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SUBJECT
cc Master

bc Sir P. Gaddock

10 DOWNING STREET

From the Private Secretary

8 May 1984

Hong Kong: Call by Lord Kadoorie

Lord Kadoorie called on the Prime Minister this morning.

In response to a question from the Prime Minister he stated that the Castle Peak project was progressing very well. It was a good flag for British industry. It had greatly impressed the Chinese who now appreciated more generally that they could not carry out their development plans without British and Western help.

He remained optimistic about the future of relations with China. We could not cut off one quarter of the world's population. The Chinese realised more than ever that the implementation of the "Four Modernisations" depended on Western help. They would have to rely on Western assistance for a minimum of fifteen years and for perhaps as long as thirty years.

The Chinese regarded the Guangdong Nuclear Power Station Project as the most important project in China today. They had complimented Lord Kadoorie on his foresight and had promised that his efforts would not be forgotten. The nuclear project was important not only for the Four Modernisations but also for the future of Hong Kong.

There had been an implication that he had delayed negotiations on the Guangdong Project under instructions from HMG, pending the progress of negotiations on Hong Kong. He had corrected that impression.

The Chinese had asked him to take 70% of the total output of the project. He had said that he would do his utmost to achieve this but he could not enter into an unlimited liability. The Head of the Bank of China who was present had nodded agreement with this proposition but it was less clear whether others understood.

With regard to Hong Kong, he was concerned about the deterioration in relations between the general Hong Kong public and the United Kingdom. He had recently been advised to remove from a speech a reference to a particular matter being "also in the interests of Britain" on the grounds that this was not a good note to strike in Hong Kong nowadays.

/ He appreciated

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He appreciated that the negotiations over Hong Kong were very difficult but he did not think it impossible to arrive at a satisfactory result. The main worry amongst important Chinese in Hong Kong was the type of passport they would hold in the future. They understood that they would receive Chinese passports but were not at all clear whether these would be honoured and whether they would be able to leave Hong Kong freely. These people needed a piece of paper which would be recognised by Embassies and Consulates the world over and enable them to travel freely. He wondered whether there could be a form of dual nationality for a temporary period.

He had not expected the Chinese to agree to continuing British administration in Hong Kong. The task now was to try to find the highest common factor between a socialist government and a capitalist government. If such an arrangement could be worked out in any place in the world, that place was Hong Kong.

Personally he remained optimistic about the future. So did his son with whom he had recently been in touch.

The Prime Minister said that Hong Kong remained one of our most worrying problems. We had to try to lock the Chinese into detailed commitments on the future administration of Hong Kong. Lord Kadoorie agreed but said that it would also be necessary to demonstrate to the Chinese how these arrangements would benefit them. The passport problem was the worst one. He recalled that after the War, the Soviet Consulate in Shanghai had given Russian passports to a number of white Russians. This did not permit entry into the Soviet Union unless endorsed with a special visa, but it did confer protection in third countries.

Lord Kadoorie then referred to the recent visit of President Reagan to China. His understanding was that a protocol was signed on nuclear matters. He believed that the American Department of State and Defence Department had agreed to appeal to the President to appeal to Congress to allow China to receive full information on nuclear matters. Since then Westinghouse had offered China six nuclear power stations, subject to Congressional approval.

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

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May. 8th. 1984.

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Memorandum.

1. Li Pang stressed the importance of the project, not only in connection with Chinese Four Modernisation Program but also in relation to the future of HK.
2. Describe last meeting with Li Pang and how it was designed to impress.
3. Unfortunate deterioration in relationship between people of HK. and UK.
Difficulties in engaging and retaining good Chinese technical staff.
Not too late to correct if only gesture could be made re passports.
Possibility of Dual Nationality on temporary basis over (5.year)transition period.



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4. Aim now must be to find HCF between
Socialism and Capitalism.
Difficult but not impossible.
5. UK most knowledgable country on China.
China, through HK link and HK experience
most knowledgeable on Western capitalism.
6. We must not forget that the vast majority of
Chinese have no interest whatever in
Western civilisation or contacts.
This means the West is more than ever
dependent on the Government in Power
for their relationship with the country.
My impression is that the policies of
the present Chinese government have a
60/70. per cent chance of holding into



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6. Contd. the next century.

(15 to 30 years.)

7. UK business must show trust if they
wish to be trusted.

I must stress the somewhat extraordinary
relationship CL&P and WFS in particular
have succeeded^e in building up in this
respect.

Kadoorie.