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From the Minister without Portfolio  
The Rt Hon Lord Young of Graffham

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CCP  
②  
Prime Minister  
You may like  
to glance at the  
passages which I  
have underlined

10 June 1985

CCP  
10/6.

CCP.

Dear Charles

PREMIER ZHAO'S VISIT TO CAMBRIDGE - 7 JUNE

Lord Young has prepared the attached notes of his conversations with Premier Zhao and Vice Premier Tian during the journeys to and from Cambridge last Friday. He would be grateful if these could be drawn to the Prime Minister's attention.

I am copying this letter and Lord Young's notes also to Len Appleyard (Sir Geoffrey Howe's Office), John Mogg (Mr Tebbit's Office) and Matthew Cocks (Mr Channon's Office).

Yours ever

Leigh

Leigh Lewis  
Private Secretary

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**Note of Discussions with Premier Zhao****1. Finance.**

Premier Zhao stated that he did appreciate that our Prime Minister had moved her position with regard to soft loans. They understood that we had difficulties with the concept and had decided in the circumstance not to raise the matter themselves. Therefore they were delighted that the Prime Minister had raised it and as a result discussions could now proceed. They had a list of projects that would now be handed over.

I said that it was a considerable departure from our existing practise and as the Prime Minister had said at the meeting she would be chairing a committee that would examine each and every soft loan if they were to be made. In these circumstances they could only apply to new projects and would not apply to Guangdong or any other project now under discussion.

He then mentioned a number of projects where there were UK interests. He mentioned Guangdong, Heinan Island and Tien (coal) and a Ferranti electronics negotiation. I asked about power generation. He said that he thought that there may be some projects in the list, but if we were not satisfied with the list we should ask for more. He expressed concern about the ability of GEC to carry out their part of the contract at Guangdong. I

replied that they were a very experienced company, and although this might be the largest turbine that they had ever built they had a very successful record as a power station contractor. He is undoubtedly worried about their ability to complete the contract. (see later discussions with Tian).

He asked me to give an indication as to how much the loans would be. I said that it would depend on the scale of the projects. I went on to say that they could well operate as mixed loans - that there could be part cash, part ECGD (which I had great difficulty in explaining) and part soft loans. He understood and accepted this. He then told me to speak to Vice Premier Tian who would go into the details.

## 2. Defence Sales.

I told the Premier that within the restraints of international obligations we would wish to supply a wide range of Defence equipment. I reminded him that the Prime Minister had told him how we were persuading our partners to relax the restrictions of COCOM. He knew of the visit of Zhang (the head of the Air Force) and hoped that much would come out of it.

During the drive he did comment on the behavior of the Russians. He said that he did not know why they had to keep so many troops on their long border with China. He agreed that they were a naturally aggressive people (he cited Afghanistan and Kampuchea) but did express concern about SDI. He thought that expensive as it was the Russians would be forced to compete. This could

put them under very great strains, and he was worried about the destabilising effects if one side should have it before the other.

### 3. Education.

At one point the Premier told me that they were reforming their educational system. I told him a little of the changes that we were making and in particular of Open University and Open Tech and the distance learning techniques that we were developing. I suggested to him that this may be of value to China as one of the problems would be the upgrading of teachers and it was quicker, if not cheaper, to use videotapes or television for spreading new courses throughout China. He expressed very great interest in this and asked me to come over to Beijing to meet with the educational authorities. I replied that it would be better if they were interested to send the specialists over here and I would be happy to make the necessary arrangements.

He was very interested in the prospects of more young Chinese students coming over here. He expressed himself surprised at the number of Chinese students he met during his time in Cambridge. After he presented over three thousand books to the Oriental Studies Faculty he asked me to make sure that the books were not duplicated, for if so he would arrange for them to be changed.

During the journey I mentioned to him that we were lunching at Trinity which was one of over thirty colleges at Cambridge.

Nevertheless they had won 26 Nobel prizes whilst the whole of Japan had only won two. This impressed him immensely for he repeated the statement over lunch and reminded me of it again at Covent Garden that evening.

#### 4. Economy.

I asked him how he saw the economy developing. He told me that it was growing too fast. He said that growth for the last quarter last year was 18% and that had increased to 23% for the first quarter this year. As a result they were having to take some steps to slow growth down, but there would be no going back to the old ways. He said that Russia under Lenin had made remarkable growth but that had all gone when Stalin took over. They had adopted the Russian system and it did not work. They still had much to do but they were determined to catch up the developed nations. He said that they thought that they would do this by the middle of the next century, although by then the developed nations would have made further advances. That was why Deng had assured Hong Kong that their system would be good for fifty years. By that time there would be little difference.

