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Prime Minister.

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Chancellor of the Duchy of Lancaster

PRIME MINISTER

VISIT TO CHINA 19-29 NOVEMBER 1983

1. My wife and I had acted as host to Mme Chen Muhua, Minister of Foreign Economic Relations and Trade when she came to this country at your invitation in March. We had also hosted the visit of the Minister of Metallurgy in June and had participated in the visit by the Minister of Water and Electricity in November of last year. The return visit to China was made at the invitation of Mme Chen.
2. The initial discussion with Mme Chen in Peking covered the full range of economic and trade relations. It provided the opportunity of drawing her attention to the activities and interests of a large number of individual UK companies. Experience of her own visit to this country showed that references of this kind are followed up promptly and effectively. I have no doubt the same will happen on this occasion: indeed we know of one instance where this has happened already.

Mme Chen is regarded as the highest ranking woman in China and her influence is great and growing. The fact that both my wife and I were able to establish a good relationship with her will be of real and lasting value.

3. We also saw in Peking the following Ministers -

Mr Zhao Mingshen, Vice-Minister of Machine Building  
 Mr Hu Fuguo, Vice-Minister of Coal  
 Mr Zhao Weichen, Vice-Chairman of the State Economic Commission  
 Mr Yang Chengyuan, Vice-Minister of Water Resources and Electric Power  
 Mr Li Tianxiang, Vice-Minister of Petroleum

Mr Li Dongye, the Minister of Metallurgy whose visit to the UK I had hosted, stayed in Peking to meet us; and we had the opportunity of an informal but wide ranging discussion with him.

4. The visit to Peking concluded with a meeting with the First Deputy Prime Minister Mr Wan Li. His extremely affable manner conceals toughness and a very detailed grasp of affairs. He had been well briefed and this was very evident. The discussion with him, which covered many specific projects in which British firms were interested, was no polite formality. He understood - in detail - what the issues involved were.
5. Detailed notes on these discussions are available.
6. On leaving Peking we went to Kunming, the capital of Yunnan Province: then to Guilin in Guangxi Province; to Canton and finally to the Shenzhen Special Economic Zone which is just over the border from Hong Kong.

In Yunnan we met the Governor of the Province, Mr Pu Chaozhu. In Guilin we met the Deputy Mayor. In Canton we met the Mayor, Mr Ye Xuanping, and in Shenzhen we met the Secretary General of the Development Corporation.

7. The value of this visit to the Provinces was that it gave a real idea of the size and variety of China and enabled some assessment to be made of conditions outside Peking, of the extent of the progress being made and of the opportunities which are - or will become - available. It is interesting to see the degree of independence - and indeed independence of mind - which exists in the Provinces and the extent to which, particularly in economic affairs, Peking's writ does not run. This has important implications in relation to the way we approach trade with China.

Thus in Yunnan a number of candidates for joint ventures were brought to our attention. These are all being followed up by the Commercial Section of our Embassy in Peking.

8. The original intention had been that we should simply pass through Hong Kong en route home. In the event the inaugural ceremony for the new Joint Venture company established by Cable and Wireless in the Shenzhen Special Economic Zone was due to take place the following day. Cable and Wireless have established for themselves an important position both in relation to the Special Economic Zone, where they are providing the telephone service, and in the South China Sea oilfield where they are providing the communications. I was asked therefore by Mr Eric Sharp and our own Trade Commissioner whether I would stay over the extra day to enable me to attend the ceremony which attracted powerful Ministerial support on the Chinese side. The experience of crossing and recrossing the border provided its own peculiar interest.
9. China is immense, both in terms of physical area and population. The size of the country is illustrated by the fact that the air journey from Peking to Kunming - by Trident jet - took about three and a half hours. The population of China is twenty times that of the United Kingdom, greater than that of the United States, Russia and the European Community combined and about a quarter of that of the world as a whole. The density of population on a simple arithmetical basis is less than that of the United Kingdom. But only about 15% of the total land area is usable - the flight from Peking to Kunming passed over vast barren mountainous areas - so that what land is usable has to be used intensively. Mineral resources are vast but often in remote and relatively inaccessible areas.
10. Statistically China is one of the poorest countries in the world. But this is not the impression that one gains on the spot. The countryside is intensively and well cultivated although almost entirely by hand. Not much machinery is evident although the large collectives probably are mechanized to some extent.

