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PS/ Secretary of State for Industry

9 August 1979

Bryan Cartledge Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW 1

Prime Minister

*BM
10/4*

Dear Bryan

SIR LAWRENCE KADOORIE

... As requested by your letter of 20 July, I attach a brief for the Prime Minister's meeting with Sir Lawrence Kadoorie on Monday 13 August, together with an interesting article by Sir Lawrence which well illustrates his philosophy.

We suggest the meeting might cover two related topics:

- 1 Trade with China and the role of Hong Kong
- 2 The power projects currently being undertaken by Sir Lawrence's company, China Light and Power, in which UK companies are major suppliers.

... The Prime Minister will remember that Sir Lawrence wrote to her on 14 May 1979 congratulating her on the election result and that she replied on 11 June. I attach copies of the exchange.

Sir Lawrence will no doubt be looking for the continued goodwill of the new administration since both he and his partners Exxon see the Government's support and commitment as vital to the success of the projects. Negotiations for further orders are currently taking place and the Government's stance is therefore particularly sensitive at this time.

The Department intends to continue to support the efforts of UK industry to win the new orders and will monitor progress on any contracts that are awarded to see that the industry performs satisfactorily. The Prime Minister might therefore like to take the opportunity to reiterate the assurance she gave in her letter of 11 June that "I know the Department of Industry will continue their efforts in relation to the current and succeeding contracts", which was repeated by my Secretary of State when he saw Sir Lawrence on 1 August.

I am copying this letter to Stephen Wall (FCO).

*Yours sincerely
Peter Mason*

PETER MASON
Private Secretary



BRIEF FOR PRIME MINISTER'S MEETING WITH SIR LAWRENCE KADOORIE

BACKGROUND

1 Sir Lawrence Kadoorie is a remarkable octogenarian who is thought to be one of the world's richest men. An Anglophile and a great China watcher, he views Hong Kong as the "free zone of China under British management", as the great meeting-point of East and West and the most important show-place and entry route into China for UK industry.

2 He is a grand strategist and his philosophy is well summarised in the attached recent article. He sees China becoming a major world political and economic force with the UK uniquely able to influence developments and thinking and take advantage of future growth through its position in the Crown colony of Hong Kong. Success in Hong Kong on major projects such as the Mass Transit and the Castle Peak power station thus has a far wider significance and in his view justifies the wholehearted commitment by all parties including the UK Government.

CHINA AND HONG KONG

3 We generally agree with Sir Lawrence's assessment of the potential advantages which Hong Kong's position offers to the UK, in particular because of the importance which China attaches to finding export outlets for her domestic production. We have accordingly been doing what we can to encourage British companies to make the most of links with Hong Kong as an opening into China.

4 The main conclusions of the current reappraisal within China involving renewed emphasis on the importance of generating export earnings, eg through joint ventures and counter trade, will increase the scope for Hong Kong's business community to contribute. We will continue to encourage British companies to make the most of the unique opportunities offered by Hong Kong's position to develop a three-way industrial and trading partnership.

5 The relationship between China and Hong Kong was personally strengthened earlier this year when the China Light and Power Co successfully established a power link across the border. CLP now supplies a modest but consistent amount of electricity to neighbouring Kwantung Province and Chinese technicians are being and will be trained on UK equipment at CLP's main power station.

Vietnamese Refugees in Hong Kong

6 Since the Geneva conference in July, the numbers of Vietnamese boat refugees arriving in Hong Kong have fallen considerably: less than 500 arrived in the first week of August. The British Government played an important role in achieving this improvement, by calling for the Geneva conference and by bringing international pressure to bear on the Vietnamese Government to modify their policies. The refugee problem however continues to be an acute one for Hong Kong, with over 66,000 refugees still in the territory. The British decision to accept a further 10,000 Vietnamese refugees from Hong Kong



was greatly welcomed there. We are continuing our efforts to persuade other recipient countries to take more refugees from the territory.

Immigration from China

7 In the first five months of 1979, 36,000 illegal immigrants were detained while attempting to enter Hong Kong from China, and were repatriated. A combination of diplomatic representations by the British Government to the Chinese authorities, and increased border vigilance (made possible by reinforcements from the UK) has succeeded in bringing the influx down to manageable proportions since the end of June: fewer than 300 were repatriated in the first week of August. The Chinese Government have also responded to requests to reduce the rate of arrival of legal immigrants, though the numbers are still higher than we would wish. We are continuing to monitor the numbers and shall renew our representations to the Chinese Government if the totals do not continue to fall to an acceptable level.

