

DWF G 016/04

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LIM 787/04

OO FCO (FOR DTI/OTTER)

0458/04

PP FCO

(DTI (VICP))

PP BTC HONG KONG

PP FCO (FOR NO 10 DOWNING STREET)

Fey  
Teep  
HKP  
ERP  
No in DPT.  
Lee 2r  
L (+5)

GRS 1200

RESTRICTED

FM PEKING 040330Z MAR 85

TO IMMEDIATE DTI

TELEGRAM NUMBER OTTER 94 OF 2 MARCH.

INFO PRIORITY FCO, BTC HONG KONG, NO 10 DOWNING STREET.

LORD YOUNG'S MISSION: MEETING WITH MME CHEN MUHUA

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1. LORD YOUNG ACCOMPANIED BY HIS WHOLE DELEGATION HAD 2-1/2 HOURS OF TALKS WITH THE MINISTER FOR FOREIGN ECONOMIC RELATIONS AND TRADE IN THE GREAT HALL OF THE PEOPLE ON 1 MARCH, FOLLOWED BY A DINNER GIVEN BY MME CHEN. THE ATMOSPHERE WAS EXTREMELY FRIENDLY AND THE TALKS WERE DETAILED AND DOWN TO EARTH.

2. AT A BRIEF PRIVATE MEETING BEFORE THE TALKS LORD YOUNG CONVEYED GREETINGS FROM THE PRIME MINISTER, EMPHASISING THE IMPORTANCE THAT SHE PERSONALLY ATTACHED TO THE MISSION, AND FROM MR TEBBIT, LORD COCKFIELD AND MR CHANNON. MME CHEN RECIPROCATED THESE GREETINGS AND EXPRESSED CONFIDENCE THAT LORD YOUNG'S VISIT WOULD CONTRIBUTE TO FURTHER EXPANSION OF ECONOMIC AND COMMERCIAL TIES.

3. WHEN THE MAIN MEETING BEGAN LORD YOUNG SPOKE FIRST. HE REFERRED TO THE EXCELLENT POLITICAL RELATIONSHIP WHICH HAD BEEN CROWNED BY THE HONG KONG AGREEMENT. PREMIER ZHAO'S VISIT TO THE UK IN JUNE WAS KEENLY AWAITED. THE BRITISH WERE IMPRESSED BY CHINA'S RAPID ECONOMIC DEVELOPMENT AND CHANGES IN ECONOMIC MANAGEMENT. HE CONGRATULATED MME CHEN ON THESE AND WELCOMED THE NEW TRADE POLICIES WHICH WERE FAVOURABLE TO BOTH CHINA AND TO HER TRADE PARTNERS. BRITAIN WAS WELL PLACED TO SUPPLY CHINA'S PRIORITY NEEDS IN ENERGY, COMMUNICATIONS AND FACTORY MODERNISATION. THE PURPOSE OF HIS MISSION WAS TO SEIZE THIS VERY FAVOURABLE OPPORTUNITY. THE SELECTION OF COMPANIES ON THE MISSION REFLECTED MANY OF THE UK'S INDUSTRIAL STRENGTHS BUT MANY OTHER COMPANIES HAD WISHED TO JOIN THE MISSION.

4. LORD YOUNG THEN REFERRED TO BILATERAL TRADE FIGURES AND TO A NUMBER OF SPECIFIC CONTRACTS CONCLUDED OR UNDER NEGOTIATION

4. LORD YOUNG THEN REFERRED TO BILATERAL TRADE FIGURES AND TO A NUMBER OF SPECIFIC CONTRACTS CONCLUDED OR UNDER NEGOTIATION INCLUDING SHORUI BROTHER'S SALE OF EIGHT AIRCRAFT, NEGOTIATIONS TO SEE THE BAE146, THE GUANGDONG NUCLEAR PROJECT, CABLE AND WIRELESS AND GEC'S COOPERATION IN TELECOMMUNICATION, DEFENCE SALES PROSPECTS AND UK EXPERTISE IN THE TRANSPORT SECTOR. HE ALSO WELCOMED THE OPENING OF THE CNOOC OFFICE AND THE CNDC OFFICE IN LONDON.

