

SUBJECT

cc Hester

TMP



10 DOWNING STREET

From the Private Secretary

5 November 1980

Mr George

As you know, Sir Y.K. Pao called on the Prime Minister this morning.

They had a general discussion about the economic and political situation in China, in the course of which Sir Y.K. expressed confidence in the new Chinese Premier - whom he praised for his pragmatism and his more open approach to economic and political questions. Having been less involved than Hua in the decisions of their predecessors, he was more able to embark on new policies. Sir Y.K. said that, nonetheless, the Chinese Government still did not seem willing to recognise the problem of the Hong Kong lease. The Prime Minister said that she and her colleagues had looked at this issue prior to Hua's visit and had raised the issue with him; but he had made it clear that they did not wish to move on it.

Sir Y.K. also described the joint venture which he had set up with the Chinese. The venture had been established in Bermuda with 55% of the equity owned by his own Company and 45% by the Chinese. This was the first joint venture in which the Chinese had been prepared to forgo majority control and it was also significant that they had agreed to its being set up outside China. The Chinese had decided to go ahead with the new Corporation because they wanted to expand their sales of ships abroad. The Corporation had already decided to purchase four ships from Chinese yards; but he had made it clear - and the Chinese had agreed - that further purchases would follow only if competitive terms were offered. He had told the new Chinese Premier that the secret of improving the efficiency of Chinese shipyards was to give them some independence from the central bureaucracy and to give them incentives to improve their performance. He believed that the new Premier, partly because of his own experience in encouraging agricultural development in northern China, would be prepared to pursue a more decentralised approach not only for shipbuilding but also for other sectors of the Chinese economy. Joint ventures of the kind his own Company had embarked on could help to encourage this trend.

/The Prime Minister

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The Prime Minister said that she hoped Sir Y.K. would not forget British shipyards. Substantial Intervention Fund grants were available, and the recent delivery performance of our yards had improved significantly.

Finally, apropos the American Election, Sir Y.K. said that he hoped that Governor Reagan would not make any move to re-establish dipolomatic links with, or to recognise, Taiwan. The Prime Minister said that she did not believe he would, and that Taiwan seemed quite able to prosper without U.S. recognition.

I am sending a copy of this letter to Ian Ellison (Department of Industry) and Stuart Hampson (Department of Trade).

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Tim Laker.

G.G.H. Walden, Esq.,
Foreign and Commonwealth Office.