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SUBJECT  
cc MASTER

M.F.J.



10 DOWNING STREET

6 June 1985

From the Private Secretary

Dear John,

PRIME MINISTER'S MEETING WITH PREMIER ZHAO ZIYANG

I enclose a record of the Prime Minister's discussions with Premier Zhao Ziyang this afternoon on trade and economic issues. As you will see it was agreed that details would be followed up between the two delegations.

I am copying this letter to Peter Ricketts (Foreign and Commonwealth Office), Leigh Lewis (Minister Without Portfolio's Office), Rachel Lomax (HM Treasury) and Richard Broadbent (Chief Secretary's Office).

Yours sincerely,

Charles Powell

John Mogg Esq  
Department of Trade and Industry

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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE PREMIER  
OF THE STATE COUNCIL OF THE PEOPLE'S REPUBLIC OF CHINA ON  
6 JUNE AT 1630

Present:

Prime Minister	Premier Zhao Ziyang
Secretary of State for Trade and Industry	Vice-Premier Tian Jiyun
Minister Without Portfolio	Minister for Foreign Affairs Wu Xueqian
Mr Richard Luce	Mr Zhou Nan
Sir Percy Cradock	Mr Gan Ziyu
HM Ambassador Peking	Mr Lin Zongtang
Dr David Wilson	Mr Jia Shi
Mr Charles Powell	Mr Bao Tong
Mr Iain Murray	Mr Hu Dingyi
	Mr Mei Zhaorong
	Mr Tang Longbin

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Sino-British Trade

The Prime Minister complimented Zhao Ziyang on his speech to the Royal Institute for International Affairs which had been well received. She also thanked him for the excellent arrangements made for the visit of Lord Young's high level trade mission to China. We wanted to build on the results of that visit. We were grateful for the Chinese decision to purchase the BAe 146 and Short's SD360 aircraft.



The Prime Minister continued that she knew how important it was for future trade that the United Kingdom was able to offer China favourable terms. We were therefore examining in what ways we could do this in a committee under her own chairmanship. As part of this examination, we were considering the principle of soft loans in appropriate cases.

Zhao Ziyang thanked the Prime Minister for the thoughtful arrangements made for his visit. He and his delegation had greatly enjoyed it and had made a wide circle of contacts particularly in the trade and economic field. They had flown to Edinburgh in a BAe 146 and he could confirm that it was indeed a very good aircraft.

Zhao Ziyang continued that he was pleased to hear that the British Government was considering the possibility of soft loans. This would be conducive to enlarging trade, especially in the case of large projects. He understood that negotiations with the United Kingdom were under way for an Investment Promotion and Protection Agreement. Although there were some difficulties he hoped that an agreement could be concluded at an early date. More generally, he hoped Sino-British bilateral trade would gain an increasing share in the total volume of China's trade. But we should recognise that competition was fierce particularly on prices. Readiness to transfer technology was also an important factor. It would help China to purchase more from the United Kingdom if we could offer improved access for Chinese products to the United Kingdom market.

At the Prime Minister's invitation, Lord Young listed a number of areas and projects of particular interest to firms. These included power generation and transmission, the Ningbo Steel Complex on which Davy-McKee had started discussions, and telecommunications. The Prime Minister said that British firms' interest also extended to food technology, railway development, coal production in particular the Tangshan mine, and the Pilkington/Yaohua General Glass Joint Venture. Lord Young added that many British companies were anxious to



go into joint ventures and were ready to transfer modern technology. We understood that the China International Trade and Investment Corporation intended to open an office in Europe and hoped that they would choose London.

Tian Jiyun said that China's future priority areas were energy, transport and communications. They were also keen to improve living standards including diet and wanted to co-operate in the area of food processing. He saw scope for Britain to play a big role in China's economic development in all these areas provided British companies met the three conditions of readiness to transfer high technology, good quality and reasonable prices. Where these conditions were met, China would give preference to Britain.

The Prime Minister said that she noted that, apart from an exceptional item of silver, the balance of Sino-British trade in the last three years had been in China's favour. The Trade and Industry Secretary asked what products the Chinese were particularly interested in selling in the United Kingdom? Zhao Ziyang promised to provide a list.

The Prime Minister said that we understood the need to be competitive. She hoped that China would also take account of a wider consideration. Increased trade would show the rest of the world how well Britain and China were co-operating and reinforce the confidence created by the Hong Kong Agreement.

Zhao Ziyang agreed with the Prime Minister that trade between Britain and China should not be considered solely in an economic context. One should also take into account the political context. If China considered economic factors alone it would do business only with Japan. The Prime Minister said that Britain could equally do business just with Japan. But any country which did this was likely to rue it. Moreover the Japanese kept their markets closed to the trade of other countries. She had recently had some stimulating discussions with Mr Nakasone on the subject. (This produced great mirth on the Chinese side.)



The Prime Minister said that Britain was also anxious to co-operate in the field of defence equipment, for instance submarines and torpedoes. She would take a personal interest in all major contracts being pursued in China. The Prime Minister proposed, and Zhao Ziyang agreed, that more detailed discussions of specific projects should be pursued between members of their respective delegations.

Guangdong Nuclear Power Station

The Prime Minister asked whether the Chinese side were yet ready to make an announcement on the Guangdong Nuclear Power Station. Zhao Ziyang said that discussion of the technical and commercial aspects of that project were virtually complete but negotiation on prices continued. There was also still the important question of the quality of the generators. It would be the first time that GEC had produced generators of this size and the Chinese side were not fully confident they would be of the necessary quality. The Prime Minister said that a fresh impetus should be given to the negotiations in the hoped that outstanding matters could be settled rapidly.

COCOM

The Prime Minister recalled that within COCOM, Britain had been in the forefront in trying to get a differential in favour of China. Zhao Ziyang thanked the Prime Minister for the British Government's efforts in COCOM. He hoped that Britain would continue to exert its influence in favour of further liberalisation leading to eventual abolition of COCOM restrictions for China.

Cultural Co-operation

Zhao Ziyang said that, in order to enhance cultural exchanges between Britain and China, the Chinese Government



had decided to extend an invitation to twenty British students of the Chinese language to visit China next year. It would be up to the British side to nominate candidates. The Prime Minister expressed thanks for this generous invitation.

The meeting ended at 1730.

EDP.

6 June 1985