5. MME CHEN SAID THAT THE CHINESE REGARDED THE VISIT AS AN EXTREMELY IMPORTANT EVENT. SHE THEN GAVE A BRIEF SYNOPSIS OF THE CHINESE ECONOMIC SITUATION ON FAMILIAR LINES EMPHASISING THE 11% GROWTH ACHIEVED IN 1984 AND HIGHLIGHTING OIL, GRAIN, COTTON, STEEL AND COAL PRODUCTION. SHE ALSO GAVE A BRIEF RESUME OF THE PARTY'S DECISION OF OCTOBER 1984 ON URBAN AND INDUSTRIAL REFORM. SHE REFERRED TO THE 21% INCREASE IN CHINA'S FOREIGN TRADE LAST YEAR AND TO THE NUMBER (700) OF NEW JOINT VENTURES APPROVED IN 1984. SHE REITERATED ON STANDARD LINES THAT CHINA'S POLICY OF OPENING TO THE OUTSIDE WORLD WAS A LONG-TERM ONE. TURNING TO THE LEGAL FRAMEWORK SHE REFERRED TO THE PROMULGATION OF COMMERCIAL LAWS AND REGULATIONS, TO THE NEGOTIATION OF DOUBLE TAXATION AND INVESTMENT PROTECTION AGREEMENTS WITH VARIOUS COUNTRIES INCLUDING THE UK, AND TO THE CONSTITUTIONAL AMENDMENTS ESTABLISHING THE SPECIAL ECONOMIC ZONES, THE 14 OPEN CITIES AND HAINAN ISLAND, AND MOST RECENTLY, THE OPENING UP OF THE YANGTSE DELTA, PEARL RIVER DELTA AND FUJIAN DELTA REGIONS.

6. ON BILATERAL TRADE SHE EXPRESSED SATISFACTION WITH PROGRESS. TRADE HAD INCREASED AGAIN IN 1984. A NUMBER OF PROJECTS WERE UNDER DISCUSSION. BRITISH COMPANIES WERE WELCOME TO TENDER FOR THE POWER STATIONS IN THE 14 COASTAL CITIES TO WHICH ATTENTION HAD BEEN DRAWN AT MEETINGS EARLIER IN THE DAY. ON THE DBIT SIDE THE IMPRESSION OF END-USERS WERE THAT UK FIRMS WERE LESS COMPETITIVE THAN JAPANESE, US AND OTHER EUROPEAN FIRMS.

7. MME CHEN SAID THAT SINCE CHINA WAS A DEVELOPING COUNTRY SHE HOPED BRITAIN WOULD TREAT IT AS SUCH. OTHER EEC COUNTRIES HAD RECOGNISED THIS FACT AND WERE GIVING CHINA APPROPRIATE TREATMENT. SHE HOPED THAT BRITAIN WOULD FACILITATE CHINA'S ACCESS TO THE UK MARKET: THERE WERE STILL CERTAIN RATHER STRICT RESTRICTIONS WHICH LIMITED CHINA'S ABILITY TO GENERATE FUNDS TO PAY FOR HER IMPORTS. SHE HOPED BRITAIN WOULD ALSO BE MORE LIBERAL ON TECHNICAL TRANSFER. CERTAIN BRITISH COMPANIES WERE INSISTING THAT CHINA SHOULD FIRST BUY COMMODITIES BEFORE AGREEING TO TECHNICAL TRANSFER, AND THEREBY LOSING THE CHANCE OF CONTRACTS. ON COCOM THE CHINESE CONSIDERED THAT THE PRESENT REGULATIONS DID NOT FIT WELL WITH CURRENT DEVELOPMENTS. THE RESTRICTIONS AFFECTED TECHNICAL TRANSFER. SHE HOPED THAT COCOM COULD RELAX THESE RESTRICTIONS AND THAT HMG SHOULD EXERT AN INFLUENCE IN THIS DIRECTION. FINALLY, TO IMPROVE THE PRESENT POSITION OF UK INDUSTRIALISTS IN THE CHINA MARKET, SHE HOPED THAT HMG WOULD CONSIDER PROVIDING FAVOURABLE MIXED CREDITS AS OTHER WEST EUROPEAN GOVERNMENTS WERE DOING.

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8. RESPONDING LORD YOUNG SAID THAT BRITAIN RECOGNISED THE NEED TO ENCOURAGE TRADE BOTH WAYS. QUOTAS WERE A MATTER FOR THE COMMUNITY: THERE WERE CERTAIN DIFFICULT SECTORS FOR BRITISH INDUSTRY, BUT THE AGREEMENT ON TEXTILES WAS GOING SMOOTHLY. ON COCOM, CHANGES IN THE RULES REQUIRED INTERNATIONAL AGREEMENT. BRITAIN HAD PLAYED A CONSTRUCTIVE ROLE IN ATTEMPTING TO RELAX THE RULES: FIVE YEARS AGO WE HAD TRIED WITHOUT SUCCESS TO ESTABLISH A FORMAL DEFERENTIAL: MOST RECENTLY WE HAD BEEN IN THE LEAD IN PRESSING FOR SPEEDIER CONSIDERATION OF EXCEPTIONS CASES. ON AID, LORD YOUNG SAID HE WOULD CERTAINLY CONSIDER MME CHEN'S POINTS AND REPORT THESE. THERE WERE HOWEVER MANY COMPETING CLAIMS ON BRITAIN'S LIMITED AID BUDGET. LARGE ECGD-BACKED CREDITS WERE AVAILABLE AT CONSENSUS RATES. FURTHERMORE THOUGH WE HAD NO CAPITAL AID PROGRAMME A TECHNICAL COOPERATION PROGRAMME HAD STARTED IN 1984.

