



Prime Minister

AR<sup>3</sup>/<sub>2</sub>.

PRIME MINISTER

VISIT TO THE FAR EAST : 12-23 JANUARY

I was in Hong Kong from January 12 to 14, in Peking from January 14 - 18, and in Japan from January 18 to January 23.

Hong Kong

2 It was immediately clear that the discussions with Peking on the future of Hong Kong continue to dominate the scene. I was left with the uneasy impression that there could be serious risk of a collapse of confidence if the position is not resolved fairly soon. The Chinese continue to make irresponsible comments, blaming the delay on the British. While I was there a high ranking Party Official made a statement to a group of Community Leaders from the New Territories to the effect that the Chinese had made firm proposals to the British last autumn but had not so far had any reply - the complete opposite of the truth. I am sure that it is essential to make progress with the negotiations and to work for a satisfactory solution within the next 2 to 3 years. As I am sure you are well aware, business opinion is fragile and increasingly unable to plan ahead with confidence in a stable and prosperous future for Hong Kong.

3 At Lord Kadoorie's invitation, I visited Castle Peak. It is clear that the reputation of British firms involved stands very high. Lord Kadoorie remains as keen as ever on the Guangdong nuclear project but is clearly looking for Hong Kong Government participation.



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4 I discussed Guangdong with the Governor and Members of his Administration and this proved a difficult meeting. Their attitude is heavily coloured by the UK - Peking discussions and the Chinese statements, they feel, are putting them under pressure. I was warned that the Hong Kong Government would be slow to make what might appear to be concessions to the Chinese over Guangdong. I found this attitude puzzling because I am sure that one way of improving Chinese understanding of the value of Hong Kong would be through collaborative UK/Hong Kong/China projects. The downside consequences of what would undoubtedly be represented as the Hong Kong Government turning down such a project with China could be serious. I know that Sir Percy Cradock in Peking has underlined this consideration to the Governor, and has pointed to the advantages of securing Bank of China guarantees for the loan financing for this project, which depends so critically on the future prosperity of Hong Kong. I believe that in the end, these arguments must weigh heavily with the Hong Kong Government.

5 Apart from Guangdong there are opportunities in the development of offshore oil in the South China Sea. The Chinese Ministry of Petroleum are interested and are already considering the role that Hong Kong-based firms could play, especially in the industries which service offshore oil operations.

#### China

6 I held a series of meetings with my host, Madame Chen Muhua, Minister for Foreign Economic Relations and Trade, and Ministers or Vice-Ministers in the Ministry of Foreign Affairs, the Ministry of Water Conservancy and Electric Power, the State Planning Commission, the State Economic Commission, the Ministry of Petroleum and the Ministry of Coal. All these meetings were cordial and friendly in tone. I also had a rather stiff meeting



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with Acting Premier Wan Li who gave me an hour on Sunday morning in the absence of Premier Zhao who was in Africa.

7 I was struck by the contrasting attitudes of the Ministers I met. The policies of "adjustment" are obviously being pressed ahead and some Ministries, notably the State Economic Commission (SEC) are adopting a very pragmatic and un-doctrinaire attitude. Vice-Minister Ma Yi of the SEC was particularly forthcoming and warmly agreed with me when I said that in economic affairs what was important was not dogma but results. By contrast, Vice Minister Huang Yicheng of the State Planning Commission seemed to me to be remarkably remote from the realities of life.

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8 I had a long and useful discussion with Vice Minister Li Peng about Guangdong. It was clear to me that following the decision of the Chinese Government on December 23 to go ahead with the project in principle, work was proceeding at an accelerated pace. A high level nuclear engineer, Mr Peng-Shilu, has been appointed an additional Vice Minister and he is to be located in the Province of Guangdong. Li Peng did not appear to have a very clear grasp of the financing aspects. He and I agreed that these should be discussed by financial experts which would include officials of the Bank of China. The Chinese are also concerned that GEC has not as yet built any high speed 900 megawatts sets but I was able once again to remind them of the fact that GEC are one of the world's biggest suppliers of turbine generators and were fully competent to supply the equipment needed.

9 It is obvious that the next series of talks on this project in Hong Kong and Peking which the Chinese are planning for the second half of March will be critical. I gained the impression that they would aim to take the major decisions on financing and on suppliers fairly soon thereafter.



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10 The Chinese are planning to increase coal production from 600 million tonnes now to 1,200 million tonnes by the end of the century. There are obviously major opportunities here for British companies in modernising existing deep mines, in new mine projects and in ancillary investment such as coal washing plant and port handling facilities. UK companies are already considerably involved and apparently highly regarded by the Chinese Coal Ministry. I emphasised the unrivalled deep mining technology of the NCB and the UK mining machinery companies. I intend to follow this up with the British companies concerned.

11 Oil is another high priority identified in China's 5 year plan. Tenders for development of offshore oil are now being evaluated and hints were dropped that BP especially, and Shell, were well placed. Minister Tang Ke, asked that BP and Shell should send experts for further discussions with his Ministry before 13 February. I stressed the expertise of the some of our smaller companies, e.g Tricentrol, and I gained the impression that they were also being considered. I emphasised the experience gained in the North Sea by UK oil companies and firms providing ancillary services, a point obviously well taken by the Minister.

12 On defence sales, there is scope for small to medium sales to China. Project 051 (equipment for 2 Luda class destroyers) *The first* promised to make Britain the leading supplier of defence *& have* equipment to China, with a £50 million share for Vosper- *best of* Thornycroft and £70 million for British Aerospace. *this &* However, *shell* when I arrived in Peking the Embassy warned me that the project *make* was in jeopardy as the Chinese appeared to be seeking substantial *enquiries.* concessions on the contract even though it had only been signed after two years hard negotiations. The Ambassador and I were

*A.T.C. 3/2.* able to take this up forcefully with Acting Premier Wan Li and



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other Ministers. I particularly stressed the damage to confidence if contracts, freely negotiated and signed, were not seen to be sacrosanct.