I took the opportunity to make a few points about our rate of growth compared to both Europe and the US. He said that they were conscious that the UK had made many changes.

#### **Vice Premier Tian Jiyun.**

On the return journey I accompanied Vice Premier Tian. I found

him a pleasant companion who became more expansive as soon as the Premier departed.

#### 5. Finance.

I went over the same ground with the Vice Premier, only in more detail. He appreciated that the soft loans would only form part of the cost, that there could well be cash elements as well as ECGD finance, but nothing was yet fixed. He pressed me to give him an indication of the amount of soft loans. I said that the amount depended on the projects we received. After some sparring we agreed that we would receive a list and that any discussions on the soft credit would be carried on as part of the general negotiations.

He clearly understood that soft credits would not apply to any existing discussions, including Guangdong. Whilst on that subject he told me that they were concerned about the ability of GEC to build as they had not done it before. I told him about the abilities of GEC and he seemed impressed by his visit to Coventry the day before (he was also impressed by the technical abilities of BL). He said that this was the largest project awarded in China since the start of the open door policy. He was concerned with the guarantee period. He inferred that the Government should stand behind the company. I told him that we did not operate in that way, but that we had the greatest confidence in the abilities of GEC.

We went through the individual projects. He told me that as a

result of the position taken by the Prime Minister, which had pleased them all, the way was now open to greatly increase the trade between our two nations. Mr Gan had a list, which was only a rough list and we could add to it at any time. He was concerned about power stations and transmission lines and knew that we had the technical competence to help.

He wanted us to start on it immediately and I should come out to Peking in a week or two. I told him that we did not operate in that way and that it would be up to individual companies to negotiate on particular projects. As far as the government was concerned we could communicate through Ambassadors and if it became necessary I or one of my colleagues could come over later on, either this year or next.

Later on that evening at Covent Garden he repeated his invitation. He had discussed our conversation with the Premier and they were satisfied. I said that we could start through diplomatic channels and we would see how matters progressed.

Earlier on I had raised the issue of future joint ventures and said that the prospects for future technology transfer would be helped by CITIC (China International Trade and Investment Corporation ) choosing London for its proposed European office. [I am informed that at the present time they are contemplating Paris.] He said that on his return he would speak to the people concerned. He then asked if it would prove difficult to obtain office accomodation in London. I assured him that that would not

be a problem but we could help should that prove necessary.

6. Economy.

I asked him how the economy was progressing. He said that it was expanding too fast and that they were having to hold it back from the centre. I asked if this meant that they would have to abandon, if only for the time being, their policy of regionalisation. He said no, but they would have to centralise the handling of foreign currency. If that was not done they would not have enough left to pay for the capital projects we would be discussing.

He said that there had been a vast increase in the importing of Japanese Cars and domestic appliances. This would have to stop. They would have to give priority to heavy capital goods, at least for foreign currency. The shortage of power was critical and there was a great need for both thermal power stations and transmission lines. I said that as well as new stations they should have management agreements with our companies. It was one thing to build them and another to run them efficiently. He was very keen on this concept.

We discussed many matters in the car and in almost every particular he expressed the same views as the Premier. He was concerned about the belligerent nature of the Russians, the potential cost and danger of SDI and the desire to have closer relations with Europe and the UK in particular. There was no sense of hostility to us or our economic system.



Later that evening we spent the entire interval at Covent Garden discussing (somewhat unusually for me) the contradictions inherent in Marxist-Leninist economic theory. He told me that he had spent five years of his life studying Marx. He was convinced that it was correct at the time but now he thought that it was only correct for the time it was written. He said that capitalism had corrected its errors. He was convinced that Marxism today would not work and they greatly regretted adopting the Russian model in the early fifties. Although they had made great advances in the rural areas they had some way to go in the cities. The market was the only efficient mechanism to order the economy was his conclusion. He did not think that there was any going back to the old ways. Their ambition was to catch up the developed countries by the middle of the next century.

He thought that Gorbachov would like to make changes but that he would not be able to get them through. In fact he doubted if he would even be able to try.

#### Conclusion.

There can be little doubt that they regard the visit as a great success. They were delighted by their reception by the Prime Minister and the general spirit of friendship and by the fuss made of them by all concerned. The effect of the Hong Kong agreement has not yet disappeared. We are now probably in an even better position to obtain commercial business. But it will depend upon our performance.