATE FOR TRADE AND CHINESE  
MINISTER OF ECONOMIC RELATIONS AND TRADE: 25 MARCH 1983

Those present:-

Secretary of State for Trade, Lord Cockfield  
Mr C Roberts, Deputy Secretary  
Mr P Corley, OT 4/Department of Trade  
Mr D Hall, OT 4/Department of Trade  
Mr C Cruickshank, OT 4/Department of Trade  
Miss Mary Penn, Sino-British Trade Council

Chinese Minister, Madame Chen Muhua  
Entire party from Peking (see programme details)  
Charge d'Affaires, Chinese Embassy, London  
Counsellor (Commercial), Chinese Embassy, London

After the opening courtesies (the Secretary of State had already met Madame Chen at Heathrow the previous day), discussion concentrated on bilateral trade relations, specific trade and investment opportunities in China, the 051 project, and - in conclusion - a reference to the Shanghai Consulate General and bilateral technical co-operation. The discussion, which was undertaken entirely by Madame Chen and Lord Cockfield, was generally amiable. Madame Chen was clearly well briefed, if erroneously in the case of the 051 project.

BILATERAL TRADE

Madame Chen welcomed the development of bilateral economic relations between the two countries since 1972. She viewed the 1982 downturn in bilateral trade as only a temporary phenomenon, and she looked to sustained growth for the future. Her government's present policy of opening China to the outside world was a long-term one, and business would be undertaken on the basis of equality and mutual benefit.

The Secretary of State welcomed the Chinese approach, and assured her of HMG's interest in expanding United Kingdom trade with China. He was concerned, however, that whilst our exports to China in 1982 had been only half those (even in money terms) of 1979, Chinese exports to the United Kingdom had increased 50% over the same period. China enjoyed a substantial bilateral trade surplus. This was one reason why HMG was particularly anxious to explore the opportunity of project business in China.

INVESTMENT IN CHINA

Madame Chen said that foreign industrialists were most welcome to participate in China's modernisation programme. She referred specifically to the importance of electricity generation, but also energy saving projects and co-operation in the production of chemicals. She specifically mentioned insecticides, and the Secretary of State invited officials to follow the point up in more detail. Madame Chen emphasised that foreign investment in China was protected by regulations governing Joint Ventures, and her government was now discussing specific investment protection

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and double taxation agreements at bilateral level. The conclusion of these bilateral discussions need not, however, prevent specific understandings being attached to particular project agreements. Concluding her general comments, she noted that her government's plan was to introduce 3,000 new technologies in the next three years to further the modernisation of Chinese industry.

The Secretary of State turned to specifics.

He noted that HMG had been very encouraged at the signature of the Pilkington Float Glass Joint Venture. He understood, however, that certain difficulties had arisen on the licensing agreement which he hoped Madame Chen would help resolve. Madame Chen said that she had had discussions with Pilkington in Peking earlier in the week. She had understood that most problems had been settled and that only minor issues, ie export percentages, were outstanding. She did not expect these to cause any great difficulty. The Secretary of State said his understanding was that there were differences over the law to be applied to any arbitration over the agreement. Madame Chen confirmed that she had discussed this with Pilkingtons, and felt that it would be possible to find a mutually acceptable third country for such arbitration.

The Secretary of State referred to Shell's Letter of Intent to carry out a feasibility study for the Jining Coal Mine in Shandong Province. He hoped that this would lead to a substantially more business: the United Kingdom had great expertise in coal mining. Madame Chen said that if the Jining project were successful, there should be room for other Joint Ventures in the Province.

The Secretary of State emphasised the United Kingdom's very great interest in the Guangdong Nuclear Power Project. HMG hoped that there would soon be a firm decision in favour of GEC supplying turbine generators. Not for the first time, Madame Chen referred non-committally to "smooth progress", and noted that discussions were continuing between Hong Kong and Peking.

The Secretary of State underlined BP and Shell's keen interest to obtain offshore drilling rights. They and other United Kingdom companies involved in the North Sea had real expertise and he hoped that the present negotiations would be successful. Madame Chen also hoped that they would be successful "as a result of their favourable terms offered to China" (ambiguous as to whether past or future tense).

The Secretary of State noted that Madame Chen would be visiting Simon Carves during her visit, and that they were presently negotiating for the supply of grain handling and storage equipment for the ports at Dalian, Shanghai and Tianjin. Madame Chen confirmed the importance of grain handling and transportation equipment for China. A great deal would be needed given the extent of their imports. Co-production of such equipment was intended, and United Kingdom companies would be very welcome to bid as part of the World Bank supported programme for Chinese port modernisation.

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The same theme of co-production and local manufacture arose in response to the Secretary of State's mention of Talon rodenticide. Madame Chen confirmed that the product was still being tested by the Chinese government. Finally, both sides hoped that the Dunlop and Cable and Wireless Joint Ventures would progress well.

051 PROJECT

The Secretary of State emphasised that the Chinese decision not to ratify the 051 contract was a matter of very great concern to HMG. It had been a particularly severe blow to BAe and BS after more than two years of extensive negotiations. Its apparent failure was a severe setback to the two countries' bilateral trade relations. He had recently made the point to the Chinese Ambassador, but a full explanation for the project's failure had never been provided.

Madame Chen said that she had been informed of the project by the Secretary of State for Industry during his January 1983 visit. The Chinese Vice Premier had explained to Mr Jenkin that the project fell short of China's demands of technology, price and delivery. The contract was now dead as a result of the expiry of the 60 day ratification period. She emphasised her view that this setback was an isolated incident, and should not cast a shadow over other business.

The Secretary of State countered that no explanation had been given by the Chinese Vice Premier, nor had one since been received despite the Secretary of State for Defence's letter to his opposite number. He was surprised if price was a point of difficulty since this had been agreed as recently as November 1982. Unfortunately, after lengthy negotiations for China to withdraw at the last moment did tend to undermine overall confidence. Madame Chen merely responded by repeating the reasons for not ratifying the contract, and her hope that confidence would not be undermined. She gave no suggestion that the contract might be resurrected.

SHANGHAI CONSULATE GENERAL

The Secretary of State expressed the hope that Madame Chen could inject greater urgency into the Shanghai authorities to assist HMG getting a suitable site for its new Consulate General. Its early establishment was a point of some importance, following as it did from the Prime Minister's 1982 visit. Madame Chen noted the point.

TECHNICAL CO-OPERATION

Concluding the meeting, the Secretary of State noted that HMG had been considering a technical co-operation programme. He could not give details at this stage, but one lasting for three years was planned and HM Embassy Peking would discuss the allocation of funds with the Chinese government. The amounts involved would be relatively modest for the first year, but be increased in the next two.

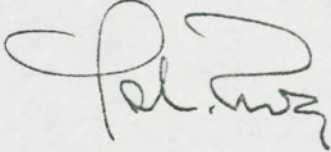
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CONCLUSION

The meeting lasted 75 minutes (with interpretation). It ended with expressions of goodwill, and Madame Chen's hope that the Secretary of State would find an opportunity to visit China.

  
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28 March 1983

cc Those present (DoT)  
PS/Number 10  
PS/SoS(Industry)  
PS/SoS(Energy)  
PS/SoS(Defence)  
PS/Foreign Secretary  
  
PS/MfT  
PS/Secretary  
Mr Garrod, Inf  
Mr Grant, OVB/DoT  
HM Embassy, Peking

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