13 I drew attention to the progressive worsening since 1979 of the balance of trade with the UK and argued that there was substantial scope to put this right by the further purchase of UK products, especially capital goods. I took the opportunity to promote British interest in several current projects such as System X, BAe146, the "Three Ports" project and other projects. There is also a prospect of very substantial sales of an ICI rodenticide, Talon. There are ten times as many rats in China as there are people!

14 On a visit out into the country, I was struck by the amount of new investment taking place in buildings, drainage etc and I was told that this was the direct result of the new freedom now allowed to the rural population to work on their own account. The Government is now considering extending this new freedom to urban areas and to industry.

15 Before I left I reiterated your invitation to Madame Chen Muhua to visit Britain and I was told that she is planning a European trip around the end of March. I very much welcomed this and hoped that we would see her in Britain for several days (now fixed for 27 March to 1 April).

#### Japan

16 My main purpose was to hold discussions with Japanese Ministers including the new MITI Minister (Mr Yamanaka) and business leaders, focussing on the problem of the substantial and growing trade imbalance in manufactures between Japan and the UK. I found a much more receptive attitude to my arguments than I



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had experienced before, not least among Japanese business leaders. My discussions were held in the wake of the important announcement by Prime Minister Nakasone who, before leaving for Washington, had called on Japanese public authorities and private concerns to treat "trade friction" as a serious issue and do more to help solve the problem. While welcoming this announcement, I stressed at all my meetings that it would be concrete results that counted in the end.

17 I pressed the case especially with Mr Yamanaka, for more purchases of British capital goods. I pointed out that we had many competitive and advanced products on offer, particularly in the fields of defence, off-shore oil, environmental engineering, medical and testing equipment, and aerospace. But my efforts on behalf of BAe 146 were always countered with references to the financial difficulties of the potential buyer (TDA, the main internal airline).

18 I also reviewed with Mr Yamanaka progress over industrial collaboration. The DOI/MITI exercise which was begun some 18 months ago is clearly gaining momentum. Over 50 possible projects have now been identified. I emphasised that we were looking for results and asked MITI to put pressure on several specific cases where there seemed to me to be prospects of an early agreement. I also asked MITI to step up their efforts to promote co-operative ventures in third markets.

19 On inward investment, we have managed to attract a few more small projects (notably in VTR's and VTR Tapes); Honda announced a proposal to carry out a feasibility study into the manufacture of motor bicycles in the UK; and Fujitec announced a study into the possibility of manufacturing lifts. But Nissan - while extremely friendly at their meeting with me - are not yet ready to reach a decision on their project to make cars here, which would of course be very much larger than the totality of all Japanese investment in Britain that has so far taken place or is planned.



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20 While in Japan, I also wanted to form a clearer view on the problems which British firms have in getting established in the Japanese market. I discussed this with a number of British businessmen including representatives of ICI, Unilever, Beechams and Shell, and at a lunch organised by the British Chamber of Commerce in Tokyo. They emphasised to me that it requires great effort to sell into the Japanese market because of the difficulty of coming to grips with the very different methods and attitudes of Japanese buyers. But I was assured that the prejudice against imported goods has declined rapidly, and that if competitive goods are made available and marketed in ways likely to appeal to Japanese buyers, very good business can now be done.

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21 On the trade issue generally, I stressed the desire of the British Government to try to reach solutions based on the positive approaches involving better access to the Japanese market, more Japanese investment in Britain and faster progress in collaborative projects. However, I made it clear on every occasion that unless we could see visible progress we would be driven by political pressure to take the more restrictive action of limiting Japanese exports to Britain. Several of the Japanese contrasted the British attitude on this favourably with the French attitude. I made it clear that if the Japanese were to make concessions to the French in response to their highly protectionist measures, while we were seeking to negotiate satisfactory arrangements without indulging in such antics, that would create a very bad impression in Britain. This point seemed to be very well taken in particular by officials in the Ministry of Foreign Affairs.

22 Overall, I am sure that this mixture of the steel hand in the velvet glove is much the best approach; both elements are essential.



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23 I am extremely grateful to Sir Edward Youde, Sir Percy Cradock and Sir Hugh Cortazzi and their wives and Embassy staffs for the immense amount of trouble that was taken over my visit and for the generous hospitality we received.

24 I am sending copies of this minute to Francis Pym, Geoffrey Howe, Michael Heseltine, Nigel Lawson, Arthur Cockfield, Tom King and Sir Robert Armstrong.

PJ

P J

31 January 1983

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cc Ch  
Na  
Supt Mr. Alder

10 DOWNING STREET

From the Private Secretary

4 February 1983

Dear Jonathan,

YOUR SECRETARY OF STATE'S VISIT TO THE FAR EAST

The Prime Minister read with interest Mr. Jenkin's minute of 31 January on his recent visit to the Far East.

On one specific point, the Prime Minister would be grateful for further information about paragraph 12 in which Mr. Jenkin states that Project 051 for two Luda class destroyers is now in jeopardy. Could you kindly let me have a further note about the details.

VSA

I am sending copies of this letter to Brian Fall (FCO), John Kerr (HM Treasury), Richard Mottram (MOD), John Rhodes (Department of Trade) and Richard Hatfield (Cabinet Office).

Yours ever  
John Major

Jonathan Spencer, Esq.,  
Department of Industry.