THE UK AND CHINA LIGHT AND POWER

8 In 1977 Sir Lawrence approached HMG for a negotiated contract for the supply of equipment for a new power station at Castle Peak in the New Territories of Hong Kong. Having had experience of GEC equipment but with limited management resources available to CLP against a short time-scale within which to build a new power station, Sir Lawrence wished to take advantage of all the facilities the UK could offer rather than go to competitive international tender. The UK power plant industry was unlikely to have been unsuccessful had this tender procedure been adopted because the Japanese would probably have used the project as a "loss leader" to establish themselves in CLP on the doorstep of China.

9 Equally however the UK industry by itself lacked the capability to put together a total package of the type Sir Lawrence was after. The Department of Industry therefore put together a "UK Ltd" package bringing together expertise in civil design, turbines, boiler and associated manufacturing expertise from the UK industry, the financial expertise of the merchant banking community backed by ECGD and the unique expertise of the nationalised supply industry, CEGB, through its international consultancy arm, British Electricity International.

10 The UK Government presence was, and continues to be vital in persuading CLP's partner, Esso Eastern, to accept a negotiated contract. The business ethics of Exxon - the parent company of Esso Eastern - would in the era of post-Lockheed scandal require an open international tender rather than a closed negotiated contract. The involvement of the UK Government however is seen as ensuring the probity of the deal, ensuring fair and honest conditions and price are adhered to, as well as providing a degree of leverage and monitoring of the project's progress which would not otherwise be available to external buyers. The joint Exxon-CLP holding company, known as KESCO, was promised DoI involvement and support by the previous Administration.

CONTRACTS NEGOTIATED

11 As a result of the package approach KESCO signed a contract in March 1978 worth approximately £120m with GEC Turbine Generators with Babcock & Wilcox as



the major sub-contractor. Under the contract the UK industry will supply two 350 MW generating sets with dual fired boilers and associated equipment for the new KESCO station at Castle Peak.

12 Secondly, Balfour Beatty (part of the BICC Group) was awarded a contract in March 1979 worth about £100m for the design, supply and erection of a 400 KV transmission system to distribute power from Castle Peak station through the New Territories.

13 Thirdly GEC Gas Turbines Ltd have recently secured an order for two gas turbines for Castle Peak with an option on two further machines (value about £20m)

14 Finally negotiations have just begun for two more 350 MW generating sets and associated equipment for Castle Peak for installation in 1984 and 1985. A negotiating team has recently returned from Hong Kong and we believe that success should be achieved by around the end of this year. The decision rests very largely with Sir Lawrence Kadoorie and his Exxon partners and the continued good-will of the Government is seen as vital by all parties. The value of the potential contracts is about £75m.

15 Since all the prices quoted above are at 1977 levels, the total value of orders placed with UK industry or at present under negotiation totals at current day prices at least £400m. Such orders have been of great value to a sector of the UK manufacturing industry which has faced substantial difficulties, as the CPRS report of 1976 noted.

Hong Kong: Sir Lawrence Kadoorie Interviews Himself

Sir Lawrence Kadoorie, partner in Sir Elly Kadoorie & Sons, chairman of Sir Elly Kadoorie Containment Ltd., and chairman of China Light & Power Co., is one of the architects of the modern Hong Kong economy. He is frequently sought out by visiting businessmen, diplomats and scholars for his advice on the future of Hong Kong and its relations with China. Recently, *The Asian Wall Street Journal* asked Sir Lawrence to interview himself on the questions most often raised. What follows is a transcript of that interview:

Q: You are a citizen of Hong Kong and an old China hand. I have often heard you say, "Hong Kong's foundations stand on three legs."

Q: What exactly do you mean by this?

A: There are three factors requisite to Hong Kong's continued existence. They are:

I) Hong Kong's relations with China and Guangdong (Kwangtung) province in particular;

II) Hong Kong's relations with the United Kingdom; and

III) Hong Kong's ability to meet the requirements of and provide employment for a younger, better-educated and more sophisticated generation.

This city state is somewhat of an anachronism. Logically it should not exist as a political entity but illogically, the international need for the services it renders is essential to the future relationship between East and West.

Q: Can you elaborate?