The towns are a hive of activity and large scale development both industrial and residential is evident everywhere. The people are simply clad but they appear to be adequately fed and reasonably housed. Nowhere does one see the kind of appalling poverty which is so evident in much of India, Africa and other developing countries.

There are very few motor cars: few television sets and a general scarcity of the kind of possessions which are now accepted as part of day-to-day life in the Western world. It is the absence of these material possessions which will account for a large measure of the statistically low standard of living.

11. During the Cultural Revolution, China went backwards in material as well as human terms. A very great effort is now being made to make good the loss of material progress. The introduction of the "responsibility system" in agriculture - essentially a limited form of private enterprise - has resulted in a big increase in output evidenced in thriving street markets. In industry an immense number of major projects have been put in hand - oil, steel, coal, power generation both nuclear and conventional to mention only a few - and these offer great opportunities for British firms. There is major building development to be seen everywhere, although to be blunt most of it appears to be residential rather than industrial. The Special Economic Zone at Shenzhen resembles nothing more than a gigantic building site. Here there is a great deal of light industrial development particularly in the field of textiles and electronics. Compared with Hong Kong the Chinese have a long way to go, but they are going fast. There is already a high degree of economic integration between Hong Kong and Shenzhen.
12. A major effort is being made to improve standards of management throughout industry in China. They talk in terms of applying the "responsibility system", which has been so successful in agriculture, to industry: but have no clear idea how to do it. The Chinese are reluctant to employ consultants. They object to paying out money with nothing concrete to show for it. But they do need advice of this sort and, if they can be persuaded, there is a big opportunity for British consultancy firms.

13. Communications are a major problem. There are, particularly in and around the big cities, fine motorway networks. But elsewhere roads are inadequate for the traffic. The railways are often single track only and the rolling stock out of date. These deficiencies, which are well recognised by the Chinese, are an important limiting factor on development particularly as much of the mineral wealth is remote from the main centres of population and industrial activity. Our own expertise in this field - both in road and in rail - means that there are many opportunities we could take advantage of.
14. The opportunities for British business in China - over a very wide field - are very great. But it is a difficult market not least because of the bureaucratic complexities which have to be summounted. It is a market which requires painstaking preparation and infinite patience. The Chinese place great weight on personal contact - they insist on price and quality but equally they infinitely prefer to deal with people they know and trust. Building up this situation of trust may mean the investment of a great deal of time and money; but experience shows that it is the only way to capture major business.
15. I was greatly impressed by the goodwill towards this country that one found everywhere in China. This augurs well and it is something on which British business can build. Our trade with China is very modest - minute compared with the United States and Japan and less even than Western Germany. But this year so far our exports to China have increased by 90% and our imports by 60%. China promises to be one of the greatest markets in the world. As a country we have to seek our future more and more outside our own frontiers. China offers us an opportunity we must not miss.
16. I am most grateful to Sir Percy Cradock and his staff for all the help and advice they gave us. Mr Charles Haswell, Third Secretary at the Embassy was attached to us throughout our visit. He did much to smooth our path everywhere we went. Apart from the business side of our visit we had the opportunity of seeing something of

the cultural life of China. We attended the Opera in Peking with Mme Chen and we met the Peking ballet at Kunming: and saw much of the countryside.

17. I am copying this report to the Foreign Secretary, the Secretary of State for Trade and Industry and the Secretary of State for Energy: to Sir Percy Cradock and to Sir Edward Youde.

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12 December 1983