

Far East Tour - headings for report to Cabinet

Japan

Mainly concerned with trading issues.

Message - growing Japanese surplus (-\$11 b. in 1980, + \$5 b. in 1981, + \$17-20 b. forecast for next year) threat to open trading system.

Pressed them on 3 fronts -

- (1) Inter-industry agreements on import restraint - agreement on immediate machine tool mission.
- (2) Opening market to more British goods, including capital goods and defence equipment.
- (3) More investment in Britain.

Agreed in principle to agreement on technological cooperation, but must be specific.

Opportunity for friendly talk with Chairman of Nissan.

China

Talks with Zhao Ziyang and Deng Xiaoping.

On international issues, China's main preoccupation is still that West should provide a counter-force to Russia.

Also concerned with Taiwan: having compromised with US, want to see US restraining arms sales.

Hong Kong - China stated hard position on regaining sovereignty, over whole area in 1997. We stood firm on treaties, and told them that Hong Kong would only survive as financial centre under British administration.

Terms of communique - both sides stated positions and agreed to talks with common objective of maintaining Hong Kong's prosperity and stability.

/ Talks

Talks will be tough and will take time. Main problem is holding Hong Kong confidence in the meantime.

Hong Kong

Outcome of talks in China main preoccupation. Understandably much concern, and some money has started to move.

One or two bilateral issues in Hong Kong which will take up directly with colleagues; and will discuss with Foreign Secretary how to carry forward talks with Chinese on Hong Kong.

Home Secretary