9. TURNING TO TWO OTHER POINTS OF CONCERN TO BUSINESSMEN, LORD YOUNG SAID THAT JOINT VENTURES WERE A GOOD METHOD TO PROMOTE TECHNICAL TRANSFER. THERE WERE HOWEVER PROBLEMS FOR THOSE CONTEMPLATING JVS, FOR EXAMPLE THE TIME LIMIT WAS FREQUENTLY TOO SHORT TO ALLOW RECOVERY OF THE VALUE OF ASSETS PUT IN. HE HOPED THE CHINESE WOULD EXTEND THIS. HE ALSO REFERRED TO THE 20% WITHHOLDING TAX ON THE EARNINGS FROM SALE OF KNOW-HOW. RESPONDING, MME CHEN SAID THAT THE TIME LIMIT ON JOINT VENTURES COULD VARY BETWEEN 10 AND 30 YEARS UNDER THE JOINT VENTURE LAW. THE EXACT LENGTH OF TIME COULD BE DISCUSSED. SHE CLAIMED THAT THE 20% WITHHOLDING TAX ON KNOW-HOW SALES WAS A COMMON INTERNATIONAL FEATURE: BUT THIS TOO COULD BE DISCUSSED IN CONTRACT NEGOTIATIONS.

10. MME CHEN THEN REFERRED TO A NUMBER OF PROJECTS, A LIST OF WHICH WOULD BE PROVIDED SUBSEQUENTLY (FOLLOWS TO DT. BY BAG). THESE INCLUDED:

A) 300 AND 600 MV POWER PLANTS.

B) EQUIPMENT REQUIRED IN THE MACHINERY SECTOR (EG. MANUFACTURING FACILITIES FOR SMALL PUMPS, PISTONS, MINI-COMPUTERS ETC).

C) CERTAIN MANUFACTURING FACILITIES FOR THE CHEMICAL INDUSTRY INCLUDING DYE STUFFS MANUFACTURE.

D) CERTAIN EQUIPMENT IN THE DEFENCE SECTOR.

11. LORD YOUNG THEN INVITED EACH OF THE TEN BUSINESSMEN ACCOMPANYING HIM TO SPEAK BRIEFLY ON THEIR PARTICULAR CAPABILITIES. MME CHEN LISTENED WITH INTEREST TO EACH PRESENTATION BUT THE ONLY SUBSTANTIVE COMMENTS SHE MADE WAS IN RESPONSE TO BRITISH AEROSPACE. SHE COMMENTED THAT THEY SHOULD LOWER THE PRICE OF THE 146. SHE ALSO MENTIONED CHINA'S PURCHASE OF THREE AIRBUS A310S AND THEIR INTENTION TO CONTINUE DISCUSSION FOR OTHERS.

12. IN CLOSING LORD YOUNG REFERRED TO OUR SATISFACTION AT THE CONCLUSION OF THE DOUBLE TAXATION AGREEMENT AND THE NEGOTIATIONS ON THE INVESTMENT PROTECTION AGREEMENT. HE SAID THAT HE HAD BROUGHT WITH HIM A DRAFT TEXT FOR A RENEWAL OF THE UK/CHINA ECONOMIC COOPERATION AGREEMENT. HE ALSO REFERRED TO THE FORTHCOMING VISIT OF THE STATE SCIENCE AND TECHNOLOGY COMMISSION TO THE UK FOR A REVIEW OF OUR S AND T AGREEMENT.

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13. MME CHEN CONCLUDED BY REFERRING TO THE POSSIBILITY OF COOPERATION IN THIRD COUNTRY PROJECTS WITH UK COMPANIES. THERE WERE NOW 54 CHINESE ORGANISATIONS IN SUCH WORK. ANOTHER FIELD OF INTEREST TO CHINA WAS TRAINING. SHE HOPED BRITISH COMPANIES WOULD INCLUDE TRAINING IN CONTRACTS NEGOTIATED. SHE REFERRED TO THE TECHNICAL COOPERATION PROGRAMME WITH PLEASURE AND SAID THAT HER MINISTRY WOULD CONSIDER THE NEW ECONOMIC COOPERATION AGREEMENT AND DISCUSS THIS IN DUE COURSE VIA THE EMBASSY.

EVANS

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