A: To understand the Hong Kong of today, and the importance of continued strong and friendly ties to China, one must look into the past. In Britain's view the 29 square miles of Hong Kong was ceded to it in perpetuity by China in the Treaty of Nanjing in 1842. A further 3 1/2 square miles of the Kowloon peninsula on the mainland was also ceded as a colony in the Convention of Peking in 1860. In 1898 an additional 365 square miles of the mainland and some 230 odd contiguous islands constituting the New Territories were leased by China to the United Kingdom for a period of 99 years.

Thus, according to the British, the UK owns the island of Hong Kong and the Kowloon peninsula while China owns the remainder of the Colony but will not exercise effective sovereignty over it until the New Territories lease expires on July 1, 1997.

In China's view, the status of this city state is quite different. The agreements under which the island and the peninsula were ceded to the British were unequal treaties extorted by force from a weakened China incapable of defending its territory.

Q: Has this ever been made clear by China?

A: China's position was strongly stated in the United Nations in March 1972 when Huang Hua, then China's Permanent Representative to the United Nations (but presently Minister for Foreign Affairs) wrote a letter to the General Assembly's Special Committee on Granting of Independence to Colonial Countries and People, in which he stated categorically:

Hong Kong and Macau are part of Chinese territory occupied by the British and Portuguese authorities. The settlement of the Questions of Hong Kong and Macau is entirely within China's sovereign right and does not at all fall under the ordinary category of "Colonial Territories..." The United Nations has no right to discuss these questions.

For the above reasons, the Chinese delegation is opposed to including Hong Kong and Macau in the list of Colonial Territories covered by the Declaration and requests that the erroneous wording that Hong Kong and Macau fall under the category of so-called "Colonial Territories" be immediately removed from the documents of the Special Committee and all other United Nations documents.

In a recent interview with French journalists, Assistant Foreign Minister Song Zhiqiang in answering questions on Hong Kong and Macau said "A solution to these problems will come later. There are still 18 more years before the Hong Kong lease expires. We have 18 years to settle the problem and we are not hurried. The British government is attending to the matter. Not long ago, the governor of Hong Kong visited China. We told him Hong Kong was a part of Chinese territory and at the expiration of the lease we would settle the problem in an adequate manner." He added that investors meanwhile need not worry: they won't ever lose their money.

Q: How do you regard the Hong Kong of today?

A: For all intents and purposes, Hong Kong has become the free zone of China under British management. It is a neutral point of contact between East and West. It enables China to regulate the flow of expertise required to fuel its Four Modernizations program.

Q: What is China's Four Modernizations program?

A: At the Fifth Meeting of the National People's Congress held in Peking in March 1978 the main topic was to make China a modern and powerful socialist country before the end of this century.

Chairman Hua Guofeng (Hua Kuo-feng) outlined the "Four Modernizations," an ambitious 18-year economic program involving agriculture, industry, science and technology, and defense.

In announcing the plans for a big leap in China's production, he said that the task set in the plan and the envisaged development "are gigantic, but the job can be done."

Q: What was the effect of his announcement on Hong Kong?

A: The immediate effect was to bring many people to our shores. Looking back but a short while we can see that when China opened its door a crack it was flooded by Western governments and entrepreneurial businessmen all of whom wished to take advantage of this potentially enormous market.

Unlimited credits were offered and projects of astronomical magnitude were discussed as if they could be brought to fruition within a short space of time.

Now the euphoria has passed, China is beginning to take a realistic view. The effects of an overdose of Western contact are being assessed and the discipline necessary to maintain order is being strengthened.

Indirectly the advent of many financial institutions and other conglomerates opening offices in Hong Kong resulted in a shortage of office space and residential accommodation and added to the severe inflation caused by too much money being spent too rapidly.

Q: How do you regard China's decision to review its Four Modernizations program?

A: Chairman Hua Guofeng's decision to review the Four Modernizations indicated a much greater degree of uncertainty and disorder in the Chinese economy than had previously been believed.

At the opening session of the National People's Congress, Vice Premier Li Xian-nian (Li Hsien-nien) attributed this to the disharmony in industrial investments which, he said, had seriously affected the economy. He went so far as to say that at least one hundred million people are not having sufficient to eat.

Chairman Hua painted a grey picture of the current situation, with agriculture unable to meet the demands of a growing population and industry turning out insufficient and poor-quality goods of a limited variety.

He advocated a system of clearly defined job responsibility and the principle of "to each according to his work," and he indicated that the time had come for serious efforts to be made to modernize China and give its people the higher living standards they deserved.

As a result, emphasis has been placed on a readjustment program designed to improve labor production. Industrial enterprises that have been inefficient or have incurred losses will be reorganized or closed down.

There is a growing realization that the Chinese economic adjustment reflects the basically pragmatic and constructive approach of her leadership toward financial management.

Q: How will this affect Hong Kong?

A: This change of attitude has added to Hong Kong's importance in regard to the economy of China.

Here, we realized from the beginning that the immediate attainment of the goal set by the Four Modernizations was completely unrealistic. China did not have unlimited foreign exchange and development would be limited to the country's ability to pay for what it purchased.

China wishes to earn as much hard currency as possible from Hong Kong and to take advantage of this city state's facilities for trade, investment and modern technology.

In this context, Hong Kong's ability to remain as a major source of foreign exchange earnings to China continues to be basic and in all likelihood its most important contribution.

As Hong Kong gradually becomes integrated commercially with neighboring Guangdong province, the growth of local industries may slow down. But the merging of interests will strengthen the link with China, thus increasing the security of this city state as the free zone of China under British management.

This is not one-way traffic. China's recent purchases and its development of land in Hong Kong create additional investor confidence emphasizing this point of view.

Q: How will China's rethinking affect its Western contacts?

A: Senior Chinese ministers have admitted that they have been overambitious in their plans to buy major industrial projects from abroad. In consequence, vast development projects, such as a steel mill and other facilities worth US\$10 billion to be supplied by Japan, and two nuclear power plants in Shanghai to be provided by France, have been delayed. This seems to be setting a general pattern.

Plans for developing heavy industry, which originally was selected as the engine of maximum modernization, have been cut down to a more realistic size. Agriculture and light industry will now enjoy greater importance in development planning. Successful modernization of China's agriculture and industry, however, hinges on political stability and that remains the great uncertainty in the nation's future. Practical considerations are still foremost in Chinese thinking. Thus, foreign companies can no longer claim that they will develop a complete oil field or steelworks. Instead, they must work slowly through the initial stages, handing over to the Chinese a mass of their expertise in an initially low-priced but costly design study in the hope that this will earn them favorable treatment later when important contracts are awarded.

Q: How do you measure China's ability to pay?

A: From its change of attitude it has become clear that China realizes the dangers of over-extension and of endeavoring to proceed too rapidly with the modernization program which, up to now, has been alien to its population.

Chinese Vice-Premier and Economic Spokesman, Yu Qiuli, reportedly went out of his way to stress that the Chinese were "very sensitive to the importance of maintaining credit-worthiness." Mr. Yu also said that China would take on only those financial obligations it could meet punctually in its modernization scheme.

China intends to cut her coat according to the cloth and the measure of that cloth will be barter and compensatory deals.

Q: How do you view compensatory deals?

A: There is nothing new in barter or compensatory deals. Much of the trade involving Eastern European and developing countries takes place without any exchange of money.

The following are but a few examples:

1) PepsiCo Inc.'s agreement to sell cola concentrate and some expertise to the Soviet Union and, in exchange, to buy vodka which the American company sells through its own distributor in the U.S.;

2) Ford Motor's deal to exchange \$6 million worth of cars for an equivalent value of sheepskins from Uruguay;

3) Cadbury Schweppes' purchase of Bulgarian tinned fruit and vegetables under a license agreement to make soft drinks in that country.

It is estimated that about 400 compensatory trade agreements are being negotiated with the Chinese. Most are concentrated in the Southern provinces of Guangdong and Fujian (Fukien) and around Shanghai.

Q: Insofar as Hong Kong is concerned, how do you assess Hong Kong's relations with Guangdong province?

A: Progress so far, while moderate in terms of achievement, has been considerable if measured in terms of past performance. Since the change in China's policy, a far better relationship has existed between Hong Kong and the Guangdong authorities.

There is now a through train service between Kowloon and Canton, a daily air service between the two cities, operated by the Civil Aviation Administration of China, a hovercraft service operated by the Hong Kong-based Hong Kong & Yau-mat Ferry Co.) from Hong Kong to Whampoa (the port of Canton), and it is reported that a 200 km. four-lane highway is to link Kowloon with Canton by 1982. In addition a regular supply of electricity from China Light & Power Co. to the Guangdong Electric Co. was successfully negotiated and connected early this year. Last but not least, Sir Murray MacLehose received an invitation to visit Peking in his official capacity as Governor of Hong Kong.

An interesting development that is becoming apparent is the "rapidly vanishing border" between the New Territories and the adjoining Po On district of Guangdong province. The implications are enormous. As a result, the development of Guangdong province and Hong Kong could become increasingly interlocked.

China's purchases of land and property in Hong Kong together with its planned development of industry on the mainland has inspired confidence in Hong Kong's investors, who see this city-state in the two-fold role of a teacher of methods, and a supplier of goods, expertise and port facilities.

Q: How would you assess the import of Sir Murray's visit to Peking?

A: Sir Murray's visit to China strengthens the "Second Leg." It climaxed a period of steadily improving relations between Hong Kong and China extending over the previous 12 months. The significance of this invitation to His Excellency in his official position as "Governor of Hong Kong" should not be overlooked as it indicates consent to Hong Kong's status by the Chinese.

Every honor was accorded Sir Murray (as a representative of Hong Kong's government) and it is of note that the usual propaganda speeches were dispensed with. Instead, discussions were concentrated on the mutual needs of Hong Kong and China - the contributions that Hong Kong could make to China's modernization policies, the importance of maintaining investments and confidence in Hong Kong and increased investment in China. In discussing the future, the Governor was asked by Senior Vice-Premier Deng Xiaoping (Teng Hsiao-ping) to tell investors in Hong Kong "to put their hearts at ease."

What is so often forgotten is the magnitude of China and that its people represent one-quarter of the world's population. Today that mass enjoys a bicycle economy which cannot be converted into the Rolls Royce economy of Hong Kong overnight. The Chinese understand that the benefits derived from Western expertise can only thrive in an atmosphere as yet foreign to their people as a whole.

The reservoir of Western knowledge is here but by mutual agreement, its flow into China will be regulated by what the country can digest.

Q: Can you elaborate on Hong Kong's junction?

A: We are a neutral point of contact, a fluid flywheel taking up the stresses between East and West. Here, China can condone a standard of living that is far beyond anything it can achieve within the next few years.

Within its borders, China cannot allow discriminatory practices that could disrupt the discipline that forms the base of its success. Yet its leaders realize that the shop window and service station offered to them by Hong Kong is of considerable value to their progress.

Euphoria is not called for, rather an understanding of the facts, such as we see them, common sense and a willingness to take calculated risks.

Q: How important is Hong Kong to the United Kingdom?

A: Britain enjoys a unique position in this part of the world. As manager of China's free zone in this area, it controls an important gateway to that country. And it is in a position to provide facilities that are invaluable, particularly at this time.

Of all Western powers, the UK is best placed to assist through joint ventures and a merging of industrial development that will be to mutual benefit and add to the security of Hong Kong's special status.

There is no doubt that China intends to use to the fullest advantage the facilities and expertise of the West that are concentrated in this area.

British business interest in China has emerged very strongly over the last two years. British bank credits worth HK\$5.64 billion (\$1.2 billion) announced in December 1978 to finance the smaller trade contracts with China at low interest rates are the first of their kind from a Western country. Appreciation of Hong Kong as the base from which to conduct commercial relations with Peking has increased accordingly.

Perhaps the most spectacular of the past year's financial arrangements has been the conclusion of a three-cornered deal involving Great Britain, Hong Kong and China. Under its terms the British will sell mining equipment to China. The Chinese will mine coal, which they will then sell to China Light & Power Co. The coal will be used to power a new facility (purchased from British suppliers) that China Light is building, at a cost of HK\$1.8 billion, to generate electricity. The surplus of that facility's output will be sold to power-starved Canton.

Hong Kong has had and will continue to have an important role to play in cementing the United Kingdom's relations with China.

Q: Do you think that the (Hong Kong) government is doing enough to meet the needs of Hong Kong's population?

A: Well, now you are referring to the "Third Leg" which is, of course, of particular importance to Hong Kong's younger generation. In no place in the world has the government done so much to improve the lot of its people. This does not mean that we are living in Utopia far from it. However, what has been achieved in the post-war period is remarkable.

From a devastated colony said to have been the most looted city in the world, Hong Kong has risen like a phoenix from the ashes to become a prosperous industrial center boasting of no unemployment and that with a population of over five million people. What is more, Hong Kong continues to fill its traditional role, providing asylum for hundreds of thousands of refugees, the majority of whom will have to be absorbed into our economy.

The government's wish is to ensure that every family has a permanent self-contained home at a rent it can afford. Today more than two million people, or 48% of the population, live in government-provided or subsidized accommodation. The government estimates that it will complete 35,000 flats this year (up from 18,000 last year) and will maintain completions at least at that level until demand has been satisfied. Meanwhile, the private sector is expected to produce a further 30,000 flats this year. That means Hong Kong will be producing accommodation in 1979 for some 350,000 people - a prodigious amount of housing by any standard.

A milestone in the development of Hong Kong's education system was achieved in 1978 with the introduction of nine years free schooling for every child. In September of the same year tuition fees were abolished for all Form 1-3 secondary school pupils occupying places in the public sector. This abolition of fees will cost the government an estimated HK\$39.1 million in the 1978-79 financial year and the cost is likely to rise to HK\$73.3 million in 1982-3. It is intended to make junior secondary education not only universal and free in the public sector, but also compulsory.

Post secondary education is available at 4 technical institutes, 3 colleges of education, 3 teacher training colleges, a teachers training technical college, 2 universities and a polytechnic. It should be noted too that with the purchase of the latest in modern machinery we are importing expertise as yet unknown in this area. As a consequence, our universities, polytechnic and other technical schools, both public and private, are providing training at correspondingly more sophisticated and specialized levels.

Of particular note is China Light & Power's complete power station simulator which, like similar training facilities, will provide the opportunity for Hong Kong's younger generation - and those of our neighbors - to attain higher positions in the increasing industrial development.

The government and numerous voluntary agencies provide a wealth of recreational opportunities both within the urban area and in the countryside.

Parallel with the development of these recreational facilities and programs there has been a rapid development of Hong Kong's cultural scene. The Hong Kong Arts Festival has now become a major event, not only on the Asian cultural calendar, but throughout the world, where it now ranks among the leading festivals of its kind.

Unfortunately, the recent invasion of legal and illegal immigrants from over the border will inevitably reduce a standard of living which the Hong Kong government has been doing its best to improve. There will be more children in already over-crowded schools and more hospital beds in already over-crowded wards.

In addition to this we have the added burden of the Vietnamese refugees - arriving at the rate of about one thousand a day. What is happening in Vietnam is a tragedy of major proportions. We are hopeful that the conscience of the Vietnamese government will be touched and that they will stop this frightful traffic in human misery. But, in the meantime, the government and the country find it necessary to land and house the off-loaded refugees in camps and detention areas, and factory buildings.

If the Vietnamese government continues with its present plan to export a million ethnic Chinese, we can only hope that help from overseas, particularly from the wealthy Western nations, plus Hong Kong's well-known resilience, will prevent this problem from becoming one of major proportions for Hong Kong.

Q: How do you see the future of China, and in particular the future in Hong Kong?

A: There are essentially two possible courses of development for China that would determine Hong Kong's future status:

1) that China will continue for the remainder of the century to be united under a politically strong and economically effective government;

2) that, as repeatedly in the past, the tendencies toward provincial and local autonomy will reassert themselves while the central administration would be too weakened by partisan rivalries and economic difficulties to enforce its authority.

No one can predict the future with any degree of certainty but China's history is based on 2000 years of culture, and tradition dies hard.

Respect for learning, the happy teacher-student relationship, the relaxed discipline of youth, honor shown to the older generation and the healthy, smiling faces of the children noticeable throughout the country, all augur well for the future.

If Mr. Deng is able to hold the country to its present course over the next five years, I feel confident the impetus created will be such as to enable China's modernization program to continue under its own momentum.

Should his efforts fail and China be split into warring factions, this great country will lose its international relationships, its prestige as a member of the atomic club of nations and its credibility as a world power.

I cannot see this happening. I believe China's Four Modernizations program has a 70% chance of success.

Q: How do you justify your faith in the future?

A: Whatever the interpretation placed on China's relationship with this city state - whether it is a special area in China or a special area of China - makes little difference.

With a population of approximately five million Chinese and a minority of some 40,000 non-Chinese, Hong Kong's unique value as a neutral point of contact between East and West, its integrating effect and the fact that it does, and will continue, to perform functions which China itself cannot perform for ideological or other reasons, leads me to believe that the future holds a real possibility of merging interests to mutual benefit.

Hong Kong's relationship both with the United Kingdom and with China has never been better, and Hong Kong's efforts to better the lot of its younger generation has taken priority in the eyes of the government and the community.

The three legs supporting Hong Kong stand firm. They are built on a foundation of self-interest and cooperation to mutual advantage and there is no reason to believe that this will not continue. Today our decisions must be based on realism and taking calculated risks.

The Hong Kong of tomorrow will offer our children as much challenge as the Hong Kong of today offers us and as much opportunity as the Hong Kong of yesterday offered our parents. Those who can stay the course will be well rewarded.

NOTES FOR A MEETING WITH MRS. MARGARET THATCHER,
PRIME MINISTER, ON 13TH AUGUST, 1979, IN LONDON

- 1) KESCO, a company owned as to 60% by Exxon and 40% by China Light & Power Company, is negotiating, through the Department of Industry, a package deal with GEC/Babcock for the purchase of two additional generating units (Nos. 3 and 4) and ancillaries to be installed in the Company's new power station at Tap Shek Kok, Kowloon, Hong Kong.
- 2) The value of this order exceeds £100 million.
- 3) As Chairman of a public utility, it is almost impossible for me to place an order on a negotiated basis unless I am able to state at the Company's Annual General Meeting that the purchase price has been certified by a neutral party to be competitive.
- 4) Fortunately, so far this condition has been fulfilled and in less than two years the China Light & Power Company has been able to negotiate orders for over £300 million with British suppliers.
- 5) I believe some progress is being made in the present round of negotiations between KESCO and GEC/Babcock, but the problem still remains, and, as in the case of Units 1 and 2, assistance from Government is absolutely necessary to ensure the competitiveness of the British package.
- 6) When last we met you were kind enough to assure me of your personal interest in this project.
- 7) My request, today, goes far beyond any attempt to squeeze the last penny out of our suppliers. What is at stake may well be the future of Sino-British trade. Our decision to negotiate the original contract with the U.K. Government and the fact that we were able to utilise the expertise available in Britain's nationalised industries virtually opened China's doors to British industry. The outcome of the present negotiations for the next two turbines are of vital importance in keeping that door open. Carefully handled, I believe the U.K. can regain its former position as the leading trader in the China market.
- 8) What I am asking for, in the long-term interests of Hong Kong and the U.K., is confidence in the future, some vision and imagination, the ability to take calculated risks, and an understanding that China, with a quarter of the world's population, is destined in the next century to become the world's most influential nation.



Other points:

China Light & Power has demonstrated to British suppliers that they must be prepared to design to the requirements of the overseas (China) market, and has provided an invaluable showcase for their equipment.

RE I V E D I N

12 J U N 1979

SECRETARY OF STATE
FOR INDUSTRY'S OFFICE



10 DOWNING STREET

Foreign Office

THE PRIME MINISTER

11 June 1979

Thank you for your letter of 14 May and your personal congratulations.

I do indeed recall our meeting last August and I am pleased that you have subsequently placed such substantial orders with this country. I hope we may see British industry increasingly successful in trade with Hong Kong and I know that the Department of Industry will continue their efforts in relation to the current and succeeding contracts.

The personal commitment you have made to Sino-British relations is one which is well recognised and I am delighted to have achieved the important breakthrough in supplying electricity to China. We obviously would like to see Sino-British trade flourish and are grateful for the assistance you are giving in this respect. I look forward to a further discussion with you perhaps when you next visit the United Kingdom.

(signed) M.T.

Sir Lawrence Kadoorie, CBE, JP.

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St. George's Building
Hong Kong

May 14, 1979

The Rt. Hon. Mrs. Margaret Thatcher, M.P.
Prime Minister
10 Downing Street
London S. W. 1
ENGLAND

Dear Prime Minister,

My sincere congratulations to you on your success in the recent General Election.

Perhaps you may recall our interview last August during which I mentioned that we had been able to open the door to a new era of British Trade with China. In retrospect it is pleasing to note that, since then, our Company alone has placed orders in the United Kingdom amounting to almost £400 Million and that further projects of equal magnitude are now under consideration.

We are most appreciative of the co-ordinating role played by your Department of Industry which was essential to the successful negotiation of these contracts.

It is of good augury that last month when, after years of effort, I succeeded in achieving interconnection of our Power supply with that of Kwangtung Province, the Chinese Authorities assured me of their complete co-operation.

I am indeed happy to know that we can rely on your continued personal interest which I believe to be vital to the success of Sino-British relations.

With all good wishes,

Yours sincerely,

Lawrence Kadoorie